The surety market is going through a painful correction. Surety results might show modest improvement, but loss frequency is still severe. Capacity is going to be in shorter supply and the cost of bonds may increase. There’s no short-term fix.

Contractors should focus on identifying aspects of their business that underwriters may not understand. Sureties are struggling for predictable margins and are getting rid of accounts that present too many unanswered questions.

1. Contractors must be represented in surety negotiations by professionals with a keen understanding of the construction industry and total respect for the surety underwriting process. Inadequate representation can dramatically affect a surety facility. Contractors should assess their intermediary’s expertise and current performance in the same fashion they assess their bankers, accountants and other business partners.

2. Contractors must continuously provide the surety with all required information. Offering complete financial statements and relevant schedules in a format acceptable to the surety are paramount, but that is just a small part of the picture. Without a current and complete submission, underwriters will tend to assume a worst-case scenario.

3. Contractors need to learn in advance all the questions underwriters might ask, and they need to prepare the answers with supporting documentation in advance. Underwriting meetings should not include time wasted listening to requests for information that should have already been provided to and analyzed by underwriters.

4. Contractors must show they have an active business planning process that incorporates appropriate benchmarking. If these things are not articulated, there’s a risk that underwriters may assume that they either don’t exist or are inadequate. The plan must include only work within the organization’s expertise and work within geographic areas the organization knows and can thrive in. The plan also must demonstrate that the organization is ethically focused; any insult to the character of the organization will affect surety credit availability. Finally, the plan must not present a scenario that will throw financial ratios out of whack or contribute to a negative trend.

5. Documentation of success in meeting projections, increasing liquidity and accumulating equity is important. Cash collection issues, future and active claims issues, and related corrective measures need to be explained. Discussions should focus on internal controls and management systems. All of the points are too exhaustive to cover, but note that all of these, in one way or another, are tied to work in progress. Aside from character assessment, analysis of work completed and work in progress is perhaps the single most important aspect of the surety underwriting process. Some contractors may be well served to include outstanding receivables and break out retentions and amounts in claims within work-in-progress schedules because this level of detail can help eliminate negative speculation brought on by inadequate disclosure.

With intense preparation and proper representation, contractors can be more future-focused in surety negotiations. They can spend more time making a case for future credit needs and less time cluttering agendas with old problems. Working through looming issues (such as FASB 150) is far more productive than rehashing the past.

Maloney is deputy chairman of Willis Construction Practice. He may be reached at (803) 256-1193. Phinney is senior vice president of the Willis Construction Practice. He may be reached at (973) 410-4948.