

Improving Subcontractor Risk Transfer using Artificial Intelligence



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General and Prime Contractors want to transfer the financial risk of subcontractor caused construction defect claims or serious accidents at job sites to their subcontractor's insurer. One reason is the cost of defending and settling these claims can easily exceed \$250,000.

To properly transfer these risks, General or Prime contractors must implement best practices such as:

1. Purchase the right insurance coverage and additional insured endorsements from a financially strong insurer. In addition, make sure their insurer provides excess coverage over subcontractors that name them as an additional insured.
2. Frequently update their subcontract agreement with current indemnity language and subcontractor insurance requirements. Ideally, the insurance requirements will be an addendum to the subcontract agreement so they will be shared with subcontractors at bid time, prequalification time, and easily shared with subcontractor's insurance brokers. For sample subcontract insurance requirements, visit www.PentaRisk.com under News.
3. Follow a process to request certificates and endorsements, review them for accuracy and keep them for 10 years following project completion. We suggest using a sample certificate with additional insured endorsements and waiver of subrogation be provided to each subcontractor at bid time, prequalification, and at contract award. This sample certificate should be modified to include extra coverages such as Pollution, Professional liability, and Installation floater coverages.
4. Train your internal team to track and approve these certificates and endorsements. We conduct a lunch and learn risk training class for estimators, project managers, and accounting to understand the roles they all play in this critical risk and financial transfer process. We cover in detail the key pitfalls and remedies they must address including:
 - a. Understand the meaning and importance of all their subcontract insurance requirements.
 - b. Will they delay payment or remove a subcontractor from the job site if insurance is not in compliance?
 - c. Will they allow work to start before contracts are signed and insurance approved?
 - d. Do they ever use purchase orders instead of a subcontract for subcontractors? If so, you will be at greater risk of having no additional insured coverage if not required in a written contract or agreement.
 - e. Understand the risk of lower-tier subs, sole proprietors, and leased employees.
 - f. Understand the impact of subcontractor claims –if their insurer (instead of the subcontractor insurer) ultimately pays them, what happens to their premiums.
 - g. Decide what level of additional insured coverage is acceptable for the subcontractor's scope of work.

We work with a Silicon Valley Based General Contractor that performs approximately 100 jobs per year with an average of 20-30 subcontractors on each job. They have been reviewing the subcontractor's certificates in-house using accounting software, Excel spreadsheets, and diaries. When they needed additional help in reviewing their subcontractor certificates, they would scan and send them to us for review. This was a time-consuming process, so we set out to review software that would make this process more collaborative and reduce the time needed to do this review.

After reviewing three different Certificate management options, we recommended they start using Trust Layer as a more cost-effective and efficient way of managing this critical risk transfer process.

- a.** The software's cost is based on the number of subcontractors they work with - not the number of certificates that are reviewed. This is a substantial cost saving and time saving for our client. If they work routinely with 150 subcontractors out of the 3,000 certificates they received, they already have done most of the insurance review process and any new certificate can be approved faster. The approved certificate will make the next project's insurance approval go that much quicker.
- b.** Sub-contractors (or their brokers) are encouraged to upload the certificate directly into the software-saving time on our contractor's end.
- c.** Artificial intelligence does the checking on many of the key certificate data points automatically, such as dates, policy limits, aggregates, and waiver of subrogation endorsements, saving time for the client to review the items flagged by the software. It also sends expiration notices and follow-up emails to the subcontractors and their brokers for timely renewal compliance.

- d.** The client can share their screen with our team to collaborate and review any troublesome insurance language or forms. This is especially helpful in reviewing the different additional insured forms and making common-sense exceptions.
- e.** The decision to approve a subcontractor certificate remains with the client and their broker, accelerating the approval process and keeping the important subcontractor relationships.
- f.** The software integrates with their accounting system ensuring progress payments and retentions can be paid on time.
- g.** The certificates and endorsements are available to our claims team to facilitate the process of notifying subcontractors and their insurers when Jobsite incidents or claims occur.
- h.** The overall time savings for the client has been substantial. Early estimates in the first few months is a 50% timesaving's when dealing with certificates that were non-compliant.

Another advantage of a using a formal certificate review process is the long-term result of reduced claims. Our experience with over a dozen contractors that implement a systematic review and approval of subcontractor certificates and endorsements show substantial reduced general liability insurance rates over time.

With insurance rates on the rise, now is the time to upgrade your risk transfer process to lower your risk profile and to qualify for general liability premium discounts. As an Acrisure Agency, we will work with you and TrustLayer to set up a cost effective systematic approach to reducing your risk and insurance cost.