

## 28.308 Self-insurance.

(a) When it is anticipated that 50 percent or more of the *self-insurance* costs to be incurred at a *segment* of a contractor's business will be allocable to negotiated Government contracts, and the *self-insurance* costs at the *segment* for the contractor's fiscal year are expected to be \$200,000 or more, the contractor *shall* submit, *in writing*, information on its proposed *self-insurance* program to the administrative *contracting officer* and obtain that official's approval of the program. The submission *shall* be by *segment* or *segments* of the contractor's business to which the program applies and *shall* include-

(1) A complete description of the program, including any resolution of the board of directors authorizing and adopting coverage, including types of risks, limits of coverage, assignments of safety and loss control, and legal service responsibilities;

(2) If available, the corporate *insurance* manual and organization chart detailing fiscal responsibilities for *insurance*;

(3) The terms regarding *insurance* coverage for any Government property;

(4) The contractor's latest financial statements;

(5) Any *self-insurance* feasibility studies or *insurance* market surveys reporting comparative alternatives;

(6) Loss history, premiums history, and industry ratios;

(7) A formula for establishing reserves, including percentage variations between losses paid and losses reserved;

(8) *Claims* administration policy, practices, and procedures;

(9) The method of calculating the *projected average loss*; and

(10) A disclosure of all captive *insurance* company and *reinsurance* agreements, including methods of computing cost.

(b) Programs of *self-insurance* covering a contractor's insurable risks, including the deductible portion of purchased *insurance*, *may* be approved when examination of a program indicates that its application is in the Government's interest. Agencies *shall* not approve a program of *self-insurance* for workers' compensation in a jurisdiction where workers' compensation does not completely cover the employer's liability to employees, unless the contractor-

(1) Maintains an approved program of *self-insurance* for any employer's liability not so covered; or

(2) Shows that the combined cost to the Government of *self-insurance* for workers' compensation and commercial *insurance* for employer's liability will not exceed the cost of covering both kinds of risk by commercial *insurance*.

(c) Once the administrative *contracting officer* has approved a program, the contractor *must* submit

to that official for approval any major proposed changes to the program. Any program approval *may* be withdrawn if a *contracting officer* finds that either-

(1) Any part of a program does not comply with the requirements of this subpart and/or the criteria at [31.205-19](#); or

(2) Conditions or situations existing at the time of approval that were a basis for original approval of the program have changed to the extent that a program change is necessary.

(d) To qualify for a *self-insurance* program, a contractor *must* demonstrate ability to sustain the potential losses involved. In making the determination, the *contracting officer shall* consider the following factors:

(1) The soundness of the contractor's financial condition, including available lines of credit.

(2) The geographic dispersion of assets, so that the potential of a single loss depleting all the assets is unlikely.

(3) The history of previous losses, including frequency of occurrence and the financial impact of each loss.

(4) The type and magnitude of risk, such as minor coverage for the deductible portion of purchased *insurance* or major coverage for hazardous risks.

(5) The contractor's compliance with Federal and State laws and regulations.

(e) Agencies *shall* not approve a program of *self-insurance* for catastrophic risks (*e.g.*, see [50.104-3](#), Special procedures for unusually hazardous or nuclear risks). *Should* performance of Government contracts create the risk of catastrophic losses, the Government *may*, to the extent authorized by law, agree to indemnify the contractor or recognize an appropriate share of premiums for purchased *insurance*, or both.

(f) *Self-insurance* programs to protect a contractor against the costs of correcting its own defects in materials or workmanship *shall* not be approved. For these purposes, normal rework estimates and *warranty* costs will not be considered *self-insurance*.

**Parent topic:** [Subpart 28.3 - Insurance](#)