

WHAT CONTRACTORS  
SHOULD LOOK FOR IN BOND  
PRODUCERS, UNDERWRITERS

BY MARC RAMSEY

# THE SURETY RELATIONSHIP

Surety is a relationship business. Next to a contractor's financial strength and the ability to perform a job, there may be no more important consideration than its character.

"The more we know about the contractor's organization in all respects, the more likely a surety and producer are to have confidence in the company," says Timothy Mikolajewski, senior vice president of Safeco Surety.

Building a solid relationship with a professional surety bond producer and surety underwriter is critical. It is important to

partner with a bond agent and surety company with matching business philosophies.

"You want to make sure you're starting with the right relationship for the right reason," says William Cheatham, president of Zurich North America Surety. "Ask, 'What's your success record with contractors? What's your personal or corporate expertise? What are the surety company's skills? Does it have a claims department or a risk management department? Does it review terms and conditions of the contract?'"

## BOND PRODUCERS

In addition to matching business philosophies, a contractor should find a producer with a similar personality—someone with the skills to handle both sides of a relationship. "A top producer is honest, has the client's best interest at heart first and foremost, and has a deep understanding of what makes a construction firm successful,"

says Michael F. Greer, vice president, surety and fidelity of Penn National Insurance Co. "A top producer is not just someone who says 'yes' all the time. This is one of the worst things that a producer can do to a client. The producer needs to be an adviser, not a peddler of bonds. The producer has to be able to tell the client when a decision is not in his best interest and where the possible pitfalls are."

Contractors should search for a producer in the same manner they would seek a trusted business adviser. Look for producers with a reputation for integrity, experience with contractors and subcontractors, and specialized knowledge of contract surety markets.

"They also should demonstrate active commitment to and participation in construction and surety trade organizations such as Associated Builders and Contractors and the National Association of Surety

Bond Producers (NASBP)," advises Sarah Finn, president of NASBP and national surety vice president of IMA of Colorado.

A producer functions as an objective resource and sounding board for a contractor, providing invaluable advice and guidance, so that a contractor puts its best foot forward with a surety. A producer evaluates a contractor's organization and financial strength, provides referrals to other specialized consultants, such as CPAs and attorneys, and fosters productive, solid relationships with surety underwriters to meet the contractor's surety credit needs.

A good surety agent is a communicator who understands the desires and expectations of both a contractor and surety. "The agent should be experienced and knowledgeable of the marketplace and the trials, tribulations and successes that have come over time in this cyclical business," says Terrence Cavanaugh, senior vice president and managing director of Chubb & Son Inc., and chief operating officer, Chubb Surety. "A good producer should have integrity and be trusted that any information shared stays among the parties who need to know."

Contractors should know the producer's and surety's commitment to the business. "The most important characteristic of a surety bond producer is having broad access to the surety marketplace," says Michael J. Cusack, senior vice president, managing director and operations board member of Aon Construction Services Group. "Therefore, the most important issues that a contractor should understand in choosing a surety broker are: 'What coverage of the surety marketplace does the producer provide? Does the bond producer have numerous relationships? Or, is the firm's access restricted by a limited number of business contacts in the industry?'"

Contractors should look for a bond producer who deals directly with the surety that is providing a bond and who has a reputation for submitting complete and adequate submissions to the surety. In addition, surety bond producers are well-connected to the community in which the contractor lives.

"They know other contractors in the area and have a good reputation for prompt service," says Rick Kinnaird, chair of the board of The Surety & Fidelity Association of America (SFAA), and senior executive, surety, of Westfield Group. "They understand and know the owners/obligees who



require bonds and the various nuances associated with their contracts and bond forms."

### SURETY UNDERWRITERS

A surety underwriter must provide knowledge, experience and open and honest communication so a contractor can execute its business plan.

"Contractors can benefit from the advice offered by a surety," says Jeff Booth, regional vice president of Allstar Financial Group. "The surety has the contractor's best interest in mind because, if the contractor fails on the project, the surety is on the hook. Listen to advice on bond forms and contract language because in most cases, as the owner of the company, you are personally indemnifying the surety should a claim happen on the project."

A surety should be viewed as a partner that provides value to contractors in the form of job-specific analysis, along with contract and bond form reviews. The surety is a financial partner that focuses on fiscal responsibility and maintaining a prudent balance between a contractor's resources and project opportunities.

Furthermore, sureties are a value-added resource offering technical support services, such as legal advice, forensic accounting expertise, management information systems and field engineering, to help contractors identify potential problems and more efficiently manage challenging situations.

At the most basic level, sureties want strong balance sheets and experienced management teams. "However, when you drill down beyond the financial and experience factors, underwriters want to forge lasting relationships with contractors," Cusack says. "Bonding companies want to have the ability to meet with customers, review business plans and openly discuss areas of concern."

To truly help a contractor, an underwriter must know how a client thinks, what

motivates a client and what a client can and cannot do. "This level of knowledge comes over time, so the underwriter needs time to get to know the contractor," Greer says. "The underwriter needs to hear how the contractor thinks about various issues, and the underwriter needs a contractor who is willing to listen to what can go wrong."

Some underwriters bring a wealth of knowledge of what works and what doesn't work. Some underwriters are willing to share this knowledge with contractors and agents who are willing to listen. "A good underwriter instills knowledge and ideas on its clients without appearing to preach," Greer says. "A good underwriter is like having a good business adviser. You just have to be willing to listen."

An underwriter also brings experience to default situations. "We don't like defaults," Kinnaird admits, "but we do have them. There is risk involved and we are not perfect. The key is to learn from our experiences of the past and to pass on that knowledge. This information can be beneficial in helping other contractors avoid some of the pitfalls."

An underwriter also should bring expertise on contractual risk and offer insight about how the contractor performs in relation to the greater construction community.

"Our people actually do a benchmarking session with clients and compare them to other contractors to give constructive feedback about overhead, and this is what the industry is doing," says Thomas Kunkel, president and CEO of Travelers Bond. "A good underwriter goes beyond providing a bond. He provides greater involvement."

Remember that surety bond producers and surety underwriters are business partners. It is important for them to see bonded contractors succeed. They want to celebrate financial victories with their customers, and they want to understand why some business objectives might fail. They appreciate having the ability to share their broad view of the marketplace and years of experience with their customers.

Adds Cusack, "They want their clients to succeed, and they want to help their customers minimize learning curves in their pursuit of business opportunities."

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