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## THE SURETY RELATIONSHIP UNDERWRITERS AND BOND PRODUCERS—YOUR KEY ADVISERS

Contractors A and B want to bid on a construction project that requires a surety bond, but neither has performed work requiring bonding in the past. Contractor A arranges a meeting with a professional surety bond producer, while Contractor B calls his longtime insurance agent.

Contractor A's surety bond producer is knowledgeable about the surety business and represents several surety companies. The producer knows what the surety will ask the contractor and will advise her about what information the surety will need from her company, such as the last three year-end financial statements, work-in-progress and closed job schedule and how previous jobs qualify the company to perform the desired job.

Meanwhile, Contractor B's insurance agent, who does not specialize in surety bonding, contacts several surety company underwriters to find one that specializes in the type of

work his client wants to bid on. It takes several long conversations for the agent to learn what the contractor will need to do to obtain a bond.

Contractor A came well-prepared to her first meeting with the surety. She had the proper paperwork, was able to answer the surety's questions and made a great impression on the surety. In contrast, Contractor B had not done his homework and was not as prepared when he met with his surety. What's more, the process took much longer than Contractor A's, and Contractor B did not make as favorable an impression on the surety.

Establishing a relationship with a professional surety bond producer and underwriter is the start of a valuable, long-term business partnership. Wise contractors develop and maintain ongoing relationships with these key strategic advisers to open doors to jobs otherwise unavailable to them, to maintain and increase surety capacity, and most importantly, to have

an adviser if faced with challenges or difficult times in the future.

### Role of the Producer

“A surety producer's role differs from that of your typical agent,” explains Sarah M. Finn, president of National Association of Surety Bond Producers (NASBP) and national surety vice president of IMA Corp. of Colorado Inc., Denver, CO. “Surety producers understand the underwriting process. Not only do they understand what information will be needed, but also many of the questions that may be asked by the surety. Working with a surety producer, the contractor can come well-prepared for his or her first meeting with the surety. This meeting is critical because the surety develops its first impression of the contractor.”

“Surety producers often act as coaches and advisers to their clients, and they are focused on helping their clients succeed,” Finn says. “Coaching may come in the form of directing

## Role of the Producer

- ▶ Offer sound business advice, management consulting and technical expertise to help the contractor maintain a profitable business
- ▶ Review financial documents for submission to the surety company. The producer may analyze the financial statements to determine the contractor's working capital, net worth and current revenue.
- ▶ Match the contractor's needs and strengths to the surety company best suited to meet the contractor's needs, then nurture a successful relationship between the contractor and the surety company
- ▶ Review completed contracts (typically from the past five years), current contracts and proposed bids. This allows the producer to advise the contractor on the amount of risk he or she is taking on their total work program.
- ▶ Recommend a responsible line of surety credit
- ▶ Guide the contractor through a formal presentation to the surety company, and tailor the contractor's submission to meet the surety company's particular requirements
- ▶ Maintain communication channels between the contractor and the surety company through periodic reports on work progress, financial performance and business plans
- ▶ Maintain communication with the contractor through site visits, social gatherings, industry meetings and visits to the contractor's office
- ▶ Assist and advise the contractor on how to obtain or increase his or her bonding capacity



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clients to experienced contract professionals, such as CPAs or lawyers, or steering them clear of bad contract language or difficult owners.”

“Each surety producer will have a unique relationship with his or her contractor clients,” Finn continues. “Some producers will manage the surety company relationship and execute bonds, while for other contractors, the producer will be involved on a daily basis. Each producer brings his or her own experiences to the relationship. Many surety producers were former surety underwriters, and others grew up on the agency side. No matter their background, surety producers want their clients to succeed.”

### Role of the Underwriter

Unlike insurance, surety bonding is designed to prevent default. This is an underwriter’s primary goal. When underwriters don’t extend or expand surety capacity to a contractor, it

is usually a qualification issue. This decision is made in the contractor’s best interest, and contractors should listen to the underwriter’s advice.

“We see a cross-section of the construction industry,” says Rick Kinnaird, vice chair of The Surety and Fidelity Association of America (SFAA), and senior executive, surety of Westfield Group, Westfield Center, OH. “We see contractors of all sizes, and tracking trends is a key element of what we do. We’ve learned from good and bad experiences, so we understand the characteristics that make a successful contractor.”

### What Sureties Want

Bonding companies develop relationships with contractors who have strong track records of performance, profitability and retention of earnings, but they also look beyond performance and credit quality. Sureties are interested in contractors with

solid reputations who demonstrate an ability to generate quality internal financial statements and work-in-progress/closed job schedules in a timely fashion.

Underwriters want to know how a contractor runs his or her business. Knowing who a company’s key employees are and understanding the company’s comprehensive business plan and management practices are as important to the underwriter as the company’s financial statements.

“We need to understand a construction company’s operations to be in a position to add value,” Kinnaird explains. “For example, knowing a contractor’s management team, his successful experiences with past project owners, past project performance and understanding his estimating philosophies helps identify areas in need of attention to help the company reach its long-term goals.”

It is important to know what

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## Some Questions Your Surety Will Ask

1. Are there large costs and earnings in excess of billings? If so, the surety will want to know:
  - ▶ Is the gross profit holding?
  - ▶ Has the owner failed to pay?
  - ▶ Have progress billings not been approved?
  - ▶ Have unapproved change orders been included in the costs?
  - ▶ If the job is complete, why hasn't it been fully billed?
2. Are billings in excess of costs? Over-billings may not be an issue provided the contractor recognizes that the project is over-billed. Substantial over-billings should reflect a strong cash balance. If not, this will need to be explained to the surety.
3. Is the profit margin holding? Sureties understand that some projects may experience profit fade. However, they get concerned when a contractor continually anticipates a high profit margin only to see it dwindle as the project moves on. There are several explanations for continuous profit fade including:
  - ▶ Poor job cost procedures and inability to accurately determine cost to complete
  - ▶ Inability to accurately reevaluate problems on a job
  - ▶ Withholding information on problems with the project

the surety company needs and why. "Surety is a 'relationship' business if you want to grow and prosper," Kinnaird notes. "If a contractor wants to grow or diversify, it's to his advantage that the surety know the company. Contractors should use their sureties—take advantage of the surety's bond forms, its knowledge about project owners and its resources. Have the surety review contracts for onerous language, and of course, consider the surety's advice."

A contractor should meet with his underwriter and producer at least once a year. The best time is as soon as the annual financial statement is available. The CPA and chief financial officer should attend this meeting to contribute to the surety's understanding of the contractor's financial condition. Financial statements, along with other information, will enable the underwriter to determine the amount of surety capacity for which the contractor is qualified.

The underwriter looks to the contractor's business plan for the next one or two years to understand the

contractor's goals and how he plans to achieve them.

### Maturing to a Growing Partnership

Timely financial statements and open communication are keys to maintaining a healthy surety relationship. A contractor should keep the surety company apprised of problems when they become known, as surprises in any business enterprise are not welcome. Open communication will gain the surety's respect and confidence.

Contractors may think the surety is concerned only with financial information. But, financial details are a reflection of a contractor's character. Surety companies look for good

businesspeople who operate successful construction companies. A contractor's ability to generate profits is as important as his or her ability to meet contractual obligations.

A relationship with a professional surety bond producer and underwriter is essential if a contractor wishes to grow and prosper. That relationship can be a lifesaver if the contractor experiences difficulties or challenges down the road. By maintaining the surety relationship over time, the contractor builds the surety's trust and confidence, creating a powerful partnership in good times and in bad. ■

*Marla McIntyre is executive director for the Surety Information Office in Washington, DC. SIO is the information source on contract surety bonds in public and private construction. A non-profit organization, SIO is supported by The Surety and Fidelity Association of America and National Association of Surety Bond Producers. McIntyre can be reached by phone at 202.686.7463, by e-mail at [mmcintyre@sio.org](mailto:mmcintyre@sio.org) or visit [www.sio.org](http://www.sio.org).*

### Need a Bond?

For a list of professional surety bond producers in your area who specialize in contract surety bonding, contact the National Association of Surety Bond Producers (NASBP) at 202.686.3700 or visit [www.nasbp.org](http://www.nasbp.org).