

[NOVEMBER 2008]

EXECUTIVE

# Construction

Annual Contractors' Guide to

# SURETY

Including the  
2009 Directory  
of Contract  
Surety Bond  
Producers

# BONDING

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# HOW TO BE SURE ABOUT YOUR SURETY PRACTICES

Myths and Misconceptions That Can Lead Construction Companies Astray in a Volatile Market

CONNER  
STRONG

We are in the midst of one of the most uncertain economic times in history. Financial markets are extremely volatile, and credit markets are tighter than ever. These conditions create a very challenging business climate for any industry, but historically construction companies have been hit particularly hard in times like these — especially when they don't approach the situation with the right degree of preparation and strategy.

This is most true in the area of surety bonds. After all when it comes down to it surety is really the equivalent of credit. That means when the credit markets tighten, the process for securing bonds comes under much more scrutiny than usual. But while anxiety may be heightened, this is no time to panic. In today's market it's more important than ever for contractors to stick with strategic business practices that have proven effective under any financial conditions.

Sometimes that's easier said than done though. The quick fix or the off-the-beaten-path approach can seem very enticing in the face of difficult circumstances. But there is a reason why these strategies aren't common place: in most cases they don't work. As the old adage says, if it seems too good to be true, it most likely is.

But how do you differentiate between sound strategy and short-sighted surety advice? That's where we can provide some insight. To help contractors cut through the clutter, the surety experts at Conner Strong have put together a list of the common myths and misconceptions related to securing bonds. These will help set

you straight on strategy and give you a quick baseline for identifying and avoiding the pitfalls that can lead you down the wrong path in a tough market or any market. Those myths include:

## 1) No Claims, No Problems

It's obviously a plus if you've never had a surety claim, but it doesn't mean smooth sailing. Some contractors forget that bonds are underwritten much differently than property and casualty insurance. Losses are expected on insurance, but bonds are underwritten with the expectation of no losses. The reality is if you've never had a loss you're starting from the same place as everyone else, not ahead of the game. So make sure you focus on the characteristics that set you apart.

## 2) Business and Personal Don't Mix

Unfortunately, when it comes to bonds they do. In surety, a contractor's personal financial situation can be nearly as important as the business bottom line. This is also a double edged sword. If the business has become a



funding source for unrelated outside investments, especially those that might give rise to additional borrowing needs from the operating company, the mix is deadly. On the contrary, personal liquidity (especially now!) can provide much needed elasticity to the bond program when needed. Cash is king! So get your personal financial house in order to build a strong foundation for your surety house before you go to market.

### 3) I Should be Paying Less Even in this Market

While that would be nice, it's time for some contractors to get a pricing reality check. Anyone who has followed the surety bond industry closely for the past several years knows that rates have firmed based in part on loss activity, but also due to ever shrinking capacity in the surety marketplace. In addition, the bonding companies have become much savvier about the true risk characteristics of certain types of work, project owner differences, etc. and have moved to ratchet up rate adequacy for these risks. But that still doesn't mean you have to just take what they give you. Work with a strong partner who can properly evaluate the risk characteristics of your projects, and work to your advantage by positioning your company in the best light possible. No one's giving anything away but you still don't have to give up your right to seek a competitive edge.

### 4) My Track Record Speaks for Itself

It should, but sometimes a track record can fall on deaf ears if it's not positioned properly. Bonding is an imperfect science. Your experience isn't always cut and dry. There are so

many financial and administrative aspects to a bonding process that it begs an outside expert to help you put your best surety foot forward. Work with a seasoned partner to organize your application material and make sure it gets to the right bonding companies. A strong surety quote starts with the right information and is driven home with great relationships. Make sure your partner can provide both and you've got a winning combination that should lead to a satisfying surety experience.



These are just a few of the missteps that we have seen contractors make in the surety process. And while we know they're not limited to a tough financial market, their impact can be exacerbated in the current economic climate. So stick with sound strategy, work with a strong partner and leave the surety myths to someone else. You'll be the one that reaps the bonding rewards.

*For more information or to speak with one of Conner Strong's surety experts, call 1-877-861-3220. ■*



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