



Gain a Competitive Advantage with Bonding

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**This session is eligible for
1 Continuing Education and 1 Contact Hour.**

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- Have your badge scanned at the door
- Attend 90% of this presentation
- Fill out the online evaluation for this session: www.necanet.org/2017Seattle

Surety 101 Bonding Basics for Contractors



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Contractors Today

Key Results:

- 9,000 Contractor Insureds
- \$300 Million Inforce Premium
- Single biggest market for Federated

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Contractors Today

Key Results:

- Significant growth market
- Market leader in coverage, risk management, claims
- Weak in surety services

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Granite Re Acquisition

January, 2017

- Acquisition allows us to deliver on our promises to clients and association partners.
- Better positions Federated to partner with associations for your members surety and bonding needs.

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Why Granite Re?

- Reputation for:
 - Surety expertise
 - Impeccable service
 - Creative and tailored solutions
 - Focus on the customer
 - Contract reviews
- Strive to find ways to help, rather than saying “No”
- Creativity, flexibility and service sets them apart from the rest.

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Surety Basics

- Different than insurance.
- Contractor must qualify for surety bonds:
 1. *Character*
 2. *Capacity*
 3. *Credit*
- Serve as a financial guarantee that certain tasks will be fulfilled, work be performed or honesty of a party.

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Surety Basics

- Through **indemnity agreements and subrogation rights**, surety has the right to recover all losses.
- 99.9 % of all performance bonds require indemnity agreements.

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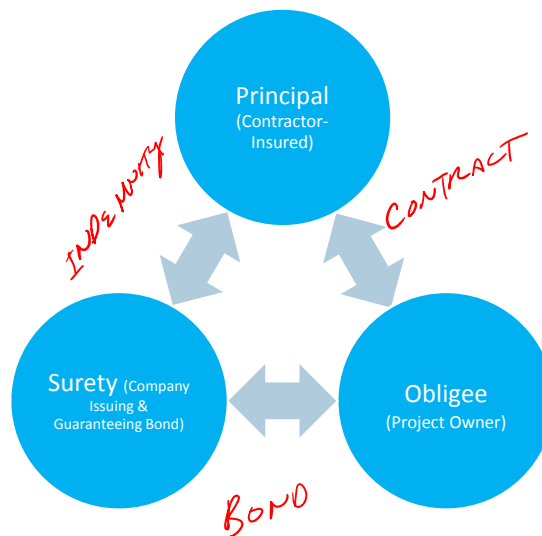


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Principal – Contractor (insured) performing the services; the one required to furnish the bond.

Obligee – Party requesting a bond; oftentimes a project owner or general contractor; the one requiring the bond.

Surety – The party that sells, issues and guarantees the bond. Typically, insurance and surety companies.



Types of Contractor Bonds

- License and Permit Bonds
- Bid Bonds
- Performance Bonds
- Payment Bonds
- Maintenance Bonds

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License and Permit Bonds

- Guarantees contractor will adhere to industry laws and regulations
- Protects consumers
- Required by jurisdictional bodies
- Typically written for a specific time period

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Bid Bonds

- When a job is put up for 'bid', the contractor must supply a ***Bid Bond*** with their submission .
- The sole purpose of the bid bond is to guarantee that the contractor enter into the contract if they are awarded the job.
- Failure to do so would result in a penal amount, which typically is 5% or 10% of the bid amount.

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Bid Bonds

- Bid Bonds are written for a specific job.
- The surety does not need to know the specific bid to issue a bid bond.
- These bonds protect the project owner from unqualified contractors and increase the likelihood that the project will remain on schedule.

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Performance Bonds

- Once a job has been awarded, the contractor is required to submit a ***Performance Bond for that specific project.***
- As surety, we are guaranteeing that the contractor will 'perform' the job as per his bid and the contract specifics.

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Performance Bonds

- Failure to do so means the surety is required to step in and complete the job per the bid and contract specifics. As surety, we bear the financial responsibility.
- Other parts of a performance bond, would typically include a ***Payment Bond and a Maintenance Bond.***

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Surety Bond Underwriting

- Key Information
 - Company financial statements
 - Contractor surety questionnaire
 - Personal financial statements
 - Credit reports
- Surety determines a *bonding rate* and *bonding limits* based on this information.

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Surety Bond Underwriting

Character

- Track record in job and overall business performance.
- Officers and key personnel.
- Consistency in revenue and earning objectives.
- Personal history.

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Surety Bond Underwriting

Capacity

- Job history
- Work in progress
- Management control
- Organization

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Surety Bond Underwriting

Capitol

- Credit reports
- Personal credit
- Personal assets
- Financial presentation
- Bank reports
- Continuity planning

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Surety Bond Underwriting

Rough Guidelines

10x working capital

5x equity

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Bond Premiums

Expressed as a percentage or
sliding scale

2%

25/15/10

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Bond Rating Example

\$1 Million Job/Project

- First \$100,000: \$25 per \$1,000
 - Next \$400,000: \$15 per \$1,000
 - Next \$500,000: \$10 per \$1,000
- \$13,500**, 1.35% of Job

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Bonding *Pain* Points

- Bonding limits
- Bonding rate
- Approval process
- Inefficient services
- Financial statement requirements
- Charges for prequalification letters
- Information requests

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Successful Contractor Characteristics

- Adequate working capital
- Appropriate capital structure
- Sound business plan
- Bank credit

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Successful Contractor Characteristics

- Financial presentations and processes.
- Good estimating and cost accounting.
- Continuity of ownership and management.

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Contractor Failure

- Project size increase
- Geographic unfamiliarity
- New types of construction

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Contractor Failure

- Key-personnel replacement
- Management issues
- Poor financial position

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Claims

Contract surety claims are very complex.

Issues include payments to subs and suppliers, completion of projects, and questions of fault.

Experienced claims representatives are critical to controlling exposure and costs.

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Questions?

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Don't forget...

- 9:00 am – 1:00 pm – NECA Show
- 1:15 pm – 2:30 pm – Closing General Session with Ben Saunders
- 7:15 pm – Closing Celebration – Huey Lewis and the News



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