RMA INSURANCE

BULLETIN

July 7, 2020

Owner-Controlled Course of Construction & Wrap-Up Liability Insurances

With construction projects ongoing at the municipal level during the summer months, it's a good time to share information on two important types of coverage: course of construction insurance (COC) and wrap-up liability insurance.

Most construction contracts contain requirements that a project manager or general contractor obtain these coverages and include the municipality as a named insured. You may be familiar with these two types of coverage, but you may not be aware of the advantages if you ask for these to be in the control of your organization rather than the project manager or contractor.

Course of Construction / Builders Risk Coverage (COC)

Course of construction / builders risk coverage (COC) is 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, sub-contractors, architects, engineers, and other project participants who have an insurable interest in the project, without a need to list each one individually. The premium is calculated using the full length of the project (time on risk) and the completed value of the project as the main determining factors. This coverage can also be extended to also cover additional things such as tools and equipment, boiler and machinery, equipment breakdown, and business interruption.

Wrap-up Liability Coverage

Wrap-up liability insurance coverage is a blanket liability insurance policy that covers your organization (the project owner), the project manager, the builder or contractor, and all sub-contractors under one policy, without the need to list each one individually. Wrap-up liability is for the full duration of the project plus the extended completed operations period. There are many benefits to a wrap-up liability policy:

- It offers a uniform limit for all interests.
- There is a specific limit dedicated to the project.
- There is uniform coverage for all parties insured.
- The policy is in force for the entire project (from commencement of the work until it is completed and accepted) and extended to include the completed operations period.
    - The completed operations period (usually 12 to 36 months) is important since it protects the project owner as well as the contractor, and sub-contractors

2510 Sparrow Drive
Nisku, Alberta T9E 8N5

OFFICE: 780.955.3639
FAX: 780.955.3615
RMAlberta.com

    throughout the often problematic period immediately after completion of construction, when the work is handed over to the owners.
    - Completed operations provides coverage for the work performed once it has been completed. For example, the coverage would be applicable to a sub-contractor who builds a wall, which soon after falls down due to faulty workmanship. Any resulting damage or injury caused because of this would be protected here. This 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. Rather, the damage or injury caused because of it falling on individuals or property would be covered under the wrap-up liability policy.
    - We recommend an additional period of 12, 24, or 36 months 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.
- Ease of dealing with claims that involve multiple parties.
- Uniform deductible.
- Potential premium savings.
- Lessens the potential for gaps in coverage.

It is important for you as the project owner to be in control of both COC and wrap-up policies because:

- It ensures the required coverage and limits specified in the contract are being met.
- You may save money by placing the coverage yourself.
    - 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 relative to property and comprehensive general liability policies, so these additional fees can be a substantial amount depending on the project value.
- You have control of the policy. Should the project manager or general contractor become insolvent and need to be replaced, this can be done with minimal difficulty and expense to you. In a case where the project manager or general contractor becomes insolvent after they have placed the COC and wrap-up policies (and simply named your oganization as an insured), the existing coverage may be cancelled and need to be replaced with new coverage. This can cause three problems for you:
    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.

BULLETIN

Our Insurance Member Service Representatives and Risk Advisors are able to assist you with the completion of the required applications in order to provide you with a quotation for both COC and wrap-up liability coverage.

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

John Hackwell
Risk Advisor
780.955.4078
johnh@RMAinsurance.com

Lacey Barnhard
Risk Advisor
780.405.6272
lacey@RMAinsurance.com