



# DID YOU *Know?*

## Understanding Risk Transfer in Construction

### What is Risk Transfer?

Risk transfer is the transfer of risk or liability from one party to another, often between:

- Owner — General Contractor
- General Contractor — Subcontractor
- Subcontractor — Subcontractor



### Why is Risk Transfer Important?

It is important in the construction industry whenever one party contracts work to others to shift or transfer the risk of loss to those downstream parties, i.e. the subcontractors. This is crucial because it ensures that financial and legal responsibility for losses, damages, or injuries rests with the party that is most directly performing the work or creating the exposure.

### How is Risk Transferred?

In construction, proper risk transfer is accomplished in writing via contracts containing indemnification provisions, insurance requirements, and additional insured requirements for subcontractors.

### What are the benefits of Risk Transfer in Construction?

- Financial protection of your assets in the event of a claim as risk is transferred to others.
- Your insurance limits remain in place to provide coverage for your losses.
- Limits impact to your profit margin because of unexpected claims.
- You maintain a competitive advantage while bidding jobs.
- Reduces conflicts between contractors regarding liability.
- Your projects remain on schedule while avoiding costly delays.



### Next Steps:

- 01 Do you have a **written contract** between you and your subcontractors?
- 02 Do you have an **enforceable indemnification clause** in your contract?
- 03 Do you ask to be named as an **additional insured** on your subcontractor's insurance?