

## ***WRAP-UP INSURANCE POLICIES*** ***A basic overview***

### **WHAT IS A WRAP-UP POLICY?**

A wrap-up policy (also known as an Owner Controlled Insurance Policy or Contractor Controlled Insurance Policy) is a single insurance policy naming all construction participants for coverage on all general liability and/or workers' compensation risks on a given project. In addition to consolidating all insured's onto one policy, it typically provides occurrence coverage for a period of ten years from the date of completion of the project, thus eliminating the need to purchase ongoing policies for the duration of exposure to construction defect claims.

### **WHAT DOES A WRAP-UP POLICY TYPICALLY COVER?**

A wrap-up policy covers general liability exposure for claims arising from the construction project. Typically, the Commercial General Liability insurance form is broadened to encompass most bodily injury or property damages arising out of the construction, regardless of how the loss happened. If workers' compensation coverage is also chosen for the policy, all job site injuries are also covered. Not all wrap-up policies automatically include workers' compensation coverage.

### **WHAT ARE THE BENEFITS OF WRAP-UP POLICIES?**

Under the wrap-up policy, there is no need to allocate blame for any third-party injury or property damage, since all participants are on the same policy. This allows a consolidated claims handling process between the owner and the claimant, leading to speedy and early resolution.

Traditional risk transfer strategies rely upon contractual and insurance relationships between the owner, general contractor and subcontractors. The owner seeks to have the general contractor and subcontractors indemnify and name the owner as an additional insured on the general contractor's insurance policy. The owner must rely upon the ability of the general contractor to procure the correct insurance and to continue to procure such insurance for the duration of the exposure to construction defect risks, even after the owner and general contractor have no further business relationship.

Under traditional policies, the owner does not have control over the coverage purchased and the potential impairment of insurance coverage limits on the general contractor's insurance.

Furthermore, the majority of subcontractor insurance policies exclude coverage for multi-family unit construction. The owner has significant exposure to losses not covered under the general contractor's insurance. In addition, if the general contractor has a large Self-Insured Retention (as many large general contractors do), there is no immediate insurance protection for the owner.

Finally, traditional insurance programs result in complicated and expensive claims handling procedures. If there are several insurance policies covering the same risk, such as the policy of the general contractors, owners, design professional and the various subcontractor policies, the need to allocate responsibility between the participants arises. All of this must be determined, prior to achieving resolution with a claimant. This delay often causes the claimant to seek legal counsel and further drives up the cost of the claim. This is the single largest contributing factor to the construction defect epidemic historically existing in California and now in many other states.

### **DO THE COSTS OF ADMINISTRATION OUTWEIGH THE BENEFITS?**

Control over legal liability and adverse publicity caused by poor risk control is the ultimate benefit of the wrap-up concept. By consolidating these functions through this insurance product, the owner ends up with better risk management, a stronger owner focus on liability and better insurance protection for the owner and the eventual home owners of the individual units.

The administration of wrap-up insurance can be handled by the use of an outside consultant, such as Wrapid Specialty, Inc. Due to the nature of today's insurance market, savings in policy costs cannot be absolutely guaranteed. However, the costs of policy administration are generally recoverable through the insurance premium allocation process. An additional benefit to this process is the focus that it provides in risk management for the entire project, as all efforts are made to coordinate and utilize the services of the general contractor's risk management department.

**Please contact Wrapid Specialty, Inc. at (877) 222-4777 for further information.**