



WRAP-UP (OCIP/CCIP)

Save money on construction: WRAP IT

The “perfect storm” seems to have hit the construction industry. At the same time that hurricane-related construction projects have led to building material shortages, residential trade contractor policies exclude coverage in states such as CA, NV, AZ, HA, FL, TX, CO, with many more states to follow, and rising litigation expenses are creating a shortage of construction insurance capacity to residential, mixed-use and commercial builders.

The wrap-up concept has been around for almost 40 years. It entails the owner of a building project furnishing a single source of liability insurance for all involved parties from the owner/developer to the general contractor and all subcontractors and sub-tier subcontractors for the project’s duration. The more common format is a program that provides general and excess liability, but wrap programs can be written to cover general liability and workers compensation, too. Coverage for all participants is provided during the construction process through to completion. In addition, it also provides construction defect liability, usually for another 10 years, which approximates the statute of repose, depending on which state the work is in. States such as CA, NV, and AZ exclusively use these insurance programs for condominium construction.

Most trade or artisan contractors have exclusions on their insurance policy for any new residential attached housing construction so coverage availability can be problematic. Finding subcontractors with proper general liability coverage can be quite difficult and expensive, if not altogether impossible. This is due to the rampant increase in construction defect litigation. Plaintiff attorneys know it’s lucrative to sue a developer because multiple subcontractor insurance policies can be targeted to allocate blame and remedy a claim. This makes it very expensive

to defend these claims, and there’s always the possibility of a jury verdict that assesses blame on an insured contractor whether or not the defect was related to the contractor.

Rising insurance rates are the result. “The litigation costs have led to increased insurance costs,” says Guy Sansom, senior broker with Price Forbes Ltd., based in London, England. “In the West, wrap policies have become the norm because it’s almost impossible for a subcontractor to provide appropriate insurance. I’ve seen it move to Florida, too, but I haven’t seen it go a great deal in the North. In due course, it will happen.”

“The soaring costs of construction lawsuits are encouraging many developers to turn to Owner Controlled Insurance Programs, more commonly known as construction Wrap-Up Programs. A well-designed wrap insurance program can lower costs related to litigation and offer a cohesive basis of coverage with more options.”

- Jeff Post, CEO

How an OCIP/CCIP can HELP?

Two of the main advantages of wrap-ups are that they ensure continuous, uniform coverage and coordinated claims handling on a site. When using a wrap-up, owners ensure continuous insurance on a project since they don’t have to worry about contractors losing their coverage arrangements mid-project. “When developers buy the insurance they know it’s dedicated to their product and in place for the statute of repose,” Sansom says. “When you have subcontractors providing their own insurance that may not be the case.”

There may also be varying levels of coverage when subcontractors provide their own insurance. With an OCIP (Owner Controlled Insurance Program) or CCIP (Contractor Controlled Insurance Program) uniform coverage is provided since the wrap-up policy covers almost all contractors and their subcontractors. (Vendors, suppliers, and material dealers are not covered.)

This single policy also simplifies the claims handling process as there is only one insurance company to deal with when a claim arises. Wrap-ups typically provide a broad range of project-related insurance coverages, including workers' compensation and employer's liability, general liability, excess liability, builder's risk, pollution liability, professional liability, and subcontractor default insurance. Ultimately the wrap-up gives the developer or general contractor more control and flexibility when selecting a subcontractor since they are free to select any subcontractor they choose without having to consider what level of insurance coverage they can provide.

Saving Money with an OCIP and is it Right for you?

There are a couple of ways owners save money using a wrap-up policy.

Because developers can obtain bid credits for the general liability insurance component from subcontractors, actual construction costs go down. It can be anywhere from 1.0 percent to 3 percent of the hard construction costs back to the developer. Getting these bid credits is one of the most important tasks for the OCIP administrator. An experienced OCIP administrator like **Builders Wrap Administrators (www.builderswrap.com)** will help the contractors determine their appropriate bid credits and track them throughout the project.

In addition, owners can reduce insurance costs by negotiating a volume purchase and overseeing safety to reduce job site claims. The safety and inspection companies play a vital roll for the long-term mitigation of loss. The safety company will often provide inspection and documentation services.

As a job progresses, a third-party peer review company will provide a written evaluation and photographic record of each milestone of construction. This information provides two key services. First, the company will work with contractors to verify that the contractors' employees are using best practices for safety and the best construction methods. Second, the construction survey and photographic records are important visual documents to catch and correct mistakes and to provide as evidence if a construction-defect claim should arise. If workers compensation is part of the program, they can also reduce workers compensation losses through the documentation of construction safety best practices.

How can Avant Insurance Managers Help you?

Avant Insurance Managers Inc., construction risk insurance specialists, offer services specifically tailored for wrap-ups including:

- ▶ Feasibility Studies
- ▶ Planning
- ▶ Program Design
- ▶ Insurance Marketing and Placement

Avant works closely with www.builderswrap.com to perform wrap administrative duties:

- ▶ Program Administration
- ▶ Training and Product Orientation
- ▶ Risk Control
- ▶ Medical Cost Containment
- ▶ Contractor Bidding

Claims Administration and Construction third party peer reviews are referred to experienced, qualified companies.

In some states developers can't build a condominium project without wrap insurance; they have to use a wrap-up policy because subcontractors can't get their own insurance.

"Not only do you get the benefit of the known insurance cost, but you also reduce the potential litigation within the parties because you no longer have finger-pointing," Sansom says. "If it's well managed, a wrap-up can get you a much better project because everyone is looking in the same direction as opposed to being out for their own interests."

Contacting us is simple: call 1-800-682-0391 or email info@avantmanagers.com for all locations

Phoenix, Arizona • Los Angeles, California • Largo, Florida • Las Vegas, Nevada

www.AvantManagers.com

Corporate Office: 360 N. Sepulveda Blvd Los Angeles, CA 90245 Fax: 1-310-322-2361 Tel: 310-322-1732