Construction Bulletin

The Benefits of OCIPs for Property Owners and Developers

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If you are a property owner or developer starting a residential or commercial building project, you have a wide array of insurance coverage options to choose from. One of the most effective options that you should consider is a wrap insurance policy. A wrap is an insurance product that covers the owner, general contractor, and most subcontractors under one product – so each party doesn't have to get their own individual policies. Wraps typically provide for General Liability coverage, and may include 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 an OCIP or CCIP. 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, with different coverages, different exclusions, different deductibles and different limits. Without this overarching policy, there may be gaps if one subcontractor has different coverage or limits. With an OCIP or CCIP, you'll have the comfort of knowing that everyone on the project is covered. 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 an OCIP or a CCIP, 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 will get 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 an OCIP Over a CCIP

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

#1 Customized Coverage to Suit the Owner and their Partners

As an owner or developer, with an OCIP, because you purchase the policy, you have the ability to customize certain aspects of the policy with your broker to best fit the project and your risk profile. Usually the general contractor will have an ongoing, "Rolling Wrap" program in place, and will press the owner 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 owner.

Assume that the coverages in the CCIP policy are crafted to best suit the general contractor, not you as the owner. If the wrap provides for a certain limit per project and you would have selected a higher (or lower) limit, you may be finessed 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 general contractor's CCIP.

#2 Control of Claims

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

#3 Avoid Markup & Capture the Cost Savings

As an owner or developer, when you buy the wrap, the costs are discernible and understandable. You know the premium, administration, third party peer review, risk assessment and total costs. With a CCIP, it may be harder to obtain the true costs. The purchaser of the wrap will reap the benefit of savings from the economies of scale. If you purchase the wrap, the contractors deduct the cost of those insurances from their contracts.

#4 Responsibility, Control and Survivability

If the general contractor goes out of business or becomes insolvent, or you get into a dispute with the general contractor, 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. If you needed to replace the general contractor, it may be much easier to do so if you control the wrap.

#5 Multiple Project Capabilities

As an owner or developer of two or more construction projects within a three year period, an OCIP Program can be put in place to cover multiple projects, each with their separate per project limits. This allows for great economies of scale, and coverage enhancements. Having a pre-negotiated OCIP allows the owner to price the Insurance costs with certainty during the project planning and budgeting stage.

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

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