

The Importance of Wrap-Ups in Construction



Not long ago, owners, general contractors, subcontractors, architects and engineers on large construction projects all had separate general liability insurance. According to the International Risk Management Institute, these insurance coverages added about 6% to the total project cost. Often, project participants were confused about who had coverage or whose insurance would pay a claim.

Today, large commercial and residential projects are often insured through “wrap-ups,” which combine all the coverages needed for a project into a single insurance program. In exchange for the convenience and savings achieved through a wrap-up, the enrolled parties agree to forego the usual markup for insurance in their bids.

Wrap-ups are sometimes called controlled or consolidated insurance programs because they are centrally procured and managed. **Owner-controlled insurance programs (OCIPs)** are placed and managed by the

project owner, while **contractor-controlled insurance programs** (CCIPs) are controlled by the main general contractor on the project.

Originally, wrap-ups were used on projects of \$100 million or more, but today you'll find wrap-ups on projects starting around \$10 million. In addition, residential projects as low as \$5 million have used general liability-only wrap-ups.

Wrap-ups that extend over multiple projects, either at the same job site or multiple sites, are known as **rolling wrap-ups**. Smaller, general liability-only projects are known as **mini-wraps**. Ongoing wrap-ups for contract work at operating facilities are called **maintenance wrap-ups** or **gate wrap-ups**.

What do wrap-ups cover?

Typically, wrap-ups include **commercial general liability** (CGL) insurance with a broad form endorsement for all parties and other forms of liability coverage as needed. CGL covers all liability risks for the project and protects against injury and property damage claims.

With OCIPs, the controlling entity may add other coverages, including:

- **Builders risk**, a type of inland marine coverage for projects under construction. Builders risk covers many perils, such as wind, hail, fires, vandalism and theft, plus equipment, tools and materials stored on-site or in transit.
- **Subcontractor default insurance**. Like a surety bond, these policies protect the owner or general contractor from a subcontractor's default.
- **Professional liability insurance**. OCIPs may include liability coverage for architects, engineers and other professionals on the project, although most of these firms will already have their own professional liability coverage.
- **Excess liability coverage**. Also known as umbrella coverage, this additional insurance increases the limits and covers the gaps in the CGL coverage.

The benefits of wrap-ups

There are many advantages to wrap-ups for a large project. Let's look at the major reasons you might want to be part of a wrap-up.

Greater control

As the names imply, owner- and contractor-controlled insurance programs give the lead players a tremendous amount of control over the project's insurance coverage. You also have peace of mind knowing everyone on the project is covered. The controlling entity also can decide all aspects of coverage, including limits and exclusions, and keep an eye on claims.

Easier administration

With all the parties enrolled in a single program, administration is much easier. Coverages are uniform and can remain in effect until the controlling party ends them. The length of coverage is an important consideration since liability may continue well beyond the project's completion date. A wrap-up allows you to extend coverage for all parties at a single price without renewing every year.

In fact, because all parties are joined as insureds, there is a united defense when claims arise. There is no need for finger-pointing if there is an accident or delay. All parties have an incentive to resolve the claim quickly.

Lower costs, better safety

In addition to savings from combining separate policies into a single program, wrap-ups reduce costs through standardized coverage, tighter risk standards and lower claims rates.

Since there is just one insurance program, the controlling entity can ensure high standards of safety and security. Risk management, uniform safety procedures and consistency in enforcement can lead to fewer claims and reduced premium costs.

Greater opportunity for small contractors

For subcontractors who may not be able to obtain coverage on their own, wrap-ups open the door for employment. For example, individual subcontractor policies typically exclude multifamily construction projects.

The disadvantages of wrap-ups

There are also some disadvantages to consider. The controlling entity takes on the added responsibilities of selecting an insurance agent or broker to create the insurance program and enrolling the other parties in the plan. They must carefully select an insurance professional who is familiar with wrap-ups and can administer the plan. In addition, they're responsible for the safety plan and monitoring claims.

If you are a contractor who is asked to enroll in a wrap-up, you may find the coverage isn't as comprehensive as the coverage you already have. The wrap-up coverage may have gaps or lower limits than your current policy. Remember, as a participant, you'll be required to transfer your exposure to the wrap-up. You'll need to work with your insurance broker to adjust your coverage so there isn't a conflict or overlap with the wrap-up. You may need to buy excess coverage if you find the wrap-up insufficient.

Here are a few other drawbacks to keep in mind:

- You'll need to recalculate your insurance costs and subtract what the wrap-up covers from your bid. This can sometimes get complicated.
- Your liability may extend beyond the project's completion, leaving you open to future damages if the wrap-up's coverage has ended.
- A wrap-up insurance program won't cover all your insurance needs. Wrap-ups don't contain commercial auto insurance, surety bonds or coverage for third parties who are involved in the project but are working off-site.

Is a wrap-up for you?

Controlled insurance programs have become a popular alternative to contractors purchasing individual insurance coverage for a project. Wrap-ups help control costs, ensure adequate coverage for all parties, and improve safety and loss standards. Understand what you will gain and what you may be giving up when you enroll in a wrap-up. Discuss your options with a qualified insurance broker to be sure you are sufficiently covered.

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