CLIENT ADVISORY

Wrap-up Insurance Programs - Part One

The bid specifications on the city's new hotel and convention center require Paul's Plumbing, Inc. to include two options. The format of the first option is very familiar – material and labor costs, including overhead. The format of the second option is entirely unfamiliar – material and labor cost, but specifically removing Paul's insurance costs. The second option also states Paul's must send with the bid documents copies of their general liability and umbrella liability declarations pages as well as their workers' compensation and employers' liability information page.

The Typical Project

Paul's Plumbing, Inc. has been providing commercial plumbing services as a subcontractor for more than eight years and has always included its insurance cost in its bids. Paul's knows the typical project obligates the purchase of certain types and limits of insurance, so he includes some portion of the premium for that insurance when costing out the project. Because he is puzzled by the "ex-insurance" requirement in the city's bid, the owner of Paul's, Paul Raymond, contacts his insurance broker, Proficient Insurance Brokers (PIB) to explain.

A Traditional Insurance Arrangement

Karen Kelly, PIB's account executive, tells Paul Raymond what he considers as typical project is also often described as a traditional insurance arrangement. Each contractor and subcontractor purchases its own separate liability and workers' compensation insurance policy for the project and each charges its insurance cost to the project. But the traditional insurance arrangement is often viewed as inefficient and expensive – which may be particularly true in large projects like the city's hotel and convention center project. Imagine scores of insurance policies issued to each contractor or subcontractor, with the policies providing varying limits and premium costs, as well as widely differing terms and conditions of coverage. Not to mention the seemingly endless monitoring of additional insured coverage and certificates of insurance.

Karen explains that those responsible for large projects often look to centralize the purchase of insurance (as well as risk control) to reduce these inefficiencies and thus reduce the cost of the project. As it turns out, that is exactly what the city has elected – the city has ultimately chosen to purchase a wrap-up insurance program.

A Wrap-Up Insurance Program

Karen explains to Paul that a wrap-up insurance program (see glossary) means the city will purchase liability and workers' compensation insurance for the owner, the general contractor and just about every subcontractor involved in the project. Known more formally as a controlled (or consolidated) insurance program or CIP, the city as the project owner (and CIP sponsor), will purchase liability insurance for the project, usually in layers, with a total liability limit of $100M.

Of particular importance to Paul is that the liability policies purchased by the city will include all enrolled contractors and subcontractors, including Paul's Plumbing, Inc., as named insureds.

Further, the city will also purchase a separate workers' compensation and employers' liability policy for each of the enrolled contractors or subcontractors. A workers' compensation and employers' liability policy will be issued to each enrolled contractor and subcontractor as a named insured.

OCIP versus CCIP

As the owner is the sponsor, this type of wrap-up insurance program is usually referred to as an owner controlled insurance program or OCIP. If the general contractor was the sponsor and purchased the liability and workers' compensation policies, the "wrap-up" insurance program is usually referred to as a contractor controlled insurance program or CCIP.

CIP Administrator

Karen also explains to Paul the city will also use a CIP administrator, who in this instance is the city's insurance broker, Spoils Risk & Insurance (SRI). In order to obtain the benefit of the wrap-up insurance program, Paul's must enroll with SRI. Karen emphasizes this point – Paul must fill out all of the paperwork (not Paul's strong point) in order to enroll and receive the protection this insurance program provides. But Paul is already asking, "what am I getting out of this wrap-up insurance program?"

Wrap-up Insurance - The Coverage

Project Site Only

Based on the limited documents available to Paul, Karen observes that Paul's Plumbing will be a named insured on a general liability (and excess liability) insurance policy with a total limit of $100M, to be shared by the owner and all enrolled contractors and subcontractors. Further, Paul's Plumbing, Inc. will have its own workers' compensation and employers' liability policy issued in its name and purchased by the CIP sponsor. However, coverage provided by the OCIP will apply to the project site only – a coverage limitation Karen repeats several times during their meeting.

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If you do not have a contact at AmWINS to help with your construction risks, click here for a list of brokers on our website.

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Extended Completed Operations
As the city estimates the project will take about three years to complete, the wrap-up policies will be purchased for 36 months. Once the project is completed, the CIP sponsor will terminate the policies. As Karen sees this, she begins quickly flipping through the documents Paul has brought, searching for something that appears to be quite important. She finds it – a section in the documents entitled "extended completed operations."

Extended completed operations, she tells Paul, extends the policy period to include coverage for bodily injury or property damage that arises out of the work of any enrolled contractor or subcontractor provided the bodily injury or property damage takes place within four years after substantial completion of the work and termination of the wrap insurance.

To illustrate, Karen gives Paul an example: Paul's installs a plumbing fixture while the wrap-up insurance is in effect. The fixture fails, releasing water and causing substantial water damage to other portions of the project, but it does not fail and cause the property damage until 19 months after the project is fully completed and the wrap program terminated. The extended completed operations feature of the liability insurance provides limited protection for Paul's bodily injury or property damage that may be caused by his work, but which occurs after the wrap has been terminated.

Paul's Insurance and Premium Charges
After returning from his meeting with Karen, Paul's controller asks a question – won't Paul's insurance company make a premium charge (both for general liability and workers' compensation) against Paul's payroll for the city's hotel and convention center project? If yes, then this wrap-up approach will result in financial loss for Paul's Plumbing. After all, the controller rather skeptically observes, the bid accepted by the city includes none of Paul's insurance costs related to this project.

Back to Karen Kelly, who brings to Paul's attention the exclusions on Paul's insurance for bodily injury, property damage or injury to employees arising out of any project covered by a wrap-up or consolidated insurance program. As Paul's insurance company is not providing coverage for the city's hotel and convention center project, the payroll related to the project will not be used on Paul's liability and workers' compensation policies.

Enrolling
Paul is again confused when enrolling with the CIP administrator; the administrator demands evidence of general liability insurance that would apply away from the project as well as auto liability insurance for Paul's Plumbing, Inc. Paul quickly recalls Karen's repeated statements that the wrap-up applies only at the project site and thus understands the need for liability coverage away from the premises as well as auto liability insurance, which is not part of the OCIP.

Nonetheless, Paul begins to wonder if he will be without some important coverage by relying on the wrap-up insurance program. Part two of this article, W*rap-up Insurance – Common Coverage Gaps*, will address Paul's concerns.

Conclusion
It is sometimes less expensive and more efficient for the owner of a large construction project (or the general contractor engaged for a large construction project) to purchase insurance not only to protect themselves but also insurance to protect most of the contractors and subcontractors involved in the project. This insurance arrangement, which is known as a wrap-up insurance program or consolidated insurance program, puts on notice those contractors and subcontractors bidding on the project that all bids must remove insurance premiums from the cost of the work and provide to the sponsor the premium costs that have been removed. Further, the contractors and subcontractors who have bid "ex-insurance" will be protected by the wrap-up insurance program at the project site (including completed operations for a period of time after completion of the project), but will still be required to show proof of insurance for off-site exposures, including automobile liability insurance. Finally, the wrap-up administrator will require enrollment into the wrap-up to have the benefit of its protection.

Glossary
Wrap-up – The generic name for an insurance program that is characterized by the centralized purchase of insurance to protect most entities while performing work at a large construction project.
CIP – A consolidated insurance program; also a more formal name for a wrap-up insurance program.
OCIP – An owner controlled insurance program or a consolidated insurance program in which owner of the project is the sponsor of the CIP.
CCIP – A contractor controlled insurance program or a consolidated insurance program in which the general contractor (or construction manager) for the project is the sponsor of the CIP.
Sponsor – The entity that acts as the centralized purchasing entity and also arranges the CIP.
Administrator – The entity to which the sponsor delegates the administration of the CIP – often the insurance broker that also places the coverage for the CIP.

Craig F. Stanovich is co-founder and principal of Austin & Stanovich Risk Managers, LLC, a risk management and insurance advisory consulting firm specializing in all aspects of commercial insurance and risk management, providing risk management and insurance solutions, not insurance sales. Services include fee based risk management, expert witness and litigation support and technical/educational support to insurance companies, agents and brokers. Craig can be contacted at cstanovich@austinstanovich.com. Visit www.austinstanovich.com for more information.