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## Turbulent times for bonding companies

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Yes, these are unique times in the bonding industry and this new year will be one of more changes. Fasten your seatbelts, because we can expect less capacity, fewer bonding companies and—for many contractors—higher bond rates. The following are the major factors that have caused these actions:

- In 2000, bonding companies as a whole suffered underwriting losses in excess of one billion dollars!
- Preliminary indications for 2001 reflect increased losses over the year 2000.
- Several bonding companies are sitting on an aggregate of two to three billion dollars in “exposure” with Enron!
- The events of 9/11, although not a surety loss, hit the insurance industry hard!
- Typically, insurance/ bonding companies look to enhance their results via Wall Street...No need to elaborate...

The resultant effects to the above actions will be:

The reinsurance companies will now dictate price and terms to many bonding

companies. These reinsurance companies are those behind the scenes institutions that allow bonding companies to lay off risk (utilize their capacity / balance sheet) for a fee. They are essential to the surety industry. Some reinsurance companies have already elected to exit the bond business.

Thus, less available capacity and the negative results are prompting significantly higher reinsurance costs to the bonding companies. It is logical to assume that these cost increases will in turn be passed on to the contractors.

Some reinsurers are actually dictating specific and much more conservative underwriting terms and conditions to the bonding companies. Many of these reinsurance contracts renew on 12/31, and thus, the first and second quarters of this year will be interesting.

At the “retail” level, what does this mean to the average contractor? In many cases, bond rates will increase and, for some, levels of surety credit extended will diminish.

No, the sky is not falling, but you should be aware that these are some turbulent times in the bond business. What

is a contractor to do?

Some suggestions:

- Keep your financial house in order
- Continue to build the balance sheet of your business.
- Provide your bonding agent with accurate and timely financial statements and work-in-process reports.
- Meet with your bonding agent and/or company and ask about the bonding company’s specific results and reinsurance situation.

The more “professional” contractor should actually benefit, because many of their “unsavory” competitors will have problems with their bond programs.

In the short term, the bonding industry does have some challenges to face. I firmly believe that with proper communication and hard work, our good contractor clients—and we—will find ways to benefit from these times.

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