CONSTRUCTION BUSINESS OWNER

The Power of Wrap-Up Insurance

How SMBs can compete against mega-contractors with this alternative

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HARRY R. JOHNSON | CONSTRUCTION PRACTICE LEADER FOR CONNER STRONG & BUCKELEW

More property owners are now inserting a clause in their construction contracts that could limit the competitiveness of small- and medium-sized businesses (SMBs): the requirement for wrap-up insurance.

By relying on one policy to cover all participants on a project, it provides better protection through broader policy language, raises liability limits, reduces losses, extends liability coverage and reduces costs through fixed rates and leveraging economies of scale.

Rather than hoping contractors all have the right coverage, wrap-up insurance bundles everything into one package. It eliminates litigation between owners, contractors and subcontractors because they are all insured under the same program. Through extended completed operations coverage, occurrences that take place will still be insured, even after the construction is complete.

It's usually not a problem for large enterprises to meet insurance requirements, but SMBs may get squeezed out.

Operating without this competitive product could lead to missed opportunities.

What limits the use of these programs is that they normally can only be realized when there are large projects involved, typically in excess of $125 million and involving multiple contractors with sensitivity to project labor. That has allowed mega contractors to enjoy a distinct advantage because they have more of an ability to include a number of smaller projects into one program, thus spreading out the program costs.

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These programs seem new, but they have actually been around for decades. They are formally referred to as controlled or consolidated insurance programs (CIPs), and are differentiated by the sponsor. A contractor-controlled insurance program is a CCIP, while an owner-controlled insurance program is an OCIP. The difference is simply who sponsors the program, and, consequently, who assumes the most risk. Many traditional CCIPs, covering commercial general liability and workers' compensation, feature a large deductible program that allows the construction manager or contractor to assume a certain level of risk for workers' compensation and third-party commercial general liability claims. They also allow contractors to realize financial savings if the program is well structured and supported by claims management and loss-control services. If you can eliminate losses and mitigate those that do occur, the savings are significant.

ROLLING WITH THE BIG DOGS

The problem for small- and medium sized businesses is how to take advantage of these programs. If an owner or developer is requesting the use of a CCIP, but the construction value of the project is not large enough to warrant a standalone program, what's an SMB to do? The key for smaller firms is using a rolling wrap-up program; through which you bundle a number of projects to reach that program cost total threshold. Some of these general guidelines will vary by market. For instance, both the fixed costs and variable costs of wrap-up insurance are dramatically lower in Philadelphia compared to New York, where labor laws putting absolute liability on contractors lead to some of the highest rates in the country. That severely restricts the availability of wrap-ups in New York, because fewer carriers offer it.

Commercial, general, liability-only programs have lower deductibles and eliminate the need for collateral, while providing the same benefits of traditional wrap-ups. The downside is that they do not offer the same financial savings opportunities of traditional programs.

HOW TO GET ROLLING

The exact details of a rolling wrap-up program can get complicated quickly, and none is identical to another. Consider the following variables:

- What is the project construction cost that makes a rolling wrap-up feasible in this market?

- What projects will be included?

- Are we dealing with a few large projects, many small ones or a variety?

- What are the project start and completion dates?

- How would covering projects with a wrap-up program compare to a traditional program?

Start with a key project and build a wrap-up program around it, making it simpler to ensure you can pay the required upfront premium CCIP costs. How big should this first project be? The circumstances vary too much to say for sure. If it sounds like a CCIP could work for you, speak with an insurance broker to conduct an analysis of the full situation, including a pro-forma or feasibility study to see if a CCIP makes sense. If it does, it could hold the promise of competition for bigger and better projects.

Harry Johnson is a Managing Director and Senior Vice President in the Major Accounts Division and serves as the Construction Practice Leader for Conner Strong & Buckelew. His primary responsibility is the overall management of our construction clients' risk management, and he has extensive experience in the design, implementation and day-to-day management of Controlled Insurance Programs including most recently, Tishman Construction Corporation, Joseph Jingoli & Son, Inc. and Torcon, Incorporated's Rolling CCIP, Princeton Health System, Inc., Bayhealth, Inc., South Jersey Port Corporation, Brandywine Realty Trust and Robert Wood Johnson Owner Controlled Insurance Programs.

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