Construction Bulletin

The Benefits of CCIPs for General Contractors

If you are a General Contractor starting a residential or commercial building project, you have a wide array of insurance coverage options from which to choose. One of the most effective options that you should consider is a wrap insurance policy. A wrap is an insurance product that covers the General Contractor, Owner and most subcontractors under one product - so that each party doesn't have to get their own individual policies. Wraps typically provide for General Liability coverage, and may include Pollution, Workers' Compensation and other coverages as well.

Wrap Insurance Programs can be either Owner Controlled (OCIP) or Contractor Controlled (CCIP). An OCIP is purchased by the owner or developer and they are first Named Insured on the policy. With a CCIP, the Contractor purchases the policy and they are the first Named Insured on the policy. Below we'll lay out other key differences and benefits of the two types of wraps.

The Mutual Benefits of OCIPs and CCIPs

Many benefits of a wrap policy are the same, regardless of if the policy is a CCIP or OCIP. These benefits include:

#1 Uniformity of Coverage

Under a wrap there is clarity of coverage because all participants fall under the same policy; compared to the traditional approach, where the owner, general contractor and subcontractors all have different policies from different carriers, each with different coverages and exclusions, different deductibles, policy periods and limits. Without this overarching policy, gaps can result, given that subcontractors have different coverages & limits. With an OCIP or CCIP, you'll have comfort knowing that every sub on the project has similar coverage. Receiving a contractor's Certificate of Insurance (COI) doesn't offer the same peace of mind, because you don't know the policy details or even if what is showing on the certificate is accurate!

#2 Continuity of Coverage

Even after a project is complete, there is a potential for liability. A wrap oftentimes provides coverage for all participants through the statute of limitations for completed operations/construction defect exposures. In California, you can have exposure for a decade after completion for construction defects. Under a traditional insurance structure, if a sub or general contractor doesn't renew their annual policy or if they go out of business and an incident occurs, liability could fall solely to you as the owner or developer. With a CCIP or an OCIP, you can have a policy in place through the statute of limitations for one price that doesn't have to renew each year.

#3 Cost Savings
Purchasing individual policies tends to be more costly than buying one aggregated policy. By purchasing a wrap that covers many of the parties involved in a development project, you get the benefit of economies of scale that individual policies just can't offer. As a result, you can realize significant cost savings.

#4 Higher Limits for the Same Cost
By purchasing a wrap, you can achieve higher limits on an OCIP or CCIP than individual subcontractors would have provided or could obtain. Where a modest sized general contractor or subcontractor will only be able to obtain $2 to $5 million in policy limits, as an owner you can buy $25 million, $100 million or more in policy limits using a wrap. So when an individual subcontractor causes a large problem, you will have adequate coverage to defend and remedy.

#5 Cooperative Defense
By having a wrap that covers all parties, there will be less finger pointing if there is a suit, a construction defect, or other incident that triggers a general liability claim. With separate policies, the insurance companies for each sub will blame each other's insureds, jockey for position, try to sue each other for reimbursement (subrogation) and avoid liability. Legal expenses can be astronomical, not including the time that is wasted in discovery, depositions and overall distractions. With a wrap, you're all in the same boat – so insurance companies won't try to prioritize another policy and shift blame. When you work together to defend against a claim, the outcome will be better for all.

Benefits of a CCIP Over an OCIP
Some benefits of a wrap policy will differ between a CCIP and an OCIP. Here are some of the major benefits of a CCIP Policy:

#1 Customized Coverage to Suit the Owner and their Partners
As a General Contractor of an ongoing CCIP, because you purchase the policy, you have the ability to customize certain aspects of the policy with your broker to best fit your projects and your risk profile. The Owner may have an ongoing "Rolling Wrap" program in place, and will press you as the General Contractor to use their program. After all, it is already in place and they will take care of everything for you. Be aware though, that this program could have many pitfalls for you as the General Contractor.

Assume that the coverages in the OCIP policy are crafted to best suit the Owner, not you as the General Contractor. If the wrap provides for a certain limit per project and you would have selected a higher (or lower) limit, you may be pushed into agreeing to something that wasn't exactly what you had wanted. Does the policy fully cover certain risk characteristics or are there substantially reduced sub-limits? Are there shared limits among projects? Is the carrier financially strong and do they pay claims? When a copy of the policy is provided, are there redacted sections? How do you know certain endorsements weren't pulled from the copy provided to you? There are many potential hazards that you and your broker need to be cognizant of when using your Owner's OCIP.

#2 Control of Claims
In case of a claim, the first named insured is the one most in control of the claims process. With a CCIP, you are the conduit and will be 100% informed, with the least filtering of information. With an OCIP, the Owner will have that that control, not you, and this can become disadvantageous if you believe the process is not being managed properly.

#3 Responsibility, Control and Survivability
If the Owner Entity goes out of business or becomes insolvent, or you get into a dispute with the Owner, coverage can become a leverage point. Although the policy covers many parties, the policy owner controls important aspects of the policy and therefore some additional control over the project.

#4 Multiple Project Capabilities

As a General Contractor of multiple construction projects, a CCIP Program can be put in place to cover multiple projects, each with their separate per project limits or with shared limits. These structures can allow for great economies of scale, and coverage enhancements. Having a pre-negotiated CCIP allows you to price the Insurance costs with certainty during the project planning and budgeting stage.

To find out more about CCIPs, OCIPs and the ideal coverage for your construction project, please contact:

Bryan Martin, MBA, CFA, CRIS
SVP, Construction & Surety Practice Leader
ABD Insurance and Financial Services, Inc.
777 Mariners Island Blvd., Suite 250
San Mateo, CA 94404
(415) 302-4309
bryan.martin@theabdteam.com