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Issue: 11/18/2013

When Surety Fraud Goes Unpunished, Small Contractors Suffer

11/13/2013

By the Editors of ENR

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The forged Chubb bonds discovered this year provide evidence that the laws allowing individual sureties help criminals steal from the very companies individual surety is supposed to benefit: small and minority-owned contractors. More than 20 contractors have been defrauded of about \$3 million by these bonds over an 18-month period, [according to a new report on ENR.com](#).

The alleged forgers didn't bother to show up in federal court in Florida, where Chubb Group has won a civil judgment against them. The two defendants represented themselves to the world through websites as individual sureties.

Individual surety was intended to benefit small and minority contractors that had difficulty qualifying for a surety bond from a corporate surety, which is Treasury Dept.-listed and has substantial assets.

The forged Chubb bonds provide a window into a world unintentionally created by laws and regulations permitting individual surety. In this legal twilight lives a flourishing population of swindlers, former prison inmates and silky con artists, all of them willing to play the hero to struggling or financially strained contractors who badly need surety credit. Some of the malefactor individual sureties have dispensed with any serious attempt to fake their assets, and, as we have seen in the case of the Chubb fraud, effortlessly switch roles to that of a broker. As brokers, they offer what appears to be a solid corporate bond—all that's needed is a purloined logo, stretches of legal boilerplate and poorly faked signatures.

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Either because of overwork, incompetence or the weight of political correctness in meeting small and minority business goals, government contracting officers permit these bonds to slip through in unknown numbers.

With limited resources and much other crime to pursue, state and local prosecutors have a hard time keeping up with this systematic defrauding of the public and the small and minority-owned contractors.

The Chubb bond forgery is too audacious for law enforcement agencies to ignore, and we hope to hear about criminal charges against the individuals involved. What we fear, however, is that the support infrastructure for such fraud will be left intact. One way to terminate the infrastructure for surety fraud is to penalize licensed insurance professionals who are bound by professional codes to vet the bond sources to which they direct contractors. Even if these licensed individuals can't be charged as active participants in the crime rings, state insurance departments should strip them of their licenses. Otherwise, insurance licensing is meaningless.

Finally, lawmakers who want to help small and minority contractors should support reforms to tighten individual-surety asset rules. Another idea would be to set a minimum standard for verification of a bond and its assets. That would help discourage some of the crime that now often goes unpunished.

Keywords: Surety;Fraud;Chubb;Reforms

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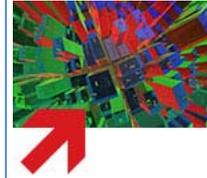
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