Subcontractor Default Insurance (SDI) at EllisDon
Information for Subcontractors

EllisDon

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Subcontractor Default Insurance (SDI) at EllisDon - Introduction

Subcontractor Default Insurance is also known as SDI, Contractor Default Insurance and Subguard®. SDI replaces subcontractor bonds and is EllisDon's primary method of securing the risk associated with subcontracted work.

As you read on, it is important to think of subcontractor defaults not only in terms of your company, but in terms of the impact on your company if another subcontractor on the project were to default. The cascade effect of one default on work schedules impacts pace of work and pace of owner payments. If not managed quickly, the negative effect on all stakeholders, including all subcontractors, can be significant and onerous. So, it is critical that the performance security on the project be responsive, liquid, provide broad coverage and be consistent across all subcontracts in order to achieve the most effective project security package.

How it Works

SDI delegates control of subcontractor selection and default resolution to the general contractor. This is accomplished by eliminating the traditional three-party agreement that exists when a bond is provided. Instead, the insurer enters into an insurance contract with the general contractor alone, who is indemnified for any costs associated with subcontractor/supplier default over and above the deductible.

Unlike a surety bond, the subcontractor is not a party to the insurance contract, which means that no indemnity agreement exists between the subcontractor and the insurance company providing coverage.

At EllisDon, SDI is required on all at-risk projects and replaces the standard subcontractor surety bonds.

It is important to note that a general contractor's ability to default a subcontractor does not change based on the type of performance security. Whether the subcontract is covered by SDI or surety bonds, a subcontractor can only be defaulted as defined by the subcontract.

Benefits of Subcontractor Default Insurance (SDI) to the Subcontractor

No need to provide a bond, which may free up your bonding capacity and means your corporate and/or personal indemnity to your surety is not in play for that project.

Default remedy is in the best interest of the project. The fiduciary responsibility that the surety has to the subcontractor is such that they are legally required to remedy the default in the most economical manner. This may not be the best solution for the project, the owner, or the other subcontractors. When the remedy of a default is managed by the general contractor, there is greater incentive to align the remedy with the best interests of the project's stakeholders. SDI allows the general contractor to address a default immediately, or even before it happens, mitigating costs, risks, schedule delays and other impacts. This benefits all the remaining subcontractors on a project.

Greater flexibility in subcontractor selection. As projects continue to increase in size, some subcontractors who have never needed bonding before, now do. A general contractor using SDI is not limited to selecting subcontractors who are able to provide a bond. This allows smaller trades to gradually increase their project size without having to seek a bonding facility.

Best in class subcontractor prequalification and project management practices. Prequalification provides the general contractor the opportunity to review a subcontractor's operational and financial ability to successfully complete a project. Overall, better subcontractor prequalification and project management practices reduce the likelihood of a subcontractor default on a project which results in a successful project for all parties.

Administration of Subcontractor Default Insurance (SDI) at EllisDon

Contracts under $500,000

You do not have to prequalify if all of the work you perform for EllisDon will be under this threshold. If you anticipate larger contracts in the future, we encourage you to prequalify now.

Contracts over $500,000

All subcontractors with contracts over $500,000 are required to prequalify for work with EllisDon through COMPASS. Your company must register, complete the prequalification submission and maintain their account in good standing with Compass in order to be rated by EllisDon. Once the prequalification submission has been completed, you must authorize EllisDon to view the finance section.

Contracts over $60,000,000

Contracts over $60M can be covered by SDI however they require additional due diligence and approval by our insurance carrier. The approval process requires EllisDon to submit a large subcontract referral to the insurance carrier which includes detailed project & subcontract information and a financial analysis of the referred subcontractor.

Rating Duration

Ratings can only be set for a maximum duration of 12 months as per EllisDon's SDI policy. When your rating is expiring, you will automatically receive an email requesting a renewal. The renewal involves updating the prequalification submission in Compass.

Note that ratings can be re-assessed at any time should there be any material changes in your company's financial or operational capabilities.

SDI – Frequently Asked Questions

How is my rating determined?

Your rating is based on the prequalification submission you complete in COMPASS. The more information provided in the prequalification, the better we are able to provide a proper rating. The primary data points used to calculate a rating are liquidity, net worth, line of credit, revenue, the size of your largest projects, and the size of the largest subcontract you have completed with EllisDon.

Companies are assigned a single (per-project) limit and an aggregate limit. Note that COMPASS is used to enhance our prequalifcation practices however ratings (limits) are still assigned by EllisDon. For example, if you have subcontracts on three EllisDon projects and your single limit is $1,000,000, you are rated to do up to $1,000,000 worth of work on each project. The aggregate is tracked internally by EllisDon using the amounts unpaid on active subcontracts.

Are financials required in order to prequalify?

Yes. This is required to properly assess a subcontractors' financial ability to successfully complete a project. All financial information is kept strictly confidential and is not shared with our Operations teams. Only the SDI administrators have access to the Finance section in the COMPASS prequalification.

Confidentiality agreements can be provided as additional assurance if requested.

What if a potential contract exceeds my rating?

In these situations, we will first look at increasing the rating to cover the subcontract. Increasing the rating typically involves a request for more recent financials, work on hand, bank reference etc. If we are unable to increase the rating sufficiently, our second option is to cover your subcontract up to the rated value and supplement that with additional security (e.g., letter of credit, related company guarantee or direct payment to suppliers) if needed.

Note that when a contract value exceeds a subcontractor's rating later as a result of change orders, we look at the amount unpaid on the subcontract to determine if additional security is required.

Why is my rating from EllisDon different than other general contractors?

Each general contractor has their own evaluation process and prequalification practices. Ratings are at the discretion of the general contract and as a result, the limits can vary. If you would like your company's rating re-assessed, please feel free to reach out to one of our SDI Administrators.

I already have an insurance policy, why is SDI required?

General insurance does not protect project stakeholders in the event of a subcontractor default. SDI is a type of performance security and is EllisDon's primary method of securing the risk associated with subcontracted work.

COMPASS – Frequently Asked Questions

Who has access to the COMPASS prequalification?

At EllisDon, only individuals directly involved in the SDI prequalification process have access to a subcontractor's prequalification in COMPASS. It has been set up this way due to the confidential nature of the information provided in the prequalification. Estimators and operations personnel only see the assigned ratings.

Are we able to prequalify without the use of COMPASS?

Our prequalification process has been reviewed and approved by our insurance carrier therefore we cannot prequalify subcontractors outside of COMPASS.

Are there fees associated with COMPASS?

COMPASS charges an annual fee based on the size (revenue) of the company. This fee allows the subcontractor to prequalify for multiple general contractors if they choose, not just EllisDon. The COMPASS fee schedule can be provided upon request.

Where do I find more information about COMPASS?

A Benefit & Security document has been prepared by COMPASS and can be provided to you by EllisDon if requested. COMPASS can also be reached directly by phone (1-800-689-6819) or by email (info@compass-app.com) to answer any specific questions you may have.