

Surety During an Economic Downturn: Insuring Uninterrupted Surety Support

ONTARIO GENERAL CONTRACTORS ASSOCIATION

Annual Symposium, Collingwood, ON
April 24, 2009

Speakers

- **Rob Burns,**
Senior Vice President, Travelers Guarantee Company of Canada
- **John Mattioli,**
Senior Vice President, Aviva Insurance Company of Canada
- **Kelly Parker,**
Partner & Surety Practice Leader, HKMB Hub International Limited
- **Greg Petrela,**
President, Petrela, Winter & Associates

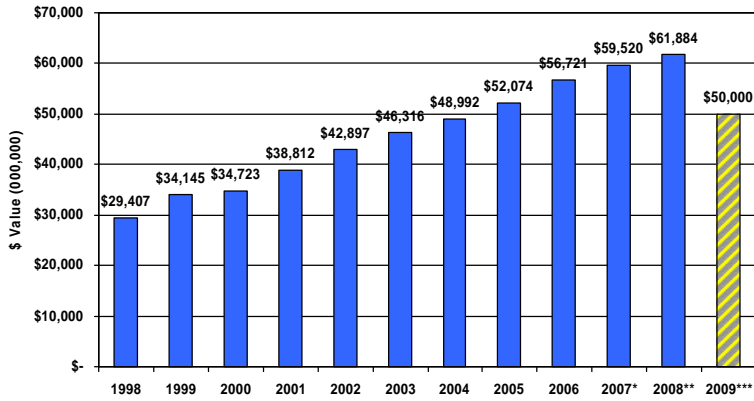
Overview of Session

- The Building Boom Years (past 5 years)
- The Last Building Recession
- Where we are today; What to expect next
- Maintaining and Building Surety Support Today
- Questions & Answers

The Building Boom Years

Rob Burns, Senior Vice President
Travelers Guarantee Company of Canada

Ontario Total New Construction Values: 1998 - 2009



Source:

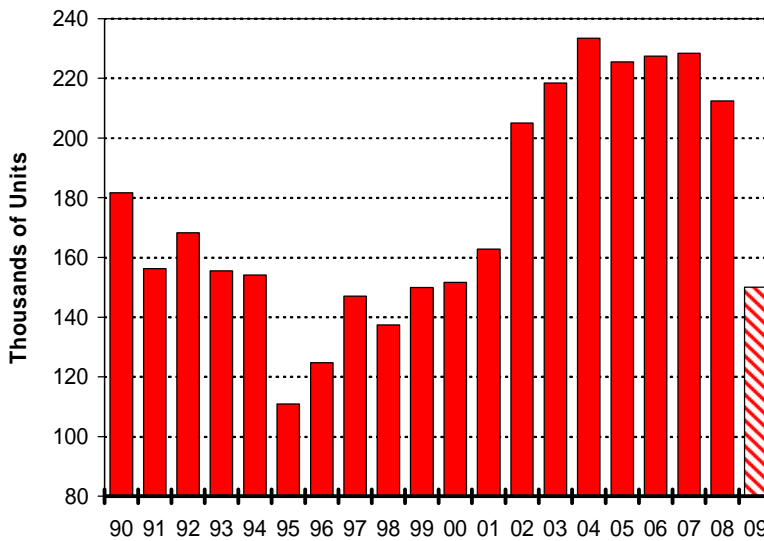
Canadata Annual Construction Forecast – 2009 – 2011 Edition

Canadata Construction Starts Summaries 1998 – 2009

2007* - Preliminary / 2008** - AGCC Projection is an estimate based on year end figures /

2009*** - Forecast By Altus Group Cost Consulting (AGCC)

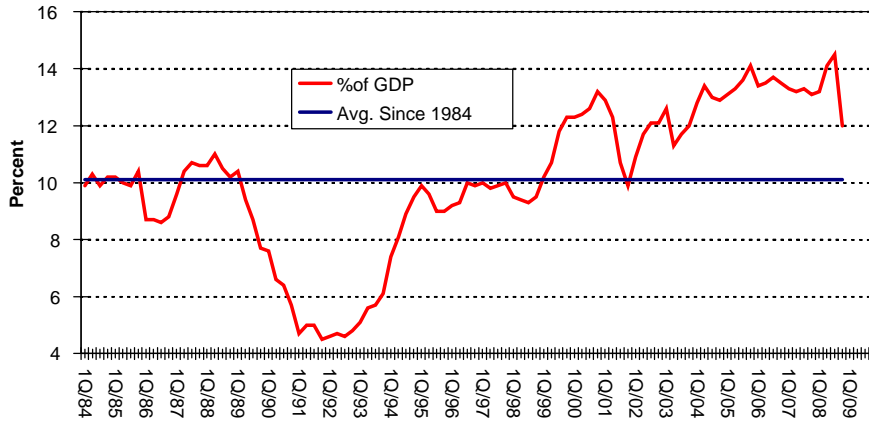
Canada Housing Starts



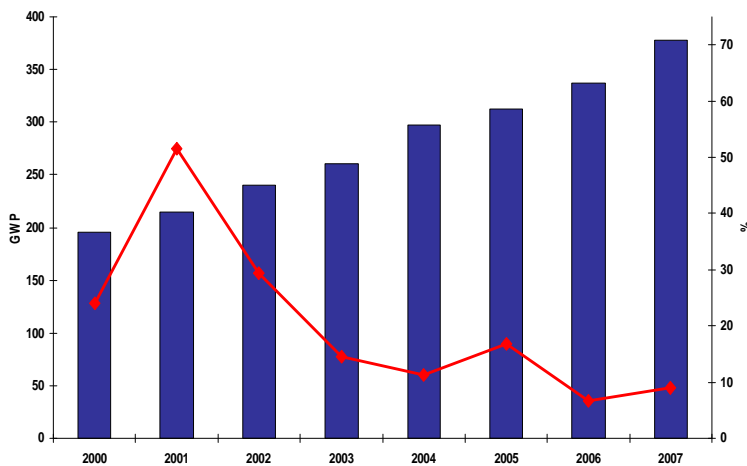
Profits Healthy Up to Now

(Source Peter Anderson March 30, 2009)

CANADA CORPORATE PROFITS BEFORE TAXES AS SHARE OF GDP



Canadian Surety Results 2000 - 2007



Source: Stone & Cox Brown

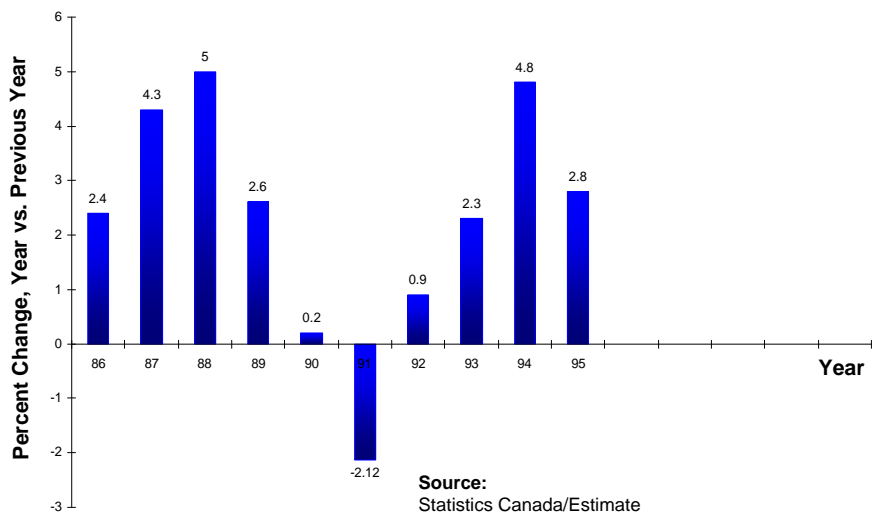
■ GWP (in \$millions) —♦ Loss Incurred (%)

The Last Building Recession

John Mattioli, Senior Vice President
Aviva Insurance Company of Canada

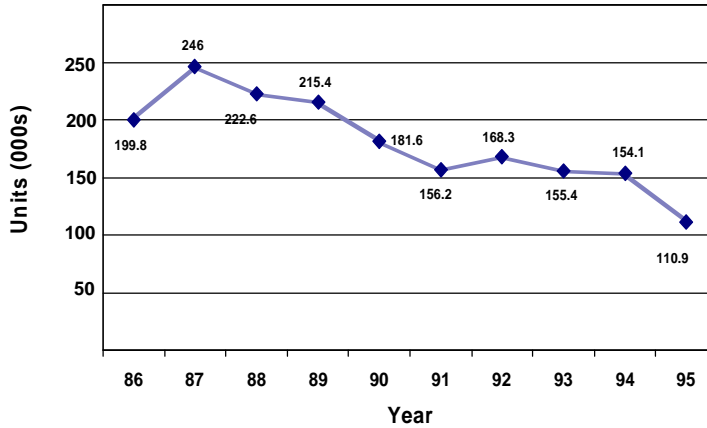
Gross Domestic Product (GDP) in Canada

Percent Change, Year vs Previous Year



Source:
Statistics Canada/Estimate
Forecasts and chart: Reed Construction Data - CanaData

Total Canadian Housing Starts in 000's

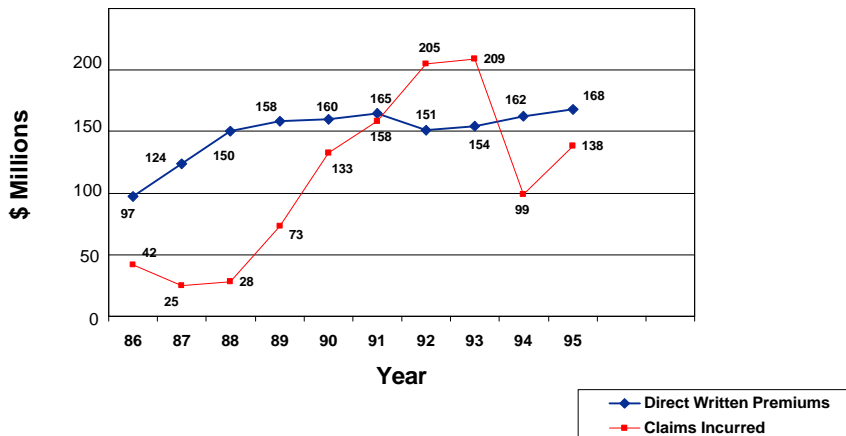


Source:

Canada Mortgage and Housing Corporation
Forecasts and chart: Reed Construction Data - CanaData

Canadian Surety Results 1986 – 1995

Gross Written Premiums and Claims Incurred in Millions



Source: Surety Association of Canada

Where we are Today and What to Expect Tomorrow

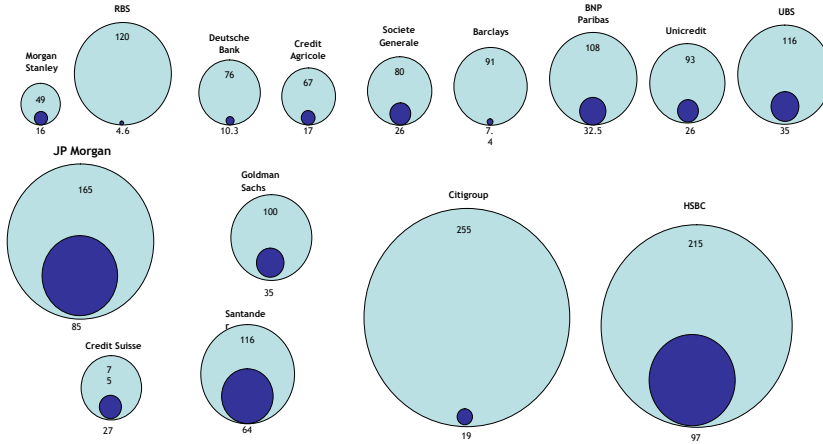
Kelly Parker, Partner & Surety Practice Leader
HKMB Hub International Limited

Today

- Surety companies & Contractors financially sound
- Shift to public sector work
- Longer bidders' lists
- Pressure on margins
- Increase in lien activity
- More rigorous Banking terms

US Banks: Market Cap

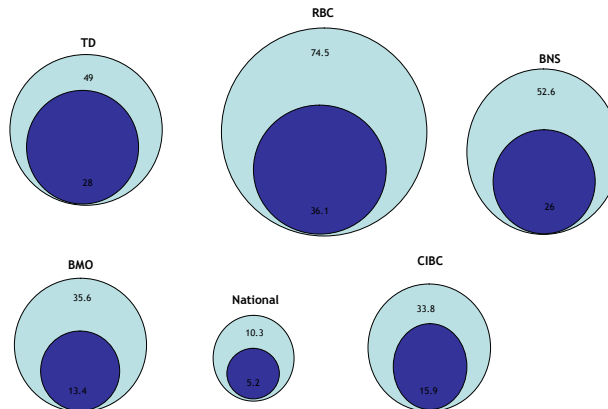
- Market Value as of January 20th 2009, \$Bn
- Market Value as of Q2 2007, \$Bn



Source: Bloomberg, Jan 20th 2009

Canadian Banks: Market Cap

- Market Value as of February 19th 2009, \$Bn
- Market Value as of April 13, 2007, \$Bn



What to Expect Next

- Increase in Owner bond requirements
- More onerous contract terms
- More detailed surety review
- Less programme leverage
- Increased guarantees
- Sub-trade default

Maintaining and Building Surety Support Today

Greg Petrela, President
Petrela, Winter & Associates

Manage Sub-trade Risk

- Subcontractor performance is one of the most significant variables to project success and failure
- A Poor performing sub impacts the schedule and profit on the job for the entire project team
- A non-performing sub (default) generally requires meaningful 'out of pocket' financial contribution by the GC
- Many good GC's have not been able to weather the storm created by a bad subcontractor.
- Obtaining bonds not only locks in a component of cost, but their bond-ability prequalifies the subcontractor to a large degree
- A GC with a bond from his sub has his attention

Protect Your Capital

- Strategy & Contingency Planning
- Liquidity
- Risk Management & Execution

Financial Reporting

- Maintain good quality financial records
- Provide information on a timely basis

Work with Quality Partners

- Underwrite your Surety Company
- Choose a knowledgeable Surety Broker
- Use a C.A. who knows your Industry
- Educate your Bank(er)

Do the right things operationally

- Treat the company like the Goose That Lays the Golden Eggs
- Contracting is a tough and risky business, and success over the long term requires adherence to sound basic principles
- Poole's Rules

Poole's Rules

- Employ highest grade people obtainable
- Encourage integrity, loyalty, and efficiencies
- Avoid side lines
- Do not permit sidelines by employees
- Be fair in all dealings with Owners, Architects, Engineers, and Sub-contractors

Poole's Rules

- Keep your word as good as your bond
- Give encouragement and show appreciation
- Be firm, fair, and friendly
- Avoid jobs where design is not good or financing doubtful – let your competitors have these
- Good accounting and cash keeping are essential
- Do not let finishing up of jobs or collecting payments lag

Poole's Rules

And here are a bonus 3 :

- Stick to your knitting
- Know when to say "NO"
- Be patient and stick to your game plan – the jobs will come

Q & A - Contact us

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