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## The best of times — and the worst of times

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These days it seems that the above captioned line from Charles Dickens' "Tale of Two Cities" mirrors a contractor's business more than ever.

### The Best of Times

Backlogs are fairly healthy, margins are good and availability of new work remains very strong. The construction economy in Southern California remains vibrant and healthy.

### The Worst of Times

The insurance industry is rapidly playing "catch-up" from years of imprudent pricing and management decisions as well as 9/11. This resulted in massive price increases which, from the contractor's perspective, can be considered to be the equivalent of financial rape.

If the bonding industry has not thrown you a curve as of yet...sit tight, it's coming. The following chart sums up the reasons why there is turmoil with bonding companies:

Calendar Year	Direct Losses Incurred
2001	\$2,568,000,000
2000	\$1,549,000,000
1999	\$ 547,722,000
1998	\$ 528,040,000
1997	\$ 480,988,000

These numbers represent losses

incurred among all bonding companies on a nationwide basis. Calendar year 2002 has preliminary indications of being as bad or worse than the previous year.

Over the past 10 years, seven of the top 10 (and 14 out of top 25) bonding companies have effectively removed themselves from the California surety marketplace.

During this past year, four of top 10 bonding companies have followed suit. In addition, there are another three to five that could exit during this year.

The reinsurance market has also mirrored that of the primary carriers. These are not positive trends to compliment our robust construction economy.

### Predictions

I do not pretend to be Albert Einstein with a crystal ball, but it's safe to assume that this trend of fewer players will continue over the next year or two. Other predictions are higher rates and decreased capacity for many.

As a result of corporate pressure, many bond underwriters go deep into "Bond REM" and assume the attitude that if I don't do anything, I won't do anything wrong.

We are in a very conservative environment where logic does not always prevail.

### What's A Contractor To Do

As I indicated in last year's article: No, the sky is not falling, but we are

looking at "Economic Darwinism." My advice remains the same as last year:

- Keep your financial house in order.
- Maintain current and correct financial records. Share these on a quarterly basis with your bonding agent. If you do not have the ability to produce monthly financial statements with work in process schedules that tie out cleanly, either hire or outsource this to someone who can.

- Make it a priority to protect and enhance your working capital and bottom line net worth positions within the business.

- Communicate with your bonding agent your basic game plan and potential bond needs for the coming year.

California is a \$436,000,000 marketplace for bonding companies which tells me that the forces of economic Darwinism apply to them as well. In time, new players will enter our marketplace and commence another cycle which will be detailed in future articles.

Keep your financial house in order, pay close attention to your business, communicate with your bonding agent and odds are that you will benefit from these times.

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