The Future Is Now

The Surety & Fidelity Association of America’s (SFAA) 109th Annual Meeting held in Washington, D.C. from May 9 to 11, 2017, attracted the largest number of participants to date. The event saw a total of 208 individuals, special guests and foreign affiliates participate in the various meetings and events. The theme of “The Future Is Now” addressed the opportunities and challenges facing the industry, as well as noted how far the industry has come over the past hundred years.

Senior Vice President of Specialty Commercial Insurance for The Hartford and SFAA Chair Ross Fisher discussed the history, present status and future of the industry in his address to members. “Over the past hundred years, the SFAA and its members have established a track record of relevance, advocacy and, yes, even innovation, and our mission to protect consumers, taxpayers and businesses has served us well,” said Mr. Fisher. “Just since 1960, we have protected over $6 trillion dollars. We expended over $55 billion dollars to perform our core responsibilities of prequalifications to prevent losses and to provide remedy when a loss occurs. It is a remarkable track record of performance.”

Mr. Fisher stated that the three themes overwhelmingly cited as industry challenges for the future included: attracting and retaining talent; evolving industry products to meet the current demands of customers and beneficiaries, while making the products more attractive to parties not currently utilizing them; and improving the perception of claims handling practices for the entire industry.

“For the last 20 years, we have allowed alternative products to erode our potential market because we were not willing to address the emerging needs of the construction environment. I applaud the recent efforts of a few of our member companies to introduce product modifications that respond to the needs of specific owners and specific project delivery models,” said Mr. Fisher. “But, I would offer that I believe our response remains inadequate and I would ask you all to consider how we, as member companies, can take the next steps in responding to the emerging landscape of financial and contract risk management.”

“As an association, we will continue the great work that is going on in our committees to address the needs and issues of the industry, but I believe the product response will more appropriately come from the member companies,” added Mr. Fisher.

The first suggestion included focusing more on the value of prequalification in the risk mitigation impact of our underwriting efforts. The prequalification process has been a critical driver for success. Another suggestion was to focus on the quality of the claims handling process, as one negative story can overcome 20 positive stories. Frequent communication with all parties remains an integral part of the positive claims process.

Mr. Fisher urged the industry to reflect upon three questions:
Does our product need to evolve?
How do we better address the perception of claims handling?
What role should you, your company and our association play in that evolution?

“I think we have a moment in time that we need to capitalize on. The future is now and we want and need your help, so we are positioned to deliver for the next 100 years,” Mr. Fisher said in closing.
The SFAA Board of Directors met on the afternoon of May 11, 2017, following the Annual Meeting and Luncheon. Ross Fisher was elected as Chair of the Board. Mr. Fisher serves as the Senior Vice President of Specialty Commercial Insurance for The Hartford, which includes the company’s national accounts, captive programs and bond business. As one of the largest underwriters of surety and fidelity bonds in the U.S., The Hartford has been writing bonds for more than 100 years and provides surety and fidelity products to companies of all sizes. Mr. Fisher is a 25-year veteran of the surety and insurance industry. He joined The Hartford in 2003 and had previously held various management positions in the industry.

Larry Taylor, Chairman of the Board and President, Merchants Bonding Company Group, was elected as Vice-Chair. He joined Merchants Bonding Company TM in 1989 and became the company’s President in 1996.

Also elected to the SFAA Executive Committee were John S. Welch, President and Chief Executive Officer, CNA Surety; Bob Murray, Executive Vice President and Head of Surety for Zurich North America; and Stephen Haney, Division Chairman, North America Surety, and Chief Underwriting Officer, Global Surety, Chubb Surety, as well as the SFAA Board Immediate Past Chair, Ex Officio.

During the Annual Meeting, Lynn Schubert was re-elected as President of the Association. Ms. Schubert appointed as the other officers of the Association: Robert J. Duke as General Counsel and Corporate Secretary; Lenore S. Marema

See Board Meeting on page 12

President’s Report

The Surety & Fidelity Association of America (SFAA) President Lynn Schubert discussed the theme of “The Future Is Now” by highlighting how the use of technology, promotion and advocacy has moved, not only the association, but the industry into that future.

“We know that you have to become more efficient,” said Ms. Schubert.

“We know that you have to be able to look internally and cut down the costs. How can we help you do that?”

The SFAA statistical, actuarial, IT, regulatory and compliance services help with that each day. But what about our external challenges?

“What is most important? Keeping our products valuable and making sure people understand how valuable our products are,” said Ms. Schubert. “Because if people don’t understand the value of our products, they are not going to buy our product.”

The key components to value are relevance, education and promotion. The SFAA focuses on maintaining relevance through innovation in contract surety, commercial surety and fidelity products. Examples included developing a bond product for the design portion of design build contracts in contract surety; working with the IRS and the National Association of Professional Employers Organization to create a new bond form for commercial surety; and developing new forms and/or changing terms and definitions as new technologies emerge for fidelity bonds.

“Education and promotion are interrelated,” said Ms. Schubert. “What we do to educate people about our product is actually promotion of our products. Because if they understand what it is we provide – the underwriting service, the claims service, the protection in the billions of dollars, then we’re really promoting the value of our products.”

Other topics in the presentation included: a commitment to bring in young and diverse professionals to the industry through The Surety Foundation and Gamma Iota Sigma; expanding the bonding education program in partnership with the Department of Transportation; promotional materials, such as the Governing Magazine guide; and building relationships with both domestic and international partner organizations.
The Young Professionals Group (YPG) held its first official in person meeting on May 9, 2017, at The Watergate Hotel, in conjunction with The Surety & Fidelity Association of America’s (SFAA) Annual Meeting. This meeting provided an opportunity for the Young Professionals (YPs) to get acquainted, conduct business and network with SFAA industry leadership at a reception held in their honor.

The business meeting was very well attended with 43 of the 57 YPs present. The YPs discussed developing more meaningful relationships with the NASBP 5-15 Group (the 5-15) and made suggestions about ways that those relationships can be deepened and enhanced. The YPs participated in a workshop about leadership and offered ideas and suggestions for the work of the group. The 2017-2018 focus will be on strengthening their leadership skills, building increased proficiency in their work, and providing support to the industry around many of the SFAA’s objectives, i.e., attracting and retaining talent in the surety industry. A working group, led by John Matesic, was created to focus on the educational and leadership areas.

Elections were held and the officers for the 2017-2018 year are:

- Matt Boyd, Chair
- Chris Migonis, Vice Chair
- Brad Espinosa, West Region Leader
- Matt Pieschel, Central Region Leader
- Jonathan Whipkey, East Region Leader
- Andrew Krivak, Leader of the Governance and Rules Working Group

For more information on the YPG, please visit the SFAA website.

Commercial Surety Advisory Committee

On May 10, 2017, over 50 representatives of SFAA member companies attended the Commercial Surety Advisory Committee Meeting in Washington, D.C., in conjunction with SFAA’s Annual Meeting. The Committee discussed at great length the educational initiatives being offered by SFAA with the guidance of the Committee. The Committee discussed the curriculum for the Fundamentals of Commercial Surety Seminar, which will be held on October 24-25, 2017, in Chicago. At the same time (and location), SFAA will offer an Intermediate Commercial Surety Seminar. On October 11-12, 2017, SFAA will offer an Advanced Credit Analysis Seminar in conjunction with Moody’s. The seminar will cover liquidity analysis and capital structures. The Committee also discussed bonds for professional employer organizations and the electronic bond system in the Nationwide Multistate Licensing System.

The Committee’s next meeting will be held on December 6, 2017, in Washington, D.C.
Government Affairs Advisory Committee

The Government Affairs Advisory Committee (GAAC) arranged two conference calls just before the Annual Meeting to discuss the talking points for the Capitol Hill visits for Congressional Action Day to address bonding for public-private partnerships (P3) conducted on federal land and the inflationary indexing of the Miller Act bond threshold. SFAA provided written copies of the talking points in advance of the Annual Meeting to all participants in Congressional Action Day. The GAAC meeting at the Annual Meeting was spent making final preparations for Congressional Action Day, including the logistics.

The next GAAC meeting will be a standalone meeting in the late fall for planning for 2018.

Fidelity Advisory Committee

Thirteen representatives from SFAA member companies attended a meeting of the Fidelity Advisory Committee on May 10, 2017. The Committee discussed the newly developed ERISA Dishonesty Bond. In addition to the stand-alone bond, SFAA is developing endorsements for the Crime Protection Policy and riders for the Financial Institution Bonds, which would provide fidelity coverage compliant with ERISA. The Committee also discussed the work of the Committee’s working group to revise the Crime Protection Policy.

The Committee’s next meeting will be held on November 8, 2017, in Boston, MA.

International Advisory Committee

On May 10, 2017, over 40 people representing 25 SFAA member companies attended the International Advisory Committee meeting as part of the SFAA’s Annual Meeting in Washington, D.C. The group heard from four guest presenters, discussed ICC uniform rules for contract bonds and prepared for a meeting with the World Bank to promote international surety. The Committee also discussed surety issues related to Latin America and Asia.

The Committee’s next meeting will be held on December 6, 2017, in Washington, D.C.
Keynote Speaker

Sen. Ron Johnson (R-WI) gave the keynote address at the Surety & Fidelity Association of America’s (SFAA) 109th Annual Meeting. He discussed the need for economic growth in order to address the issues facing the U.S. government and its citizens.

“Regardless of the problem we’re dealing with,” said Sen. Johnson. “The number one component of a solution, from my standpoint, is economic growth. We need the resources to rebuild our military. We’re going to need the resources to start closing that deficit. We’re going to need the resources to try to close income inequality. And the best way to gain those resources isn’t by trying to overtax the American economy. That just doesn’t work.

The best way to grow the American economy, and actually get revenue growth, is through economic growth.”

He stated he believes there are three primary components to economic growth: security, labor and capital. Sen. Johnson discussed issues related to the security of the United States, but added that the surety and fidelity industries provide a kind of security for economic growth.

“The combination of capital with labor in a secure environment has really made America a marvel in world history,” said Sen. Johnson. “We are about five percent of the world’s population and we account for 20 to 25 percent of the world’s goods.”

He added that competitive business tax reform legislation was necessary to create the increased capital necessary to grow the economy.

Sen. Johnson closed by encouraging the attendees to contact their state and federal representatives, encouraging more citizen legislators, and encouraging the member companies to have their CEOs and CFOs set meetings with his office to discuss tax reform issues.


SIO Awards

The Surety Information Office (SIO) proudly presented several local surety associations (LSAs) with awards for excellence at the 109th Annual Meeting of the Surety and Fidelity Association of America (SFAA).

Winning the Platinum Award were Jennifer Glenrood and Mark Richardson of Pinnacle Surety Services, for facilitating a policy change that will permit qualifying developers to use surety bonds when building roads and storm water systems. Developers will save thousands of dollars and the county highway district will benefit from increased impact fees from this change.

The Gold Award was presented to the Surety Underwriters Association of Southern California, Florida Surety Association and the Rocky Mountain Surety Association. These groups conducted educational seminars for disadvantaged and disabled veteran contractors, spoke at construction summits, and even influenced an ENR top 400 consulting firm to implement a subcontractor bond requirement process.

The Silver Award was presented to the Carolinas Surety Association, the Surety Association of Indiana, and the Surety Association of Ohio. These associations conducted live and web presentations to small and emerging contractors on how to pursue bonding, advocated for bonding issues with

See Awards page 11
Industry Networking
He Googled Surety and Launched a Career

Langmia Fonjoe, a two-time intern with Nationwide and recipient of The Surety Foundation’s Surety & Fidelity Industry Intern and Scholarship Program (SFIISP) for minority students, addressed the General Session at the SFAA Annual Meeting in Washington.

Full of energy and enthusiasm, Lang shared his experience with the Foundation’s program and his gratitude for the opportunity to enhance his educational experience at St. John’s University’s School of Risk Management, with a professional internship at Nationwide.

Lang interned with Nationwide (Freedom Specialty at the time) during the summers following his sophomore and junior years. Clearly, the internship was beneficial for both Lang and the company, as they offered him the opportunity to work part-time during the school year. Nationwide also extended Mr. Fonjoe an offer to join the company as a surety professional upon graduation in May, which he accepted.

Lang stressed the value of both the scholarships and the internships in his remarks, and spoke highly of the encouragement and support he received from the team at Nationwide as well as staff of The Surety Foundation and SFAA, and the role that this support played in his ultimate career choice. As the industry prepares to face 400,000 retirements in the coming years, Lang’s address beautifully demonstrated the value of The Surety Foundation’s SFIISP program and its potential to infuse the industry with young, talented professionals.

The Surety Foundation will launch the 2018 program at the end of the summer. You can demonstrate your support and make a difference in the industry through tax-exempt donations to The Surety Foundation and by identifying potential internship opportunities for the summer of 2018. Please contact Barbara Reiff for more information: breiff@surety.org.

The Surety Foundation Update

Noting identification of future talent as a key industry priority, Tom Kunkel, president of The Surety Foundation Board of Trustees, provided General Session attendees with an update on The Surety & Fidelity Industry Intern and Scholarship Program (SFIISP) for minority students.

The Foundation awarded six scholarships to students in September of 2016 following completion of successful internships with Nationwide, Old Republic and Travelers. One of the two senior level recipients, Langmia Fonjoe, graduated earlier this month from St. John's University's School of Risk Management with a B.S. in Risk Management & Insurance and a minor in Social Justice, and will join Nationwide as a full-time surety professional in July. Mr. Fonjoe is a two-time recipient of the Foundation's scholarship and interned with Nationwide during the summers of his sophomore and junior years.

Fundraising for the 2016 year raised a total of $70,035, including $40,615 in a dues allocation from SFAA and $29,420 contributed directly by member companies, local surety associations, individuals and others.

Your continuing support of the program is integral to its success and is greatly appreciated. Plans already are underway to launch the application process for the 2018 program. If you are interested in learning more about The Surety Foundation, please contact Barbara Reiff at breiff@surety.org.
The SFAA has been at the forefront of developing data standards for the industry since the 1990s when we started the discussion internally in our office in Iselin, New Jersey. Data standards for surety transactions was just a concept, and working with ACORD and then NASBP over the years, we have made that concept a reality all the way to the present. The theme of the 2017 SFAA Annual Meeting was “The Future is Now.” SFAA was pleased to feature three presentations and demos of data standards in action and how they enable technology advances and streamline operations.

In the first presentation and demo, Greg Davenport, Sr. Vice President of Global Operations at Liberty Mutual Surety, outlined SFAA’s eBusiness initiatives over the years. These initiatives included data standards, secure messaging and electronic bonding. Mr. Davenport explained the benefits of surety data standards, which increase efficiency, decrease errors, improve responsiveness and ultimately reduce expense.

Mr. Davenport gave a brief summary of the two key data standards, ACORD (Association for Cooperative Operations Research and Development) and XBRL (eXtensible Business Reporting Language). ACORD is the long established data standard for the insurance industry. XBRL is the international data standard for financial data.

Mr. Davenport outlined a recent initiative on ACORD eForms with eLabels. The four current forms (501 Report of Execution, 502 Contract Bond Request, 503 Commercial/Misc. Bond Request and 504 Additional Entity) are fillable forms designed to enable easy electronic transfer of data. He provided a demo using two of the forms to show how data can be exchanged between carrier, agent/broker and vendor systems seamlessly.

In the second presentation, Campbell Pryde, President & CEO of XBRL US, talked about the value of financial data standards, particularly the XBRL standard. XBRL is a free, open standard with no licensing fees. It is a global standard, which is uniquely suited for financial data.

Mr. Pryde outlined how XBRL can eliminate manual data processing and reduce the need to review data for sureties. An added benefit is a faster response from the surety to the contractor. Industry partners, which include sureties, agent/brokers and accounting firms, are coordinating with XBRL on a Working Group.

In the third presentation and demo, John Gray, Director, Business Technology & Strategy at The Hartford, talked about how the XBRL data standard for work in process (“WIP”) schedules was implemented and leveraged by The Hartford. Mr. Gray outlined the current WIP process, which has manual data entry and re-keying. This causes errors, inefficient use of staff time and delays to the surety response time to customers. Mr. Gray completed demos of a pilot project that showed how WIP data can be electronically brought into The Hartford system within seconds. This system eliminates manual data entry that could take up to 60 minutes per WIP.

To wrap up the presentations, the panel summarized the benefits of implementing data standards. For the most common transactions (ROE, Bond Request, Total Results, Financial Statements and WIP), it is estimated that over $10 million per year can be saved in the industry by automating these processes.

The data standards presentation is posted on the SFAA website for Members and Subscribers. Further questions may be directed to Joe Orgovan at 202-778-3634 or jorgovan@surety.org.
Congressional Action Day

SFAA Members Advocate for Maintaining Bonding Protections for Federal Projects

SFAA members went to Capitol Hill for Congressional Action Day during SFAA’s Annual Meeting to work on SFAA’s two priority issues in this Congress, which are to seek bonding for public-private partnerships (P3s) and to eliminate the inflationary indexing of the federal Miller Act bond thresholds. Fourteen member companies and several local surety associations, as well as representatives of NASBP and the American Subcontractors Association participated in the event, making over 30 visits to House and Senate offices. Members of SFAA’s Young Professionals Group participated in advocating for surety issues for the first time.

Participants met prior to leaving for the Capitol and were well prepared on the issues and for any questions they could be asked. (See Government Affairs Committee on page 4)

SFAA is pursuing these initiatives through the Construction Industry Procurement Coalition’s bill in Congress. The Coalition’s bill has been introduced in recent years in at least one chamber so that participants in Congressional Action Day could reference it in their Hill meetings. Because of the change in Administration, the Coalition bill is in draft form and this year’s Congressional Action Day served as a great kickoff to our efforts to address our surety issues in Congress. In the Senate, SFAA members focused on the Senate Homeland Security and Governmental Affairs Committee and the Senate Environment and Public Works Committee to discuss both the Miller Act issue and P3s, as these Committees has have jurisdiction over our issues. The Coalition bill will start in this chamber. In the House, SFAA members focused their visits on the House Transportation & Infrastructure Committee, the key committee for addressing any infrastructure bill that Congress considers this session. P3s likely will be addressed in any infrastructure bill, particularly from the Administration.

SFAA members asked Senators to support the Coalition bill with our two surety issues in it and whether they would be willing to cosponsor such legislation. In the House, SFAA members educated House members on why the law needs to be clarified to ensure that P3s are bonded. A common question that SFAA members heard from Congressional staff was why the Miller Act wouldn’t already apply to construction under a P3. We agreed that the Miller Act should apply, but current procurement laws are geared toward traditional procurements and need to be clarified when a private partner is involved to ensure that taxpayer dollars and small businesses are protected in a P3—the same way as any other public works project would. SFAA members also asked Senate staff to end the indexing of the Miller Act bond threshold, which currently is subject to review every five years with all the other acquisition thresholds. Since the Miller Act threshold is a protection threshold, we believe it should be exempted from the indexing requirement. As a result of these meetings, SFAA and the American Insurance Association (AIA) are following up with some potential co-sponsors in the Senate for the Coalition bill.

Photos courtesy of Congressional Action Day participants. Thank you for your submissions.
The General Session of the Surety and Fidelity Association of America's (SFAA) Annual Meeting offered attendees the chance to hear from a U.S. Senator, industry leaders and the organization’s president on the future of the industry.

SFAA Board Chair Ross Fisher opened the meeting, themed “The Future is Now,” with a presentation highlighting the accomplishments of the surety industry to date. Mr. Fisher also talked about challenges that are on the horizon, such as challenges to Miller Act thresholds, political uncertainty, waivers of bonds for major projects and the increasing use of public-private partnerships.

The keynote address was given by United States Senator Ron Johnson of Wisconsin, who spoke about the need to reform the ways, and the extent to which, the government regulates the private sector. The Senator shared his idea for comprehensive tax reform, and invited attendees and their companies to work with him to have it considered by Congress.

In answering questions from attendees, Sen. Johnson spoke about the prospect of a large infrastructure bill making it through Congress this year. As a member of the Commerce, Science and Transportation Committee, Sen. Johnson will have a hand in negotiations over any legislation. He said that he believes infrastructure is something the government should invest in, but that it needs to not go the way of the Stimulus, in which billions were borrowed, but never spent on infrastructure projects. (See Keynote Speaker on page 5)

Data standards were also a topic of discussion during the General Session, which featured a panel of three experts showing how new technology would enable member companies to operate more efficiently. (See Panel Discussion on page 9)

SFAA President Lynn Schubert closed the General Session with a speech centered on the meeting’s theme, with examples of how SFAA has taken the industry into the future through technology, advocacy, and a commitment to bring in young and diverse professionals to the industry as many veterans prepare to retire. Ms. Schubert highlighted the value of surety and fidelity bonds and the role the SFAA plays in the industry. (See President’s Report on page 2)

Committed to Excellence: SFAA Award for Top AFSB Program Graduate

At the 2017 Annual Meeting, SFAA provided the SFAA Award to Alley Farrell of Travelers. The award, a $250 cash prize, goes to the industry professional who was the top graduate in the AFSB (Associate in Fidelity & Surety Bonding) program for the most recent full calendar year - 2016. Congratulations Alley!

Awards continued from page 5
SFAA Elects Board of Directors and President

The Surety & Fidelity Association of America (SFAA) elected members to serve on the Board of Directors for 2017 - 2018. The member companies and representatives are: AIG Property Casualty represented by John Phinney, Chief Underwriting Officer; Amtrust Group represented by Dan Young, Chief Underwriting Officer; Great American Insurance Group represented by Gary Dunbar, President, Bond Division; The Guarantee Company of North America represented by Stephen C. Ruschak, President and Chief Operating Officer; The Hanover Insurance Group represented by Theodore Martinez, Vice President and Chief Underwriting Officer; Liberty Mutual Group represented by Timothy Mikolajewski, President; Markel Surety Corporation represented by John Knox, Jr., President, and Chief Executive Officer; Nationwide Mutual Insurance Company represented by Antonio C. Albanese, Vice President-Head of Surety; Old Republic Surety Company represented by Alan Pavlic, President and Chief Operating Officer; The Travelers Companies, Inc. represented by Thomas M. Kunkel, President and Chief Executive Officer; and Westfield Insurance Group represented by Dennis Baus, National Surety Leader and Senior Executive. Hannover Rück Reinsurance represented by Eric Arnst, General Manager and Senior Vice President, also was elected as the reinsurance representative on the Board.

Lynn M. Schubert was re-elected as SFAA President.

Preliminary 2016 Top 100 Reports For Both The Surety And Fidelity Markets Now Available

Statistical reports are available on the website for SFAA members and statistical subscribers and are copyrighted. They also are available for purchase by others from the SFAA website, http://www.surety.org/?page=StatisticalServices. Any questions about reporting fidelity and surety statistics to SFAA or the SFAA statistical plan or financial statement reports should be directed to Ed O’Donnell at (202) 778-3632 or eodonnell@surety.org.

For more information on the Surety & Fidelity Association of America, please visit www.surety.org.