



# Is OCP Enough?

## The Basics of OCP and OI Policies for Property Owners

Both Owners and Contractors Protective (OCP) and Owner’s Interest (OI) coverage offer protection for property owners during the course of construction. This coverage is intended to be contingent to the general liability limits of the general contractor but can drop down and pay covered losses that are uncollectible under the GC’s policy because limits have eroded or coverage cannot respond. Both types of policies require strong risk transfer, including an executed contract between the owner and the general contractor that contains the following:

- A “hold harmless” provision
- Indemnification and additional insured (AI) language in favor of the owner
- A certificate of insurance with adequate limits
- The owner needs to be included as AI on the general contractor’s general liability policy

### OCP Overview

**Owners and Contractors Protective liability** insurance provides coverage to supplement the owner’s AI status on the general contractor’s policy during construction. The policy covers the owner for bodily injury or property damage caused, in whole or in part, by an independent contractor’s work for the owner. Normally, the contractor purchases the policy to provide coverage for vicarious liability that the owner incurs as a result of the contractor’s acts or omissions on the project. The policy also responds to liability arising out of the insured’s own acts or omissions in connection with its general supervision of the contractor’s operations.

### OI Overview

**Owner’s Interest liability** insurance is a broader coverage that provides full general liability limits for property owners, including premises and completed operations. It can also include extended completed operations up to the statute of limitations for construction-related claims in a given state.

## OCP COVERAGE GAPS

Depending on the bank requirements, project specifics and other coverage in place, OCP may be adequate coverage. But in many common scenarios, only having an OCP leaves large coverage gaps. The table below shows how our Owner’s Interest policies will fill those gaps.

COVERAGES	OWNERS AND CONTRACTORS PROTECTIVE (OCP)	OWNER’S INTEREST (OI)
Completed Operations	No coverage	Yes
Extended Completed Operations	No coverage	Optional up to that state’s statute of limitations
Premises	Limited to construction-related activities	Yes
Negligence of the Owner	Limited to the general supervision of the GCs during construction	Yes
Action Over	Always excluded	Yes
Personal and Advertising Injury	No coverage	Yes



# A Tale of Two Owners

## When an Owners and Contractors Protective Policy Is Not Enough

Once upon a time, there were two brothers, John and Michael, who were both new to real estate development. They each purchased a parcel of vacant land adjacent to each other with the intent of building six-story apartment buildings. Both brothers hired a general contractor (GC) to oversee construction activity; entered into a contract containing hold harmless, indemnification and additional insured language in their favor; and were included as additional insureds (AI) on the GC's general liability policy. They both knew their AI status would not protect them completely throughout the course of construction, so the brothers obtained additional insurance options.

- John's GC purchased an **Owners and Contractors Protective (OCP)** policy in John's name.
- Michael consulted with his insurance broker and purchased an **Owner's Interest** policy.

During and after construction, several issues occurred that brought their coverage into play, and the brothers learned what their policies truly covered. One of them had to learn the hard way.

Within the first weeks of the project, a terrible ice storm caused pedestrians to slip on John's property and on Michael's. Were both of them covered?

- **John was not covered.** Because John's OCP covered premises liability only in relation to construction activities, John did not have coverage for the accident.
- **Michael was covered.** His Owner's Interest policy provided full premises coverage.

Several weeks later, the spring weather allowed construction to continue. The contractors were rushing to make up for lost time and left their tools on the sidewalk. On John's property, a pedestrian tripped over a hammer.

In this case, John's OCP policy coverage was triggered because the accident was a result of construction activities. Thankfully, the rest of the construction was completed with no further incidents.

After construction was completed, the brothers both decided that managing apartments would be too much for them and converted their apartment buildings into condominiums. It didn't take long for all of their units to sell. But, about a year after completion, both John and Michael received urgent calls.

1. At John's building, there was a major leak in the roof from a construction defect. The leak caused damage in multiple condo units, amounting to several thousand dollars in repairs. John's OCP did not include coverage for completed operations, so no coverage was triggered.
2. Next door at Michael's, things were even more serious. A condo unit owner was out on the balcony enjoying the weather when, suddenly, the balcony collapsed, leading to very serious injuries. Thankfully, Michael had included extended completed operations coverage that was offered in his Owner's Interest policy for six years after completion of the project, which was the statute of repose for related claims.

### What did John and Michael learn?

- An owner needs to make sure the right amounts and types of insurance coverage are in place for their premises to cover perils **not directly related to construction**.
- An owner needs to make sure to have insurance coverage for **construction defects that are discovered after construction is complete**.
- Because an owner has exposure to construction defect incidents for **several years after completion**, the owner should consider coverage for completed operations up to their state's statute of repose.

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