Surety Bond Market

Surety Bond providers' reaction to the COVID-19 crisis – their appetite for new business has dulled, and they are seeking more information.

With the unprecedented impact of the COVID-19 pandemic and an uncertain economic and investment market outlook, surety bond providers and general insurers alike are taking a very conservative approach to underwriting and how they deploy their capital.

It's a truism that, in a buyers' market, insurers/sureties will treat "what they don't know as a positive". In the current market it is the opposite: their approach is now treating what they don't know as a negative. There is widespread fear of incurring losses.

> There is widespread fear of incurring losses.

Up until now, sureties have had mixed reactions to the COVID-19 virus but there is a common theme; each surety has been extensively reviewing, re-evaluating and assessing their existing client portfolios for inherent risks caused by the virus. In some instances, the sureties are seeking extensive information from questionnaires on the impact COVID-19 is having on their clients' business and projects. These questionnaires can include:

- Delays to the completion of any project
- Details of any notifications received of any events of delay or liquidated damages from the other contracting party in respect of any contract
- Processes the client has introduced in response to COVID-19
- Causes for delay of any works e.g. supply chain
- Timely up to date financial information e.g. latest financial management accounts, cashflow positions, current WIP reports etc.

Given sureties are now thoroughly reviewing their surety bond portfolios and, in some cases, are taking a hard line by looking at ways to reduce their risk/exposure. To achieve this, they have introduced some of the following measures:

- Reviewing pricing structure and risk profile to introduce a rate increase on new bonds as a result of rising cost of capital
- Right sizing the facility limit and reducing the limit where the facility is not being fully utilised
- Reducing the limit to the current exposure (bonds on issue), putting the facility in run off and not issuing any further bonds
- Cancelling the facility and seeking cash collateral for bonds outstanding.

In addition to appraising risk/exposure, sureties are reviewing each client's conduct/performance regarding the timely provision of information in accordance with Surety Bond Terms or their requests. They are viewing failure to comply, or not complying in a timely manner, in a bad light and the incidence of this is making them nervous about the risk they are taking on with the strong potential to negatively impact on the decisions they make.

As a result, sureties have dulled their appetite for new business. Writing this has slowed down significantly with their major focus now on assessing their existing surety portfolios. In the current environment, sureties are more selective in the business they take on and will only consider clients with strong balance sheets and history of being profitable. The information requirements are more extensive and will require COVID-19 questionnaires. Willis Towers Watson can provide guidance during these unprecedented times by assessing your eligibility for a bond facility and professionally marketing your risk to surety providers.

We recommend you be proactive and provide open, honest and transparent communication around any difficulties you are having with contracts, sub-contractors, suppliers, cashflow or liquidity. But, most of all, it's vital you outline the procedures, steps and innovation you have put in place to minimise the impact that COVID 19 is having or will have on your business.

But, most of all, it's vital you outline the procedures, steps and innovation you have put in place to minimise the impact that COVID 19 is having or will have on your business.

> "
>
> **Be proactive and provide open, honest and transparent communication around any difficulties you are having with contracts, sub-contractors, suppliers, cashflow or liquidity.**

Willis Towers Watson understands the importance a surety facility has on your ability to do business and are here to help you navigate through this. Now more than ever "selling" your business to the sureties is imperative and the WTW team can assist you in presenting your business in the best light, to ensure the best outcome possible.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Graham Mitchener
Practice Leader - Surety & Builders Warranty, Construction Australasia
graham.mitchener@willistowerswatson.com
M +61 421 098 880

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance.
Together, we unlock potential. Learn more at willistowerswatson.com.

Willis Australia Limited | ABN 90 000 321 237 | AFSL No. 240600
CKA Risk Solutions Pty Ltd | ABN 33 109 033 123 | AFSL No. 276915

WTW658AU