



# Explaining the Value of Surety Bonding

New resources make it easier for the surety professional to tell the benefits of bonding.



BY DANIEL PENTECOST

**A SIGNIFICANT SLICE** of the \$25 trillion (gross domestic product) U.S. economy is in the construction business, where building new and renovated property creates both business opportunity and financial risk. Contract surety makes all that construction activity possible. What we in the surety business do every day protects investors, lenders, project owners, and taxpayers.

Yet, let's face it, surety friends: it's hard to explain what we do to friends, family, and even our peers in the insurance world. Part of the reason is that it's complicated. Where to start? The tripartite relationship? The Heard Act? *Pearlman v. Reliance*?

How do we explain that it's like insurance but also completely different? It's tough to tell the story to anyone in under an hour and without

PowerPoint or at least a few color-coded visual aids. It's not fun cocktail-party conversation.

But explain we must! Our industry is small, yet essential; and it needs advocates at all levels. The surety product provides a pillar of risk management that supports the backbone of the construction industry (and more!). We are grateful for the efforts of our trade groups, especially the NASBP and its recent publication of an outstanding nine-part video series highlighting the value of surety bonds.

The NASBP Surety Shorts: 9 Things Savvy Owners Should Know About Bonding (<https://www.nasbp.org/guaranteed/surety-stories/surety-shorts>) video series highlights the value and importance of surety bonds for project success and protecting project owner investment and reputation. Each video underscores something project owners and other stakeholders should know about bonding.

The Surety & Fidelity Association of America (SFAA) <https://surety.org/> has also taken a step forward in advocacy with the release of an economic study conducted by Ernst & Young (EY) called *The Economic Value of Surety Bonds*. <https://surety.org/wp-content/uploads/2022/11/EY-SFAA-Report-on-economic-value-of-surety-bonding-ES-2022-FINAL-1.pdf>.

The EY study report takes the telling of the surety value proposition to the next level, using in-depth research and economic modeling to put real numbers behind it. In the past, the discussion around the economics of bonding has been limited to the data available—namely, premiums paid by obligees v. losses paid by sureties. But we know that doesn't come close to telling the full story. What about the value of pre-qualification? What about the reduction in default rate?

The study puts real numbers on these and other benefits, and it also quantifies not only the costs and benefits of bonding, but also the costs of not bonding. In creating the study, EY gathered detailed construction

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industry economic data from various public and private builders in multiple sectors. It then conducted more than 100 interviews with key individuals within these organizations to drill down into the diverging costs and outcomes of when surety products are and are not used. This information was used to create a simulated, long-term performance model of bonded and non-bonded work programs and then scaled up to run 10,000 performance iterations.

The results identified and quantified three primary areas of economic value in bonding:

- Lower rate or likelihood of default (2.5x to 10x)
- Lower completion cost in the event of default (85% higher without)
- Lower contractor pricing (1%—3.2%)

These are just the highlights. The bottom-line finding is that, for a bonded portfolio of construction projects, "the overall value of surety bonds more than covers their cost," the study notes.

Materials such as NASBP's video series and this new study are highly valuable. They provide a wealth of

easily digestible content to anyone seeking the information, but also they provide surety practitioners the opportunity to take initiative and advance the cause themselves.

Please consider taking some time to look at these materials and the other great content that's out there. Share it with your network. Whether that is through posts on LinkedIn, sharing the NASBP videos or EY study with an obligee, or getting a fact sheet in front of a public policy maker. It all makes a difference.

Many thanks to the NASBP and SFAA for carrying the torch for us and for making it easier than ever for each of us to contribute. Let's all help carry out the mission in 2023. ●

*Daniel Pentecost is Senior Surety Claims Counsel for Westfield, <https://www.westfieldinsurance.com/> based in Westfield Center, Ohio. A property-casualty carrier founded in 1848, Westfield provides personal insurance in 10 states, commercial insurance in 21 states, and surety products in all 50 states. Pentecost can be reached at [DanielPentecost@westfieldgrp.com](mailto:DanielPentecost@westfieldgrp.com) or 330.887.0669.*

### Find Out More

NASBP offers numerous resources designed to help bond producers convey the value of surety. The NASBP Be Guaranteed to Succeed campaign offers videos, slide presentations, articles, and much more to share with project stakeholders: <https://www.nasbp.org/guaranteed/home>. The NASBP Producer's Tool Kit contains templates for frequently used forms: <https://www.nasbp.org/informed/forms/toolkit> (NASBP member login required). The NASBP Bonding Awareness Toolkit includes the resources to organize a half-day bonding awareness seminar: <https://learn.nasbp.org/bonding-awareness-toolkit> (NASBP member login required). Find even more tools here: <https://learn.nasbp.org/resources>.