



## ***BUILDING A BETTER WRAP-UP***

### **GETTING CONTRACTOR BUY-IN**

Presented by

**Stephen N. Raimondi, ARM**  
**Director, Risk Mgmt. Services**  
**ABB Business Services Inc./Asea Brown Boveri Inc.**

Wrap-Up

As their popularity has grown, owner controlled insurance programs—or wrap-ups—have been the subject of much scrutiny. Critics question the ability of such arrangements to achieve their stated objectives, and claim these programs pit the owner and contractors as adversaries. Further, wrap-ups create potential coverage gaps in contractors' insurance programs and can hinder their competitiveness on other projects. Even supporters acknowledge that an owner's ability to meet its objectives for the OCIP depends heavily on how it manages the program—especially safety. In this session, attendees will hear experts discuss strategies for designing a wrap-up insurance program that address contractors' coverage and contractual concerns and provide appropriate incentives to get contractors on board. Find out how one organization realized annual savings of \$6 million by implementing an OCIP and by working with contractors to implement and enforce an aggressive safety management program. Finally, find out how other contractors and owners are utilizing the wrap-up concept and what kind of results they have realized on a sampling of projects.

***Monday, November 13, 9:00 a.m.–5:00 p.m.***

**Worst case,  
you could  
just start  
over again.  
Right?**



**When your construction wrap-up  
project isn't that simple, you need  
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**Stephen N. Raimondi, ARM**  
**Director, Risk Mgmt. Services**  
**ABB Business Services Inc./Asea Brown Boveri Inc.**

Mr. Raimondi is one of the presenters for Monday's all-day seminar, "Building a Better Wrap-Up." He is currently director, Risk Management Services, for ABB Business Services Inc./Asea Brown Boveri Inc., Norwalk, CT. Asea Brown Boveri Inc. is the U.S. holding company of ABB Ltd, Zurich, Switzerland; a \$26 billion "Knowledge-Based" company with over 160,000 employees in more than 100 countries. Asea Brown Boveri Inc., with annual revenues of \$5 billion, has 16,000 employees in more than 40 states, with approximately 25 percent of its revenues derived from international sales to over 100 countries. Mr. Raimondi is responsible for all risk management and insurance matters related to Asea Brown Boveri Inc.'s worldwide operations. Through its various subsidiaries, the ABB Group, with its novel IT applications, tailored software solutions, growing eBusiness and fast expanding knowledge and service base, is building links to the new economy. ABB serves customers in power transmission and distribution, automation, building technologies, oil, gas and petrochemicals, and financial services.

Prior to his 13-year tenure with ABB Inc., Mr. Raimondi held various risk management posts at Foster Wheeler Corporation, and a national trucking firm. Mr. Raimondi holds a bachelors degree in Business Administration from Rutgers College, as well as the Associate in Risk Management designation from the Insurance Institute of America. Mr. Raimondi is past chairperson of the Engineering & Construction Risk Management Group. He is currently a member of the Risk Management Council of the Manufacturers Alliance (MAPI), and has been a member of the Market Advisory Board to the Overseas Private Investment Corporation (OPIC). He is often consulted by risk management colleagues on various issues, especially in the international arena, and has been a frequent speaker at events sponsored by the Risk Management and Insurance Society (RIMS), International Risk Management Institute, Inc. (IRMI), and The World Congress/The Center for Business Intelligence.

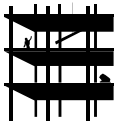
Wrap-Up

## ***Notes***


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# GETTING CONTRACTOR BUY-IN


*Stephen N. Raimondi, ARM  
ABB Business Services Inc./Asea Brown Boveri Inc.*





## Various Wrap-up Players



- Developers
- Lenders
- Investors
- Owners
- Architects
- Engineers
- Construction Mgrs.
- Consultants/Attorneys



- Contractors
- Subcontractors
- Workers
- Insurers
- TPA's
- Brokers/Agents
- Loss Control Reps.



Can't We ALL Just Get Along??



The Players' Motivation Should be:  
A Mutually Successful Project!!



On time, meeting performance  
requirements & within budget!!

## Does this make any sense-Part I??

The Owner involves the Contractor in every step of the project process, **except**...the Risk Financing / Insurance aspects!!



WHY???



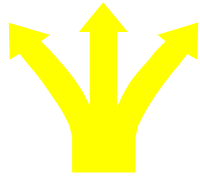
## Does this make any sense-Part II??

However, the Owner defers to “outsiders” in the design, etc. of the Risk Financing / Insurance program; outsiders who have little or nothing “at risk” in the project??

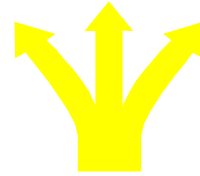


WHY???





## The Basic Disconnect



- Project Insurance Structure/Content
  - Owners mostly driven by perceived savings
  - Contractors mostly driven by project risk
  
  - Owners often view OCIP as the solution
  - Contractors view project risk financing / insurance as part of the solution



## A Contractor's Perspective



### Some Typical “Issues” with OCIP’s

- Attitude of exclusion breeds “distrust”
- Breadth of coverage (quantitative / qualitative) not equivalent to Contractor’s own coverage
- Risk Financing mechanism often falls short of Contractor’s contractual “exposure” / Contractor as “deep pocket”



## A Contractor's Perspective



### Typical "Issues" with OCIP's (cont.)

- Is the Wrap-up valid/legal? Need for indemnification from Owner?
- The "credit" conundrum--focus must be on a "realistic" credit rather than the broker promulgated "fantasy" credit / savings
- Limited Products/Completed Operations coverage



## A Contractor's Perspective

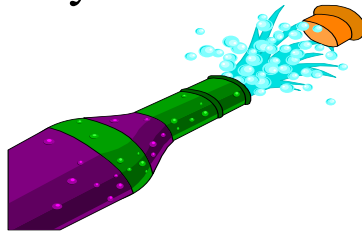


### Typical "Issues" with OCIP's (cont.)

- Contractor's perception that claims' leverage is severely diminished
- Difficult/costly administration
- Advance Loss of Profits (ALOP) vs. Liquidated Damages coverage--it's the same exposure! (standard P&C coverages)
- Use of "designated premises exclusion endorsement" ( i.e. update your resume!)

The Players' Motivation Should be:

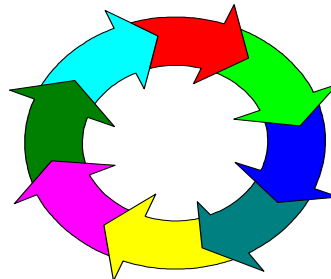
A Mutually Successful Project!!



On time, meeting performance requirements & within budget!!

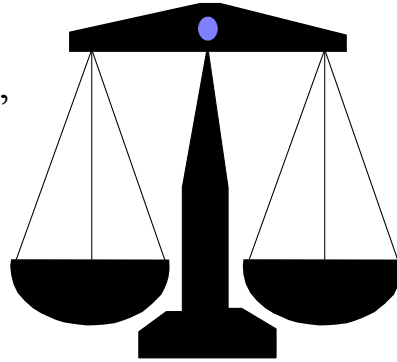
Success Can Come More Easily  
Through

- working together in all aspects of the project, including the Risk Financing

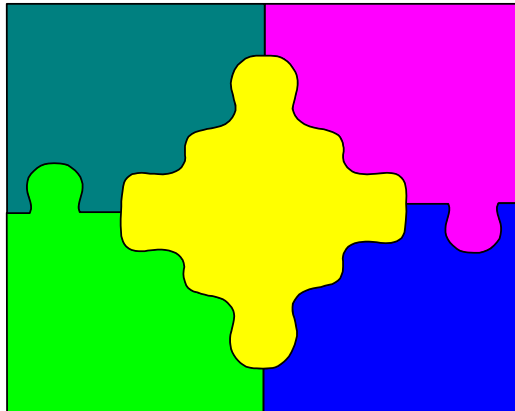


## Success Can Come More Easily Through

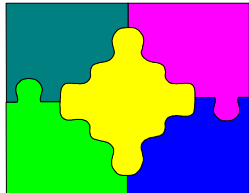
- achieving a “balance”



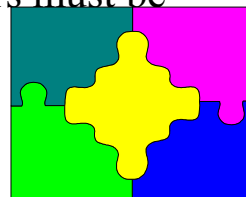
## An Alternate Approach



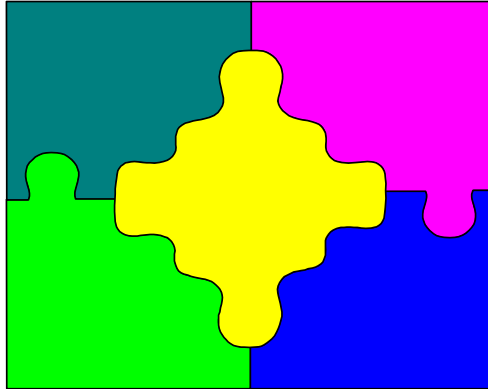
## Coordinated Insurance Program (CIP)



- Question 1-When should a CIP be pursued?
- Question 2-By whom?
- All “interests” of major players must be equitably addressed!



# The Coordinated Insurance Program A Case Study



Wrap-Up

**Project**  
 3 x 660 MW Power Plant  
 Location: Asia/Pacific  
 TV: Approx US \$1.5 Billion  
 Contractor's All Risk Insurance Program (CAR)/Marine Cargo Insurance Program (MCI)/Assoc. ALOP



Owner/Developer/  
Lender HK/UK/  
Local Broker

Lenders (Lead  
Bank - Hong  
Kong)

Owner/Developer

Contractor  
Consortium

Owner/Developer Consortium  
 - Private Asian Holding Co.  
 - Provincial Power Entity

Contractor Consortium  
 - European Vendor - Turbine/BOP  
 - USABB - Boiler Island/Assoc.  
 - HK Vendor (Subsidiary of Owner/Developer Consortium Member)

Euro Vendor  
Turbine/BOP

USABB Boiler  
Island/Assoc.

HK Vendor  
Erection/Civils/  
Assoc.

- Overall Project RM Coordination
- Negotiation/Placement of "Local" Insurance policies
- Administration of "Local" policies
- Co-author of policy wordings
- Selection of reinsurance markets
- Co-broker/Consultant

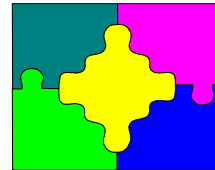
- Contractor Project RM Coordination
- Negotiation/Placement of Marine Cargo Insurance
- Co-author of policy wordings
- Overall Project Claims Administration
- Selection of Reinsurance markets
- Co-broker UK markets

- Liaison with "Local" Insurers
- Co-author of policy wordings
- Selection of Reinsurance markets
- Co-broker US & Euro markets

- Liaison with "Local" Insurers
- Co-author of policy wording

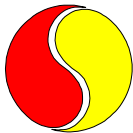
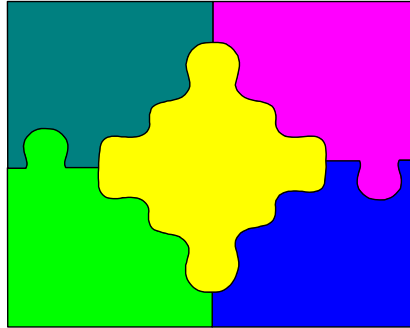
Risk Management/  
Broker Panel

Division of Work



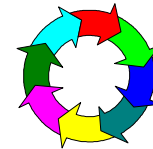
## Steps to Success

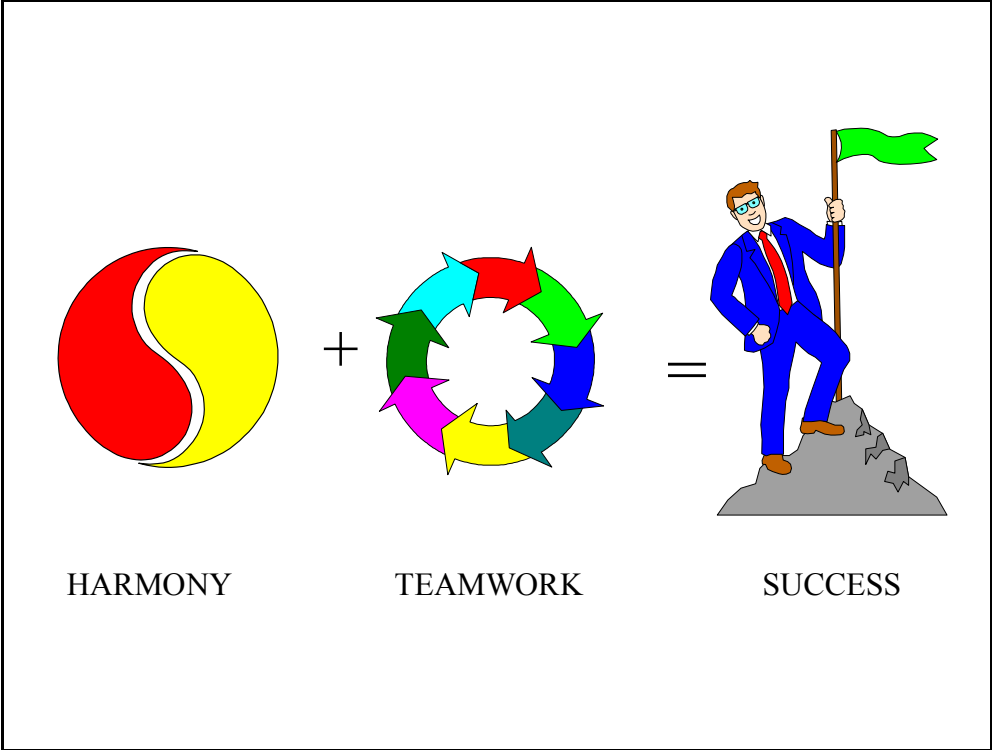
- Try the Coordinated Insurance Program approach--just once, you may like it



## Steps to Success

- If the CIP approach is not undertaken:
  - implement balanced, sensible and fair contractual risk sharing
  - include Contractor in all aspects of design, execution, administration, etc. of program
  - recapture the process from those “outsiders” who have little “at risk” in the project
  - promote comprehensive communications amongst all project players
  - design a “program” that addresses the risks





Wrap-Up