

RISK ADVISOR

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COMMERCIAL

Contractual Risk Transfer Explained

Contractual risk transfer (CRT) is a risk management technique that allows a business to shift potential liability to another party through a noninsurance contract or agreement. This mechanism aims to transfer risk to the party that is better equipped to manage and control it. While insurance is the most common method of risk transfer, CRT offers an additional tool for businesses to manage their risks effectively, and it can help reduce insurance claims and premium costs.

CRT is typically used in situations where one party is performing work on behalf of another, such as through subcontracting arrangements or when duties are assigned through supplier, sales or lease agreements. For instance, a landlord may hire a building maintenance company to upkeep the property; CRT can help ensure the maintenance company assumes liability for any damages resulting from its negligence. Similarly, a general contractor may leverage CRT so that a subcontractor assumes liability for any losses incurred as a result of faulty work at a job site.

Common tools used in CRT include hold-harmless agreements, indemnification agreements, waivers of subrogation and requiring companies to be named as additional insureds on another party's insurance policy. Here's a breakdown of these terms:

- **Hold-harmless agreements** release one party from responsibility for the actions of another.
- **Indemnification agreements** specify how compensation will be provided if a third-party claim is filed.

- **Waivers of subrogation** prevent one party's insurance company from seeking recovery from the other party's insurer.
- **Additional insured** status on another party's insurance policy allows a business to receive coverage from the initial party's policy.

When utilizing CRT, it's important for companies to request a certificate of insurance (COI) from parties that may pose liabilities and to ensure those parties name their companies as additional insureds. It's also best to request copies of additional insured endorsements. Additionally, companies should be aware of any state laws regarding CRT and consider seeking legal advice to make sure their agreements are appropriate, compliant and effective.

CRT can help businesses reduce insurance claims and costs by transferring risks to parties better suited to manage them. Alongside insurance, CRT can be a valuable component of a business's comprehensive risk transfer strategy.

Contact SCS Agency Inc for more information.



Building Codes' Role in Natural Disaster Resilience

Building codes are established by state and local officials and provide standards for safe construction practices. They play an essential role in safeguarding structures during natural disasters, and they are tailored to specific hazards prevalent in different regions. For example, in wildfire-prone areas, building codes may require the use of fire-resistant roofing materials. On the other hand, in hurricane-prone areas, certain structural elements may be mandated to withstand strong winds.

The effectiveness of modern building codes in reducing property damage during adverse weather conditions has been analyzed by the Federal Emergency Management Agency (FEMA). In a recent study, the agency stated that adopting and enforcing hazard-resistant building codes in Florida and California—two disaster-prone states—can result in significant long-term savings in property losses. The study also revealed that every dollar spent on constructing properties in accordance with modern building codes can save \$11 in disaster repair and recovery expenses.

Additionally, a study conducted by the Wharton School of the University of Pennsylvania found that the implementation of statewide building codes across Florida—known as the Florida Building Code (FBC)—has been linked to a 72% reduction in property damage from wind-related events. The study also revealed that for every dollar spent on FBC compliance, property losses dropped by an estimated range of \$2 to \$8.

Altogether, this research demonstrates the substantial benefits associated with adopting effective building codes throughout communities, as they can make all the difference in safeguarding properties during destructive weather events. Furthermore, there are potential coverage advantages for businesses that ensure their commercial properties comply with building codes, including insurance discounts and reduced claim costs.

However, not all areas have adopted or enforced modern building codes, making businesses located in these areas more susceptible to property damage amid natural disasters. One reason for this lack of adoption or enforcement could be that community leaders don't have the information they need to quantify the long-term advantages of stronger building codes and, in turn, can't justify the initial investments necessary for implementing such codes. In areas with poor adoption or enforcement of commercial building codes, voluntary implementation of International Codes and adherence to disaster-specific structural safety measures from the Insurance Institute for Business and Home Safety is crucial.

Amid growing concerns regarding natural disasters in the United States, taking proactive measures and ensuring compliance with building codes can help businesses promote property resilience, thus minimizing potential losses stemming from these disasters. For additional guidance, contact SCS Agency Inc.



A FEMA study examining data from all U.S. states found that the adoption of modern building codes can help prevent an annual average of **\$484 million in flood-related** property damage, **\$60 million in earthquake-related** damage and **\$1.1 billion in hurricane-related** wind damage for structures built after 2000.