

ATTENDEE QUESTIONS ANSWERED

Wrap-Up Insurance Q + A Session

Webinar Transcript



FAQ'S FROM THE ATTENDEES

Q

What effect has the hardening market had on pricing and carrier participation? Have reps become more or less competitive with traditional insurance?

A

We all know that when we see a hardening in the market in terms of the cost of wrap-up programs, you can expect to see hardening cost of the subcontractor insurance as well. So depending on when in the cycle the market hardens and when in the cycle the program's written versus when the subcontractor policies are written, there may be some lag in terms of the subcontractor costs lagging behind still in that softer market pricing versus that wrap-up pricing. But, all in all, they will catch up with one another, and you'll see that they will parallel one another in the long run

Q

How often are you tracking contractor credits?

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On the bi-line programs, I would say that you're most often being asked to look at [deducts] on owner-controlled programs. The contractor controlled programs tend to pass on those costs through their net back to the owner. And really, it's not as often these days as it used to be. It seems that people are buying it for risk management reasons and that they're counting on a competitive bid practice to ensure that the costs are being removed from the contract. So I would say they're few and far between on the bi-line programs and primarily with owner controlled programs.

Q

And Leah, what would you say on the GL-Onlys in terms of tracking credits?

A

Yeah, I would second that comment just on credit verification and deducts being involved more with owner controlled programs, but I would also add that with a GL-only, a lot of times the administration piece and the wrap-up piece comes along a lot later in the process than it would on a bi-line program. And so what happens there is that most subcontractors, since they weren't told to bid excluding insurance or net bid, you end up having to be pretty much forced to go the deduct route. So that's what we see on a little over 50% of the GL-onlys we have is the deduct route.

Q

I have a question regarding calculating deducts on flat rated non-auditable policies like excess and umbrella. Can you walk through how these deducts should be calculated?

A

Yeah. So that's a great question, and one that we get a lot. Since our general liability and excess liability programs are providing the excess liability portion to the enrollees, generally our clients want to get a credit back for that excess or umbrella because there are charges included in the bids and that coverage is being provided to the sub. So it's only fair that the sponsor receive that credit back. As far as calculating that, how we typically instruct the sub to do that is to do a simple calculation by taking their total umbrella premium and dividing that by their general liability exposure and prorating that rate out. And then if for some reason we aren't able to obtain the total umbrella premium or the total GL exposure is rated on several different things like payroll and receipts, we could always use a default percentage, which we typically see umbrella or excess credits fall about 50% of the GL. So that's typically what we would expect.

Q

Is collecting wrap-up exclusions really necessary while wrap-up program is active?

A

Yes. We typically say that collecting wrap-up exclusions is important even when the program is active. And the reason is obviously if the subs are enrolled, they're being provided coverage through the program, but excluded subs are not. And with some of the exclusions that have come across our desks at CRS, the language is so vague that they may not even be provided coverage if they're excluded from the program because they're involved in the wrap-up itself. So it's always a good idea to look at them and make sure that the coverage is there. Also, as these programs tend to get to the end. It's always good to have these wrap-up exclusions on file. So if you need the subs to come back to these projects after they're completed, we already have the resources to look at their coverage and see if they're able to continue work after the program's over.

Q

Does CRS get involved with tracking subcontractor's insurance for non-CIP jobs. And if so, what is the average compliance maintained for traditional insurance jobs, and how do you maintain it?

A

So actually, yes, we do. That's actually what my entire department does is track insurance for standard insurance jobs. We try to maintain a 90% compliance or higher after we onboard a client for their compliance percentage. And we do that through our proprietary software certified that's set up to track these coverages and endorsements. The software is wonderful, and the fact that it communicates outward to these subs and the brokers so that we're able to maintain their compliance and get them compliant a lot quicker. We also have a phenomenal team. My team, obviously, the certificate tracking team that works with these brokers and subcontractors daily to help them not only maintain compliance but understand it. And then we also provide for our clients, they have access to our certificate library through WrapSheet®, as well as some compliance reporting features that we have to help communicate where their subs stand.

Q

What have been some of your strategies when dealing with this self-insured contractor who's fighting to provide an appropriate credit for their insurance on a project? How have you been able to maximize a credit for the wrap-up sponsor while maintaining a good working relationship with the contractor?

A

The idea of the program is to remove the cost that the contractor includes for insurance in their contract, right? So even when you are able to get rating pages, all we're able to verify from that is that's what the contractor would have otherwise paid for their insurance. We're not necessarily able to see from that rating page that that's what they're including in their costs. So we treat these self-insured workers just the same as we would with the others. We want them to provide whatever backup they can to show what costs they included in their contract.

We do try to uncover what costs they would incur themselves by looking at loss history and things like that. But we can also do some other detective work in looking at if there's a detailed labor rate breakdown provided for change order pricing, we can look at what costs are included in there. If they happen to itemize out their bid where there are costs, then that's a much easier straight line removal of things, but really, we're then going to be trying to look at any kind of running policy documentation and loss history information to see what those costs they would have ... what costs they would incur.

Q

How long does it take to enroll a subcontractor?

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We typically request at least a five business days' notice prior to the subcontractor starting work on site. We know that there is construction going on site and things need to be handled in a timely manner. So usually, we'll respond or reach out to that sub within the same business day as receiving that notice, and then following that, really, the quickness of the enrollment is going to depend on the sub's responsiveness. So we're going to follow up with them every couple of business days to ensure that they have all their questions answered, they have the enrollment forms in the right hand and really stay on top of them for that.

But because of our online enrollment process and the individual account associate that's going to walk them through that enrollment, we really say that's why we only asked for that five business days. Now, you can get an enrollment ... we can process an enrollment within minutes of it being submitted

Q

I see you have some international projects; how do you handle those?

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So international projects are interesting and actually relatively simple. So one of the first best practices in setting up a wrap-up is making sure that you have documentation in terms of procedures and bidding instructions and that those are distributed to the subcontractors. So the first thing we have to do is get all of those documents translated into the language of the country. So once that is done, all of our communication is done through the general contractor who will have an English speaking representative, and they will notify us of all the subcontractors that are going to be on the site.

Since these are general liability programs, we don't have to have as much documentation for the insurance carriers, so we don't have to have a lot of communication with a subcontractor. So we're able to easily just track the subs on the site, the type of work they're doing, when they start and end work, and their own construction value. So we're tracking the exposure and giving the exposure to the insurance carrier on an overall job site basis. So it makes the process much simpler. And then instead of issuing a certificate of insurance to those subcontractors, we issue them just an evidence of coverage. And again, that's translated into the language of that company.

Q

On a GL-only program, what kind of credit should an owner expect?

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This will vary based on the region of the country that the project is in, but in general, using the database that we have, I would say the general contractors' credit is going to be the biggest factor and is going to be the largest value that's going to affect your overall credit. And those can range depending on the general contractors experience from 0.25% to 0.75% of the overall construction value. And then with regards to subcontractors, we typically see around a half a percent of the subcontracted costs on a project. So to get your overall, you'd add the percentage from the GC plus the half a percent from the subs. And I think that's a good conservative estimate as for an average over the country.

Q

What do you see as the biggest challenge with wrap-ups given the economic changes?

A

The biggest challenge in wrap-ups? I don't know that it's necessarily a challenge. I feel like the economic market is really leading more towards favorably ... is acting more favorably for wrap-ups. We do see that the market is trending more towards general liability only programs versus the full comp in GL. I think that has something to do with economic factors. The other thing that I think the economy really impacts is the type of construction that you see. So back in 2007, 2008, 2009, when we were in a recession, you saw a lot of the private construction go away, but you saw a lot of influx of public projects. So I'm not sure that the economy has necessarily directly affected the wrap-ups themselves as much as it just has the complexion of the wrap up.

Q

What are the biggest factors in having a successful program?

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Well, I think one of the biggest factors is starting early. So Leah mentioned a lot of times these GL-onlys are coming on late. When they come on late, you limit your ability to really analyze the market, analyze quotes, get more information. You limit yourself really to a deduct program, depending on how late you are in the game. So you're not able to evaluate the type of program that fits you best. And then oftentimes when you're late in the game like that, you're going to be taking the subcontractors by surprise. And we really believe in getting the program documents set up early and distributed early with the bid packages so the subcontractor know what to expect, and that they're submitting a proper bid.

So clear communication and your ability to really design the program the way you want are the two biggest things you're going to gain by starting early, and I think that's really going to set you up for success. While the program is going on, loss control is a huge factor, obviously, if you don't have good loss control, if you're having a lot of losses and your program's not going to perform well financially, and then the other thing is communication. We do a lot of communication with the job sites to try to stay on top of who's coming on the site and just stay ahead of any issues. And good communication is really key.

Q

Are you finding less domestic carriers are providing coverage for residential projects? Are there states that are more likely not to be covered?

A

In regards to residential projects, most of the ones that I see are in New York and Jersey at the moment, and what we typically look for is that the subcontractors that are coming onto those project sites, we do verify for residential exclusions and the type of residential work that these GL policies would allow them to perform. We're seeing more and more of those exclusions pop up on GL policies. So yes, it is something that we have become more aware of as of recently.

Q

As far as the capacity of the carriers that are running these programs, are we seeing much coming from London or abroad, or are you seeing more domestic carriers playing in the space?

A

I would say most of the programs dealing with residential projects are domestic carriers that I deal with.

Q

If the general contractor of a program is tracking COIs, why would CRS do this as well?

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Typically, the carriers of these programs require the administrative staff to track the COIs. They do that because they want to keep a record of the subcontractors carriers in the event of a claim. So we obviously take that on as the administrators. The other thing that we've realized is once the GCs actually see that we're doing this, and we're doing it quite effectively, they like us taking that responsibility off of their plate. They always have access to the COIs and any other documents they need through our certificate library, as well as those compliance reports and the reporting features I mentioned earlier. So it tends to be a really good relationship where we can take that and help the GCs with that task.

Q

What size general liability deductibles are you seeing on CCIPS and what portion of the deductible is typically passed down to the subcontractor?

A

I'll just start with saying typically we are seeing a smaller deductible on the GL. So anywhere from 10,000 to 25,000. You may see a 50,000 every now and then, but as Jennifer mentioned earlier, the GL-onlys are really done more for coverage purposes and you want to provide that subcontractor that first dollar coverage. So a lot of times we do not see the deductible being passed down to the subcontractors, but if we do, it's typically pretty small, like 5,000, if the subcontractor was proven to be negligent there.

I would just say that if you're trying to pass down a deductible, then fairly that should affect the insurance credit that the subcontractor's willing to give back. And I think that's where the sticking point becomes, particularly if you're trying to pass down a \$5,000 deductible sum. And brokers like to think, "Oh ..." or the owner or whoever, where having the subcontractor has some skin in the game, but I think it becomes really hard to administer, particularly on the GL-onlys, where you're seeing a lot of these being completed operations claims. It's likely that you're not holding retainage at that point. So then how are you going to collect it? Now you just gave up part of your credit or a deductible you can't collect. So I think you just have to have it really well planned out if you're going to try to pass down any deductible.

I think what we see becomes really more effective is really more implementing more of an incentive program for the subcontractors. So instead of implying a penalty like Jennifer's saying, some kind of incentive program usually leads to more cooperation. And I think, again, the biggest concern is really enforceability of that deductible, especially after the project's over. I mean, the whole point of why the sponsor bought the wrap-up was to have coverage for the project. They didn't have to deal with the administration of finding subcontractors down the road. Whereas, if you're going to go back and charge the deductibles, now is a subcontractor still in business, and are they going to be able to pay back that money?

Q

I know big brokers have built their own software solutions and others have purchased off the shelf products, how important is software for wrap-up admin?

A

Yeah, great question. I mean, we get asked about software all the time. Of course, we have our own proprietary software that we began building in 2002 and continue to improve upon on a regular basis. The importance of the software is really to make the process easier, both for the administrator and the participating subcontractor, and then to aid in communication with the job site, with the general contractor, with the owner in terms of reports and things like that. So the software can make the program more efficient, but what really matters, what's really most important, is the team behind that software. The people who understand the wrap-up, understand the coverages, and the ones who are going to be doing the communications. So it's really more about the service than it is about the technology product. Technology makes life easier. We all love technology, but if you don't have good people behind the technology, it's not going to magically make your wrap-up amazing.

Q

Are you seeing any specific states that reps are not as attractive or receptive? If so, any commentary as to why that may be the case?

A

So if we're talking to GL-only, or bi-line, of course, there's some monopolistic states where there's not going to be comp. There's some states that do have laws and regulations around wrap-ups. States like Nevada require special approval and things like that. I think that in general, you're getting more cost savings in the coastal states. So west coast, southern, east coast and then like in Chicago or some of the bigger cities, there's no reason in the world you can't do them in the middle of the country, just that insurance tends to be cheaper. And if cost savings is the main factor or that maybe wouldn't be as attractive then ... and I think, too, in those states where there is more litigation, it makes a lot more sense to put a wrap-up in place where you make sure that there's that continuity of coverage. I would add just also from a bi-line standpoint, I don't think you can have this conversation without mentioning New York because New York is completely a different animal, mostly because of labor law, poor experienced by wrap-up writers. So I'd say New York is definitely a problematic state. Whereas, we say most other states are really qualified to do a bi-line, or for it to make financial sense, you need about a hundred million to 150 million of hard cost construction value. I'd say now in New York, we're looking at upwards of 350 million to 500 million to really make sense. And then just like in other parts of the country, when you could have up to 10 carriers looking to write the risk, in New York, you really have maybe one or two. And the truth is you really have one trying to beg them to write the risk. So New York is definitely a problematic state as far as wrap-ups at least while labor law is still in place.

Q

Question about claim handling and what are the qualities that are looked for when hiring a third-party claims administrator with respect to handling claims in a wrap up- what are the common pitfalls that occur during the lifetime of the wrap up caused by poor claim handling. Also, what qualities are looked for in a TPA that normally translates to successful handling of claims.

A

We find that working with TPA's that focus/specialize (or have specific adjustors who specialize) in construction claims, typically translates to successful programs, especially in jurisdictions with unique, state specific case law.

Q

What is the average loss ratio for your full wraps and GL only wraps?

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Without further details, it is difficult to answer this question, as loss ratio on a program varies by location, type of job, size of project, GC and subs involved as well as the overall loss control program.

Q

How do you price wrap ups? What are the key considerations?

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As wrap-up administrators, at CR Solutions we are only involved in the pricing of the administration services. The main factors that drive our pricing is number of projects (if a rolling program), number of phases (if bid separately per project), term of the project (months), estimated number of contractors (per project), and identification of the required services for our handling of insurance credits (tracking, verification, or negotiation).

Q

What's the final piece of advice you'd like to give the audience

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I think that really I can't stress enough, the importance of properly setting up the program, giving yourself time to get the documents in place to communicate the program. Make sure it's understood. Make sure it's in the bid package. Subcontractors don't want to be blindsided. We want them to be our partners in things and have the program runs smoothly, and then make sure that you're choosing the right partners for the job. So thoroughly vet out your administrator, your loss control, and any other partners you're using that you're going to enjoy working with for 12 to 36 to 48 months, and that are going to give you the service that you deserve.