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Construction

EXECUTIVE

SURETY BONDING

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Timely, Accurate Bond Requests

During the past five years, several surety companies have consolidated, downsized or exited the market. As a result, surety resources are thinly spread. Some are short-staffed and are training relatively new underwriters.

In order to return to turn the tide, the surety industry has tightened its underwriting guidelines, and any leniency toward sloppy or inaccurate reporting has evaporated.

Inaccuracies related to bid bond requests or supporting information that underwriters need to approve bonds can be deadly to the approval process. Inaccurate information not only derails an immediate bond request; it also can give the surety a negative perception about the construction business.

Engineers' estimates can be notoriously inaccurate with regard to actual construction costs. Therefore, it is imperative not to rely solely on the engineer's calculation when submitting a bond for approval to the surety. Doing this sets the company up for a last-minute bid escalation, which will require approval.

If the work is within the routine scope of operations, establish the bond amount based on historical data (which is more reliable than an engineer's estimate). Take the time to gather this data to provide the surety with a more realistic figure and decrease the number of last-minute bid escalation approvals. Although bid estimates occasionally increase and additional approvals become necessary, surety problems arise when bid escalations become the norm and not the exception.

In addition, the cost-to-complete or left-to-bill totals also need to be accurate. Most bid bond request forms ask for the current cost-to-complete or left-to-bill figure. Providing a number that is inaccurate is worse than just leaving it



blank—failing to change the number is the worst thing a construction company can do.

As part of the underwriting process, surety underwriters keep track of the backlog to make educated guesses on cost-to-complete or left-to-bill amounts. Provide either an accurate figure or nothing at all. Otherwise, underwriters may perceive that the construction company did not take the time necessary to track the work already in-progress, and/or that the project management and estimating departments do not interact. Either situation is a red flag warning to surety companies.

Last-minute bid requests can cause two problems:

- a busy underwriter cannot handle the request in time and the bond is not approved; and/or

- the surety perceives that the construction company doesn't take time to prepare its bids properly and that it does not target its best markets.

Take time to pull together accurate information when submitting bid requests to the surety. Inaccurate information is not acceptable in today's surety environment. Submit requests with adequate lead-time to allow the surety to ask questions or put the requests into its backlog of other work. Although sureties will accommodate last-minute requests from time to time, the surety-contractor relationship will suffer if this becomes the norm.

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