INSURANCE AND BONDING

Canadian surety industry recovers from 2013 claims surge

Bonding companies respond to provide faster resolutions and accommodate P3 project requirements

The Canadian surety industry, despite some jolting losses because of a surge in major and minor claims last year, is rebounding and innovating new products and methodologies for the evolving marketplace, says Steve Ness, president of the Surety Association of Canada (SAC).

The industry loss ratio reached 55 per cent in 2013, Ness said. This is the amount of claims compared to the premiums collected. Ness said a few major claims, such as the ConCreate USL collapse, were compounded by several smaller claims.

Things look better this year, he said, and the industry is equipped to handle bad years. He indicated the situation now is nowhere near as severe as in the first four years of the 1990s, when the industry wrote off as much as it earned for the previous two decades.

(The surety industry, by its nature and low premiums to the size of contracts, operates much like like a high-stakes roulette game – when things go wrong, fortunately infrequently, they can go very wrong.)

Ness says the industry is adapting to the trend for increased bundling, with much-larger P3 projects.

This includes introducing new types of surety that, unlike conventional products which only guarantee the projects will be completed, can provide cash financial compensation when a project goes off the rails or is delayed.

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The "liquidity" feature can be important when financing is part of the process required to complete and manage projects, Ness says. This type of bond, which may pay out as much as 10 per cent in cash, is only available for the larger P3 projects.

A second innovation, however, makes things better for smaller and middle-size projects. The "process enhanced" bond sets specific response time frames for the surety when the bond is called. The idea isn't to totally eliminate delays when the contractor defaults; but to give some confidence in the time frame from resolution and project completion.

Ness says the tendency to bundling and larger projects is putting the squeeze on smaller contractors, but they won't go away completely, and will still need surety. Contractors, brokers and bond providers, however, need to keep an eye on the businesses to make sure they remain viable and profitable in the enhanced competitive environment.

These views are shared by Chris Kucman, vice-president, surety of Trisura Guarantee Insurance Company.

"The biggest challenge in our marketplace is keeping the owners informed and educated about how the bonding process works," he said. Construction contracts continue to increase in their complexity- especially as the size of these contracts are getting larger and owners are looking for them to be completed in much tighter time-

frame than we've seen in the past.

"This puts more pressure on a contractors' performance, and therefore can attract more disputes and defaults within a contract due to issues such as incomplete drawings, weather conditions, unsophisticated trades and so on," Kucman said.

"Bonds are in place to guarantee the performance of the contract and sureties can often help mitigate potential issues before they become full blown defaults, however the owners need to understand how a bond works and the steps they need to take in order to get the best value for this. While the surety industry promotes the education of the bond process, it is up to the owner to proactively seek and understand the nuances of the claims process."

Kucman says some owners, not educated on how a bond responds, "will assume the process is like an insurance policy." However, "in a claim or default system, there are steps the owner needs to take in order for the bond to respond appropriately and effectively."

"I would encourage all people who are involved with the procurement and purchasing of bonds, to ensure they read and understand the bond, and remain informed of various bond forms and communications in the marketplace through visiting such websites as SAC's."

Ness at SAC, meanwhile, urges both owners and contractors to "keep expectations realistic."

However, he said the "surety industry is responding (to the marketplace) in ways like never before, doing different things to meet different needs."

For more information about SAC, see www.surety-canada.com.