



## CORPORATE EXPOSURE: Wrap-Up Insurance (Part 1)

Harry P. Mirijanian

If you are the owner of a construction project, and if it will likely require several hundred contractors and subcontractors to complete the project, there is only one realistic way to protect your interests: "wrap-up" insurance.

As the term implies, wrap-up insurance combines all the contractors and subcontractors together under one policy. The policy usually covers workers compensation, employer liability, general liability, and builders risk insurance. Here is a breakdown of a typical wrap-up policy:

• **Workers compensation.** As most readers understand, this policy provides coverage to an employee injured in the course of normal work responsibilities. The policy covers the employee's medical costs and lost wages. The exact amount of compensation payments will vary by state.

Covering all the contractors and subcontractors under one policy facilitates the establishment of a uniform risk control management program. Rather than having each contractor establish its own programs or procedures (which may adversely affect another group), the wrap-up policy provides one comprehensive program. This also proves beneficial in monitoring costs and formalizing a return-to-work program.

• **Employer liability.** This coverage protects the employer against claims stemming from workplace injuries that

are not covered under the state workers compensation laws for which the employer could be held liable.

• **General liability.** This covers injuries to third parties who may be injured (financially or otherwise) by the owner/contractor's project and/or any of its subcontractors. A typical occurrence is a pedestrian who is injured while walking down the street by falling debris. Under a wrap-up policy, since all the contractors and subcontractors are covered in one package, this eliminates the bickering that occurs between contractors' carriers trying to proportionate damages.

• **Builder's risk.** This protects the owner and contractors (and subcontractors) against any property damage from such named perils as earthquakes and floods. It can even protect against damage to materials in transit to the project site. For example, an on-site fire that destroys building materials and/or the completed portion of the project would be covered. One policy means one deductible and one carrier to handle the loss.

Each of these broad coverages can be expanded or restricted, according to the dictates of the project and the underwriter. What are some of the benefits to wrap-up insurance?

• **Financial.** Through the consolidation of all contractors under one policy, the overall cost of insurance is reduced dramatically. Instead of each contractor and subcontractor having to secure their own policy based on individual loss experience, premiums (which could be cost-prohibitive) are lumped together in one policy. On one project, we noted the overall insurance savings was approximately \$15 million less than what we forecasted

the combined insurance costs would have been had each contractor bought an individual policy (with similar terms, conditions, and limits of liability). Without wrap-up coverage, some contractors have taken to making money on their insurance by overcharging project owners. Contractors with good loss experience would actually inflate their workers compensation costs, which are passed back to the project owner. Signing up for a wrap-up policy is one way to eliminate this gamesmanship and further reduces the project's overall costs.

• **Insurance coverage.** Broader terms and conditions are normally offered by the carrier under wrap-up policies than under a series of individual policies. Many contractors, in fact, would not qualify for the limits of liability that the project owner might demand. Moreover, a wrap-up policy eliminates problems such as overlapping or duplicating, further driving down the cost of insurance while providing broader terms and conditions. Also, by having one policy, there can be little argument as to what is and is not covered. The parties involved will not have to spend valuable time getting involved in wasteful inter-insurance company arguments.

Next month we shall examine some of the other benefits associated with wrap-up policies. ■

*Harry P. Mirijanian is president of Applied Risk, an independent risk management services firm established to assist the business community in reducing exposure to loss and insurance costs. He is a frequent speaker at AMA seminars.*



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Published as a supplement to the November 1996 issue of *Management Review*.

*Finance Forum* Editor: George Milite.  
*Forum* Group Editor: Florence Stone.  
Senior Editorial Assistant:  
Grace Lander LoPinto.  
Graphic Artist: Jay Klampert.  
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