RMA INSURANCE

BULLETIN

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Owner Controlled Course of Construction & Wrap-up Liability Insurances

In an effort to enhance service we offer our members, RMA Insurance provides information in areas where our knowledge and experience may be of particular assistance or relevance.

With construction projects consistently ongoing at the municipal level, Course of Construction Insurance (COC) and Wrap-up Liability Insurance are of particular note.

Most construction contracts contain requirements that a project manager or general contractor obtain these coverages, and then simply name the municipality as an Additional Insured. Many members are familiar with these two types of coverage, but you may not be aware of the advantages to your municipality if you ask for these to be in the control of the municipality / owner rather than the project manager or contractor.

Course of Construction Coverage (COC)

Course of Construction coverage (or COC coverage), is basically property insurance that offers "All Risk" coverage for the building and materials for a project while under construction or renovation. Its unique feature is that it can insure all contractors and sub-contractors, architects, engineers, and other project participants having an insurable interest in the project without a need to list or name each one individually. Its premium is calculated mainly using the full duration of and completed value of the project. This coverage can be extended to also cover additional things such as tools, equipment, and business interruption.

Wrap-up Liability Coverage

Wrap-up Liability Insurance coverage is a "blanket" liability policy that covers the municipality / owner, the project manager, builder / contractor, and all sub-contractors under one policy, without the need to list or name each one individually. Wrap-up liability is usually for the full duration of the project plus the extended completed operations period (if there is one). The premium is calculated using the full duration of and completed contract value of the project as the main determining factors, and is based on a rate per $1,000 of contract value.

This is good for many reasons, as there is:

- a uniform limit for all interests,
- a specific limit dedicated to the specific project,
- uniform coverage for all parties insured,

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- ease of dealing with claims that involve multiple parties,
- a wrap-up policy has a uniform deductible,
- potential premium savings, and
- less potential for gaps in coverage.

The policy is in force for the entire project (i.e. commencement of the work until it is completed and accepted), and extended to include the completed operations period. The completed operations period (usually 12, 24, or 36 months) is important since it protects the municipality / owner as well as the builder / contractor and sub-contractors throughout the often-problematic period immediately after completion of construction when the work is handed over to the owners.

Completed operations insurance provides liability coverage for bodily injury or property damage to third parties once the contracted work has been completed. For example, the coverage would be applicable to a sub-contractor who builds a wall, which soon after collapses due to faulty workmanship. Any damage or injury caused because of this would be protected here. This, however, is not the same as a warranty, meaning it does not cover the wall itself because the cost of faulty workmanship itself is excluded under the COC Policy. Instead, the damage or injury caused because of it falling on other people or other property would be covered under the wrap-up liability policy.

Another example would be if an electrical contractor installs a pump incorrectly and this causes the motor to burn out. In this case, repair or replacement of the motor would be covered. The reason an additional period of 12, 24, or 36 months is advisable / required is because this coverage is on an occurrence form, which means that a claim is only covered by this policy if the claim occurs during the policy period.

The reasons it is important for the municipality (as the owner) to be in control of both COC and wrap-up liability policies are threefold:

1. It ensures that the required coverage and limits specified in the contract are being met.

2. The municipality / owner may save money by placing the coverage themselves. If the coverage is to be supplied by the project manager or general contractor, the premium for the coverage may be increased by fees added by the project manager or general contractor to cover their administration costs. COC and wrap-up policies are usually quite expensive, so these additional fees can be a substantial amount, depending on the project value.

3. The municipality / owner has control of the policy so, should the project manager or general contractor become insolvent and need to be replaced, this can be done with minimal difficulty and expense to the municipality / owner.

   In a case where the project manager or general contractor becomes insolvent after they have placed the COC and wrap-up policies and named the municipality / owner as an additional insured, the existing coverage may be cancelled and need to be replaced with new coverage. This can cause three problems for the municipality:

   i. It can be an extremely difficult and lengthy process to obtain COC and wrap-up coverage once a project has started.
   ii. Insurers are usually unwilling to backdate coverage, so there may be gaps in coverage or no coverage for either property or liability until the new coverage takes effect.
   iii. It is usually more expensive to get the same coverage and limits.

Our member services representatives are able to help you obtain a quote for both COC and wrap-up liability coverage.

Please feel free to contact our office if you have any questions regarding these two coverages.

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