

WRAP IT UP

Heffernan unit offers solutions for agents and their contractor clients

By Elisabeth Boone, CPCU

Even a small construction project is a complex mechanism with many moving parts, each of which can create an exposure to loss. Managing the myriad details of any size project is a herculean task that requires experience, discipline, and a relentless focus on both the big and small pictures.

Over the years, an increasing number of contractors have turned to the wrap-up approach to insurance and risk management for their projects. Once virtually the exclusive province of big-name contractors, wrap-ups are now being used successfully for a wide range of smaller projects.

Simply put, a wrap-up is a means by which all of the insurance coverages and risk management techniques required by an owner or contractor and its subcontractors are “wrapped up” and managed in a single program. When implemented appropriately, this approach can reduce coverage gaps and premiums and allows the owner or general contractor to control its program efficiently and cost effectively. The two main kinds of wrap-ups are Owner-Controlled Insurance Programs (OCIPs) and Contractor-Controlled Insurance Programs (CCIPs).

A leader in creating and managing wrap-ups is Wrap Up Insurance Solutions. With offices in San Francisco and St. Louis, Wrap Up is a wholly owned subsidiary of the Heffernan Group, which also owns leading insurance brokerage Heffernan Insurance Brokers. Heffernan, which writes a large volume of construction business, was the *Rough Notes* Agency of the Year for 2003, and Wrap Up Insurance Solutions was profiled in the April 2009 issue of the magazine (“It’s a Wrap”). The unit is dedicated to working with its agent partners and carriers to create successful wrap-up programs for contractor clients of many types and sizes. For larger projects, Wrap Up structures workers compensation/general liability wrap-ups; general liability-only wrap-ups are geared toward smaller projects, particularly residential projects. The unit offers a broad menu of services: feasibility analysis, contract facilitation, placement advice and marketing guidance, claims and safety, and consulting and audit services.

Signs of recovery

As the construction industry emerges from the worst recession since the Great Depression of the 1930s, executives of Wrap Up Insurance Solutions are enthusiastic about the opportunities for agents and their owners and contractor clients.



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“Over the last five years, we’ve grown from six employees to 11, and we’ve moved into new offices across the street from our former location,” says Brian Billhartz, CPCU, senior vice president. “We have all the modern technology like videoconferencing so we can interact easily with our agents and their clients.”

When the Great Recession began in 2007, the construction industry was hit hard by the sharp decline in demand, Billhartz observes. “We weathered the storm, but 2008 through 2009 were the worst years in modern history for the construction industry. The market for construction projects probably shrank by 80%. We had to scratch and claw where we could; we managed a few projects and some renovations. The good news is that we never lost a client, and our agent partners were supportive of us, as were their clients. We’re now reaping the benefits of those relationships as contractors start to build again. We’re seeing consistent growth and a more conservative approach to construction than prevailed in the 1990s and early 2000s, when many projects had thin financing and overbuilding was rampant,” Billhartz says. “Right now we have about 125 projects in various stages around the country.”

Larry Jackson, senior vice president, makes a key point. “When we say we’re doing a project, in every case we mean that we’re doing it with our agent partner and providing the services his or her client needs to successfully manage its insurance and risk management program. Agents and brokers are the lifeblood of our operation.”

When he says “agents,” Jackson doesn’t mean just big regional and national brokerages, although Wrap Up Insurance Solutions works with

them on many projects. He also means the Main Street agent who may need only an occasional program for an owner or contractor client, or who is eager to expand the agency’s involvement in the construction market. Executives emphasize that creating and maintaining strong relationships with agents and brokers of all sizes is at the heart of their business model.

Rebounding sectors

Pointing to segments of the construction industry that are experiencing robust growth, Billhartz says, “We’re seeing growth in jumbo energy projects like solar fields and ethanol plants as public infrastructure money begins to flow again. We’re also seeing a lot of activity in the more mainstream kinds of projects like hospitals and universities. And, as has been the case for the last few years, we continue to see strong growth in apartment projects and assisted living facilities, especially on the West Coast and in the Southwest.” As the construction industry emerged from the recession, Billhartz remarks, the first segment to rebound was apartment construction to accommodate the many people who had been priced out of the residential single-family housing market. The aging of the Baby Boom generation, he comments, is fueling a strong increase in demand for assisted living with the kinds of amenities that appeal to this age group.

During the recession, the market for condominiums all but collapsed, and luxury units were selling for a fraction of their former prices—if they sold at all. “We’re just beginning to see the return of activity in the condo market,” Billhartz says. “In addition to new construction, some of our builders are

looking at upgrading existing condo complexes.”

Another area of increased activity is retail outlet malls and “lifestyle centers” where shoppers can purchase name-brand goods at steeply discounted prices and also enjoy a restaurant meal or relax on a patio while live music is played. “We’re providing wrap-up services for a project to build a multi-use sports and entertainment complex in Sacramento, California,” Billhartz notes. “We’re also doing a wrap-up for the construction of office headquarters and a small-venue stadium complex for a professional sports team in Frisco, Texas. Across the board, we’re seeing many different kinds of new projects coming on line on the West Coast and throughout the Southwest, including Texas, which is enjoying a high volume of activity. Other areas experiencing growth are Chicago and Miami.” Billhartz emphasizes that most of the resurgence in construction is on the commercial side rather than in the construction of new single-family homes; in many parts of the country, he says, that market is still recovering.

As the economic recovery continues, Jackson remarks, “We’re seeing a lot more general liability-only wrap-up programs. Much of the reason for this is the result of changes in the indemnification rules and regulations in a lot of states. For example, in California and Texas, it used to be the case that if an owner or general contractor were brought into a liability situation, they would pass that liability down to the subcontractors. The subcontractors’ insurers would have to provide indemnification and legal defense to the owner or contractor. In these states, new regulations restrict the contractor’s ability to go to the subcontractors for indemnification. The contractor now has to show some form of negligence or liability on the subcontractor’s part. The contractor no longer can seek indemnification through a subcontractor’s policy, so it needs a wrap-up policy that will respond specifically to claims or allegations against it. As a result, a lot of general contractors are looking to a general liability-only wrap-up to guarantee coverage for their project site.”

Adds Jackson: “Wrap-ups are still about the ‘three Cs’: coverage, control of the project, and cost efficiency. Coverage and control are becoming big pieces of the general liability decision process.”

WRAP 24/7

As noted earlier, Wrap Up Insurance Solutions uses cutting-edge

technology to manage the wrap-up programs it arranges for its agents' clients. Key to this effort is WRAP 24/7, a proprietary software system that allows the unit to customize each client-sponsored program to the client's critical areas of concern. Using the web-based system, the unit can monitor each client's daily workflow requirements from a centralized source and provide value-added real-time wrap-up administration services.

Key features of the WRAP 24/7 system are:

- Ability to break out a single project into multiple phases as required by the client's unique financial structure
- Contractor enrollments mirror the financial structure of the project and encompass both contractors enrolled and not enrolled in the wrap-up
- Ability to track multiple tiers for all enrolled contractors
- Allows for a one-time enrollment for all contractors that have multiple contracts
- Automatically computes and tracks insurance calculations
- Calculations are based on each individual contractor's insurance information

- 24/7 access to all wrap-up administrative activity for both enrolled and excluded contractors

- Customized management reports from a comprehensive standard report library

The executives of Wrap Up Insurance Solutions are proud of their browser-based system because it avoids the cookie-cutter approach and allows contractors to control and monitor their overall cost of risk over an infinite number of financial structures, projects, and/or risks.

A look at the market

Like many other segments of the property/casualty business, construction insurance enters 2015 still in the throes of a soft market. "The rates have been decreasing while availability increases," Billhartz observes. "There are more players in the wrap-up market now than there were before, and the GL-only wrap-up market is more competitive than it was seven or eight years ago. Some of the newcomers are companies that have written construction insurance and are now expanding to include wrap-ups. Another factor that is

increasing the availability of coverage is that underwriters are imposing higher standards on construction projects with respect to safety and quality, so they're more comfortable writing the coverage."

Adds Jackson: "An exception is residential housing in the form of townhomes, condos, and single-family homes. There's still a considerable products and completed operations exposure on these projects, so only a few carriers are active in the for-sale residential market. That segment of the wrap-up market is still pretty restrictive in terms of pricing."

For 2015, Billhartz says, it's likely that rates will remain fairly stable. "The market will still be competitive because of the increasing availability; we believe the marketplace will keep growing. Architects' and engineers' bookings are increasing, so demand for wrap-ups will rise. We're optimistic that this will be another good year for Wrap Up Insurance Solutions and our agent partners." ■

For more information:

Wrap-Up Insurance Solutions
Website: www.wrapupsolutions.com