

An Industry With Opportunity - Surety as a Promising Career

By Robert Duke and Samuel Carradine

Most college students haven't heard of a surety bond or the surety industry, and they don't realize surety provides exciting opportunities beyond a typical career in finance or insurance.

A surety bond professional has the opportunity to learn about an array of industries—construction, international trade, health care and financial services—making each day different from the next.

In construction, most public jobs require a contractor to be bonded, and private sector contracts increasingly have bond requirements. The need to protect the taxpayer and the investor/shareholder has led to a growing dependence on surety bonds as the most appropriate method to assure these projects are built on time and on budget, and that suppliers and workers are paid.

With this growth, sureties have encountered an increased need to recruit, train and retain a highly professional cadre of personnel to carry out the various functions associated with prequalifying contractors, underwriting bonds and evaluating claims. In addition, the surety industry is not clustered in one part of the country; opportunities abound throughout the United States.

Successful surety underwriting requires a surety professional to have an intimate and in-depth knowledge of the principal: the construction firm. A surety professional in the construction market has the opportunity to become engaged in a firm's operations and finances, as well as the legal aspects of suretyship.

Types of Jobs

A surety bond is a form of insurance by which a third party (the surety) secures the fulfillment of an obligation owed by one party (the principal) to another (the obligee). The types of underlying obligations are practically limitless and vary from a construction contract (a performance bond) to a regulatory requirement to pay duties on imported goods (a customs bond), and hundreds of things in between.

The following are the most common positions available in the surety industry:

- surety agent/producer/broker;
- account manager;
- account executive;
- client adviser;
- surety underwriter;
- claims representative;
- claims analyst; and
- claims attorney.

Surety professionals are involved throughout the bonding process. When a contractor needs a bond, it reaches out to a qualified insurance agent with expertise in surety bonding. The surety agent generally represents several surety companies. He conducts an initial investigation of the contractor and compiles the information necessary to apply to the surety company for a bond. The agent selects the surety that best matches the contractor's needs and risk profile.

The information (financial statements, corporate résumés, project history information and references) is submitted to the surety bond underwriter, an employee of the surety company, who evaluates the contractor relative to the specific bond request. Ultimately, the underwriter must evaluate the contractor's ability to complete the project to be bonded. The underwriter's analytical and decision-making skills must be sharp, as the underwriter decides whether the surety will undertake the risk by writing the bond.

Finally, if the surety writes the bond and a claim stems from a contractor default, surety

claims professionals help assess the claim. Claims professionals do not have to be lawyers, but they must be knowledgeable about legal concepts regarding surety, contract and insurance law.

Future Prospects

Despite the current economic crisis, the prospects for future employment opportunities in surety remain favorable. Surety agencies continue to seek experienced and aggressive bond producers to identify and secure contractors' business. Surety companies are recruiting underwriter trainees, as well as claims and administrative staff, to meet anticipated reductions in personnel due to retirements and increased business volume.

The recent construction downturn has been felt most critically in the residential market, where traditionally bonding is not required. The market for public sector construction, in which bonding is almost always required, increased slightly from \$287 billion in 2007 to \$308 billion in 2008, according to the U.S. Department of Commerce. And now that the economic stimulus package has passed, public sector construction should increase even more in 2009. Producers and surety companies will need personnel to meet the anticipated demand for surety bonding expected during the next several years.

Industry-Wide Diversity Efforts

An important aspect of maximizing career opportunities in the surety and fidelity industry is ensuring diversity in the workplace through recruitment programs. On an industry-wide basis, The Surety & Fidelity Association of America (SFAA) and its leaders are working to increase the number of minority and female surety professionals in the industry. The organization developed and implemented two programs—the SFAA/INROADS Summer Intern Program and the Surety Industry Scholarship Program—aimed at identifying and supporting outstanding minority students for careers in surety underwriting and related fields.

In 2001, the SFAA entered a memorandum of understanding with INROADS, Inc., a renowned national intern program that develops and places talented minority youth in business and industry and prepares them for corporate and community leadership. In the summer of 2002, 11 interns were placed with SFAA member companies around the country.

Since then, SFAA member companies have sponsored more than 60 intern positions, with INROADS working to exceed this goal. Several interns now work either for their sponsoring companies or anticipate being offered full-time positions once they graduate.

Established in 2003, the Surety Industry Scholarship Program provides awards of up to \$2,500 to support outstanding minority students' studies in insurance, risk management, accounting, business or finance, and encourages their consideration of surety underwriting as a career choice. This program is administered by The Surety Foundation, the educational arm of SFAA.

For more information on the SFAA/INROADS Summer Intern Program or the Surety Industry Scholarship Program, visit www.surety.org or email info@surety.org.

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<http://www.surety.org/> The Surety & Fidelity Association of America

What is Suretyship?

Suretyship is a very specialized line of insurance that is created whenever one party guarantees performance of an obligation by another party. There are three parties to the agreement:

- The principal is the party that undertakes the obligation.
- The surety guarantees the obligation will be performed.
- The obligee is the party who receives the benefit of the bond.

What is a Surety Bond?

A surety bond is a written agreement that usually provides for monetary compensation in case the principal fails to perform the acts as promised. There are many different types of surety bonds, but the two general categories are contract and commercial surety bonds.

What characteristics of suretyship are like more common forms of insurance?

- They are both risk transfer mechanisms.
- State insurance commissioners regulate them both.
- They both provide for financial loss.

How is suretyship different from more common lines of insurance?

In traditional insurance, the risk is transferred to the insurance company. In suretyship, the risk remains with the principal. The protection of the bond is for the obligee.

In traditional insurance, the insurance company takes into consideration that a certain amount of the premium for the policy will be paid out in losses. In true suretyship, the premiums paid are "service fees" charged for the use of the surety company's financial backing and guarantee.

In underwriting traditional insurance products the goal is "spread of risk." In suretyship, surety professionals view their underwriting as a form of credit so the emphasis is on prequalification and selection.

How does a surety underwrite?

Each surety company has its own guidelines and underwriting criteria. However, the following basic factors will be taken into consideration in some format.

- Capacity. Does the applicant have the skill and ability to perform the obligation?
- Capital. Does the financial condition of the applicant justify approval of the particular risk?
- Character. Does the applicant's record show him to be of good character and likely to perform the obligation he or she assumes?

What is Personal Indemnity?

It is common for a surety to request the indemnity of the owners of a closely held corporation. Typically, the spouse's indemnity also is required because personal assets are jointly owned. The two main reasons for this requirement are that the surety requires all personal assets to be

available to back the guarantee and that there is less chance a principal will avoid its responsibilities if its personal assets are at stake.

How does collateral security relate to a surety bond?

If an underwriter is unable to approve a bond request based on the qualifications given by the principal, the company may suggest depositing some form of collateral as an inducement to write the bond. In practice, many bonds are written on this basis, particularly ones that are considered financial guarantees.

What is a financial guarantee bond?

A financial guarantee bond obligates the surety to pay a certain amount of money if the principal does not perform its obligation. Examples include tax bonds and Medicare and Medicaid bonds. These bonds are extremely hazardous and very carefully underwritten.