

The Surety Dilemma: Finding Certainty in Uncertain Times

As construction projects grow in size and complexity, contractors need reliable and financially strong surety underwriters more than ever. Here's what to look for.

By: [Berkshire Hathaway Specialty Insurance](#) | September 2018

It's a transformative time in the property and casualty insurance world: Mergers, acquisitions and a 'new normal' in frequency of CAT losses are driving changes in insurer appetites, operating models, and portfolio composition. The construction industry is shifting too: Projects continue to grow in size, complexity and duration.

As a result, just when simplicity, stability and predictability are ever more vital to contractors, circumstances well beyond their control may make long-term certainty in surety relationships, well, uncertain.



“A trusted, reliable surety gives a contractor the means to plan, execute on opportunities, and fulfill obligations with confidence. It’s a lynchpin to growth,” said Mike McKibben, vice president, Surety, Berkshire Hathaway Specialty Insurance.

With a constant undercurrent of change as P&C insurers divest businesses or reboot operations to achieve scale and more acceptable risk profiles, what’s a contractor to do to ensure that its all-important surety relationship is stable now and for the future?

First, realize that surety is a two-way street.

“Just as surety underwriters assess customers’ financial, operational, and executional risks and capabilities, the contractor should perform its own due diligence and be sure the relationship aligns with its needs, expectations, and long-term aspirations. After all, surety is a partnership – and that’s what finding the right partner is all about,” McKibben said.

Following are some questions and attributes to consider when assessing your next moves in the surety marketplace:

1. Does your surety have the capacity and commitment for both immediate and long-term needs?



Mike McKibben, Vice President, Surety, Berkshire Hathaway Specialty Insurance

Optimally, the surety relationship you forge today will serve you well as your business changes, grows and evolves in the years ahead.

That means thinking big when considering the capacity a potential surety can provide long term — and examining the big picture of where the surety underwriter’s parent company is going as well. Is their focus on customers and long-term relationships?

2. What is the surety’s overall business approach?

With construction projects becoming increasingly complex, the simpler your surety’s business the better.

“Get a sense of how agile they are in responding to your needs. Unique and unusual requests are increasingly common in the surety space,” McKibben said.

For some underwriters, an out-of-the-box circumstance can spur creative discussions. For another, it might necessitate re-underwriting.

3. Who’s doing the underwriting and decision-making?

Relationships come down to people. The individuals building the surety relationship with you should have the experience, knowledge and authority to act on your behalf. At a time when underwriters move around the market, do a gut check: Do your underwriters seem engaged and committed to stay?

4. What about claims?

Assuming claims are handled in-house, the overall business approach of your surety can be a good indicator of what’s to come. The same professionalism, communication, timeliness and transparency you see in underwriting should follow through to claims.

Ask about the claims philosophy.

5. Is it time to consider a co-surety?

“If you have a satisfying surety relationship now, but want to ensure greater capacity is available as you grow or want to hedge against an uncertain marketplace, consider introducing a co-surety,” McKibben said.

Work with your broker to weigh the benefits and assess candidates that complement and expand on your current relationship.

6. Does your surety have the financial strength to be there for you long term?

Some factors used to evaluate an underwriter are subjective. Financial strength is black and white. Measure one potential surety underwriter's treasury limits and credit rating against another's.

Against the changing backdrop of today's P&C industry, making the right surety match is more important than ever. Now is a good time for contractors and brokers to evaluate their current surety relationships and share and set expectations for the future ... a future built on a certain and stable surety partner.

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