



**IRMI**<sup>®</sup>

**Workshop K**

***RESIDENTIAL WRAP-UPS***

**Presented by**

**Suzanne Xiros**

**Executive Vice President, Homebuilding Operations  
Aon Risk Services, Construction Services Group**

***Wednesday, November 10, 9 a.m.–noon***

**Workshop K**



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**Suzanne Xiros**  
**Executive Vice President, Homebuilding Operations**  
**Aon Risk Services, Construction Services Group**

Ms. Xiros is a presenter for Workshop K, “Nontraditional Insurance for Residential Contractors,” on Wednesday morning. She brings with her more than 25 years of experience in the home builder/developer, property management, and construction industries—24 of those have been with Aon (previously Frank B. Hall). She manages the Irvine, California, office, which is the Aon national resource for home builders across the country. Together with 48 other insurance professionals, Ms. Xiros and her team support a large number of residential builders, real estate managers, and construction clients.

Ms. Xiros’s ability to develop and market sophisticated risk management programs and to analyze risk exposures for major home builders has made her an invaluable asset to her clients and to Aon. She frequently conducts educational seminars for her home builder/developer clients with special emphasis on wrap-ups, certificate of insurance compliance with contract insurance and indemnification provisions, and risk management issues involving home builders and their trade contractors. Ms. Xiros works very closely with all of the underwriters that specialize in insurance for builders and has been a guest speaker at several national home builder conventions across the country.

Ms. Xiros attended the University of Arizona and holds the designation of Associate in Risk Management (ARM). Providing exceptional customer service, delivering what she promises, understanding her clients’ needs, and coordinating the best teams to do the job are of utmost importance to Ms. Xiros and her dedication and commitment to these goals results in long-term relationships with her valued clients.

## ***Notes***

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# RESIDENTIAL WRAP-UPS

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**Suzanne Xiros**  
**Executive Vice President, Homebuilding Operations**  
**Aon Risk Services, Construction Services Group**



## Residential Wrap-Ups

*Presented by:*



## What is a Wrap-Up?

- **Definition of Wrap-up**
  - **OCIP vs. CCIP**
  - **Coverage**
    - General Liability only
    - GL and WC combined
    - GL, WC, Builder's Risk and occasionally some forms of E&O combined
- **Who is Covered?**
  - **Owner**
  - **Developer**
  - **General Contractor, if any**
  - **Subcontractors**
  - **Sub-Subcontractors**
  - **Consultants**

## Who is Using Wrap-Ups and Why?

- **Commercial Wrap-ups - for over 50 years**
  - Predominantly for large, single-purpose projects
- **Residential Wrap-ups - for 5-10 years**
  - Widespread in California and Nevada
  - Expanding to Colorado, Arizona, Hawaii, Washington, Texas, and Florida
  - General Liability only
- **Subcontractors unable to meet Builders' insurance requirements**
  - No proper Additional Insured Endorsements
  - No Primary Clause
  - No "attached" housing coverage
  - No Contractual coverage
  - No Subsidence coverage
  - High Premiums
  - High Deductibles

## Who is Using Wrap-Ups and Why? (Continued)

- **Adjusting claims under “traditional” insurance simply too cumbersome and inefficient**
  - Too many attorneys involved
  - Too many expert witnesses, forensic investigators, claims adjusters
- **Adversary relationship exists between Subs and Builders**
- **Exposure and percentage of liability must be allocated between all insureds - time consuming and expensive**

**Homeowner Loses Every Time!**

## How Do Wrap-Ups Solve Problems Created by Traditional Insurance?

- **Eliminate Adversarial Relationship**
  - One policy covers all participants
  - One defense
  - One “pot of gold” for the plaintiff attorneys
- **Builder is able to negotiate broad coverage for All participants**
- **Policy usually extended to provide coverage for (statute of limitations)**
- **Eliminates need to determine liability**
- **Legitimate claims paid sooner!**
- **Fraudulent claims denied!**

## What Types of Wrap-Ups are Available?

- **Project Specific Wrap-ups**
  - Normally, single location
  - Dedicated limits
  - Normally, premium allocated to one project
  - Works well for:
    - Hi-Rise - steel and concrete condominiums
    - Wood frame attached housing project
    - Single purpose J/V, LLC or Partnership
    - Conversion of apartments to “for sale” condominiums
    - Mixed use (residential and commercial) projects
    - Land developers

## What Types of Wrap-Ups are Available? (Continued)

- **Highlights**
  - Multi-Year Policies - usually one set of limits per policy term and “statute extension”
  - \$5,000,000 to \$50,000,000 or more in limits
    - (25-35% of hard costs)
  - Some carriers mandate inclusion of Workers’ Compensation
  - Subsidence usually covered with acceptable soils report
  - Some carriers mandate use of third-party peer review for quality control
  - Typical Exclusions
    - Mold (separate project specific pollution liability policy including mold coverage available)
    - Professional Liability
    - CCA
    - EIFS

## What Types of Wrap-Ups are Available? (Continued)

- **Rolling Wrap-ups**
  - Annual renewable policy with “statute extension” built in
  - Usually on a “close of escrow” form
  - Popular with Builders who do more than five projects per year
    - Revenues \$100,000,000 up to \$3-4 billion
  - Builders may pick and choose which projects to include in wrap-up
    - State-by-State
    - Project-by-Project
  - Land Developers

## What Types of Wrap-Ups are Available? (Continued)

- **Highlights**
  - Builder has option to include or exclude Workers’ Compensation.
    - Majority exclude Workers’ Compensation
  - Builder may pick and choose which Subs to include in Wrap-up.
  - Limits Available: \$5,000,000 to \$200,000,000
  - One carrier provides property damage “mold” coverage.
  - “Subsidence” usually not excluded.
  - Bodily Injury and property damage arising from Consultants errors or omissions included in some very rare cases.
  - At least two carriers offer combination GL / warranty programs.

## Wrap-Up Markets (as of November, 2004)

Market	Project Specific Wrap-Ups	Rolling Wrap-Ups
Ace / Westchester	Yes	Yes
AIIG	Yes	Yes
American Safety	Yes	No
Arch	Yes	Yes
Axis	Yes	No
CBIA	No	No
Everest National	Yes	No
Gemini	Yes	No
Glencoe	Yes	No
Lexington	Yes	No
Liberty Mutual	Yes	Yes
National Fire & Indemnity	Yes	No
Steadfast / Zurich	Yes	Yes
North American Capacity / HBW	No	No
Quanta / HBW	No	No

Many large builders have formed their own Captive Insurance Company and use their Captive as a wrap-up.

## You've Decided to do a Wrap-Up - Now What?

- **Negotiate Proper Coverage**
  - Longest policy term available (3 to 4-year term is standard for "project specific" wraps) (1 to 3-year term for "rolling wrap-up")
  - Remove Exclusion "L" (damage to "your work")
  - Amend Exclusion "j" (coverage for model home lease backs - critical for condo conversions)
  - Remove "Insured vs. Insured" exclusions
  - Have automatic coverage for Subs triggered by "signing of contract" rather than "enrollment process"

## You've Decided to do a Wrap-Up - Now What? (Continued)

- **Negotiate Proper Coverage** (Continued)
  - Request “statute extension” for as long as legally liable as opposed to a specific number of years.
  - Secure adequate limits - remember, you're insuring the Builder and all Subs under one policy.
  - Make sure excess policies “follow form” the primary.
  - Maintain standard policy “separation of insured” provision. Carrier may exclude coverage for Property Damage during construction.

## Wrap-Up Administration - Decisions! Decisions! Decisions!

- **Management Approval and Support is CRITICAL!**
- **Amend Contract Documents**
  - **Meeting between Developer / Builder, Legal Counsel, Insurance Broker, Wrap-up Administration Staff**
  - **Review Alternative Contract Language**
    - Insurance Coverage / Indemnity
      - Recommend Subs continue to sign “Type I” Indemnity
      - Subs still required to carry Auto and Workers' Compensation coverage with appropriate Waiver of Subrogation
      - Review Arbitration Provisions
    - Determine what portion of Builder's Deductible or S.I.R. to pass on to Sub

## **Wrap-Up Administration - Decisions! Decisions! Decisions! (Continued)**

- **Meet with Field Staff, Sales Staff, Accounting, Contract Staff**
  - Explain program
  - Develop plan to educate subcontractors
  - Create plan for allocating and tracking bid credits
  - Decide which subs to include in wrap-up and which subs to exclude
  - Decide how to handle consultants
  - Select broker or other third-party administrator to administer wrap-up program

## **Bid Credits - Are They for Real?**

- **Why attempt to capture Bid Credits?**
  - Subs should not have “free” insurance
  - Builders’ premiums continue to rise
- **Three methods for capturing Bid Credits**
  - Have Subs bid NET
  - Assign bid credit by trade (depending on type of trade)
  - Determine rates Sub’s currently pay for their own insurance and reduce Sub’s bid by appropriate percentage

## GL Insurance Rates\* By Type of Trade - California

Type of Trade [Residential]	Average Bid Credit % Rate	GL Insurance Rates Range		Average Deductible or S.I.R.	Deductible or S.I.R. Range	
		Low	High		Low	High
Carpentry - Finish	3.0%	0.6%	5.0%	\$ 10,000	\$ 0	\$ 50,000
Carpentry - Rough	4.2%	1.0%	6.6%	\$ 10,000	\$ 1,000	\$ 75,000
Concrete	3.2%	0.7%	10.4%	\$ 15,000	\$ 0	\$ 1,000,000
Drywall	2.8%	0.3%	6.2%	\$ 15,000	\$ 0	\$ 50,000
Electrical	2.5%	0.7%	10.9%	\$ 7,500	\$ 0	\$ 100,000
Framing	4.5%	1.4%	10.8%	\$ 20,000	\$ 0	\$ 250,000
Grading	4.6%	0.3%	17.5%	\$ 15,000	\$ 500	\$ 100,000
HVAC	2.6%	0.8%	7.2%	\$ 7,500	\$ 1,000	\$ 250,000
Insulation	1.9%	0.1%	5.5%	\$ 25,000	\$ 1,000	\$ 250,000
Masonry	3.4%	0.5%	10.3%	\$ 7,500	\$ 0	\$ 25,000
Painting	3.7%	1.0%	10.3%	\$ 5,000	\$ 250	\$ 50,000
Paving	2.0%	0.7%	6.3%	\$ 5,000	\$ 1,000	\$ 50,000
Plastering	2.3%	1.2%	5.2%	\$ 1,000	\$ 0	\$ 250,000
Plumbing	4.1%	0.5%	20.0%	\$ 15,000	\$ 0	\$ 500,000
Roofing	6.1%	1.5%	20.0%	\$ 25,000	\$ 2,500	\$ 250,000
Sewer / Water / Storm	3.6%	0.9%	13.2%	\$ 10,000	\$ 1,000	\$ 50,000
Sheet Metal	4.2%	2.3%	11.7%	\$ 5,000	\$ 1,000	\$ 50,000
Stucco	2.9%	1.1%	5.3%	\$ 25,000	\$ 1,000	\$ 500,000
Underground Utilities	3.3%	0.3%	10.5%	\$ 10,000	\$ 1,000	\$ 500,000
Waterproofing	4.7%	1.6%	11.8%	\$ 5,000	\$ 1,000	\$ 10,000

\* GL Rate expressed as % of Subcontract Amount (should = Bid Credit Rate)  
Approximately 70% of California Subcontractors have "Condo" Exclusions.

## GL Insurance Rates\*

### Weighted Average by Type of Trade - California

Type of Trade [Residential]	Average GL Insurance % Rate	% of Construction Costs	Weighted GL Insurance % Rate	GL Insurance Rates Range		Average Deductible or S.I.R.	Deductible or S.I.R. Range	
				Low	High		Low	High
Carpentry - Finish	3.0%	4.2%	0.13%	0.6%	5.0%	\$ 10,000	\$ 0	\$ 50,000
Carpentry - Rough	4.2%			1.0%	6.6%	\$ 10,000	\$ 1,000	\$ 75,000
Concrete	3.2%	7.0%	0.22%	0.7%	10.4%	\$ 15,000	\$ 0	\$1,000,000
Drywall	2.8%	6.0%	0.17%	0.3%	6.2%	\$ 15,000	\$ 0	\$ 50,000
Electrical	2.5%	1.5%	0.04%	0.7%	10.9%	\$ 7,500	\$ 0	\$ 100,000
Framing	4.5%	24.0%	1.08%	1.4%	10.8%	\$ 20,000	\$ 0	\$ 250,000
Grading	4.6%	3.3%	0.15%	0.3%	17.5%	\$ 15,000	\$ 500	\$ 100,000
HVAC	2.6%	3.0%	0.08%	0.8%	7.2%	\$ 7,500	\$ 1,000	\$ 250,000
Insulation	1.9%	0.5%	0.01%	0.1%	5.5%	\$ 25,000	\$ 1,000	\$ 250,000
Masonry	3.4%	0.5%	0.02%	0.5%	10.3%	\$ 7,500	\$ 0	\$ 25,000
Painting	3.7%	3.0%	0.11%	1.0%	10.3%	\$ 5,000	\$ 250	\$ 50,000
Paving	2.0%	0.4%	0.01%	0.7%	6.3%	\$ 5,000	\$ 1,000	\$ 50,000
Plastering	2.3%	2.0%	0.05%	1.2%	5.2%	\$ 10,000	\$ 0	\$ 250,000
Plumbing	4.1%	6.0%	0.25%	0.5%	20.0%	\$ 15,000	\$ 0	\$ 500,000
Roofing	6.1%	5.0%	0.31%	1.5%	20.0%	\$ 25,000	\$ 2,500	\$ 250,000
Sewer / Water / Storm	3.6%	3.0%	0.11%	0.9%	13.2%	\$ 10,000	\$ 1,000	\$ 50,000
Sheet Metal	4.2%			2.3%	11.7%	\$ 5,000	\$ 1,000	\$ 50,000
Stucco	2.9%	6.0%	0.17%	1.1%	5.3%	\$ 25,000	\$ 1,000	\$ 500,000
Underground Utilities	3.3%	2.0%	0.07%	0.3%	10.5%	\$ 10,000	\$ 1,000	\$ 500,000
Waterproofing	4.7%	0.2%	0.01%	1.6%	11.8%	\$ 5,000	\$ 1,000	\$ 10,000
Balance of Trades	2.2%	22.4%	0.49%					
Weighted Average		100.0%	3.50%					

\* GL Rate expressed as % of Subcontract Amount (should = Bid Credit Rate)  
 Approximately 70% of California Subcontractors have "Condo" Exclusions.

## GL Insurance Rates\* By Type of Trade - Colorado

Type of Trade	Average Bid Credit % Rate	GL Insurance Rates Range		Average Deductible or S.I.R.	Deductible or S.I.R. Range	
		Low	High		Low	High
Carpentry - Finish / Rough	1.7%	1.0%	2.3%	\$ 500	\$ 0	\$ 1,000
Concrete	1.8%	0.3%	3.3%	\$ 2,500	\$ 0	\$ 5,000
Drywall	1.0%	0.5%	2.0%	\$ 250	\$ 0	\$ 500
Electrical	0.8%	0.2%	1.5%	\$ 500	\$ 0	\$ 1,000
Framing	2.2%	1.2%	3.0%	\$ 1,000	\$ 0	\$ 10,000
Grading	2.1%	0.4%	3.0%	\$ 5,000	\$ 0	\$ 10,000
HVAC	1.3%	0.1%	2.4%	\$ 500	\$ 0	\$ 1,000
Insulation	0.6%	0.1%	0.7%	\$ 50,000	\$ 0	\$500,000
Masonry	1.3%	0.1%	2.5%	\$ 500	\$ 0	\$ 10,000
Painting	1.4%	0.4%	2.1%	\$ 500	\$ 250	\$ 500
Paving	1.5%	0.5%	2.5%	\$ 500	\$ 250	\$ 1,000
Plumbing	1.8%	1.1%	3.0%	\$ 500	\$ 0	\$ 1,000
Roofing	2.8%	0.7%	4.2%	\$ 2,500	\$ 250	\$ 5,000
Sewer / Water / Storm	1.2%	0.3%	1.6%	\$ 500	\$ 500	\$ 2,500
Stucco	1.8%	0.7%	4.0%	\$ 1,000	\$ 0	\$ 50,000
Underground Utilities	1.8%	1.0%	3.0%	\$ 2,500	\$ 2,000	\$ 5,000
Waterproofing	3.1%	1.0%	5.0%	\$ 2,500	?	?

\* GL Rate expressed as % of Subcontract Amount (should = Bid Credit Rate)

\* Rate as % of Subcontract Amount

## GL Insurance Rates\* By Type of Trade - Nevada

Type of Trade [Residential]	Average Bid Credit % Rate	GL Insurance Rates Range		Average Deductible or S.I.R.	Deductible or S.I.R. Range	
		Low	High		Low	High
Carpentry - Finish / Rough	2.9%	0.6%	4.7%	\$ 5,000	\$ 500	\$ 25,000
Concrete	2.6%	0.1%	5.2%	\$ 10,000	\$ 0	\$ 1,000,000
Drywall	2.1%	1.2%	3.5%	\$ 10,000	\$ 1,000	\$ 50,000
Electrical	2.2%	1.0%	4.8%	\$ 5,000	\$ 250	\$ 250,000
Framing	2.6%	0.5%	4.8%	\$ 25,000	\$ 1,000	\$ 500,000
Grading	2.1%	1.5%	3.9%	\$ 10,000	\$ 1,000	\$ 100,000
HVAC	1.7%	0.9%	2.1%	\$ 5,000	\$ 2,500	\$ 10,000
Insulation	1.3%	0.3%	3.0%	\$ 50,000	\$25,000	\$ 250,000
Masonry	2.3%	1.4%	3.1%	\$ 25,000	\$ 5,000	\$ 50,000
Painting	2.5%	1.8%	3.6%	\$ 5,000	\$ 500	\$ 10,000
Paving	1.2%	0.9%	1.3%	\$ 2,500	\$ 1,000	\$ 5,000
Plumbing	3.4%	1.8%	6.6%	\$ 10,000	\$ 1,000	\$ 25,000
Roofing	3.4%	1.8%	5.0%	\$ 75,000	\$50,000	\$ 100,000
Stucco	2.7%	0.4%	4.3%	\$ 25,000	\$ 1,000	\$ 500,000
Underground Utilities	1.2%	0.4%	2.0%	\$ 15,000	\$ 5,000	\$ 50,000
Waterproofing	3.9%	2.5%	5.2%	\$ 2,500	\$ 2,500	\$ 2,500

\* GL Rate expressed as % of Subcontract Amount (should = Bid Credit Rate)

\* Rate as % of Subcontract Amount

## Bid Credits - Are They for Real? (Continued)

- **Three methods for assigning contractual deductibles to Subs**
  - **Builder assumes 100% of deductible**
  - **Builder contractually assigns a specific deductible depending on trade**
  - **Builder contractually assigns the same deductible Sub has on his own policy subject to a minimum amount**
    - **at the time of the loss**
    - **at the time the contract is signed**

## Suggested Wrap-Up Rates and S.I.R.s

HAZARD GROUP 1: 1%	HAZARD GROUP 2: 2%	HAZARD GROUP 3: 3%	HAZARD GROUP 4: 4%				
Self Insured Retention: \$5,000	Self Insured Retention: \$10,000	Self Insured Retention: \$15,000	Self Insured Retention: \$20,000				
Alarm System	1	Cabinets	2	Conc foundations	3	Plumbing	4
Appliances	1	Ceramic tile	2	Decks	3	Roofing	4
Carpeting	1	Cultered marble	2	Drains	3	Rough grade	4
Clean up/trash	1	Doors	2	Electrical	3	Sheetmetal	4
Dirt Haul	1	Drywall	2	Fire sprinklers	3	Sky Lights	4
Dry Utilities	1	Fireplaces	2	Framing	3	Stucco	4
Garage Flr Epoxy	1	Flatwork/walks&appro	2	Perimeter Walls	3	Waterproofing	4
Garage Door	1	Granite/countertops	2	Retaining walls	3	Windows/finish carpentry	4
Hardware	1	Gutters	2	Shower encl	3		
Interior Trim	1	HVAC	2	Siding	3		
Light Fixtures	1	Insulation	2	Tube steel	3		
Mailboxes	1	Landscaping	2	Utilities/sewer	3		
Marble & stone flrs	1	Masonry Veneer	2				
Mirrors & encl	1	Masonry walls	2				
Misc Repairs	1	Ornamental iron	2				
Paperhanging	1	Painting	2				
Pest Control	1	Paving/curb & gutter	2				
Safety Rails	1	Remediation	2				
Sound System	1	Storm drain	2				
Stairs	1	Strucural steel	2				
Street Cleaning	1	Weathers tripping	2				
Street Lights	1	Wood flooring	2				
Telephone	1						
Wardrobe/Closet	1						
Wood Fence	1						

## Suggested “Assigned” Wrap-Up Rates and Deductibles for Subs in California

RISK GROUP 1: 1%		RISK GROUP 2: 2%		RISK GROUP 3: 3%		RISK GROUP 4: 4%		RISK GROUP 5: 5%	
S.I.R.: \$5,000		S.I.R.: \$10,000		S.I.R.: \$15,000		S.I.R.: \$20,000		S.I.R.: \$20,000	
Alarm System	1	Cabinets	2	Decks	3	Conc foundations	4	Framing	5
Appliances	1	Ceramic tile	2	Drains	3	Drywall	4	Masonry walls	5
Carpeting	1	Cultered marble	2	Electrical	3	Plumbing	4	Roofing	5
Clean up/trash	1	Doors	2	Fire sprinklers	3	Sheetmetal	4	Rough grade	5
Dirt Haul	1	Dry Utilities	2	HVAC	3	Sky Lights	4	Structural Steel	5
Garage Floor Epoxy	1	Finish Carpentry	2	Painting	3	Stucco	4	UG Utilities/Sewer	5
Garage Door	1	Fireplaces	2	Perimeter Walls	3	Windows	4	Waterproofing	5
Granite/Countertops	1	Flatwork/walks&appro	2	Retaining walls	3				
Hardware	1	Gutters	2	Shower encl	3				
Interior Trim	1	Insulation	2	Siding	3				
Light Fixtures	1	Landscaping	2	Tube steel	3				
Mailboxes	1	Masonry Veneer	2	Weatherstripping	3				
Marble & stone floors	1	Ornamental iron	2						
Mirrors & enclosures	1	Paving/curb & gutter	2						
Misc Repairs	1	Remediation	2						
Paperhanging	1	Safety Rails	2						
Sound System	1	Storm drain	2						
Stairs	1	Wood flooring	2						
Street Cleaning	1								
Street Lights	1								
Telephone	1								
Wardrobe/Closet	1								
Wood Fence	1								
Wardrobe/Closet	1								
Wood Fence	1								

**Excluded from Wrap:**  
 Janitorial Services  
 Hazardous Waste  
 Pest Control  
 GE & Whirlpool  
 Appliances  
 All Vendors/Suppliers  
 (that do not also install)

### Bid Credits - Are They for Real? (Continued)

**Only Guarantee of  
 Getting Proper Bid Credits  
 is Competitive Bidding.**

## The Future?

- **California and Nevada**
  - 100% of all “attached” housing is done under a Wrap-up
- **Arizona, Hawaii, Colorado, Washington - NOT FAR BEHIND**
- **Florida and Texas - ? ? ?**
- **As sub’s carriers continue to limit their coverage, or totally withdraw from other states, Wrap-ups will be the Answer.**
- **New carriers entering marketplace**
- **Increased capacity**

“This about wraps it up!”

“Thank you.”