



Defense Base Act for U.S. State Department Contracts Now on the Open Market

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The way contractors obtain their DBA insurance changed from a single-source insurer to an open-market approach in 2012. Here we walk you through a brief background of the changes.

Until July 2012, all United States Department of State (DOS) primary contractors and their subcontractors were required by contract to purchase DBA insurance for work performed outside the Continental U.S. (OCONUS) from a single source. All DBA insurance was written by CNA and brokered by Rutherford (Marsh). Job class rates were set on an annual basis and applied to all companies in the program, regardless of their risk or loss history. This approach was a benefit to the small companies who would have faced high minimum premiums in the open market, as well as to the larger companies with past losses that would have likely been declined for coverage in the open market. This uniform rate structure also allowed the DOS to level costs across all of its contractors.

When CNA decided not to renew its exclusive DOS contract in July 2012, the DOS conducted a Request for Proposal (RFP) process in search for bids from other insurers to take on the program. Two DBA insurers responded to the RFP. However, both carriers dropped their submission due to an opt-out provision that allowed companies with few losses and proven loss-control

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methods the option to join the open market outside of the DOS program, at potentially more competitive premiums (the remaining pool would be companies with high losses, or smaller companies with small premium, and this created an issue for their underwriters).

In July 2012, the old program was discontinued when the contract expired and the DOS moved the DBA insurance program to the open market. Now government contractors with OCONUS DOS contracts have the flexibility to select their insurer. While DOS contractors and their subcontractors will need to find insurance differently, the change provides them the opportunity to explore the open market and find insurance that reflects their unique risks and loss-control efforts, rather than being rated based on the risk history of all U.S. government contractors.

At Lockton, we encourage DOS clients and prospects to take full advantage of this change. While there is no guarantee that rates or loss ratio as a stand-alone risk will improve significantly, risk managers and other interested stakeholders will know that their rate and premium will be

determined by their own exposures, safeguards and losses.

As the LATITUDE DBA insurance program broker for Allied World Assurance, the LATITUDE team at Lockton Affinity has a deep understanding of the complexities and unique business needs associated with government contracts and the Defense Base Act.

For additional information about LATITUDESM Global Contractor Insurance, as well as current insurance and industry resources, please visit:

www.dbainsuranceservices.com

About the author:

Sara Payne is a Senior Vice President at Lockton Affinity, LLC, and a 25-year veteran of DBA insurance program administration. Sara and her team administer the LATITUDESM DBA Insurance program developed by Lockton Affinity to meet the DBA insurance needs of overseas government contractors and to act as a resource for the agents/brokers that serve them.

