

SURETY BONDING & CONSTRUCTION RISK MANAGEMENT 2020 CONFERENCE

January 27-29, 2020 | Bonita Springs, FL



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**AGC's Surety Bonding & Construction
Risk Management 2020 Conference**

January 28, 2020

Performance Security and Infrastructure Development: Why is liquidity king and what to do about it?

Moderator: **Adrian Pellen**, Marsh, SVP – Infrastructure Leader US & Canada

Panelists: **Barry Normet**, Managing Director, Marsh, Central Zone Construction Leader Canada

Kevin Li, Senior Vice President – Infrastructure Finance, DBRS

Courtney Walker, Senior Vice President, Berkshire Hathaway Specialty Insurance Company

Caryn Maxfield, Vice President – Strategic Projects, Walsh Group

TOPICS OF DISCUSSION



Rise of The Mega Project: Seismic Shifts in Construction – Adrian Pellen, Marsh

A Rating Agency Perspective: Construction Risk & Performance Security – Kevin Li, DBRS

Types & Key Benefits of Alternative Surety Instruments – Barry Normet, Marsh & Caryn Maxfield, Walsh

A Surety's Perspective – Alternative Surety Instruments – Courtney Walker, BHSI

Panel Discussion

Q&A

Seismic Shifts in Construction: The Rise of the Mega Project

Seismic Shifts in Construction



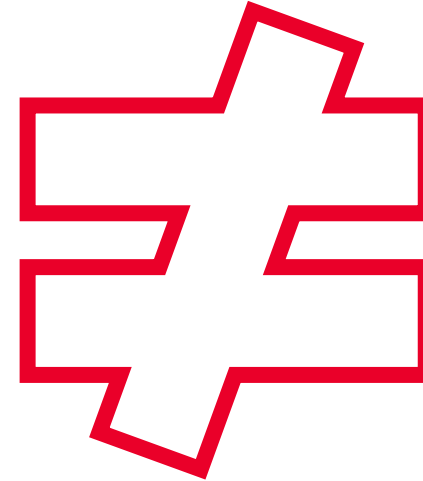
Rise of Mega Projects

Productivity Gains / Tech?

The Infrastructure Deficit

Global Competition

Funding Gaps

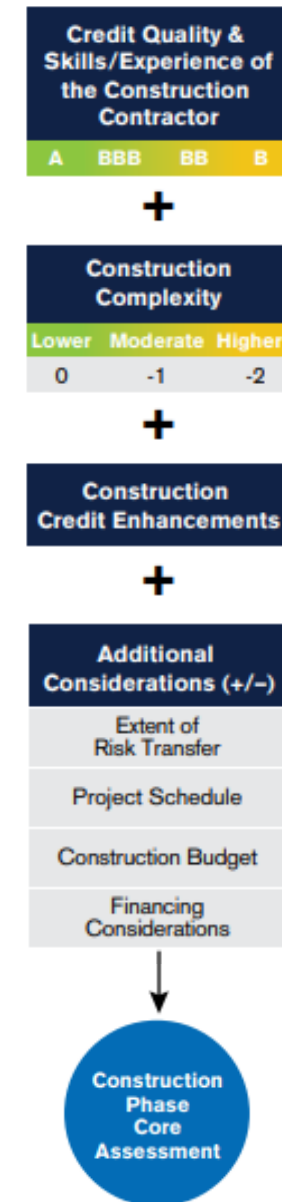


**Traditional
Risk Transfer**

A Rating Agency Perspective: Construction Risk, Performance Security & Credit Enhancement

Rating process for the construction phase

- Rate to default (as per the MTI)
- “Building blocks” approach, starting with the credit rating or internal assessment of the general contractor
- Project rating can be enhanced beyond the contractor’s rating; focus on the replaceability of the contractor
- Project resilience or a project’s “survival rate” can be improved by both internal and external sources, including:
 - Internal: highly rated contractor, last man standing, conservative budgeting / scheduling, standardized contract and risk profile to entice replacement, ample time allowed to replace, longer long stop date
 - External: pre-funded cash, non-recourse LC, surety products



Notching uplift by different surety products

DBRS Appraisal of Financial and Performance Supports* during Construction	Notching Impact	Notes
5% Cash and/or LOCs	+1	Benefit is cumulative
50% Performance bonds and labour and materials bonds	+1	Benefit is capped at one notch
Subcontractor default insurance	+1.5	Benefit is capped at 1.5 notches
Liquid Surety Products	varies	Depends on liquidity and structure of instrument

When assessing the quality and degree of ratings uplift provided by construction enhancements, DBRS considers the size, timeliness and certainty of the package

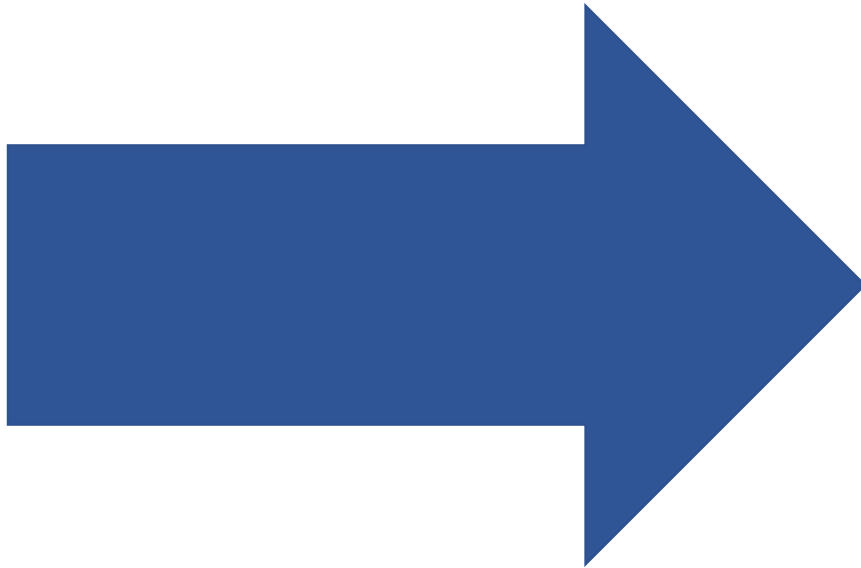
Types & Key Benefits of Alternative Surety Instruments



Surety Products

- Performance Bond
- Payment Bond
- On Demand Bond*
- Combination Performance/Liquid Bond *
- Expedited Dispute Resolution Bond

*Not issued in the US to date



Traditional Bond Benefits

- Job Completion
- Subcontractor/Supplier Payment
- Subcontractor Ratification & Warranty

Alternative Product Benefits

- Liquidity
- Expedited Dispute Resolution

A Surety's Perspective – Alternative Surety Instruments

Surety Points to Ponder:

- Job Completion Impact for different Surety Instruments
- Payment Impact for different Surety Instruments
- Dispute Resolution
- Liquidity and Balance Sheets

Mega Projects: Surety Considerations

- Competition
- Transfer of Risk
- Capacity
- Project Delivery Requirements
- Project Duration
- Timely Dispute Resolution
- Liquidated Damages

Panel Discussion

Q&A