About the Speaker

## VINSON CHAPMAN

**Vice President
Audit & Contract Services**

- BBA, Accounting, University of Texas
- MBA, Southern Methodist University

- Personally managed thousands of construction audits all over the world
- 40 years of construction and contract experience including:
  - contract negotiations and consulting
  - interim and final audits of reimbursable costs, fees, and savings allocations.
  - claims analysis, management, and defense

TALKS

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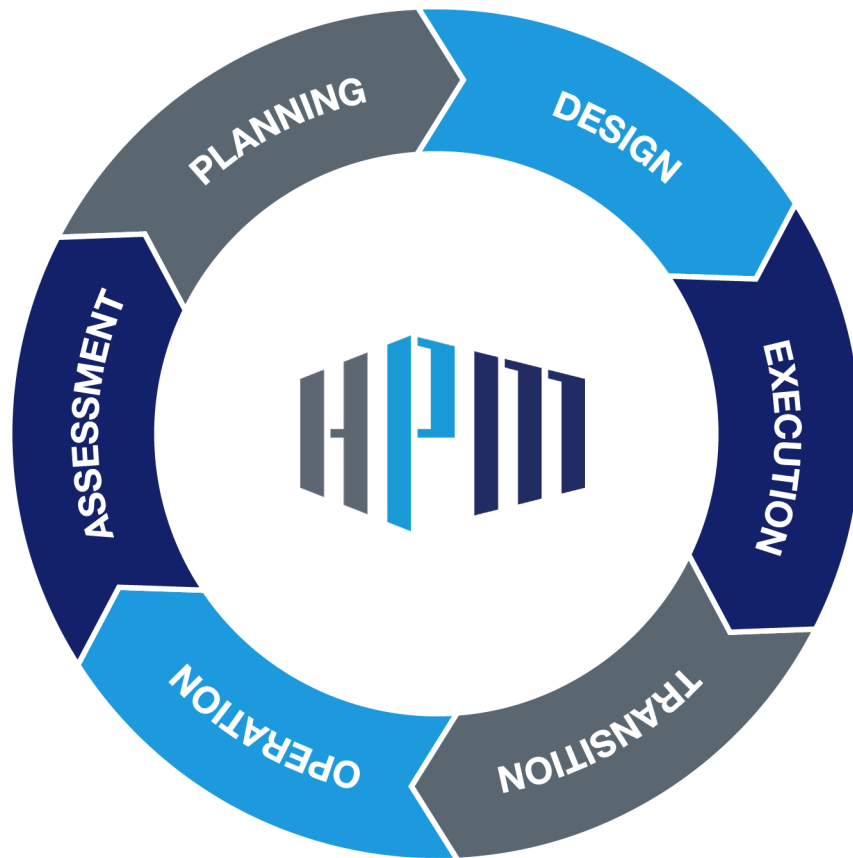
About HPM

- Founded in 1997
- Manage more than $750 million of in-place construction annually
- Audit approx. $1.5 billion in construction cost annually
- Diverse international experience in education, corporate, municipal, residential, and industrial market sectors
- One of Engineering News Record's top PM firms
- 150 employees throughout the US
- Offer program management, owner's representation, audit & contract services, preconstruction and planning services, and more

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Reducing Risk on Construction Projects

Reconsidering Owner allowed Subcontractor Bonds or Subcontractor Default Insurance (SDI) During a Pandemic

TODAY'S DISCUSSION

- Has the subcontractor risk landscape changed?

- How do we mitigate the subcontractor default risk?

- What are Payment and Performance bonds good for?

- Why did anyone ever agree to SDI (Subcontractor Default Insurance) or SubGuard?

- How do we make sure we buy what we need and not overpay?

- If we agree to SDI, how do we ensure we get what we pay for?

Has the subcontractor risk landscape changed?

HPM TALKS

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- Delayed projects and additional General Condition cost associated with delay
- More Owner economic difficulty which trickles down to sub payments
- More GC/CM – Owner disputes which may impact sub payments
- Cancelation of projects on backlog
- Loss of labor productivity

TALKS

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How do we mitigate the sub default risk?

- **Stay mindful of contractual retention requirements**

- **Verify percent complete in pay applications and do not allow advance billings**

- **Give greater scrutiny to sub underwriting**

- **Payment and Performance bonds**

- **Subcontract Default Insurance**

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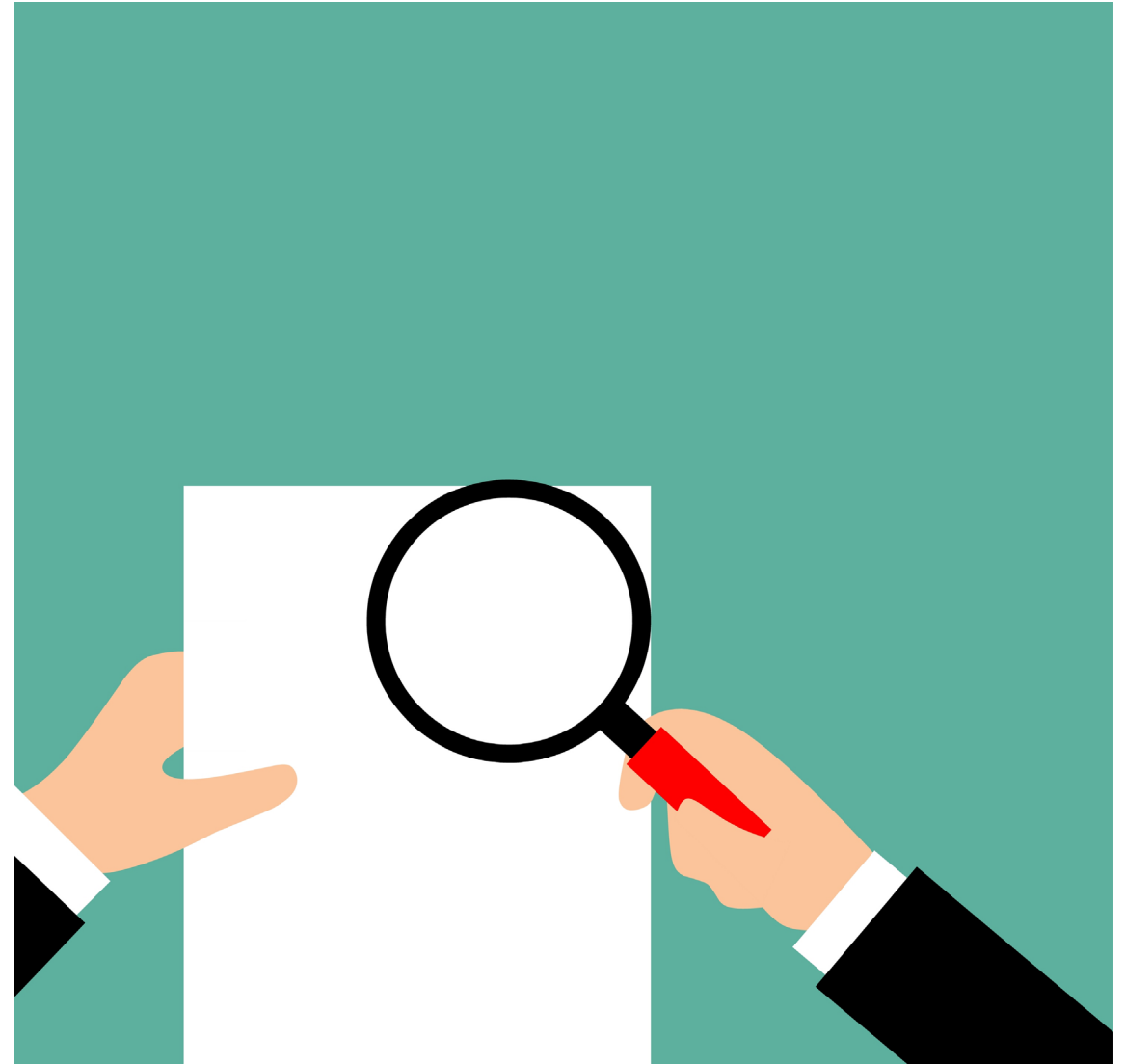
What are Payment and Performance bonds good for?

- **Protects the Owner, or CM, from the Contractor or Subcontractor defaulting on their obligations.**

- **Guarantees that Subcontractors, suppliers, or laborers will be paid for their services and materials**

Why did anyone ever agree to SDI (Subcontractor Default Insurance) or SubGuard?

- **Owner had a high perceived risk of subcontractor default**

- **Sold as a better value, both in terms of cost and utility**

- **Good marketing effort by CMs / GCs**

What are our options?

TALKS

What are our options?

Selectively bond subcontractors in accordance with program risk
- Mindful of subcontract values
- Mindful of subcontract importance

Consider purchasing SDI for the project
- Mindful of the overall cost
- Mindful of the ability to ensure that insurance is being purchased and will be used

If we agree to SDI, how do we ensure we get what we pay for?

[In the event that the Contractor is required to provide SubGuard, SDI, or a similar program of subcontractor default insurance, then the program and the coverage provided by the Contractor shall extend to any additional costs incurred for the Contractor to replace or supplement the forces of a subcontractor to perform the Work and their obligations under the subcontract, and such circumstances shall include, but not be limited to, any partial or full termination of the contract of a subcontractor for convenience or otherwise, unless the Owner specifically directs the Contractor in writing to terminate the contract of a subcontractor for convenience.]

Let's Talk More.

STAY CONNECTED

Vinson Chapman
972.529.0855
vchapman@hpmleadership.com

hpmleadership.com

@HPMLeadership