

The Integrated Project Insurance (IPI) Model

FREQUENTLY ASKED QUESTIONS

Q1: If the IPI model is a game-changer, does that mean it is riskier than other methods?

A1: No. The IPI model is founded on best practices from leading demonstration projects which have already been proven to deliver superior value. Furthermore experience shows that much of this value is attributable to the independent monitors of these demonstrations who kept the team focussed and aligned. In adopting IPI the Client sets the agenda for best practice adoption and is rewarded with facilitation and risk assurance embedded in the product to provide this third party support from commencement to completion

Q2: If IPI is so good why isn't everyone doing it?

A2: There are several reasons people have not taken up IPI:

- Few want to be first to try something new: they are very happy to follow after the innovation has been proved. Many have taken this position, holding back because IPI challenges industry norms.
- Developer and infrastructure projects are too large for IPI: only projects in the £10 - £25m range are currently suitable to make the level of cover viable. (This will change once demonstration projects are complete and larger projects can be accommodated).
- The fact it is one of the three procurement methods in the Government Procurement Strategy means people do not think it is available and that it is reserved for special projects.
- Several projects have been declined for IPI: usually the procurement method is too advanced along a conflicting route, and/or there is too little time to change and induct teams. Another reason is that the parties were unprepared to change from the traditional lowest cost approach, and saw IPI as a longstop cover.
- Several projects where the client wanted IPI lost their funding.

Q3: IPI sounds too good to be true - what's the catch?

A3: There isn't one! If the team works truly collaboratively and policy inception can be recommended IPI is simple and promotes superior demonstration project outcomes, lower costs and lower risks. However, people have to be prepared to do something truly different and many think they are already doing it; when they realise how different it is, it is often too late.

Q4: Will projects take longer under the IPI model?

A4: No, they will take less time. There has to be engagement with the IPI model from the outset so as to ensure the business need and success criteria are soundly established, but thereafter major savings are made because of (i) the avoidance

of design and pricing prior to award, (ii) parallel rather than sequential activity between designers and specialists, (iii) avoidance of re-engineering and re-tendering to achieve cost savings (iv) continual focus on the most efficient methods of delivery such as modularisation or off site fabrication and (v) incentivisation to get it right first time.

Q5: Why can't IPI be bolted on to other familiar models?

A5: This might be possible for frameworks procured on a basis compatible with IPI and allowing the necessary flexibility. Whilst there are common characteristics between the collaborative models, the IPI model is uncompromising about the need to share the collaborative culture and fairness throughout the supply chain, selecting on criteria consistent with the overall success criteria rather than on lowest price, and likewise to share with them the benefits of the risk assurance with all parties being equal (e.g. paid directly via a Project Bank Account).

Q6: What motives do insurers have in giving the cost-overrun cover?

A6: Insurers see liability-based insurance as an increasingly unattractive business proposition - as the recently announced withdrawal by Aviva from the PI market for SMEs indicates. Leading Professional Indemnity brokers Griffiths & Armour cite the statistic that for every £1 paid out on PI claims, £5 has gone on legal and forensic costs because of multiple insurances where blame and culpability are food for litigation.

With the partnership culture of IPI, insurers are aware of the risks through the IF/TIRA/FIRA, and have the opportunity to contribute their skills towards mitigation. The insurer covers all parties and gets sight of the whole risk on one particular project at inception, not piecemeal at the end of different projects when something goes wrong.

Q7: How could a product with the extra facilities of IPI be cost neutral, or better?

A7: Because the legal and forensic overburden is removed in favour of measures to minimise the risk of a claim arising. IPI insures the outcome, not the cause, and the heavy cost of professional indemnity insurance (which is dependent upon identifying and disentangling causes and apportioning blame and so liability) is avoided. The embedded facilities of the IF/TIRA/FIRA reduce the risk, and thereby also reduce the insurance premiums, including for latent defects

Q8: Why would a team find it easier to be open and transparent under IPI?

A8: There is no underlying reason to be anything else! Each partner's potential loss is limited to a finite sum and liabilities are known up front; they are all party to the same alliance principles, and are not penalised for being honest about issues and mistakes. In short, the need to "reach for the contract in the bottom drawer" in terms of covering issues when something goes wrong is negated.

Most other models make the supply side liable for costs in excess of the Guaranteed Maximum Price, and the motivation is therefore for each tier to tuck away contingencies wherever possible to minimise this risk.

Q9: What is the basis of your challenge of making savings of up to 20% of cost?

A9: The promoters of IPI and some 30 practices and firms across the supply side of the industry set the challenge of 15% - 20% savings by cutting process waste before Government published its objective of reducing costs by “up to 20%”. Such savings have been made on the best exemplar projects.

Q10: What guarantee is there that the target savings will be realized?

A10: The savings built in to the target cost and forming the basis of the IPI cover will be locked-in at IPI inception, and so are guaranteed. Further savings will emerge during implementation as the benefits of integrated working work through, and with the incentive of the gain-share.

Q11: What is the overriding purpose of the IPI model ?

A11: The overriding purpose of the IPI model is to enable all participants to leave their silos and collaborate to the full as a lean integrated team, with a pre-requisite of a no blame/no claim agreement, leading to improvements in efficiency, elimination of waste, and greater financial certainty.

Q12: Would paperwork really be reduced? Wouldn't the third party insurance regime tend to re-direct existing paperwork towards the assurer?

A12: Insurers will adopt a light touch approach. SECO, the independent risk assurer from Belgium (appointed on the first pilot IPI project) reviews drawings etc. via the internet, and the culture is one of collaboration, not bureaucracy. It follows that BIM will ideally complement the independent review process. Traditionally most paperwork is retained to track activities to apportion or deflect blame; with a no blame/no claim agreement this paperwork is redundant.

Q13: How does the obligation on professionals to have own PI sit with project insurance? Moving beyond a trial, how does the annual corporate basis of current PI arrangements sit with project insurance i.e. would the duplication in cost actually be difficult to drive out?

A13: The Alliance Contract for the IPI model does not require professionals to maintain their own PI in respect of the project after the IPI policy is incepted. Fees earned on the IPI pilot project should not be declared under the consultants' own annual PI arrangements, so there will be no duplication of PI costs.

Q14: Since annual organisation insurance is branded/discounted on turnover - as contractors don't know the volume of work that will need to be covered in an annual period - does this present a very real challenge in avoiding paying twice?

A14: Again, turnover on IPI projects should not be included in contractors' declarations to insurers, and premiums can be adjusted retrospectively once actual turnovers

are known. Brokers are part of the IPI team and are available to assist recovering unnecessary premiums from within the supply chain.

Q15: Wouldn't it prove cheaper for Government to self-insure in order to avoid creating a potential headache where each insurer needs to be satisfied before design risk can be transferred to the supply chain? Preference would be to pay % into a portfolio risk pot, which could also be used to self-insure standard models enabled by BIM.

A15: With self-insurance what would be the catalyst for full integration and collaboration - which is how IPI delivers value? There is no transfer as the whole team is collectively responsible for the whole project. The concept is however to have IPI in place across both the public and private sectors, and the best way to achieve this is through an engaged and efficient insurance industry.

Q16: How does IPI work for SMEs? Would this result in higher insurances?

A16: If a SME is selected to be a partner or supplier in the Alliance, he is covered by IPI which gives a superior cover to all Alliance members and suppliers alike. The 2.5% cost of IPI is fixed for the initial programme of IPI projects, and will not be adversely affected by SME participation. SMEs also have the protection of the Project Bank Account - which will improve the risk of insolvency in the eyes of insurers.

Q17: How can IPI help in projects where costs are already reduced?

A17: If, by inspired management, integrated collaborative processes are already being applied, the scope for the target savings of 15% - 20% (as compared with traditional "good practice") will clearly be reduced. But the savings expected under the IPI Model are very wide-ranging, as indicated in Section 6, and many will not materialise without the no blame/no claim culture and unique IPI cover. Furthermore, many of the savings currently being demonstrated on projects relate to entirely different aspects, such as space optimisation, prefabrication and other more efficient constructional measures.

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