

AXIS INSIGHTS

The Price of Transferred Risk

How experience on one project changes the next bid

In 1696, Henry Winstanley began building a lighthouse on the Eddystone Rocks, a dangerous reef off Plymouth, England. Under his arrangement he would keep the light's profits for five years before sharing them with Trinity House, which gave him a reason to build and operate a light that shipping badly needed while leaving much of the financial exposure with him. In November 1703, he was on the rock completing further work when a great storm swept the lighthouse away, and him with it.

The story appears in a 2003 C.D. Howe Institute paper as an early example of private finance serving a public purpose. What makes it useful today is not Winstanley's loss but what came after it. Someone still had to decide whether the next lighthouse was worth building, on what terms and to what design. Modern infrastructure faces the same question with far more sophisticated contracts, lenders, insurers and risk analysis. When an owner asks the market for a price and transfers uncertainty with the work, how does the experience of carrying that uncertainty change the market's next answer?

The price reflects more than the work

A bid is not simply an estimate of labour, material and equipment. It reflects the scope as bidders understand it, the schedule they believe they can achieve, the risks the contract asks them to bear and the capital they must commit. Some uncertainty can be managed through design, construction methods, insurance or subcontracting. Other uncertainty depends on decisions, approvals or interfaces largely outside the bidder's control.

When several unresolved issues can affect one another, their combined consequences can matter more than any one of them in isolation. Consider a transit package with uncertain utility locations, restricted site access and an interface with another contractor. A utility conflict that consumes the available access window may also delay the interface, compress construction and extend financing. The question for a bidder is not just what each risk costs. It is what happens if the risks meet. Earlier in this series, we described this kind of compounding as convexity: early conditions travelling through an initiative and returning as larger consequences. Procurement is where the market prices those consequences.

That does not mean bidders add up the worst outcome of every risk. Competitive bids are shaped by probability, contractual relief, risk appetite, balance-sheet capacity and

commercial judgment. A bidder may carry a contingency, seek a qualification, buy insurance, change its delivery approach or decide the opportunity is not worth pursuing. Uncertainty affects both the price submitted and the willingness to submit one. If too few qualified firms are willing to bid, the owner also loses some of the competition it was counting on to test the price.

The market remembers

The first time a market meets a particular allocation of risk, its price may rest on assumptions that later prove optimistic. Delivery then reveals which interfaces were harder than expected, which owner decisions took longer, which risks could be controlled and which contractual protections worked in practice. Those lessons carry forward into the bids and projects that follow.

They travel through several channels. Estimators who lived through the last overrun set the contingency on the next bid. Boards and executives revisit how much fixed-price exposure the firm should carry at once. Lenders, sureties and insurers may reassess their terms, pricing and capacity as losses and exposures become clearer. Contractors seek qualifications on risks that once went unremarked. The quietest signal is a firm's decision not to bid at all. A firm does not need a catastrophic loss to change its view. A disputed entitlement, prolonged schedule exposure or an unexpected draw on working capital may be enough.

In July 2019, SNC-Lavalin (now AtkinsRéalis) announced that it was leaving lump-sum turnkey construction contracting, with its interim chief executive describing those projects as the root cause of the company's performance problems. Cost reforecasts on fixed-price work, including two infrastructure construction projects, had contributed to heavy losses. The firm withdrew from pursuits where it had already been shortlisted and said it would participate only if the contracting model changed to one with a better risk profile, or as a subcontractor carrying limited risk. Few market signals are clearer. A major participant had carried the risk, priced the experience and changed its answer.

Infrastructure Ontario has identified declining market participation as an enterprise risk. In its 2024–25 annual report, it links participation pressures to industry consolidation, growing project complexity and changing tolerance for risk transfer, with potential consequences for bid prices, service costs and project schedules. That does not show that any single contract term caused a particular bid or withdrawal. It does confirm that risk allocation and market capacity are now live procurement questions.

The Ottawa Light Rail Transit Public Inquiry, which reported in November 2022, shows the same learning from the owner's side. The City of Ottawa had paid a premium to transfer geotechnical risk on the Confederation Line to its private partner, and when the Rideau Street sinkhole opened in 2016, that transfer protected the city from substantial cost. The inquiry was sharply critical of the project as a whole, but on this narrow point the contract worked as written. The commissioner also heard that major contractors were declining P3 projects because of the financial risk involved, and warned that the city might not be able to transfer risk the same way in future, or might pay significantly more to do so. A market that has lived through that kind of exposure may price it higher, qualify it or decline to bid.

Owners need to understand that a risk can be transferred successfully on one project while becoming harder to transfer on the next.

Owners usually see a higher price, a thinner bidder list or more qualifications than expected. Contractors may be drawing on experience from other projects, sometimes years earlier. The owner receiving the bids may never know which risks changed those firms' willingness to price or carry the work.

Transfer is not the same as control

Risk transfer works best when the party bearing a risk can influence its likelihood or its consequences. A contractor can generally control its own construction methods and coordination. The owner may be better placed to settle program requirements, secure property, make policy decisions or coordinate public approvals. Some risks need to be shared because neither party can manage them efficiently alone.

Moving a risk into a private contract does not eliminate its cost. If the private party can manage it better, transfer can create value. If it cannot assess or control the risk, the owner may instead pay for uncertainty in the bid, receive fewer bids, face qualifications or confront disputes during delivery. If a private partner fails, the public obligation to provide the asset or service usually remains. The legal allocation and the practical exposure are related, but not identical. The Ottawa inquiry made a similar point. The model shielded the city from construction-phase liability, but it also left both parties focused on protecting their contractual positions rather than delivering a reliable system.

Progressive delivery models are one response. Infrastructure Ontario describes a development phase in which the owner and selected partner work through requirements, design, pricing and risk before agreeing a final fixed or target price. That changes when risks are examined. It does not remove them or settle who should bear them, and it brings trade-offs of its own. The final price is developed without the same competitive tension as in a tender process, open-book pricing is only as useful as the owner's capacity to test it, and a development phase can surface scope or affordability choices that neither party is able to resolve.

The real choice is therefore not between transferring risk early and declaring a progressive model the answer. It is between different ways of learning about risk, allocating it and checking the resulting price. Where uncertainty can be investigated and assigned clearly before tender, a competitively priced fixed commitment may work well. Where it cannot, a development phase may be useful, provided the owner has the decision-making and commercial capacity to make that phase count.

What owners should learn before asking for a price

The strongest procurement question is not "How much risk can we transfer?" It is "Which risks can each party actually influence, what evidence supports the allocation, and what happens when several risks occur together?" That inquiry starts well before the request for proposals. It draws on site investigations, scope and interface definition, market dialogue, affordability work and a clear path for timely owner decisions.

Owners should also treat bids and non-bids as information. A high price may signal inefficient risk allocation, but it can also reflect genuine complexity, limited capacity, inflation or an ambitious schedule. Thin participation may reflect the same mix. Owners should examine which uncertainties bidders are pricing or avoiding, who can reduce them, and whether changes to scope, risk allocation or the delivery model would produce a more credible commitment.

This is the kind of work Axis exists to do. We work on the owner's side with the cost consultants, legal advisors, commercial specialists and technical teams supporting a procurement. Our focus is on connecting the decisions about scope, affordability, interfaces and approvals, and ensuring the owner has the capacity to make them. When those decisions are made or clearly framed before the market is asked for a price, bidders can price the uncertainty that genuinely remains rather than pricing questions the owner has yet to answer. That produces more credible prices for owners and a fairer basis for the firms willing to carry the work.

What came after Winstanley

The Eddystone story did not end in 1703. A new leaseholder, Captain John Lovett, secured a 99-year lease on the rock and the right to charge passing ships a toll, and commissioned John Rudyerd to build a second tower. It was a conical timber structure weighted with stone, and it stood for nearly fifty years until fire destroyed it in 1755. John Smeaton's tower followed in 1759, built of interlocking stone and designed around what the earlier towers had revealed about the rock. It stood for more than a century, and its methods shaped lighthouse construction long after.

Each new proponent priced, financed and designed around what the previous one had lived through. Most modern projects will never produce a moment as stark as the loss of Winstanley's tower. Their lessons accumulate more quietly, through revised contingencies, changed contract positions and decisions not to bid. The market learns from the risk it actually carries. Owners who want competitive, credible prices need to learn from that experience too.

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Source notes

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- Infrastructure Ontario, *Choosing the Right Model for Each Project*