



## More Than a Surety Bond

By Gary Rispoli

**The relationship between a contractor and its surety is more than a few pieces of paper attached to a construction contract. For today's sophisticated contractors and their corporate surety providers, the surety bond guarantee can be just the beginning of a win-win relationship for those contractors that want to take advantage of what their surety has to offer.**

Contractors with a strong surety relationship have effectively added a valuable professional resource to their management team, as corporate surety providers can bring a broad base of knowledge to their contractor partnerships.

Major surety providers are continuously underwriting hundreds of contractors and thousands of projects at a time, year after year, through all types of market conditions and challenges. While information on any specific firm must always be kept completely confidential, the wisdom and expertise accumulated by sureties over time is a tremendously powerful resource.

Consulting with a surety provider should never take the place of vital services provided by other professionals such as attorneys, accountants, and surety producers. However, major sureties have a breadth of scope—national and international—and a depth of experience that can often be used to supplement the work of other professionals. It's a risk management tool that a savvy contractor might use again and again.

For instance, corporate sureties spend a good deal of time reviewing construction contracts in the normal course of underwriting. This is an area where sureties may have a wealth of resources, often including in-house counsel with extensive archives that could prove to be a valuable asset for a contractor. Consulting with a surety on potentially onerous contract

language such as “actual damages” or “efficiency guarantees” could be very helpful. Since both the contractor and the surety are “on-the-hook” for the performance of the bonded contract, it's in the interest of both parties to get it right from the very beginning.

Another area where consulting with the surety is often beneficial is in the creation and implementation of business plans. This is particularly true when they involve major changes, such as geographic expansion. Entering into a new geographic territory could present some daunting challenges such as working with new owners and subcontractors, unfamiliar terms and conditions, adhering to a new set of laws and building codes, etc. What may be different or even unknown, and therefore represent greater risk for the contractor, may actually be very well known to the corporate surety. Information from a surety can help the contractor develop a plan to mitigate the potential risk of expansion.

Major surety markets also have extensive experience in evaluating cost controls and can be very helpful with subcontractor bonding, selecting joint venture partners and establishing co-surety relationships when appropriate.

Business continuity is another challenge for some contractors, but they can benefit from the wisdom accumulated by corporate sureties. Surety companies have worked with thousands of private contractors, often family businesses, to help facilitate an orderly transfer of ownership from one generation to the next or from one ownership structure to a new model. In many cases, maintaining robust surety credit capacity throughout the transition is absolutely critical for the contractor. Most private construction companies may need to work through an ownership transfer only once or twice in the history of their company. Most major corporate sureties are working with client continuity issues

every day. It might be a mistake to fail to tap into their accumulated expertise.

Perhaps the most crucial collaboration between surety and contractor can take place when a contractor runs into serious financial trouble. The difference between survival and termination is often slim, but reaching out to a surety partner in a timely fashion for support may help tip the balance in the contractor's favor. Major surety providers frequently have extensive, in-house expertise in working through potential contractor defaults. They may be able to help identify and engage industry experts to facilitate “work-out” arrangements. Or the surety may be able to help the contractor address temporary cash flow issues by participating in discussions with the contractor's bank to maintain a credit facility. In some cases, they may be able to facilitate additional investors or joint venture partners. The key to success in many of these difficult situations is to fully engage the surety partner as soon as possible...before it's too late.

In a volatile economy, the best contractors use all of their available resources to maintain consistent and profitable results. The right surety will employ a depth of experience and a collaborative approach that can give the contractor a competitive advantage in any environment. By seeking out a surety provider that has a long, stable history in the industry, a contractor can tap into those years of experience and use that expertise to strengthen his or her own business. A surety bond guarantees fulfillment of a contract. A contractor's surety provider, with years of business acumen, can provide much more than just a surety bond. ■

*Gary Rispoli is vice president and U.S. field operations officer at Chubb Surety. He can be reached at [grispoli@chubb.com](mailto:grispoli@chubb.com).*