



RISK NOTE

SUBJECT: Owner-Controlled Wrap-up Liability Insurance

The Province of BC, through the Risk Management Branch, has instituted a province-wide owner-controlled insurance program for the benefit of all provincial agencies, including the Health Care Agencies (HCAs) covered under the Health Care Protection Program (HCPP). HCAs are required to arrange owner-controlled insurance for projects in excess of \$1,000,000 (refer to Program Bulletin 17:01:08).

This Risk Note discusses the Wrap-up Liability component of the construction program including a common area of misunderstanding – who pays the deductible?

Wrap-up Liability coverage insures the project owner and all parties involved in the project – including the construction manager, general contractor, and the subcontractors at every level. It “wraps up” all of the parties into one unit for the purposes of insurance. A Wrap-up is the most economical way of arranging insurance on large construction projects. With an owner-controlled Wrap-up program the owner furnishes a single insurance policy for all parties involved in the project for the duration of the project term.

Under a Wrap-up Liability policy the owner experiences a number of benefits:

- Cost savings when contractors and sub-contractors exclude the cost of insurance from their bids;
- Cost savings because of the buying potential of the owner based on the entire project, due to economies of scale;
- Elimination or reduction of the duplication of premium costs when contractors and each of their sub-contractors are purchasing separate coverage for overlapping exposures;
- Equalization of the bidding process for smaller contractors by removing obstacles related to insurance requirements;
- Provision of a single, coordinated loss control and claims handling center;

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- Elimination of coverage disputes and subrogation between multiple insurers;
- Broader insurance coverage and higher limits dedicated exclusively to the project;
- The assurance that all parties to the project are insured, instead of relying upon a multitude of certificates with varying expiry dates.

Because the owner has placed the insurance coverage, the terms of the policy will make the owner responsible for any and all deductible amounts under the policy. It is therefore incumbent upon the owner, through the contract language with their contractor to ensure that where the contractor is responsible for a loss, the contractor (and/or their sub-contractors) will pay the deductible. Contractors should be required to retain some portion of any loss they cause in order to provide an incentive for risk mitigation on the job site. Generally, the prime contractor should bear the majority of the deductible and may allocate portions to responsible sub-contractors.

The CCDC 2 (Canadian Construction Document Committee – Stipulated Sum) is HCPP's recommended form of contract and includes a provision that deductibles will be paid by the parties in direct proportion to their responsibility in regards to any loss.

Once the appropriate contract language has been used it is important that it be enforced. We often see owners who fail to hold their Contractor's responsible for the deductible even though the contract terms provide for this. If construction is not yet completed, the deductible can be subtracted from any hold-back amount that is due the contractor. If, however, construction is complete and final payment has been made it may be more difficult.

Where the owner has paid a deductible that is the responsibility of the Contractor, and the Contractor is unwilling to pay, the owner may find their only means of recovery is through legal action against the Contractor for breach of contract.

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