

Surety Bond Quarterly

AN OFFICIAL PUBLICATION OF
THE NATIONAL ASSOCIATION OF
SURETY BOND PRODUCERS

www.suretybondquarterly.org



Hmm, surety . . .
I'm thinking about . . .

WHAT IS TOP OF
MIND FOR SURETY
EXECUTIVES GOING
INTO 2025?



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Nicholas P. Verna II.,
CPCU, AFSB, ARe

SVP, Head of Surety & Guarantee
Baltimore, MD
215.237.2674
nicholas.verna@allianz-trade.com

allianz-trade.us

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Q What attributes make your company distinctive from other surety companies?

Allianz Trade in the Americas is part of the Allianz SE Group, a global insurance and financial services company. Being part of the Allianz Group provides a worldwide footprint, expansive expertise, and a sizable balance sheet, while also having the autonomy to ensure that our Americas Region surety operations are truly local. We pride ourselves on our numerous team members that underwrite and service bond needs daily; their many years of experience, responsiveness, and knowledge come together to service our clients' needs. Additionally, our global experience brings both the ability to place bonds and guarantees practically anywhere in the world, while also bringing new product ideas to the local market. Our teams are constantly enhancing their knowledge to bring our clients the broadest product offering available.

Q What advice would you give your business clients regarding safeguarding their financial information in view of cybersecurity threats?

There have been many high-profile cybersecurity events in recent years that have

affected business in many industries. While not surety related, the resulting impact on a business client can be catastrophic to their business, customers, and balance sheets, as well as their surety program. Here are some common pieces of advice for clients to help protect their financial information:

- Implement strong password policies
- Use multi-factor authentication (MFA)
- Regularly update software and systems
- Encrypt sensitive data
- Conduct regular security audits
- Educate employees
- Implement access controls
- Back up data regularly
- Develop an incident response plan
- Monitor and log activity

These best practices can significantly reduce the risk of financial information being compromised and enhance businesses' cybersecurity posture.

Q What opportunities do you see in the contract/commercial surety market going forward?

We expect continued growth in the contract and commercial surety markets over the next year. For contract, the continued spend

coming from the many federal and state-level funding programs for infrastructure is feeding high levels of bidding and new contract awards. This provides a substantial amount of surety needs in the subcontract and supplier markets. While contractor backlogs remain generally healthy, several years of inflation, supply-chain disruptions, and escalating costs have created higher contract values for new work.

For commercial surety, we continue to see an increasing role for surety in many business transactions and activities. Growing demand from trading partners and a desire to provide more security to transactions is driving demand for surety bonds in the commercial space. Growth in energy-related bonds covering exploration, extraction, distribution, transmission, and decommissioning remains quite high. From guarantees to compliance, surety bonds are a trusted method of securing trade. ◀

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XL Insurance



Douglas Schmude

Underwriting Manager,
Commercial Bonds
Chicago, IL
312.282.3911
douglas.schmude@axaxl.com

axaxl.com

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Q Why should surety be a preferred career choice for a college graduate or young business professional?

Surety offers tremendous opportunities for growth in a rapidly expanding and profitable industry. As a field experiencing a shortage of skilled talent and an aging workforce, young professionals are in high demand, making it an ideal space for career advancement. The industry actively supports professional development through a variety of training programs, such as NASBP Surety School, and through regional and national NASBP events, as well as local associations that focus on nurturing young talent and promoting diversity—such as Women in Surety. Additionally, the ability to travel and engage with a wide range of industries and businesses makes surety an exciting and dynamic career choice for those seeking variety and meaningful connections.

Q What attributes make your company distinctive from other surety companies?

Our company fosters an entrepreneurial environment where colleagues are empowered to take initiative and be creative, all

while maintaining a strong work-life balance. Unlike larger, more rigid structures, our flat organizational hierarchy allows for significant local decision-making authority, enabling us to be closer to clients and respond quickly to their needs. Moreover, we benefit from the resources of one of the world's largest and most successful insurance companies, giving us the flexibility to create unique solutions while driving business growth.

A distinctive strength is the way we collaborate across business units, particularly with our Political Risk and Credit teams, as well as our insurance counterparts. This integration allows us to leverage combined expertise and relationships in the market, making us an integral part of stewardship and prospecting meetings with clients. Our company thrives on change and innovation, continuously evolving to meet the needs of our clients and the industry.

Q What has been the most rewarding experience you've had with your company in 2024?

Being with the company since its early stages, witnessing its growth to a business

on the brink of writing over \$100 million in annual premiums has been incredibly rewarding. This level of profitable and sustainable growth, particularly given the competitiveness of the market and economic challenges, is a true testament to the strength of our business strategy.

Our achievements have been recognized within the broader company, and we remain poised for continued growth. What stands out the most is the commitment and expertise of our team—many with 15 years or more of underwriting experience—who have consistently built and nurtured strong relationships with our key broker partners. This, combined with our strategic direction, positions us well for continued success in the years to come. ◀

CHUBB®



Teresa M. Black

Chief Operating Officer,
North America Surety
New York, NY
212.209.2207
Teresa.Black@Chubb.com

chubb.com/surety

Chubb Surety is a trusted global leader offering a broad range of products from multinational bond programs across 50 countries and territories, to small commercial surety bonds in the U.S. Focused on customer success and fueled by a disciplined underwriting approach, Chubb has been the surety of choice for 140 years and beyond.

Q Why should surety be a preferred career choice or direction for a college graduate or a young business professional?

A surety career is an excellent pathway for college graduates who have an affinity for finance, attention to detail, and enjoy engaging with people. For the naturally curious, the surety industry offers endless learning opportunities. With surety clients spanning all industries, professionals can gain in-depth knowledge within each sector. Surety careers are intellectually stimulating and financially rewarding when long-term sustainable profitability is achieved. Companies that provide surety capacity stand out as employers of choice due to their financial strength and stability.

It is up to all of us, as industry professionals, to be ambassadors for our profession and actively recruit to get more young professionals excited about careers in surety.

Q What attributes make your company distinctive from other surety companies?

When choosing a surety provider, it is important to look for a history of accomplishment and reliable capacity to support

long-term business objectives. Chubb has the financial strength, geographic reach, underwriting expertise, and corporate support to help our clients as their businesses and bond needs evolve.

One distinctive attribute, which I take great pride in, is the level of customer commitment exemplified by Chubb Surety underwriters. We invest considerable time and effort to thoroughly understand our client's business, individual leaders, and the culture that makes each of our clients and partners unique.

We also place great value on our technical underwriting process. Through advanced automated analysis and meaningful data, we continuously enhance our underwriting capabilities and prioritize the adoption of new technologies. However, what truly differentiates us is the value we place on cultivating personal relationships and maintaining open dialogues with our trading partners. This commitment earns us the trust and confidence of clients, contractors, agents, and project owners alike.

Q What advice do you have for contractors who seek to increase

their bonding capacity?

A key piece of advice I offer contractors when preparing to expand their surety program is to keep their surety underwriters well informed. Contractors should educate underwriters about their business processes and controls for obtaining necessary resources, including labor, to successfully complete all projects in their pipeline. It's also crucial to explain any potential changes from a financial management perspective. Is the durability of their balance sheet improving as their bond needs grow? Will they be making changes to their distribution policy? Are other sources of capital being considered to boost equity values over time?

The best surety partner is a well-informed one. If a contractor is focused on increasing the resiliency of the organization's financial position that will give the surety provider greater confidence. In turn, they will be more comfortable enhancing the contractor's bond program and assisting in achieving the contractor's business objectives. ◀



Brian J. Brost

AVP—Territorial Underwriting Officer
Western Region
Scottsdale, AZ
952.484.0359
Brian.Brost@cnaSurety.com

www.cnaSurety.com

For over 125 years, **CNA Surety** has been there for our customers, providing solutions and financial security that let them focus on what they do best. We provide contract and commercial surety bonds in all 50 states, Canada, and Puerto Rico.

Q Do you see material price volatility, supply chain issues, and labor shortages continuing to have a considerable impact on contractors and consequently the contract surety market?

We have seen lower material price volatility and better predictability in the supply chains, with labor availability remaining the top concern identified among contractors. On the supply chain, contractors need to stay vigilant, and the recent U.S. port strike reinforces that things can change quickly and contractors shouldn't get comfortable. One positive we have seen is owners having a better understanding of the supply chain and how it can impact their project. This has pushed owners to collaborate more effectively with contractors to source key equipment, long lead items, and/or potential alternatives. Contractors need to proactively collaborate with owners, subcontractors, and suppliers to make sure they're properly allocating these risks.

Q Talent continues to remain at a premium right now. What are you doing to identify, attract, and retain your talent?

It starts with the company culture that CNA Surety has developed over 125 years and includes a management team that is heavily invested in the development of our underwriters. CNA continues to offer one of the top trainee programs in the industry, providing a mix of formal and on-the-job training, setting trainees up to be successful from the start. Senior management understands the importance of knowledge transfer and remains engaged with the younger underwriters via training, branch visits, account meetings, and informal touch points throughout their careers. We stay close to local construction markets via 41 branch locations throughout North America and maintain active involvement in several industry trade organizations. Our established network of agents, contractors, CPAs, bankers, and attorneys gives us a strong understanding of the talent in these markets. CNA has transitioned to a hybrid work environment to accommodate the needs of our employees and their schedules, while also understanding the importance in-person interaction has for the development of our staff. CNA's ability to offer a broad range of surety solutions, while providing access to

internal resources, ensures we're always putting our underwriting staff in the best position to succeed.

Q Why should surety be a preferred career choice or direction for a college graduate or a young business professional?

Surety provides college graduates and young professionals with a fulfilling career path that rewards a combination of technical and marketing skills. Surety underwriters receive unparalleled access to key leaders in construction, including owners, construction executives, and their leadership teams. It requires sound judgment, strong communication, and finesse, which also provides underwriters insulation from the long-term impacts of automation and the increase in AI technology. With aging demographics in the industry, there are endless opportunities on the horizon, and the next generation of surety underwriters will see an acceleration of their career paths that the industry hasn't seen before. ◀



Brock Masterson

COO - Surety
Morristown, NJ
973.221.6170
Brock.Masterson@cfins.com

www.cfins.com/surety

Crum & Forster provides market-leading property & casualty, accident & health, and specialty insurance solutions. A true underwriting company, we have helped our customers manage risk with laser-focused expertise, integrity, and discipline for more than 200 years. Our people are empowered to make decisions and problem-solve with you smartly and swiftly.

Q What are the important lessons learned this year in 2024 that can be applied to the future to benefit producers and their construction clients?

It is critical that contractors invest in the appropriate legal, billing, and project management specialists to avoid taking unnecessary contractual risk. Project owners often shift onerous risk to construction firms, and we have witnessed numerous contractor failures in the news over the past year that were predicated on contractual disputes and related cash flow concerns.

Firms should ensure that payment terms are sufficient to cash flow a project based on billings or that they are adding the cost of financing the project into their profit analysis. Be wary of language that requires a contractor to increase their scope of work without a signed change order. Similarly, understand the dispute-resolution provision of any contract, as it is often a requirement that the contractor complete the project before any final claims are litigated—a process that could take years. Finally, avoid overly broad indemnification provisions

designed to shield owners regardless of their involvement in any issue.

Contractors who engage the proper resources—including a knowledgeable surety producer and surety—will be better prepared to address these potential hurdles.

Q Do you foresee changes in the surety reinsurance market impacting the availability of commercial/contract surety credit?

Reinsurers have incurred losses in the commercial and contract surety segments that have negatively impacted their results. While reinsurance capacity remains widely available, sureties are generally paying higher reinsurance premiums and are retaining greater risk per account than in the past. This should lead sureties to place greater emphasis on disciplined underwriting to ensure profitable results in the future.

The surety industry knows that personal relationships are critical to success. Building trust, rapport, and friendships are paramount when looking to forge business relationships that can last decades.

Q Talent continues to remain at a premium right now. What are you doing to identify, attract, and retain your talent?

Crum & Forster has been very fortunate to attract excellent surety talent in recent years, but it has not been by accident. Crum & Forster places great emphasis on the well-being of our employees. The company has built a culture of engagement and a feeling of community, all while maintaining a flexible work environment. As a result, we have earned the Great Place to Work Certification for four years running and have been recognized as a Fortune Best Workplace in Financial Services & Insurance™. Our surety team members are unique and are valued for their individual contributions—far from being a replaceable cog of a large firm. Crum & Forster's Surety Division continues to pride itself on offering best-in-class expertise with a nimble decision-making environment that excites our underwriters and customers alike. ◀

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Ryan J. Springer, J.D.,
AFSB, CPCU

Vice President—Bond
Des Moines, IA
515.345.7506

ryan.j.springer@emcins.com

emcinsurance.com/bond

For over 70 years, **EMC Bond** has been building strong, lasting relationships while providing reliable bond solutions across the country. The EMC Bond team is known for quick turn-around times, personalized service, and a commitment to delivering stable and responsive solutions. Learn more at emcinsurance.com/bond.

Q In light of the tightening financial credit market, are you encouraging construction clients to change how they communicate and how frequently they communicate with their surety team? If so, please describe how.

Yes, it's critical that the surety team has frequent and transparent communication with a contractor about credit practices that will best set the construction account up for success. If an accounts' debt is high and affecting liquidity, we want to understand the contractor's plans for restructuring to improve cash flow. The type of debt—whether fixed or variable—matters too. High usage of bank credit lines can strain profitability, and it's important for contractors to meet covenant requirements or secure waivers from their banks. Each account is unique, and banking relationships vary. It is critical to have an open dialogue and personalized approach to ensure each account is ready to excel.

Q What are the important lessons learned this year in 2024 that can be applied to the future to benefit producers and their construction clients?

We're exiting a period of increased defaults, driven largely by inflationary pressures and drying up Paycheck Protection Program (PPP) and Employee Retention Credit (ERC) funds. One of the big take-aways is the growing use of escalation clauses in contracts, which can help protect against future inflation spikes. Another lesson is that one-time cash infusions, like PPP and ERC, can only mask operational issues for so long. Contractors who failed to use those funds to improve their processes are now facing defaults. Focusing on a contractor's ability to generate operating profit from construction activities, rather than relying on one-time cash infusions and outside revenues, is essential for identifying long-term successful partners.

Q What attributes make your company distinctive from other surety companies?

With the extremely competitive market for talent in the space, EMC emphasizes our stability. Our corporate team averages 28 years with EMC Bond. This consistency strengthens our relationships with agency partners and enhances the team's expertise. We

also have a lean staff and flat structure, which fosters collaboration between corporate office and field teams, creating a "team" culture where everyone contributes to success. This stability leads to long-lasting, responsive relationships with agents and accounts. We're committed to being a partner in their success for the long haul, not just the next bond.

Q Do you anticipate an increase in bond claims activity in 2025? What should a potential claimant know about the surety claims process?

I actually expect a decline in bond claims in 2025. With material prices stabilizing and most affected projects wrapping up, the loss cycle should return to pre-2020 levels. For claimants, early communication is key. The sooner EMC Bond is made aware of a potential claim, the better we can mitigate the impact. ◀

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Andrew A. Dickson

Senior Vice President,
Head of Hudson Surety
New York, NY
305.722.8405

adickson@hudsoninsgroup.com

hudsoninsgroup.com

Hudson is a market-leading specialty insurer that offers a wide range of property and casualty insurance products to corporations, professional firms, and individuals through retailers, wholesalers, and program administrators. Collectively known as Hudson Insurance Group, its companies are rated A+ (Superior) by AM Best, Financial Size Category XV.

Q Executives and senior personnel in all industries, including the surety industry, are approaching retirement. What has that meant for your company's efforts to promote knowledge transfer?

We encourage our more seasoned professionals in our surety practice to share their knowledge, experience, and insight with our more junior underwriters in team meetings and offsite summits and through "four-eyes" underwriting. As we preach continuity to our contractor and agent partners, we, as an industry, must also practice continuity and ensure we retain a deep bench of talent by continuously planning our human resource needs and getting in front of any upcoming retirements. This includes transfer of knowledge as well as hand-off of relationships with valued partners. For the latter, we strive to have more than one person in contact with our key agents, making the transition seamless.

Q What are the near-term challenges faced by businesses needing or maintaining surety credit?

Over the past year, we have observed high interest rates and inflation on construction

materials and labor. This has led to a couple of unique challenges. For example, high rates have impacted contractors that rely heavily on either their bank line of credit or term debt to fund operations and capital purchases. Additionally, interest expenses and monthly payments are significantly higher in the current environment. Moreover, the inflation factor has caused job sizes and programs to grow faster than contractors' balance sheets, stressing the surety program with thinner cases to underwrite. The surety market also has been caught off guard by large last-minute bid escalations. This can be challenging to manage, and we have done an incredible job navigating and anticipating these occurrences. We suggest continual and clear communication between the contractor, agent, and surety, which will lead to a better trading relationship.

Q Why should surety be a preferred career choice or direction for a college graduate or a young business professional?

Surety is a terrific career choice for young professionals. The industry offers jobs with

fascinating blends of both technical and interpersonal skills. Many say that they fell into surety and are still happy after multiple decades in the business, as no two days are quite the same. In addition, the industry includes diversified roles ranging from purely sales to purely technical, and from client-facing roles to analytics or portfolio-level analysis roles. If you are excited about learning, this is the place to be since the learning opportunities never stop. Lastly, the demand for surety professionals is currently greater than the supply, leading to job security and attractive compensation packages compared to most other industries. Now is a great time to make surety your career choice! ◀



Michael F. Zurcher

EVP of Surety
Cheshire, CT
203.649.5376
mike.zurcher@iatinsurance.com

[iatinsurance.com](https://www.iatinsurance.com)

IAT Insurance Group is a privately owned, specialty carrier providing property, casualty, and surety products for niche markets. Backed by an \$80M+ T-Listing, IAT goes to market through eight business units—Surety; Commercial Transportation; Excess & Surplus; Homeowners; Inland Marine, Property & Aviation; Programs; Reinsurance; and Management Liability.

Q What attributes make your company distinctive from other surety companies?

IAT Surety stands out in many ways. Our top priority is our people and our culture. We believe that getting this right will naturally lead to technical expertise, excellent service, and strong financial results. We aim to create an environment where people are excited to come to work every day, enjoy what they do, and see the potential for growth. With many options available to our trading partners and buyers, we aim to be their preferred choice.

Q What has been the most rewarding experience that your company has experienced in 2024?

In 2024, IAT Surety celebrated 120 years in the surety business. We take immense pride in our stability and resilience. In an industry crowded with new entrants, we

don't just tell our customers about our commitment—we show it. Growing with and contributing to our long-term clients' success has fueled us for the past 120 years, and it's these enduring partnerships that will sustain us for the years to come. We've weathered economic cycles and fluctuations in the surety market, and today we are stronger, more agile, and more stable than ever.

Q Talent continues to remain at a premium right now. What are you doing to identify, attract, and retain your talent?

People are the key to success in the surety business. Having talented individuals who understand the industry and earn the trust of our trading partners is crucial. Identifying and acquiring top talent begins with our active Summer Intern Program, a pipeline for our annual trainee class. Both opportunities

introduce new talent to the surety industry and provide hands-on experience and mentorship to nurture their early careers. Additionally, our dedicated Talent Acquisition team excels at identifying and hiring both experienced surety professionals and those seeking a new career in the industry.

From an employee retention standpoint, culture, opportunity, and competitive total compensation are vital. We strive to create an environment where people come to work not because they have to, but because they want to. At IAT, employees value having a voice, being heard, influencing decisions, and growing professionally—these are the difference makers and what we take to heart here at IAT. ◀

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Tim Mikolajewski

President
Seattle, WA
206.473.3563

timothy.mikolajewski@libertymutual.com

libertymutualsurety.com

Liberty Mutual Surety is the largest global surety. With locations in 20 countries, Liberty Mutual has the capacity, capabilities, and professionals to underwrite all types and sizes of contractors and corporations.

Q Do you foresee changes in the surety reinsurance market impacting the availability of commercial/contract surety credit?

The surety reinsurance market faces challenges, notably increased loss severity driven by inflationary conditions, the end of the stimulus program, and labor shortages.

The market has responded with rate increases and adjustments to attachment points, particularly for loss-impacted accounts where cedants have been required to increase their retention. Coverage terms are becoming tighter as reinsurers scrutinize their cedants' approaches to high-risk industries and emerging risks in the commercial surety sector are also under increased focus.

Higher pricing, increased retentions, stringent coverage terms, and a cautious approach to capacity deployment signal a tighter market environment, which could limit the availability of surety credit.

However, well-managed portfolios with strong historical performance and low-loss frequencies, like Liberty Mutual Surety, are well insulated from this, and we expect no impact to our capacity.

Q What attributes make your company distinctive from other surety companies?

First is our product range and appetite. From one-off contract, subdivision, and hard-to-place bonds to multinational commercial programs, Liberty's product breadth is one of the most expansive in the world. Surety SmartSuite, our set of value-added services created to help contractors become best in class, including peer benchmarking reports, construction consultation, and new claims client advisors, also sets us apart.

But it isn't just our products that differentiate us, it's our people and values. Between our mentoring programs and robust college hire program that has received acclaim from agents and brokers, Liberty is leading the way when it comes to developing our talent. Our diversity, equity, and inclusion (DE&I) programs are second to none as evidenced by Surety's Women's Resource Network, an employee resource group (ERG) created years before ERGs were a thing! I am proud of everything Liberty Mutual Surety offers our employees, agents, brokers, and customers.

Q Do you anticipate an increase in bond claims activity in 2025? What should a potential claimant know about the surety claims process?

Claims activity is likely to remain constant or increase with certain economic indicators signaling a possible recession, continued higher interest rates, a tightening of lending standards, an anticipated slowdown in private construction, ongoing labor and supply chain issues, and an increase in corporate bankruptcies.

For conditional bonds, the surety claims process is investigative, but the burden of proving a claim rests with claimants. They must provide the necessary information to establish that they've performed work covered under the scope of the bond's terms for which it hasn't been paid and also complied with any conditions precedent to asserting a claim. The bond principal must provide documentation to support its defenses to the claim. The quicker the surety receives information to support the principal's and claimant's positions, the quicker an investigation may be conducted and a response issued. ◀



MARKEL



Tracey Haley

Senior Vice President,
Director of Surety Claims
Plano, TX
972.265.8307
Tracey.Haley@Markel.com

Markel.com

Markel Surety is a Top 15 primary surety writer focused on underwriting discipline and long-term profitable growth. With superior financial backing and a Treasury limit north of \$200 million, Markel Surety can support programs for large multinational firms or those seeking their first bond through the SBA.

Q Do you anticipate an increase in bond claims activity in 2025? What should a potential claimant know about the surety claims process?

We say it every year, but, yes, I do think claims will continue to increase in 2025. Claims primarily originate from either disputes or payment issues (or some combination), and disputes are certainly not going away or getting easier to resolve as projects become more complex and new areas of construction, like energy, continue to grow. Payment issues from the obligee to the last subcontractor are impacted by market uncertainty, credit concerns, supply chain dynamics, etc., and there is no shortage of those driving factors in today's economy. Claimants need to be mindful of all these forces and protect/preserve their claim, regardless of whether they will ever need to file a bond claim.

Q Are you seeing obligees being more receptive to accepting digital bonds?

Yes, they have little reason not to accept them. As a surety, however, we have to balance convenience to customers with

risk to our bottom line; and if enforceable indemnity is not fully secured in the initial underwriting process, we can find ourselves with little to no way to mitigate/recoup a loss. Said another way, obligees quickly get the bond to transfer their risk, but the surety isn't always served when the trade-off for speed is indemnity.

Q Do you see material price volatility, supply chain issues, and labor shortages continuing to have a considerable impact on contractors and consequently the contract surety market?

Yes. Contractors typically represent only the "demand" side of the economic equation. The two other key economic factors—supply and pricing—are generally beyond the contractor's direct control. We have all seen the impact this market volatility and lack of control has had on contractor profits and surety claim losses in recent years. Further market stability will certainly help, as will industry adaptation to cost escalation clauses, supply chain management, and workforce development initiatives.

Q What are your toughest challenges right now?

Time, scope, and money. Those three things are really the "only" things to manage on a construction project—or a surety claim. And none of those things are getting easier to control. Delivery schedules and labor availability are directly impacting job schedules, scope "creep" is very much alive and well, and money is not only more expensive in this credit market but also more constrained when disputes happen. So, while 10 years ago being fast and smart could solve a lot of claim disputes, today those skills as well as global connectivity, technical creativity, strong interpersonal skills, and financial stamina are table stakes. ◀

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Jason Dettbarn

Sr. Vice President,
National Contract Surety Leader
West Des Moines, IA
515.243.8171
jdettbarn@merchantsbonding.com

www.merchantsbonding.com

For more than 90 years **Merchants Bonding Company™** has honed its expertise in providing contract and commercial surety bonds, offering first-class experiences and a common-sense underwriting approach. Merchants has a long-term, profitable growth business philosophy, a family work environment, and a focus on making a difference in the community.

Q What advice do you have for contractors who seek to increase their bonding capacity?

Contractors looking to increase their bonding capacity should avoid the traps associated with explosive growth. While it may seem impressive, it can be very risky with the potential for huge losses. In our experience, companies that employ strategies for controlled, measured growth are more successful and present as a better risk to sureties.

What strategies do we recommend for significant and profitable growth? Adding capital prior to rapidly taking on more work, and using caution before taking on new job types or regions. Implementing a robust work in progress (WIP) reporting system so crucial project and financial information can inform decision making. Companies should avoid high fixed-to-debt ratios, especially if coupled with low liquidity or working capital/cash flow concerns. And building a strong team of advisers, including a construction CPA, attorney, banker, agent, and surety, to surround the company with the support needed for long-term success. Contractors who share their goals and

challenges with their surety increase the opportunity for the surety to help mitigate the risks they face, and it ultimately helps the company be better positioned for increased bonding capacity.

Q What should bond producers and their construction clients be doing now to prepare for 2025, and beyond?

Succession planning is a vital yet often overlooked aspect of long-term business strategy. A well-crafted succession plan ensures the continuity of a contractor's business and can significantly impact its surety credit. Three common options include: internal transition, selling to an outside party, or an employee stock ownership plan (ESOP).

No matter which succession plan is chosen, it can affect a company's ability to obtain and/or retain surety credit. To protect surety credit, a well-structured succession plan should provide continuity and stability. Keeping key operational and financial personnel in place can improve a contractor's surety credit. A plan's effect on the financial well-being of the company should always be considered, as the financial

arrangements can severely impact a contractor's balance sheet, which is foundational to their surety limits. The succession plan should include careful consideration of the experience and track record of the incoming leadership, which is critical to their future surety credit. If the new leaders have a proven history in the industry, it will likely affect their surety credit positively, which leads to growing the size and scope of the construction company's work.

Integrating succession planning into the broader strategic framework is essential for contractors who aim to safeguard their business's future. Contractors should involve their surety partners early, through communication of plans and by updating them on significant changes to protect their ability to obtain and/or retain their surety credit for the next chapter of the business. ◀

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David Pesce

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Head of Surety
Munich Re Specialty—North America
New York, NY
332.209.2342
dpesce@munichre.com

[munichrespecialty.com/na](https://munichre.com/specialty)

Q What advice do you have for contractors who look to increase their bonding capacity?

Early and frequent communication of the size and timing of an expected request for increased capacity is the key. Be sure to have a sound plan that will address not only the financial impacts, such as cash flow needs, but also outline how this increase will be managed by existing and/or new staff. When putting these plans together, contractors should work directly with their surety agents to vet the plan. Professional surety agents will know what the bonding company is going to need to be able to positively respond to a capacity increase request.

Q Why should surety be a preferred career choice or direction for a college graduate or a young business professional?

When students are considering their career path, they should certainly consider the surety industry. Being a surety professional combines many skills that will need to be applied to be successful. Financial analysis and credit analysis are key areas

of importance, but they are not the only ones. A surety professional needs to have strong marketing and personal interaction skills to develop the relationships needed to succeed. The job will also require business intuition to be able to assess the risks associated with potential clients and their current and future business plans. Finally, some degree of understanding of the legal environment and laws is used when reading bond forms, contracts, applicable statutes, etc. If a student wants to use many of the skills obtained during their college career, then the surety industry is an area they certainly should consider.

Q Do you foresee changes in the surety reinsurance market affecting the availability of commercial/contract surety credit?

In speaking with members of the surety reinsurance community, it seems clear that the 2024 treaty renewals saw some significant changes. Pricing increased for nearly everyone. In addition, increases in net retentions for many markets, to better balance the risks retained and the amounts ceded, seem to be another

common theme. There are increased claims sizes and frequencies hitting the reinsurers, more so than in prior years, so these changes may continue in 2025. These changes are likely to result in some markets re-underwriting their book as their share of the risks will increase. This typically results in more new submissions available to surety agents and companies. But this typically also comes with new, more stringent terms and conditions for the entities needing the bonds. There remains more than ample capacity and competition. Accounts will most likely still be able to get the bonds they need, but it will probably be a bit tougher in the coming year or two while the surety reinsurance industry continues to balance its risks and its results. ◀



Eric Champion

Regional Vice President,
Contract Surety
Richmond, VA
407.756.0920
eric.champion@nationwide.com

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Nationwide is a strong and stable carrier. Backed by a T-Listings in excess of \$1.825 Billion and over 60 years of Surety experience. We have 50-state capacity and a flexible, multi-tiered rating plan. We are the source for comprehensive surety bond solutions for small, medium, and large contractors and companies.

Q What other market opportunities are there for surety bonding in 2025?

There are many opportunities in the coming year as a result of the Broadband Equity, Access and Deployment (BEAD) Program. The BEAD Program will have a significant impact on the surety industry because it has \$42.5 billion in available funding for broadband projects across the country.

Thanks to the NASBP and The Surety & Fidelity Association of America (SFAA) partnering to develop the BEAD Program Surety Bond Information Kit (<https://nasbp.org/advocate/bead-program-kit>), recipients of the funds may now purchase surety bonds to meet BEAD Program security requirements. The year ahead looks very promising for sureties that are staying ahead of emerging opportunities in the market and that are willing and able to rise to the occasion by innovating and diversifying their offerings.

Q What have been the impacts on construction activity from projects funded by the Infrastructure Investment Jobs Act (IIJA)?

When the IIJA passed in 2021, hundreds of billions of dollars were allocated to infrastructure projects across the country, including bridges, roads, railroad improvements, and updates to power and water infrastructure. This created a ripe opportunity for sureties, thanks to the anticipated uptick in construction projects for years to come.

As the market for surety bonds has increased, competition among surety providers has grown. To set themselves apart from the increasingly crowded playing field, sureties must be willing to offer innovative and tailored bond solutions to meet the needs of potential clients. Sureties that have developed a comprehensive knowledge of alternative delivery methods are well positioned to provide the expertise contractors need to navigate the complex surety bonding process.

Q Executives and senior personnel in all industries, including the surety industry, are approaching retirement. What has that meant for your company's efforts to promote knowledge transfer?

Many surety leaders are approaching retirement age. Once they retire, the experience and expertise they have goes with them if the business has not taken appropriate action to ensure the transfer of this information to younger professionals. The loss of this institutional knowledge can have a far-reaching effect on the success of the surety industry, which is reliant on strong and enduring relationships and a high level of trust.

At Nationwide, we understand that this is a serious issue with very real risks, and we're taking action to ensure we are positioned to thrive now and for decades to come. We're able to mitigate this risk by taking a proactive approach to balancing our team with professionals at varying points in their careers. Through comprehensive training programs, knowledge transfer, and recruitment efforts, we are confident we will be well positioned to continue to grow and succeed in the years to come. ◀

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Celso Aguilar

Assistant Bond Manager
Los Angeles, CA
714.945.1349
caguilar@orsurety.com

www.orsurety.com

Old Republic Surety provides surety solutions for middle market and large contractors. We take a human approach to underwriting and will use a consultative approach to help contractors succeed. We have an AM Best's Credit Rating of A+, a T-listing over \$152 million, and consistently offer superior service and creative underwriting options in all 50 states.

Q Do you foresee changes in the surety reinsurance market impacting the availability of commercial/contract surety credit?

There were a few sizable losses during the last couple of years within the surety industry that affected a surety's self-insured retention, premium, and capacity in its reinsurance policy during renewal period. In today's market, where the cost of doing business is at its peak, the severity of a surety loss has dramatically increased to nearly a probable maximum loss. This effect resulted in sureties having more skin in the game during the reinsurance renewal period given the increase on their self-insured retention. This effect will ultimately add pressure on surety markets to re-underwrite their book of business.

Q What advice do you have for contractors who seek to increase their bonding capacity?

Contractors who seek to increase their bonding capacity need to plan accordingly.

In today's current risk environment, it's important to retain your earnings and build up your balance sheet and cash balance position for unforeseen risks. It's also important to note how a construction company plans to grow. If a construction company is pursuing larger work and taking on larger backlogs, the risk of something going wrong dramatically decreases when a construction company is working with good repeat customers and is using familiar subs.

Q What advice would you give your business clients regarding safeguarding their financial information in view of cybersecurity threats?

The construction industry is amongst the most targeted sectors for cyberattacks. This is because cyber criminals have identified a lack of investment in cybersecurity within the construction industry, thus making construction companies an easy target. Cyberattacks come in many forms, but the most common are phishing theft, ransomware attacks, and data breaches. In addition

to having cyber insurance, construction companies should invest in developing internal best practices within their company. This includes multi-factor authentication for all system access, employee training on phishing simulations, strict dual controls with call-back requirement for payment account modifications and invoice manipulation, protected backups for all critical systems and databases, and more. ◀



Richard Folse

Bond Manager
New Orleans, LA
504.940.7327
rfolse@orsurety.com

www.orsurety.com

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Q How are artificial intelligence tools impacting the construction contract process and contractors' risk?

AI tools are improving the construction contract process by automating tasks like contract analysis, risk identification, and cost estimation. They help predict delays, optimize scheduling, and monitor budgets, reducing financial risks. In procurement, AI assists in selecting reliable suppliers and keeps projects compliant by tracking regulatory updates. It also facilitates collaboration with real-time updates and reminders, reducing contract breaches. For disputes, AI detects potential issues early and compiles relevant documents for quicker resolution. Overall, these tools enhance efficiency and decision-making in managing construction contracts.

Q What advice do you have for contractors who seek to increase their bonding capacity?

Contractors will benefit most by focusing on growing their project experience

and their financial strength to support an increasing need for bonding capacity. They can maximize financial strength by increasing project profitability and reinvesting profits into the organization. Strong growth can be one of the riskiest times for a contractor as they run into scaling challenges. Having strong job experience, good balance sheet liquidity, and adequate financial support for this growth will increase sureties' willingness to extend more capacity.

Q Do you foresee changes in the surety reinsurance market impacting the availability of commercial/contract surety credit?

Increasing reinsurance costs will tighten surety credit availability. The increased cost of reinsurance will directly impact underwriting margins, which will cause sureties to restrict underwriting to the most profitable opportunities. Sureties will seek to increase premiums, adjust their risk appetite, or restrict capacity in response to increasing reinsurance costs. This could lead to market

instability that will influence credit terms and availability.

Q What have been the impacts on construction activity from the projects funded by the Infrastructure Investment and Jobs Act (IIJA)?

The IIJA has significantly impacted the U.S. construction industry by increasing project investments in roads, bridges, public transit, and water. These investments have accelerated construction projects across many sectors. The surge in projects has also boosted construction employment. The IIJA has brought challenges as well. With increased project investment and employment, we have experienced strains on supply chains and material availability and seen labor shortages unable to fulfill the construction job availability. ◀

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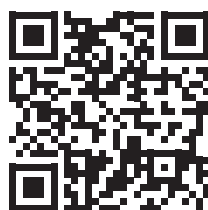
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One of the many benefits of being a NASBP Member is the complimentary listing in the NASBP Surety Pro Locator, a directory that NASBP promotes year-round in digital and print publications for the general public and the construction industry. Recently, NASBP Members were given new visibility with the NASBP & SFAA Contractor Bonding Education & Mentoring Program directing participating contractors to the NASBP Surety Pro Locator. The NASBP Surety Pro Locator helps potential clients, who seek guidance in navigating complex bonding requirements for competitive success, find you!

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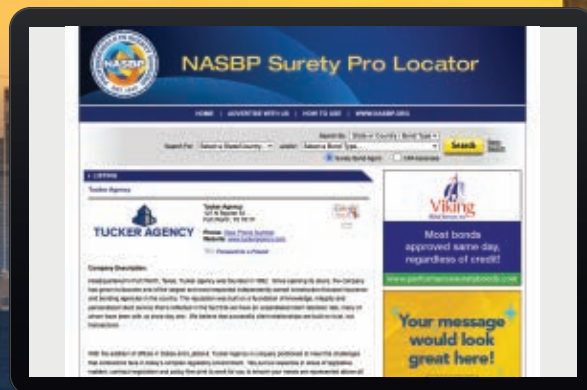


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— **NASBP Past President Tracy Tucker**
of Tucker Agency, Fort Worth, TX



Christopher Romney

Bond Manager
Santa Monica, CA
949.371.4436
cromney@orsurety.com

www.orsurety.com

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Q What opportunities do you see in the contract/commercial surety market going forward?

Most people within the industry with years of experience will tell you they see something new every day. It's what keeps this job and industry exciting. In practice, most surety companies and underwriters will stick to what they know, understandably waiting for the market to price opportunities and allow potential losses to flow through. Two opportunities most sureties have been seeing over the last few years are employee stock ownership plans and private equity deals. As contractors begin to age into retirement, these exit opportunities allow them to reap the rewards for their years of profits in the business.

Unfortunately, some sureties will view these two business entities negatively due to the impact they have on the company's balance sheet, continuity, and indemnity. There's now an opportunity for a new surety company to hear the story or structure the buyout in a way that can be advantageous for both the surety company and contractor.

Q What have been the impacts on construction activity from projects funded by the Infrastructure Investment and Jobs Act (IIJA)?

The IIJA provides \$550 billion in new investments for clean and sustainable infrastructure for local, state, and federal projects. Since its passage in 2021, it's taken some time for each stakeholder to review, analyze, and eventually appropriate these funds for our contractors to bid on, though this is starting to change now as I have started to see some contracts tied to IIJA that need bonding. According to Construction Drive, 40% of the amount has been announced, accounting for more than 60,000 projects. This money was scheduled to be used within 4 to 5 years of passage although most funding will be available until it is exhausted. To put \$550 billion in perspective, about \$1.2 trillion in non-residential construction is procured each year. With regard to bonded work, \$450 billion in public construction is procured each year. This will have a generational impact on the amount of money available for contractors to bid on over the next few years.

Q What advice do you have for contractors who seek to increase their bonding capacity?

Communication—a redundant platitude but it's true. With communication being so accessible via email, text, phone calls, and Zoom, this wouldn't appear to be an issue. But the competition between sureties and between agencies creates silos of information. Or a surety and agent will not ask the appropriate questions out of fear of "pestering" the contractor into moving to agents or surety companies that ask fewer questions.

If a contractor, surety, and agent can be proactive in explaining how the contractor's financial statements are evaluated, and a contractor can provide its business plan for the foreseeable future, the surety partner will be a business partner rather than a customer. ◀

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Darius Cook

VP & Chief Commercial Surety
Underwriting Officer
Walnut Creek, CA
925.334.3136
darius.cook@phly.com

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Q Do you foresee alternative energy projects as a growing market for surety bonding?

The emerging renewable energy market is positioned for growth, driven partly by the Inflation Reduction Act, passed in 2022, which offers tax credits to businesses for transitioning to renewable energy or providing renewable energy solutions, and the Infrastructure Investment and Jobs Act, which provides funding for improving power grid resiliency. In addition, the federal government offers incentives, including grants and loan programs, that support the growth of renewable energy infrastructure and the scalability of these projects.

Also, increased natural catastrophes fueled by climate change drive the need for cleaner energy infrastructure through renewable energy resources like solar and wind.

Surety products have played a vital role over the last 10 years by supporting utilities and renewable energy projects. Surety bonds provide a form of financial assurance to protect the project owners and preserve the liquidity of renewable energy firms by providing off-balance sheet and unsecured credit in support of longer-term contracts,

such as procurement, interconnection, and power purchase agreements and short-term obligations, such as carbon credits.

Q What other market opportunities are there for surety bonding in 2025?

The artificial intelligence (AI) boom, driven by large technology companies (enterprises, hyperscalers, and cloud networking providers), fuels high demand for computing power, and the crucial infrastructure is the data center. Data centers are primarily in Northern California, Northern Virginia, Phoenix, Dallas, Atlanta, Chicago, Portland, New York, New Jersey, Seattle, and Los Angeles. The United States is by far the leader of data centers, with 5,381 locations, followed by Germany (521), the United Kingdom (514), and China (449). Yet the existing crucial infrastructure of computing power remains woefully insufficient to meet the future demand driven by high-performance computing. Developers of the data centers have a strong need to provide surety bonds to utilities, which include performance, interconnection, subdivision, and license & permit.

Q Do you see material price volatility, supply chain issues, and labor shortages continuing to have a considerable impact on contractors and, consequently, the contract surety market?

Unfortunately, material price volatility, supply chain issues, and labor shortages remain a stark reality for certain impacted industries. For example, our clients operating within the data center and renewable energy industries have reported equipment delivery times increasing from six months to two to three years. Our clients are countering supply chain constraints by pre-ordering equipment three to five years in advance for future projects from vendors who manufacture equipment specifically for them. Leaders within the data center and renewable energy industries have worked on standardizing equipment to be "one size fits all" for their projects. By doing so, a developer creates an alternative solution to minimize supply chain disruption and can order excess materials to be shipped to projects under construction when the need is identified. ◀

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Stephanie Venuti

Vice President, Surety
Stamford, CT
860.262.1157
stephanie.venuti@trisura.com

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Trisura is a leading North American specialty insurer that provides a range of products and expertise within the surety, corporate insurance, fronting, and warranty business lines of the market. At Trisura, we believe that insurance can be done better and strive to achieve this in all we do.

Q What opportunities do you see in the contract/commercial surety market going forward?

The surety industry is constantly evolving. With the deployment of funds from the infrastructure bill beginning to reach various state and federal agencies, the construction industry will surely see more growth with so much of this funding being directed at the nation's infrastructure. As infrastructure spending increases, the need for contract surety bonds will grow. The commercial surety segment is always expanding as new laws and regulations are enacted. Growth in segments such as gaming, the energy sector, and information technology all translate into more opportunity for the surety product. At Trisura, we always look for opportunity and as the market evolves and the incorporation of a surety bond becomes more common, Trisura is excited to partner with our agents and brokers.

Q What attributes make your company distinctive from other surety companies?

At Trisura, we listen to our client's needs. With an experienced underwriting team throughout North America, we work closely with our agents and brokers to create a tailored solution for each client. We are a broker-focused market where relationships are treated as partnerships, with both sides working together to achieve a goal. When working with Trisura, you'll find you have direct access to decision makers who are committed to promptly getting the answers you need, ensuring efficient and seamless communication. At Trisura, we believe insurance can be done better and strive to achieve this in all we can do.

Q Why should surety be a preferred career choice or direction for a college graduate or a young business professional?

I've always found the surety industry to be filled with opportunities, from networking, building relationships, continuous learning, and, most importantly, personal growth. Each day for a surety professional looks different as each individual case and client are unique. This creates an enriching learning environment and a career path that's never boring. People are the heart of what we do, and we are passionate about nurturing the talent in our industry. To help jumpstart a career in surety, Trisura offers a formal training program for newcomers. ◀

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Kyanna Saylor

Vice President—UFG Surety Business
Unit Leader
Cedar Rapids, IA
319.399.5246
ksaylor@unitedfiregroup.com

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Q Do you see material price volatility, supply chain issues, and labor shortages continuing to have a considerable impact on contractors and consequently the contract surety market?

Yes. While we have seen some material prices stabilize, material volatility, the effects of inflation and uncertainty remain. To combat supply chain issues for electrical gear or unique components, contractors have expanded their list of suppliers and are quickly accelerating purchases after award of a project. Unfortunately, the threat to ports remains, leaving supply chains vulnerable.

Labor will continue to be a challenge for the unforeseen future. Like many industries, labor age gaps are growing. There is recognition of an aging workforce across the board with companies struggling to attract younger workers. Wage increases are prevalent due to supply and demand, yet not enough new talent is coming in. Recruitment efforts continue to be top of mind for contractors. Creatively setting themselves apart from the competition and establishing a pipeline of new talent, which may begin at the high school level, is fundamental.

Contractors should anticipate conversations surrounding each of these topics with their surety agent and carrier. Working collaboratively to address these challenges and mitigate operational risks will help strengthen the relationship and outcomes for all parties.

Q How are artificial intelligence tools impacting the construction contract process and contractors' risk?

Contractors continue to embrace AI technology for reducing project management costs, improving safety, strengthening risk management, and helping with labor shortages.

In the 2024 Construction Outlook National Survey conducted by AGC, respondents indicated primary uses of mobile software technology were for daily field reports, employee time tracking and approval, and access to customer and job information from the field. Sharing drawings, photos, and documents was also high on the list. Also noted were concerns surrounding implementation and training of the new technology and data security.

Technology has enhanced jobsite safety—from wearable technology to on-site monitoring and drones—proactively

detecting hazards and preventing injuries, helping to make worksites safer. Data analytics from these technologies assists leaders, business partners, and employees in strengthening risk management. Virtual reality (VR) and augmented reality (AR) allow workers to evaluate realistic simulations or test ideas and logistics before implementing them on-site. AR and VR trainings are revolutionizing not only safety training but also the recruitment of new talent into the industry.

Q Why should surety be a preferred career choice or direction for a college graduate or a young business professional?

One word comes to mind: opportunity. College graduates and young business professionals who are in search of a career versus simply a job should without a doubt consider the surety industry. High performing individuals will find stability in a niche industry along with the flexibility to discover the most applicable path for playing to their strengths. A rewarding career awaits! ◀

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Chris Nolan

Head of Surety
New York, NY

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Q Do you foresee changes in the surety reinsurance market impacting the availability of commercial/contract surety credit?

I don't believe that changes in the surety reinsurance market will materially impact the availability of surety credit. Over the past 18 months, the trend has been changes in terms and conditions for many reinsurance treaties, primarily through increased retentions and/or increased pricing. There remains an ample number of surety reinsurers with the capacity to meet the demands of the primary carriers. To date, the primary markets have not made any noticeable changes to underwriting appetites or the capacity provided, and my expectation is that even with moderate pricing and retentions increases, there will continue to be minimal impact on the availability of surety credit.

Q What advice do you have for contractors who seek to increase their bonding capacity?

Contractors looking to increase their bonding capacity should communicate

early and often with their surety team. Work with your bond producer to have a detailed plan for the surety and what is driving the need for an increased bond program. Be as specific as possible with the single and aggregate bond capacity you are seeking. Be prepared to address the areas most important to the surety: Do you have the manpower available to prosecute the increased backlog? How large of a single project are you expecting to bid, and how does it compare to your largest completed project? What additional risk mitigation actions or tools do you plan to utilize as your backlog grows? Will the new work be cash flow positive from day one, and, if not, how will that be mitigated? From a financial perspective does your balance sheet support increased capacity, and, if not, what is the plan and commitment to grow the balance sheet? After receiving feedback from the surety company, continue to work with your experienced bond producer to provide any follow up items or refine your plans to meet the surety's expectations.

Q Why should surety be a preferred career choice or direction for a college graduate or a young business professional?

Surety is a career that has much to offer both college graduates and young professionals. New entrants to the workforce often seek careers with a purpose. The surety industry helps to protect the public's interest with performance and payment bonds, ensuring publicly funded projects are completed on time and on budget. Young professionals can find purpose in surety assisting businesses in their growth and creating financial security for their families. Having worked in both commercial and contract surety, I have had the opportunity to learn from people with diverse skillsets and to immerse myself in a wide range of industries and experiences that have included everything from touring landfills and mines to walking construction projects large and small. ◀

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