

# SUBSECURE<sup>SM</sup>, A SUBCONTRACTOR FINANCIAL BENCHMARK SERVICE



In today's economic environment, defaults are on the rise increasing the risk of project cost overruns. Defaults can cause General Contractors to suffer profit erosion, leading to a weakened financial position and impact on surety capacity. What's more, a defaulting subcontractor can adversely impact relationships between the contracting parties if the project is delayed. Avoiding the risk of subcontractor default requires a thorough review of subcontractor qualifications prior to subcontract award.

Marsh's Construction Practice can help you review a subcontractor's financial situation and provide guidance for managing the risk of subcontractor default. Our team of experts has decades of experience analyzing and predicting the causes of subcontractor insolvency, the leading cause of default. Marsh has developed a proprietary scoring system that uses proven metrics to separate subcontractors into high, medium, and low risk categories.

## SERVICE HIGHLIGHT

The Marsh Construction SubSecure<sup>SM</sup> Financial Benchmark Service consists of the following processes:

### EVALUATE

We start by evaluating the subcontractors' financial reports against standard financial reporting guidelines. This analysis includes a review of the opinion letter, financial statements, supplementary

### Who it's for:

- General Contractors, Construction Managers, Specialty Subcontractors, Owners and Lenders who have subcontractor default risk and realize the need to have critical support in analyzing subcontractors' financial information prior to award.
- General Contractors or Construction Managers who have or are considering Arch's Subcontractor Default Insurance product or Zurich's Subguard<sup>®</sup>.

information, open and closed job schedules, and footnotes to the financial statement to determine if adequate information and disclosures are provided to properly analyze the subcontractor's financial position. Incomplete or inaccurate financial information is one of many factors that impact a subcontractor's score.

## ANALYZE

The next step in the process scores the subcontractor's balance sheet, work in progress, income statement, cash flow, working capital, and tangible net worth positions against ratios commonly used by sureties in their underwriting reviews. These financial factors are used to determine if the subcontractor has sufficient financial and operational resources to complete projects within single and aggregate backlog parameters to help General Contractors determine subcontractor capacity levels.

- Subcontractor credit reports are evaluated to determine the existence of any liens, judgments, or lawsuits outstanding.
- A subcontractor's Z-Score and SubSecure<sup>SM</sup> score are calculated for each subcontractor. These scores measure a subcontractor's financial distress and potential for economic insolvency.

## SUBCONTRACTOR PORTFOLIO MANAGEMENT

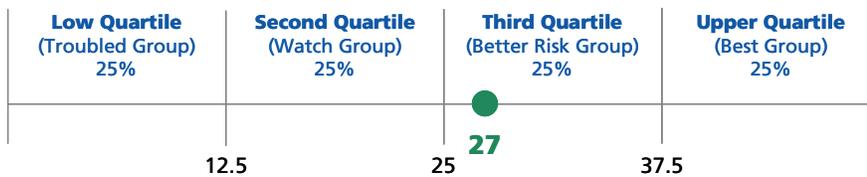
The Marsh Construction SubSecure<sup>SM</sup> Financial Benchmark Service separates each subcontractor's risk score into four quartiles. Quarterly reports are provided reflecting the overall quality of your subcontractor portfolio.

### What you get:

- Individual Subcontractor Benchmark Report that scores a subcontractor's financial factors against 10 important areas to help determine if they present a high risk for potential default.
- An individual subcontractor Z-Score Report that is widely recognized as an indicator of potential financial problems.
- A Subcontractor Portfolio Report, to analyze the overall credit/financial quality of your subcontractors.

## SAMPLE INDIVIDUAL SUBCONTRACTOR BENCHMARK REPORT

### FINANCIAL RISK SCORE: 27



Score and Comments are provided for each of the 10 financial areas analyzed.

## SAMPLE SUBSECURE<sup>SM</sup> PORTFOLIO BENCHMARK ANALYSIS REPORT

	Financial Risk Benchmark Score				Totals
	High Risk 1 <sup>st</sup> Quartile 0.00 – 12.50	2 <sup>nd</sup> Quartile 12.51 – 25.00	3 <sup>rd</sup> Quartile 25.01 – 37.50	Low Risk 4 <sup>th</sup> Quartile 37.51 – 50.00	
No. of Subcontractors	18	17	15	15	65
Total Contract Value	14,877,549 15%	41,052,737 41%	17,587,752 18%	25,561,755 26%	99,079,793
Average Contract Value	826,531	2,414,867	1,172,517	1,704,117	1,524,305

## ADDITIONAL SERVICES

In addition to the product described above, Marsh offers the following loss control and insurance services either as a part of a robust risk management program, or individually:

- Subcontractor default insurance (SDI) is a first-party insurance policy that indemnifies a contractor for costs incurred as a result of a default in performance of one of its subcontractors. SDI is an insurance product that replaces traditional subcontractor bonding and offers distinct advantages.
- Contract surety brokerage and consultation to maximize surety credit under the most favorable terms available in the market.
- Owner directed surety programs used for MBE/WBE bonding programs to enhance minority participation.
- Construction Consulting
  - Project governance and performance audits
  - Dispute resolution and expert testimony
  - Insurance and default claims
- Fraud monitoring and forensic investigation
- Workforce strategies and safety solutions
- Property and casualty insurance programs
- Insurance captive consultation

Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

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