TOTAL RISK PROFILE

When it comes to subcontractor default insurance (SDI), NFP takes a different approach than most brokers. We focus on total risk profile as opposed to simply prequalification. It’s not that we don’t think prequalification is important – we certainly understand the value of a thorough prequalification process – but because the SDI product is the backstop to a potentially catastrophic balance sheet risk, a risk that generates exposure above and beyond what a well-performed prequalification alone can capture, we like to focus on the total risk associated with utilizing a specific subcontractor.

The total risk profile, developed for each subcontractor partner, is a continuously adjusted rating that measures the subcontractor's performance and is available to all parties within the construction manager's or general contractor’s organization.

WHERE SDI MANAGEMENT LIVES

There are several places within an organization where oversight of the SDI program can live. We have seen successful programs managed by risk managers, chief financial officers, general councils, and heads of procurement or preconstruction departments. The one underlying theme we have identified in every successful program we have been involved with is strong communication across all disciplines, which is built upon a solid foundation of processes and procedures. We all know it’s no easy task to achieve buy-in across an entire organization. The key is for each respective group to have a voice in developing the processes and procedures that will be used to measure performance.

The key stakeholders in the process are information technology, senior administrators (CFO/CEO/general council), procurement (preconstruction), field executives (project teams), risk management, safety and administration (back office). For organizations pursuing their first SDI program, it is imperative for the broker and whoever is coordinating the underwriting efforts for the organization to identify a point-person from each of the aforementioned disciplines who will champion their respective group as part of the SDI team. Once the team is established, individual meetings should be scheduled with each point-person. These meetings are the time to outline what is expected of them in preparation for the "due diligence meeting," where the SDI underwriter(s) come to the headquarters of the organization to meet with the SDI team to learn the processes and procedures by which the organization evaluates its subcontractors, from prequalification through project completion and post mortem.

It is also vital for everyone in the organization to understand how they will benefit from the data. For example, how the field teams benefit from knowing that one subcontractor rates a 4.3 out of 5 for quality of work versus a subcontractor that scores 1.7 out of 5, or how senior leadership benefit from knowing that a subcontractor scores 0.7 out of 5 in safety because they repeatedly fail to use personal protective equipment on leading edge exposures.
ENHANCING EXISTING RISK MANAGEMENT

Many construction managers and general contractors already have a process to identify risk, employ mitigation techniques, develop and implement action plans, monitor performance, and audit/verify results. Without this, the organization has very little chance of sustained profitability.

NFP works alongside its clients to enhance their existing processes and procedures, ensuring they meet the best-in-class standards, all while preparing them for a successful underwriting process. We take a hands-on approach to maximize our client’s ability to utilize existing resources, from technology systems to personnel, while also leveraging our extensive access to third-party resources as needed.

Look out for more to come from the subcontractor default insurance Process and Procedure series. Throughout this series, we will delve into the key aspects of the program, explain how the various groups within an organization can drive value across the organization, and will culminate with a summary of what to expect from the development and implementation of this strategy.

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