

Construction Wrap-Ups

Risk Management for Sponsors, Owners, & Contractors for Large Construction Projects



William Gallagher Associates
Phone: 888.261.8884
www.WGAins.com

A Construction Wrap-Up is a risk management technique for handling loss exposures related to single and multiple site construction activities. It provides coverage for the job-site risks of the owner, construction manager, general contractor, contractors, subcontractors and design firms. When properly designed and managed, a Construction Wrap-Up can be a cost efficient and effective risk management program for qualified construction projects.

What is a Wrap-Up?

A Wrap-Up is more formally known as an Owner Controlled Insurance Program (OCIP) when sponsored by the project owner, as a Rolling Owner Controlled Insurance Program (ROCIP) when the owner covers multiple projects under one program, or as a Contractor Controlled Insurance Program (CCIP) when the General Contractor or Construction Manager sponsors the program.

Wrap-Ups have been placed on new construction projects, renovation and expansion projects and even industrial maintenance contracts.

The Benefits of a Wrap-Up

In a traditional scenario, the insurance provided on a construction project is dependent on each contractor to secure and maintain the minimum insurance required by the contract, including correct additional insured status for the owner. The only evidence of compliance is the certificate of insurance the contractor provides. However, there is no guarantee at the time of a loss that the insurance will be in force, the coverage will be adequate, or the necessary limits will be available due to the contractor's claims activity at other project sites. When a catastrophic loss occurs involving multiple contractors, there can be multiple insurers representing separate interests that can lead to cross litigation and can delay a project while liability is being determined.

The cost of insurance provided by each contractor is being built into their contract cost and, in most cases, marked up for profit and overhead. These insurance costs can run 2% to 4% of construction hard cost.

A Wrap-Up specifically addresses the inefficiencies of the traditional approach to insurance. A Wrap-Up is a risk management and risk financing program that allows the sponsor to control the insurance coverage and limits purchased for the construction risks arising out of the project, the loss control and claims services for the project and to benefit from the cost savings derived from a well managed program.

WGA is a leading provider of insurance brokerage, risk management and employee benefits services to firms in selected fast-growth industries including high technology, life sciences, financial services, healthcare services, energy, and environmental services. WGA has offices in Boston, MA; Columbia, MD; Princeton, NJ; Atlanta, GA; and Paris, France.

The financial premise of a Wrap-Up is that the bidding contractor removes the cost of insurance provided under the Wrap-Up from their bids including any markups. The Wrap-Up cost will include a level of risk retention in addition to the cost of insurance, loss control, claims and administration services required to manage the Wrap-Up. The sponsor utilizes the bid reductions to fund the costs of the Wrap-Up. The sponsor realizes the cost efficiencies of the Wrap-Up by the volume discount in pooling the project's contractor risks under one program with one insurer and by minimizing loss costs within the risk retention portion of the program.

The minimizing of loss costs is built upon a comprehensively designed and managed loss control program with compliance contractually required of all the contractors. In addition, a claims administration program will be in place utilizing proven cost containment measures to reduce the cost of a loss and to ensure efficiencies in loss adjustment expenses.

A properly designed and managed Wrap-Up can expect to reduce the insurance costs by 50% of the traditional insurance costs or 1% to 2% of hard costs. The risk management benefits come from the ability to design the scope of coverage provided for the owner and contractors and to set the amount of limits that will be specifically dedicated to the project. This will ensure both the owner and enrolled contractors will have both coverage and limits available to respond to a loss in addition to reducing the potential for cross litigation.

A Wrap-Up can be tailored to meet the specific project's risk exposures. The standard coverages provided under a Wrap-Up are:

- General Liability
- Workers Compensation/Employers Liability
- Excess Liability
- Builders Risk

The following additional coverage should be considered on a project basis:

- Project Environmental Liability
- Project Design Team Errors & Omissions

Another benefit is that a Wrap-Up can be a vehicle to increase the use of Minority and/or Disadvantaged Business Enterprise contractors by providing the limits and coverage these skilled trades would otherwise not be able to provide in responding to a bid.

When a Wrap-Up Should be Considered

A Wrap-Up should be considered on a construction project or multiple projects that anticipate at least \$100M in construction cost depending on the location(s) and length of the project(s). With basic construction budget information, a financial feasibility study can be prepared to determine if the Wrap-Up will have the potential to generate a meaningful cost savings to proceed with the underwriting process.

Conclusion

There are many benefits to be realized by the Sponsor and Contractors when a Wrap-Up is implemented. Benefits can be grouped into three main categories:

<i>Financial</i>	30% to 50% Savings on Traditional Insurance Cost 1% to 2% Reduction in Project Hard Costs Reduced Contractor Overhead & Markup Burdens
<i>Risk Management</i>	Thorough Analysis of Risk Exposures Controlled Project Safety & Claims Procedures Comprehensive Insurance Coverage Dedicated Limits of Liability
<i>Public Relations</i>	Levels Playing Field for Small Local Contractors Reduces Possibility of Bad Press Arising Out of Unsafe Projects

Wrap-ups provide the program sponsor, owner or contractor with some definite advantages over a conventional insurance program. But like everything else in the construction industry, planning is a critical component of any successful Wrap-Up. Construction professionals should always perform a thorough review and evaluation of any Wrap-Up management and/or administration system. For more information on these or other specialty services for Construction risks, contact your WGA Account Executive.

