SDI vs. Bonds
Which Tool is Right for Your Risk Profile?

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In large-scale construction, subcontractor performance is one of the most significant variables impacting project success. Missed deadlines, cost overruns, or outright defaults can derail schedules and budgets — not to mention damage reputations. For decades, surety bonds were the go-to protection. Today, Subcontractor Default Insurance (SDI) has emerged as a viable alternative for many general contractors (GCs).

So which is right for your business? Let's break it down.

A. Understanding the Basics

Surety Bonds

- Structure: A three-party agreement between the owner, GC, and surety company.
- Purpose: Guarantees performance and payment obligations of the subcontractor.
- Trigger: Claim must be filed with the surety, which investigates and decides on the resolution.

Subcontractor Default Insurance (SDI)

- Structure: A two-party agreement between the insurer and the GC.
- Purpose: Protects the GC against losses from covered subcontractor default.
- Trigger: The GC declares a subcontractor in default and follows the policy's claims process.

B. Key Differences at a Glance

Factor	Surety Bonds	SDI
Speed of Response	Often slower due to investigation and surety approval.	GC has more control; faster access to funds after a default declaration.
Coverage Scope	Performance and payment obligations, but narrow recovery for indirect costs.	Covers direct and indirect costs (e.g., reprocurement, acceleration, extended overhead).
Cost Structure	Bond premium per subcontract; often lower on a per-sub basis.	Annual premium based on total subcontract volume; higher upfront investment.
Control	Surety heavily involved in selecting replacement subs and resolution.	GC manages replacement and mitigation directly.
Qualification	Surety prequalifies subs individually.	GC assumes responsibility for vetting and prequalification process.

C. When Bonds Make More Sense

- Projects with **public funding** or statutory bond requirements.
- GCs with **low subcontractor turnover** or smaller subcontract values.
- Teams without a mature **subcontractor prequalification program** in place.
- Owners who prefer traditional surety structures for familiarity.

D. When SDI Can Be the Better Fit

- High-volume, complex projects where **speed of resolution is critical.**
- GCs with strong **internal risk management and vetting systems.**
- Portfolios with a high concentration of **specialty trade subs.**
- Long-term relationships with insurers who offer favorable program terms.

E. The Hybrid Approach

Some contractors choose to **blend strategies** — bonding certain high-risk trades while placing the rest under an SDI program. This allows flexibility and cost optimization while maintaining compliance with owner requirements.

F. The Bottom Line

Neither option is one-size-fits-all. Surety bonds offer a familiar, lower-cost safety net, while SDI gives experienced GCs greater control and broader cost recovery. The best choice depends on your **risk tolerance, subcontractor base, and internal capabilities.**

Before making a decision, work with a broker who understands both products in depth and can tailor coverage to your operational realities. The right choice today can save millions tomorrow — and keep your projects on track when the unexpected happens.

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