

THE BOTTOM LINE



Atlantic

Coverage

Corp.



EXCELLENCE IN SURETY BONDS

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Terrorism Risk Insurance Act of 2002

You may have received a letter from your Bonding company or notice a new rider attached to any bonds you have received recently, entitled "Terrorism Notice Rider". You may be wondering why this is part of your bond.

In response to the terrorist attacks of September 11, 2001 and the resulting financial and insurance industry losses, Congress has enacted and the President signed into law The Terrorism Risk Insurance Act of 2002 (TRIA) on November 26, 2002. TRIA establishes a short-term program under which the federal government will share with private insurers in the payment of covered losses caused by certain international terrorism. They do this by providing a federally funded "back-stop" for these losses.

The federal government will pay 90% of the amount of the covered losses caused by certain acts of terrorism, as defined in the Act, that is in excess of the insurer's statutorily established deductible for the year. TRIA also caps the amount of the terrorism related losses that the federal government or an insurer can be responsible for, at \$100 Billion dollars, provided the insurer has met its deductible.

In order for the insurer to receive reimbursement under the federal program, they are required to make certain disclosures regarding coverage and premium charges for any losses from these acts of terrorism.

Many insurers have decided that to be in compliance it is necessary to send out written notice to all existing bond principals. Any new bonds – bid, performance & payment, maintenance, renewal bonds and continuation certificates – will have the rider attached explaining the act and disclosing the

premium to be charged for the coverage.

Some Bonding companies are charging a surcharge to the premium for this coverage. A separate line item disclosing the surcharge will be included on all invoices for these bonds. According to TRIA, this charge cannot exceed more than 3% of the premium charged. As the beneficiary to the bond, only the Obligee on the bond can opt to exclude this coverage and avoid the surcharge. If the Obligee decides to exclude this coverage, they have to check the appropriate box on the rider and return it to the underwriter within 30 days of the bond being issued.

TRIA, like most federal Acts, is a complex writing subject to many interpretations. Each insurer and State Insurance Departments are reviewing TRIA and making a determination on how to best implement it. Various insurance regulators have provided guidance to insurers tackling this issue. We are sure there will be many changes over the next several months while all the issues are worked out.

Again, you may be asking, "Why are my bonds affected by this?" While TRIA does seem to have more meaning when it's applied to the other property and casualty lines of insurance, the act, however, did include "surety" in its definition of "property and casualty insurance".

We are sure you will be seeing more on this as you renew your various insurance coverages throughout the year. There are many summaries provided by different attorney firms and insurance associations, but if you'd like a copy of TRIA itself you can obtain at copy at this website - www.uniforminc.com/Press/HR3210.pdf or you can contact our office and we will gladly send you a copy.

How to Combat the Rising Costs of Health Insurance

The cost of health care is climbing rapidly again, putting new strains on employers' health care programs. With the rising medical costs squeezing profits, and the growing number of people without insurance pushing the costs even higher, employers need to focus on a long term solution.

Many employers say they can no longer absorb these increasing costs and must pass them on to their employees.

Small businesses today have a choice of coverages such as HMO, EPO, POS, PPO, and self-insured plans. Each of these plans give the employee the flexibility of choosing a plan which gives them access to a closed network of physicians or the freedom to obtain care from any physician in any part of the country (An example would be a patient who needs specialized care at a facility like the Mayo Clinic).

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"Famous Quotes"

"Enthusiasm...spells the difference between mediocrity and accomplishment.."

Norman Vincent Peale

"When you reach for the stars, you may not quite get one, but you won't come up with a handful of mud either."

Leo Burnett

"Heroism consists of hanging on one minute longer."

Norwegian proverb

"The only one who can beat me is me."

Michael Johnson

"Even if you're on the right track, you'll get run over if you just sit there."

Will Rogers

"Many things are lost for want of asking."

English proverb

"Remember, a dead fish can float downstream, but it takes a live one to swim upstream."

W. C. Fields

"Life is a grindstone. But whether it grinds you down or polishes you up depends upon what you are made of."

Robert E. Johnson

"In heaven, an angel is nobody in particular."

George Bernard Shaw

"Don't fear failure so much that you refuse to try new things. The saddest summary of a life contains three descriptions: could have, might have, and should have."

Louis E. Boone

"Every morning, I get up and look through the Forbes list of the richest people in America. If I'm not there, I go to work."

Robert Orben

"He who likes cherries soon learns to climb."

German proverb

"Call it what you will, incentives are the only way to make people work harder."

Nikita Khrushchev

Pay Attention to those Credit Reports

Now, more than ever before, we are seeing the Bonding companies rely very heavily on both personal and corporate credit reports. Most order personal credit reports; all of them order corporate credit reports.

We can discuss ad nauseam the merits of such underwriting and the accuracies of these reports. The fact is that credit decisions and certain assumptions are being made from the information contained in these reports. Accept it. You do not have to like it, but you need to accept it and pay attention to those reports.

Bonding companies are no longer content with simply seeing that certain items are satisfied. Now, most of the bonding companies want to know the specifics of what gave rise to the item in the first place. From this information, they are making certain assumptions about such

things as a contractor's character, office procedures, bookkeeping and their accounting functions.

While we do not advocate sending corporate financial statements on privately held firms for everyone to see, there should be some cooperation with the credit-reporting agencies. One good example is to make sure that they are getting a good sample of information from the vendors that you do business with. If they do not have a good sample with which to work from, one relatively small past due claim from one vendor can drastically affect a firm's "Paydex" – the numerical number assigned to a firm's bill paying. This number has become very important in the underwriting process of many bonding companies.

As you know, we feel that it is our job to help you succeed. This is something that our readers must pay attention to.

Is My Bonding Company Acceptable to Public Owners?

With the financial difficulties and downgrading of Insurers by various rating bureaus, this is a valid concern. To give this question some meaning let's define "acceptable."

If you submit bids to any federal agency, the U. S. government publishes the Department of the Treasury's Listing of Approved Sureties (Department Circular 570) that can be found on their website at <http://www.fms.treas.gov/c570>. This is an alphabetical listing of each company holding a *Certificate of Authority* from the U.S. Treasury Dept. It shows the states the companies are licensed in and the size of a single bond that a federal agency will accept from them. The size of a single bond is based on the financial strength of the company as determined by the agency. These amounts are reviewed annually and published every July.

For bids to any public agency in the State of New York the NYS Dept. of Insurance does a financial review of each insurer licensed to do business in the state. A *Certificate of Qualification* stating the qualification of the insurer, the company's capital and its surplus as shown by its latest annual statement, is issued to all authorized insurers. This certificate further indicates the limitation upon the amount of a single risk that the company is authorized to assume.

According to NYS Consolidated Laws – Insurance – Article 11, Section 1111 *"Whenever by any law of this state a bond, undertaking, recognizance, guaranty or like obligation is required, permitted, authorized or allowed..... this bond may be executed by any insurance company authorized to do in this state the business of executing such instruments and empowered by its charter to execute them. The insurer's execution of such instrument by its officer, attorney-in-fact*

or other authorized representative shall be accepted as and in all respects shall be, a full compliance with every law or other requirement, now or hereafter in force...."

The problem arises when municipalities, school and fire districts within the state establish additional criteria that may include the insurer meeting or exceeding a specific rating by A.M. Best. However, this should not preclude a Surety that does not meet these criteria from providing a bond as long as it meets NYS criteria; the Surety is licensed in the state and holds the proper *Certificate of Qualification* or Solvency. Several Sureties have successfully fought this type of arbitrary establishment of criteria.

All criteria, both the Federal governments and the State, are reviewed periodically and reported immediately. Even still, there can be gaps between the time an insurer may be qualified and the time financial difficulty or change in the insurer's strategic plans are in effect. Depending on which agencies you routinely bid to, you need to know if your surety has the proper qualifications.

Remember, private owners can establish their own criteria for accepting a Surety that may provide bonds for their projects. Many follow the Federal or State requirements, but many have much more stringent criteria. If you bid to these owners, you need to make sure you are aware of their requirements and if your Surety meets them. Your bond agent should be able to provide you with this information upon request.

If you need additional information or a copy of the U.S. Treasury Listing or the NYS Consolidated Law – Article 11, Section 1111, please feel free to contact us here at Atlantic Coverage Corp.

In certain instances, employers will offer more than one plan to their employees and let them decide which plan suits their needs, based on how much cost they are willing to absorb. With no sign of costs leveling off in the near future, each year employers

must go out to the marketplace to search for different benefit plans and must often compromise care just to offset the average increase of 22%.

For more information please call Peter Johnson at our office.

How Technology is Improving Surety Bond Security and Convenience

Bob Contractor is in his office surfing the web for construction projects that his firm is comfortable with. He is viewing one of the many websites that project owners within his geographic territory have set up to advertise upcoming work.

"Hey Joe, this project is right up our alley." He reports to his partner Joe Builder.

"The bid goes off a week from this Wednesday" Joe sounds interested and responds, "Sounds good Bob. Is the virtual walkthrough set up yet?"

"Sure is."

"Good, let's download the specs to do the takeoffs. Then we can visit the virtual walk-through site and see what we can do to make our bid competitive." Joe responds as he turns on his computer.

"I'm going to our agent's website to update our backlog."

Once we come up with a number our agent should have everything needed to consider our bid for approval."

"Just make sure we give our agent the proper email address for the owner so the approval and our confirmation number is available at the bid opening."

The conversation taking place above might actually be a reality within the next 5 years or so. Surety industry associations like The National Association of Surety Bond Producers (NASBP) and the Surety Association of America (SAA) have instituted technology programs that are looking to streamline the bonding process. The hope is twofold: to allow more effective distribution of the Surety Bond product and to provide improved security for owners and surety bond clients alike against the issuance of phony bonds. Such innovations will improve confidence in the Surety Bond product and allow it to become an even more reliable tool of credit protection for Owner/Obligees.

Imagine ordering your bonds via a secure online connection and having copies of your bond emailed to you. No more Fed-X charges or running to pick up your bonds at the last minute. Contractors can update information for their agents via secure, online, intranet sights so the bonding company has updated information. You will be able to see what the status of your bond program is, from billing statements to available programs just by visiting your agent's website. Payments can be made online establishing electronic records, which should help with any billing errors, etc. It's all coming. Atlantic Coverage Corp. already has the technology in place to do this. The only delay in offering bond delivery via email is Owner/Obligee acceptance of bonds without corporate seals. Even now, you can pay for

bonds online and set up an intranet site with some agencies in the forefront of this technology.

The NASBP and SAA are working closely with the Surety companies and the Owner/Obligees to establish one uniform system for the issuance of Surety Bonds. The biggest difficulty being faced is that many owners have already spent money on electronic systems for their particular program and are hesitant to alter their program at this time. Eventually this will be worked out and the benefits, passed on to the contractors and Owner/Obligees should bear some excellent results.

For the Owner/Obligee the full potential is in a more efficient bid process. This should hopefully translate into better record keeping, increased protection against Surety bond fraud and even some bottom line dollar benefits. Some owners have already introduced (in the experimental phase) a virtual walk-through. A contractor can enter a website and walk through virtual images of the project out to bid. Early indications are that this can be an effective tool for managing change orders and limiting disagreements between contractors, owners and architects. Electronic bidding also provides the owner the option not to expend two or three hours in the day for a bid opening. The bids come in over a secure website, which allows the owner to have a record of bidders and their prices. Various State Dept. of Transportation agencies are already taking advantage of electronic bidding. The U.S. Dept. of Transportation has a brief article on this method of bidding. You can find it at

www.fhwa.dot.gov/construction/fs2003.pdf.

We are rapidly heading towards electronic bidding. It is not as far off as you might think. It would not hurt to start familiarizing your organization with information about this technology, if you have not already done so. Contractors who bid frequently should be excited about the potential of electronic bidding. There will come a time when you will not have to scramble to pick up a bid bond at the last minute and risk speeding tickets to get to the opening on time. You will be able to visit your agent because you want to. We do like it when you visit.

If you are interested in some additional information visit these sites:

www.infotechfl.com/products/bidx.shtml

www.nasbp.org/

www.surety.org/automation/index.html

"I don't care a damn for the invention. The dimes are what I'm after."

Isaac M. Singer

"A person usually has two reasons for doing something: a good reason and the real reason."

John Pierpont Morgan

"If you fell down yesterday, stand up today."

H. G. Wells

"Seek not outside yourself, success is within."

Mary Lou Cook

"What on earth would we do with ourselves if something did not stand in our way?"

H. G. Wells

"Just remember that average is merely the best of the lousy and the lousiest of the best."

Anonymous

"If you aren't fired with enthusiasm, you will be fired with enthusiasm."

Vince Lombardi

"There are three classes of men—lovers of wisdom, lovers of honor, lovers of gain."

What Are You Doing With Your Old Cell Phones?

Why not donate it to your local police precinct. They are then given to Women' Shelters or directly to battered women to use to call 911. Atlantic Coverage Corp. has instituted a drive to collect old cell phones for this purpose. You can help out by sending us your old phone or you can send it directly to your local police precinct. For more information, call Denese Thompson at 516-682-5000.

Company News

Upcoming Events

Hagedorn Little Village School - 12th Annual Golf Outing

Date: Monday, June 2, 2003

Place: Tam O'Shanter Country Club, Brookville, NY

Time: 11:00 AM Shotgun

CFMA, Long Island Chapter - Golf Outing

Date: Thursday, May 29, 2003

Place: Stonebridge Country Club, Hauppauge, NY

Time: 1:00 PM Shotgun

Congratulations to Anthony Spina

We would like to congratulate Anthony Spina for successfully obtaining his AFSB designation. To achieve the designation of "Associate in Fidelity and Surety Bonding", Anthony had to fulfill the requirements of the Insurance Institute of America including the passing of five prescribed examinations in Fidelity and Surety Bonding, Accounting and Law. We are all pleased with the hard work and dedication that Anthony has shown in reaching this goal.

New Hire at Atlantic Coverage Corp.

Atlantic Coverage Corp. is happy to announce the hiring of Lauren Dollman. Lauren attended SUNY Binghamton University, where she was working towards her degree in Business Management. She plans to continue this endeavor at a local SUNY campus.

Lauren will be working in our Rockland office in Nanuet, NY assisting Anthony Panno in the continual growth and development of that office.

Letter from the Editorial Staff

This newsletter is designed with our readers in mind. All inquires and ideas regarding this or future newsletters are appreciated. Please send all inquires to me at lauren@esuretybond.com. If you know anyone who you feel would like a copy of our newsletter, please let us know so that we can include them in our mailing list. Please let us know if you would like to receive this newsletter via e-mail.

Disclosure

The Bottom Line is published quarterly by Atlantic Coverage Corp., 172 Main Street, Nanuet, NY 10954. Telephone (845) 627-8287. A service for our clients, contacts and friends, it is meant to provide useful business information and practical advice and encourage its readers to keep up with all the latest developments. These articles are not intended to provide a complete discussion of the subjects presented. Because each situation is unique, we advise you to contact us before acting upon any of the following information or planning ideas contained in this newsletter. Any questions you might have about any topics mentioned in this newsletter, please contact our office.

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