

Workshop W4

Wednesday, November 4, 9:00 a.m.–noon

SURVIVAL STRATEGIES FOR CONTRACTORS

Presented by

Joanne S. Brooks
Senior Vice President
Zurich Surety,
Credit and Political Risk

David S. Hewett
Senior Vice President
Zurich

Even in good times, most contractors and subcontractors operate on thin margins, and in bad times these margins get even thinner. As contractors begin to reach the end of their backlog, and new projects are harder to come by, management must be preparing a plan to stay afloat until the economy recovers. This workshop first outlines some key issues contractors must address to avoid the fate of so many others who have already closed their doors. One of the key challenges contractors will face is maintaining access to surety credit. Learn strategies for winding down current projects while gearing up to success going forward, including strategies for maintaining a balance sheet that sureties will be willing to stand behind.



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Joanne S. Brooks
Senior Vice President
Zurich Surety, Credit and Political Risk

Ms. Brooks is one of the presenters for Workshop W4, "Survival Strategies for Contractors," on Wednesday morning. She is Senior Vice President of Underwriting and Risk Management for Zurich North America, Surety, Credit and Political Risk. She joined Zurich in 1986 and over those 23 years has provided claim, underwriting, and risk management services in a variety of roles. Ms. Brooks has coauthored the chapter "The Impact of the Bankruptcy Code on the Surety's Pursuit of Salvage" for the book *Salvage by the Surety*, published by the American Bar Association, Torts and Insurance Practice Section, and an article titled, "The Importance of Insurance Coverage for Sureties" for the book *Are You Covered? Insurance Products for Construction Projects*, published by the ABA Forum on the Construction Industry and the TIPS Fidelity and Surety Law Committee. Ms. Brooks has given presentations for the ABA TIPS annual meeting and midyear meeting, the National Bond Claims Association, the DBIA Water/Wastewater Conference, the AGC Risk Management Conference, and the AGC Convention as well as many other trade and surety panels. Ms. Brooks earned her bachelor of science degree from American University and her law degree from the University of Maryland. She is a member of the Maryland Bar.

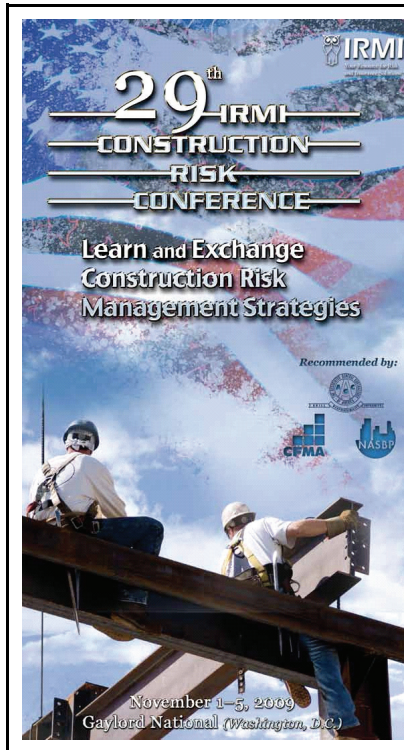
David S. Hewett
Senior Vice President
Zurich

Mr. Hewett is one of the presenters for Workshop W4, "Survival Strategies for Contractors," on Wednesday morning. As Senior Vice President of Zurich, he is responsible for management of the North American Contract Surety unit. He has worked for Zurich since 2003, originally starting in the Large Account division and has held several positions within the organization. Prior to joining Zurich, Mr. Hewett was Vice President for a large regional broker and held various home office and field positions with a major surety. He received his B.S. in Business from Indiana University and obtained his M.S. in Finance from Johns Hopkins University.

Mr. Hewett is a member of the Associated General Contractors of America (AGC), Construction Institute, and is an associate member of the Beavers as well as active in the National Association of Surety Bond Producers (NASBP), CFMA, and the Surety and Fidelity Association of America (SFAA).

Notes

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Surviving Difficult Economic Times A Surety Perspective

Presented by:

***Joanne S. Brooks, Esq.
Sr. VP and Chief Underwriting
Officer-Surety***

***David Hewett
Sr. VP Contract Surety***

1

Outline

- Surety 101—who, what, when, where, how
- ASK AN UNDERWRITER—David Hewett
- Legal considerations
- Impact of the stimulus

2

Surety 101—What Is Surety?

- Definition
- Principal/Contractor is primarily liable
- Surety is secondarily liable
- Exoneration
- Indemnification
- Prohibitions
 - Appleton
 - Reinsurance

3

Surety 101—A Historical Context

- In the Beginning—The Bible
- The Heard Act 1894
- The Miller Act 935—created for a time such as this...
- Little Miller Acts

4

Types of Surety Bonds

- Bid
- Performance
- Payment
- Commercial surety bonds,
e.g., license and permit, release of lien,
court bonds, etc.

5

Surety 101—What To Look for in a Surety

- Treasury list
- Rating
- Capacity
- Value added
 - What value does your surety bring?
 - Are sureties the Bad Guys or a true partner?

6

Surety 101—What a Surety Looks for in a Contractor

The “Three Cs” of Underwriting

- Credit
- Capacity
- Character

7

Is the Past an Indicator of the Future?

Top causes of surety losses

- Insufficient capital
- Changing a proven formula
- Weak management, controls, systems, and process
- Subcontractor issues
- Change in conditions
- Low margins and high risk

8

It's Time To Ask the Underwriter

Welcome
David Hewett

Surety through the Cycle

- How do economic factors impact sureties
 - Capacity
 - Cosurety
- Where are we today?
- Top writers of surety past and present

10

Analyzing a Contractor's Financial Strength

- Capital—key financial information
- Extension/Over-extension
- Subcontractors
- Information needed for review
- Information flow/Communication
- Credit scoring

11

Beyond the Numbers

- Bid reviews
- Reviews
- Risk mitigation procedures
- Diversity
- Commercial construction exposure
- Stages of the surety cycle

12

Legal Considerations

- Bond forms
- Onerous contract terms
- Jurisdictional concerns
- Long-term warranty
- Gap financing

13

Impact of the Stimulus

- Stimulus is not a panacea
- Remember the leading causes of losses
 - Insufficient capital
 - Changing a proven formula
 - Inadequate management, controls, systems, and process
 - Subcontractor issues
 - Change in conditions
 - Low margins and high risk
- Stay strong, disciplined

14

Surviving Difficult Economic Times

QUESTIONS??

15

THANK YOU

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16