

# Building a Solid Surety Relationship

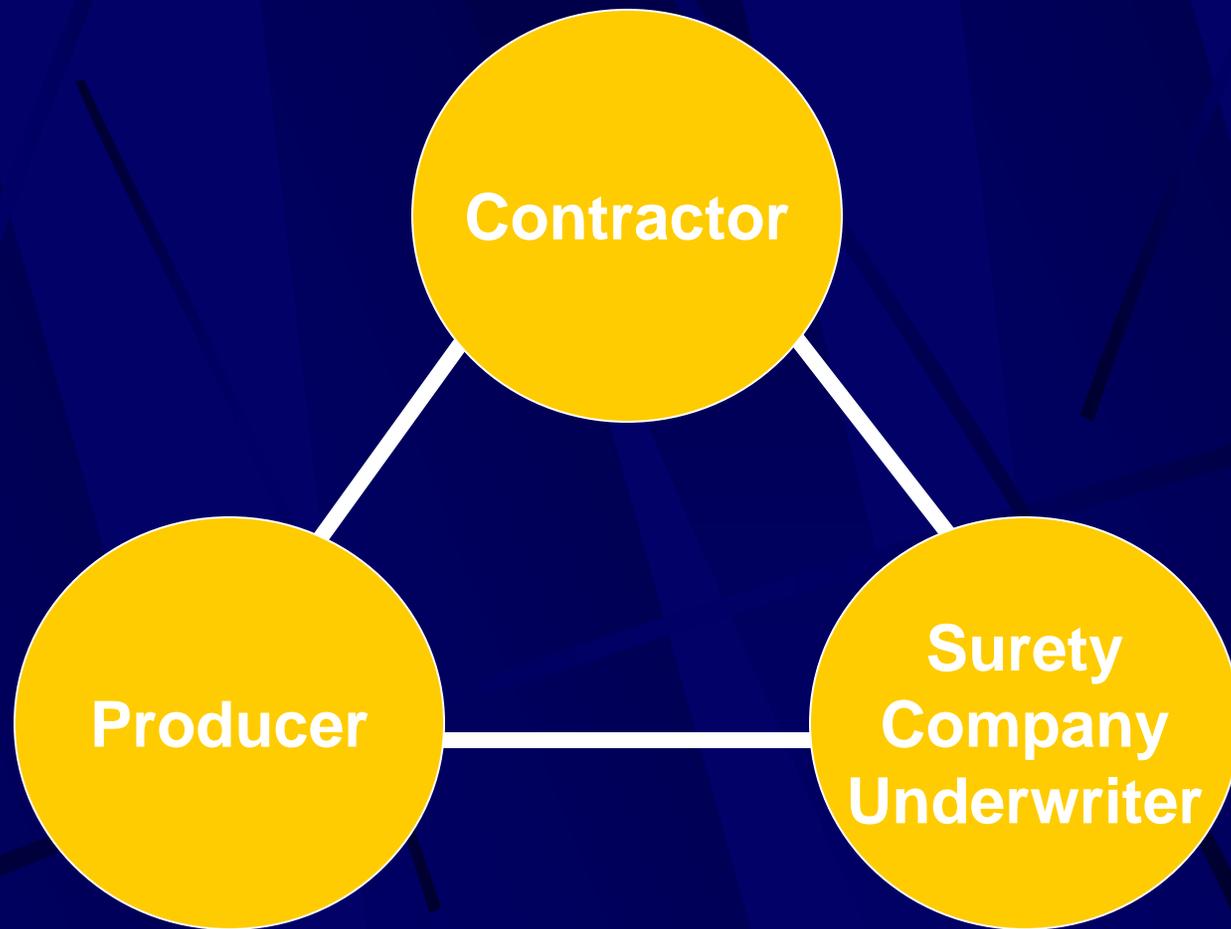


# Non-traditional Insurance

- Surety bonds are similar to bank credit
- Surety provides assurance that contractor can complete project
- Surety companies guarantee 100% of contract amount



# Three-Party Relationship



# Stages of a Lasting Surety Relationship

- Meeting
- Maintaining
- Maturing



# Meeting



**The Cornerstone of Any  
Relationship**

# Annual Meeting

- Once per year
- Shortly after annual financial statement is available
- Include CPA & CFO or Comptroller



# Underwriting Considerations

- Sound financial statements
- Committed & competent personnel
- Business plan
- Personal & corporate indemnification



# Maintaining the Relationship



**Strong Relationships Require  
Open Communication**

# Open & Honest Communication

- Say what you mean
- Do what you say
- Show results
- No surprises
- Meet obligations
- Be accountable



# Communications from the Surety

- Changes in surety capacity
- Business assistance
- Job assistance
- Recommendations & referrals on other contractors



# Job Status Report

- Primary conduit to communicate to surety
- Provided bimonthly or quarterly
- Reflect *all* jobs undertaken
- Provide consistent & conservative evaluations



# Role of the Job Status Report

- Tracks contractor's work history
- Shows patterns & project management strategies
- Reveals how contractor communicates problems to surety



# Questions the Surety Will Ask

Are there large costs & earnings in excess of billings?

- Is gross profit holding?
- Has owner failed to pay?
- Are progress billings unapproved?
- Are unapproved change orders included in the costs?
- If job is complete, why hasn't it been billed fully?



# Questions the Surety Will Ask

Are billings in excess of costs?

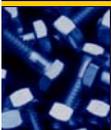
- Are overbillings recognized by contractor?
- Do substantial overbillings reflect a strong cash balance?



# Questions the Surety Will Ask

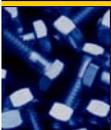
Is the profit margin holding?

- Is there a pattern of profit fade?
- Are adequate job cost procedures in place?
- Can contractor accurately reevaluate problems on a job?
- Is contractor withholding information?



# Earning Trust

- Immediately notify surety of problems
- Provide profit & loss statements based on percentage of completion
- Communicate openly
- Provide accurate, detailed & consistent feedback



# Maturing to a Solid Partnership



**Forging a Lasting  
Relationship**

# What Financial Reports Represent

- Character
- Management style
- Commitment to relationship



# Common Perceptions

## Perception

## Reality

Surety wants contractors capable of completing the project

Surety wants sound businesspersons who run construction companies

Surety wants contractor to fulfill contractual obligations

Surety wants contractor to generate income by fulfilling contractual obligations

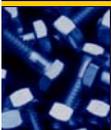
No failures leads to increased surety capacity

Ability to grow business & generate revenue leads to increased surety capacity



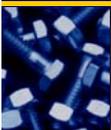
# The Surety Bond Producer

- Primary surety contact
- Communicates concerns to underwriter & helps negotiate resolution
- Provides sound business advice



# The Surety Underwriter

- Primary goal is to prevent default
- Makes decisions on surety capacity
- Extends surety capacity to ensure success of contractor



# Keys to a Solid Relationship

- Commitment
- Trust
- Communication
- Timely reporting
- Teamwork



# For More Information



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