

An AGC Webinar

# Managing the Risk Of

## A Subcontractor Default

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Quality People. Quality Projects.



## Agenda

- ▶ Ramifications of Sub Default
  - ▶ Trends of Sub Defaults
  - ▶ Subcontractor Prequalification
    - Project experience
    - Financial status
    - Safety record
  - ▶ Operational Subcontractor Management
  - ▶ Warning Signs
  - ▶ Default Mitigation
  - ▶ Outlook / Conclusion and Questions
-

## Ramifications of Sub Default

- ▶ What is the potential impact of a subcontractor default?
  - Cost/expense
    - Litigation
    - Re-design
    - Union benefits
    - Unpaid vendors
    - Replacement Sub
    - Cost to Expedite

## Repercussions of Sub Default

- ▶ What is the potential impact of a subcontractor default?
  - Schedule
    - Bankruptcy Proceedings
    - Demobilization / Remobilization
    - Long Lead Time Items
    - Specialty Contractor
    - Ability to Expedite
    - Impact to other Trades
  - Owner loss of use
  - Owner relationship
  - CM credibility/brand

## Repercussions of Sub Default

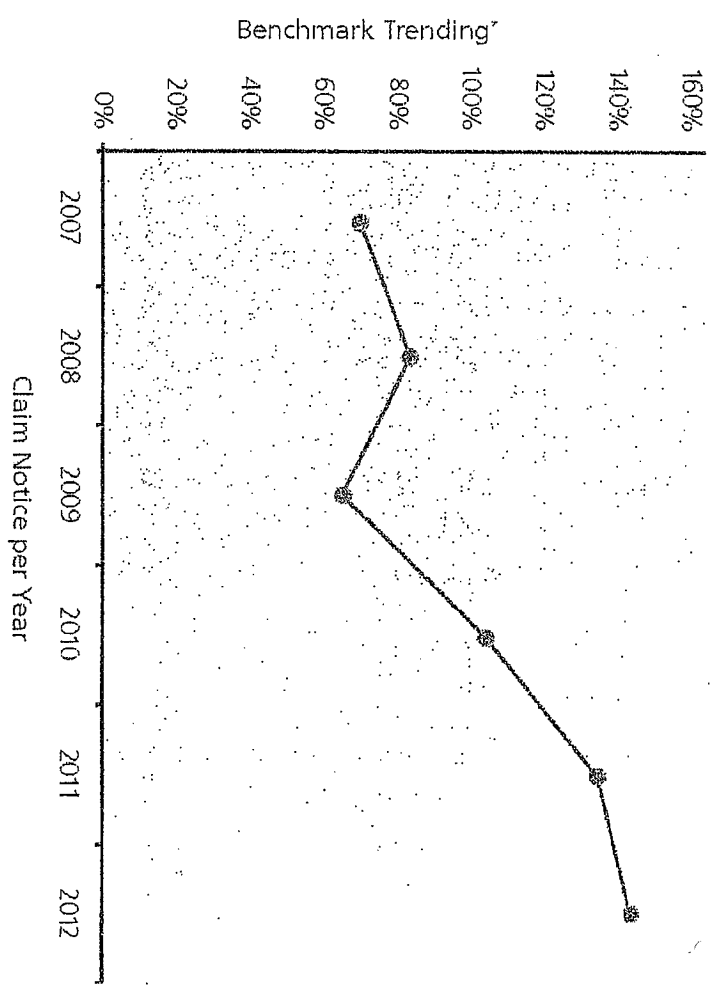
- ▶ What is the potential impact of a subcontractor default?
  - Owner loss of use
    - Scheduled events
    - Liquidated damages
    - Consequential Damages
    - Actual Damages
  - Owner relationship
    - Long Term?
    - Other projects
  - CM Credibility/Brand
    - Impact in community
    - Future Bidding
    - Disclosure issues

# Sub Default Rates are Spiking

## Zurich Observations

- ▶ Today, Zurich is experiencing a consistent increase in subcontractor defaults and early warning indicators from our customers and we anticipate this trend continuing for the next 12 – 18 months.

Exhibit #1 – Annual Subguard Default Frequency Trends



## What is Causing Sub/Suppliers to Fail?

### Financial Distress

- ▶ The main driver for defaults is Financial Distress. This appears in both categories, Percent of Claims and Value of Claims.

Exhibit #2 – Subguard Default Experience (Zurich data through 12/31/2011)

Cause of a Subcontractor Default	Percent of Claims	Value of Claims
Financial Distress	53%	44%
Quality (include warrant/defect)	15%	27%
Manpower	14%	13%
Schedule	13%	12%
Miscellaneous	5%	4%