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SDI GAINS MARKETSHARE IN THE NORTHWEST

John Claeys | Vice President, Surety Manager

Subcontractor Default Insurance (SDI) has become a much more visible feature on major construction projects in the Northwest. Our region was arguably the last to embrace SDI. But, with the huge spike in commercial construction, the influx of national contractors, and the now proven track record of the product, owners and contractors in the Northwest have embraced the product.

What is SDI?

SDI is an insurance policy used as an alternative to surety bonds in transferring the default risk of subcontractors and suppliers to an insurer. Originally known as "SubGuard" (a Zurich trade mark), SDI is now a product marketed by several insurers and, in some cases, used as part of a captive insurance program.

By using the structure of an insurance policy rather than a surety bond, SDI is able to provide a general contractor with more control over both the claims process and the schedule of the job. While surety bonds have an impressive and proven record of performance, the surety's role and responsibility can be seen as time consuming and complex in resolving default claims. The Insurance policy format of the SDI product makes the claim process more efficient and predictable.

What are the advantages of SDI?

SDI gives the general contractor more control, enabling them to address a subcontractor failure more quickly. SDI also provides some soft cost coverage related to

expenses not strictly available from a bond. However, the very nature of the process of enrolling subcontractors in an SDI program yields a less obvious, but no less tangible benefit: a focus on the general contractor's chosen subcontractor's viability, capability, and compatibility with the rest of the project team.

In order to qualify to for an SDI policy, a general contractor needs to establish sophisticated subcontractor prequalification and management systems. These systems are designed to collect, analyze, and monitor meaningful financial and operational information to assist the general contractor in selecting and managing qualified subcontractors. We have observed measurably improved relationships between general contractors and subcontractors when they share more information and develop a regular dialogue on the inner workings of each other's businesses.

There is also evidence that as SDI becomes more prevalent in our market, it is playing a role in changing dialogue at the owner/general contractor level. General contractors are focusing more on the prequalification element of their role and the long term value of assembling the best team for the project in their conversations with owners. Whether the tool is a bond or SDI, the construction market wins when projects are awarded on this basis.

Should you consider SDI?

Surety bonds continue to offer value to the construction industry, and it is clear that SDI has also created value in



the construction marketplace. Determining whether you could benefit from SDI requires a detailed review of your situation, which we have done numerous times and could readily do for you. Your questions around SDI will be very different depending on your role in the construction marketplace: General contractors will want to carefully analyze the product to see if it is a fit for their business model. Subcontractors should understand the product and prequalification process in order to enhance their opportunities for new work. Owners should understand the costs and the benefits as they relate to the success of their projects.

There are meaningful differences among providers of SDI, and should it be determined that SDI could benefit you, we can explain the strengths and weaknesses of each. Bonds and SDI are outstanding tools when used as part of a thoughtful risk management strategy. As a full service broker, PS&F can assist you in determining the best combination for you and your business.

The core of Parker, Smith & Feek's development over the past 78 years has been the construction industry client. Today, this diverse group of more than 300 contractors and subcontractors serves every segment of the industry and represents a third of our firm's total revenue.

We focus on providing best-in-class guidance on client issues, while investing in our customer service team's expertise. Our construction team, including insurance, bonding, safety, and claims specialists, has been recruited for their knowledge and real world experience, which they draw upon to create targeted solutions for the unique needs of our clients. This team includes three executives dedicated solely to builder's risk, and a team of nine claims specialists. Our reputation of advocating difficult insurance claims, crafting cutting-edge insurance coverage, assisting with project safety concerns, and providing exceptional service is unmatched among other brokers. Whether it's investigating alternative risk financing options through self-insurance, captive feasibility or Controlled Insurance Programs (wraps), or securing a surety bond for a multi-million dollar project, PS&F has the experience and know-how to support these unique needs.

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