

CASE STUDY

IPD insurance solution crafted

Single-project insurance and project-specific liability insurance the answer.

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The debate over the risks associated with and the insurability of Integrated Project Delivery contracts has led many (maybe most) A/E/P and environmental consulting firms to steer clear of truly implementing the collaborative concept.

A basic premise of IPD is that better projects attained through a team severely curtail the possibility of litigation, but this still leaves serious questions regarding the allocation of risk among parties. The situation is exacerbated by the lack of off-the-shelf insurance products covering contract teams in the U.S.

Now, one IPD project team has done it.

The \$385 million Owensboro Medical Health Center project in Owensboro, Kentucky, under construction, is utilizing a novel insurance coverage scheme that meets the aspirations of pure IPD—a single-project insurance policy that covers the entire team.

“One set of insurers is insuring all the parties to the project,” says Dan Knise, president and CEO of Ames & Gough, an A/E/P and environmental consulting industry-focused specialty insurance brokerage.

In addition to the traditional OCIP (Owner-Controlled Insurance Program) for construction-related risks, the parties to the IPD agreement (the owner, architect, contractor, and the mechanical, electrical, and plumbing engineer), took the concept a step further and purchased a project-specific professional liability policy to help minimize the potential of cross litigation, Knise says. The premium was considered a project cost by the owner and a project contingency fund buffers the insurance and pays for any deductibles or uncovered losses.

Coverage was sourced through Lexington Insurance, one of just a few insurers offering IPD-specific coverage.

HOW IT HAPPENED. Owensboro Medical Health System wanted the 780,000-square-foot project—designed by **HGA Architects and Engineers** (Minneapolis, MN), a 700-person integrated architecture, engineering, and planning firm—to be developed under the IPD method from the onset.

Patrick Duke, senior vice president with project manager KLMK Group, says it soon became apparent that only an IPD-specific insurance product would do for this ambitious project, describing it as “key for the team to be able to agree on a multiparty agreement.”

A consultant with extensive experience in the health care field and a growing résumé of IPD projects, KLMK proposed the idea to the project team.

“We brought in the experts (Ames & Gough); they helped us craft the solution. We brought it to the team,” Duke says. “People were very happy that we were coming to the table with a solution.”

Nevertheless, it wasn’t easy to accomplish the coverage, with negotiations lasting about three months. There were doubts about disclaimers, as well as a hitch regarding language on exclusions, but in the end the team signed on the policy.

The challenge with IPD coverage is that the concept is built around the principle of no fault—pretty much a foreign idea in the U.S.

“That’s the issue that we had to wrestle with to make this work,” Knise says.

The solution accommodated U.S. insurance rules and didn’t eliminate negligence standards, Knise says. Thus, the insurance policy will still respond if somebody is eventually negligent.

“Contingency funds become the vehicle that allows for this,” Knise says.

Matt Gough, vice president and partner at Ames & Gough, says the contingency is 5% of total construction cost.

While IPD insurance products are still emerging, Gough says a standard policy for these types of projects doesn’t really exist out there.

“You are going to have to tailor the policy to the project,” he says, adding that the Lexington Insurance policy for

IN BRIEF

Project: Owensboro Medical Health Center project in Owensboro, Kentucky.

Type of delivery: Four-member Integrated Project Delivery team.

Insurance program: Single-project insurance policy (OCIP) that covers the entire team, plus project-specific professional liability policy.

Cost: Five percent of total construction cost of \$280 million.

this project “looks a lot different today than when we first received it.”

LESSONS LEARNED. Duke says the only real hiccup in the process pertained to the fine print in the exclusions section of the contract, with team members expressing concern with a professional liability exclusion on reimbursements (the team has to expire the contingency fund first before they draw into policy).

“We had to work through that with the insurer,” Duke says. “They created what we need that matched the contract. You really need to pay attention to those,” he says.

Despite the challenges in assembling project-specific coverage, the parties involved in the team believe that to attain the goals of IPD, this is the only feasible solution. To have every party bring their insurance to the table “makes no sense,” Knise says.

“You really need to have one policy,” he says.

“This is an evolutionary situation. We have not created the final model,” Knise says. “This is a step in the right direction. Project insurance seems to be the way to go.”

Duke says that while the project is not finished (it is scheduled for completion in 2012), he believes that this cost-neutral coverage solution should ultimately produce savings when compared with traditional insurance coverage, not only because of the economies of scale in developing a combined policy, but because it will produce a safer, better project in the end.

“It’s working great so far,” he says.