

Q&A with Patrick McGinty, President of SuretyWave, LLC Digitizing the Surety Bond Processing Workflow for the World's Largest Brokers providing Higher Volume, Higher Premium Types of Insurance



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“My Focus is what is next and where do we have to be ahead of our competition. Where are we going tomorrow? It is not today, today being already done. We must go ahead of our competition faster than the rest of the industry, and in doing so, I believe we will have a competitive edge out into the future.”- Patrick McGinty

CEOCFO: *Mr. McGinty, according to your site, SuretyWave is connecting the surety world with the digital world. How so?*

Mr. McGinty: The surety bond world is almost like the quill and visor approach to insurance of three hundred years ago. How we refer to the digital in the surety bond arena is to bring in modern processes where you do not have to have a wet signature and a raised seal, more of an electronic or digital signature approach. Digitizing the surety bond processing workflow will provide a more intuitive and automated processing solution that consumers today have adopted for retail purchases.

CEOCFO: *What has been the reluctance, or is it just people have not developed solutions around surety bonds until you came along?*

Mr. McGinty: What is interesting is we bought the assets of a company called InSure Vision Technologies. Twenty years ago, they developed the SurePath Network, which was revolutionary then. SurePath took the surety bond agent from a typewriter and hand signature, raised seal kind of environment to a computerized environment. Creating a bond in a manual-like process continued but SurePath allowed for the immediate reporting to a surety that a bond has been executed and SurePath had a way to authenticate the bond for an obligee. The surety company side of the business focused on higher volume, higher premium types of insurance and they are just now starting to focus on the modernization of the surety bond process. The contractor was the one requesting the bond, and their relationship was with the agent. The SurePath Network created an agent centric approach to surety bond issuance and maintenance.

CEOCFO: *What other products, services or variations do you have available today?*

Mr. McGinty: We have a sister company called Digital Business Creations, which is the provider company that I go to for the technological improvements and advancement that I want created for SuretyWave. Digital Business Creations and SuretyWave are under the holding company, The Steckler Group. I am a partner in The Steckler Group as are some of my other associates. We own together SuretyWave and DBC. Going forward, the products that we will be developing are primarily in the construction arena.

CEOCFO: *Who is using your services?*

Mr. McGinty: What is interesting is in today's environment, the SurePath Network processes approximately 32% of all contract surety in the United States. Our users tend to be the world's largest insurance brokers. We have forty of the top fifty brokers as clients and they deliver to the top one hundred sureties or insurance companies that write surety across the nation. We are a leader in the electronic bonding arena and we are specified in most of the e-bid bond network obligees as one of two or three sources that a principal can go to get a bid bond presented to a governmental unit. In the surety market, approximately fifty percent of all surety bonds are issued either in a carrier system or manually, using PDF or WORD. We are the leading technology solution in this arena.

CEOCFO: *Does everyone accept an electronic form of bonding today?*

Mr. McGinty: There are a lot of stragglers. What is interesting is the leader in the acceptance of electronic bonds is the obligee. The obligees are also the lagers in the acceptance of electronic bond documents. To clarify, there are some governmental units that continue to require wet signatures and raised seals as part of their processing workflows since doing otherwise may create the need to rewrite regulations and procedures. Fast forward, there are other obligees that only accept the electronic, encrypted authentication process that we provide through the SurePath Network. It is a contrast of extremes. What SuretyWave is doing in the development of digital technologies will create a compelling value proposition to get involved in a faster, better, cheaper surety bond execution process that will also offer greater security and reliability.

CECFO: *Do you see, as the people who are looking at the signatures retire and as younger people come in, it will make a difference?*

Mr. McGinty: Absolutely. What we are doing with digital technologies will make for a compelling value proposition (better, faster, less costly and reliable) to begin getting involved in the next wave of automation.

CEOCFO: *Are you trying to reach these entities anyway?*

Mr. McGinty: Absolutely. One way we are extending our reach is becoming a system of record for all stakeholders in the surety bond arena. On demand access to data for the agent, principal, surety and obligee is our design goal. We are trying to exist in this kind of duality environment, but we are also paying attention to other kinds of distributed ledger vehicles (i.e. Blockchain) including reporting strategies such as XBRL. We are the only technology company in the surety bond arena that is a member of the XBRL nonprofit standards organization in the United States. XBRL is a common taxonomy definition of terms in the

financial reporting arena. Currently, it is a requirement of the Securities and Exchange Commission that publicly traded companies report financial data in an XBRL format. The surety bond industry is exploring the XBRL reporting mechanism for work in progress reports or WIP reports. A WIP report is required from the contractor through their accountant to the surety. The surety can tell that this is the work that is being performed; this is the status of each one of those projects. The significance of the XBRL standard is that it places in context the financial data that is being reported. If a job is stalled, it will place in context that yes, there is a problem outside of the principal's control. You can also match it to other digital ideas such as pictures, videos and any kind of data rich context of that financial picture. It is a very exciting time. Most current WIP reports are being done in PDF or EXCEL spreadsheet format. This is going to be a whole new dimension.

CEOCFO: *Are you surprised at how many people cling to Excel?*

Mr. McGinty: No, not really. Our biggest competition as a technology provider in this space is Microsoft Office. You would think that Microsoft Office would be a complimentary tool. Yes, it is. SurePath Network communicates well with EXCEL, WORD and Internet Explorer. The kinds of things that Microsoft developed for the business arena are also communication tools for the SurePath Network, however, that is also our biggest competitor.

CEOCFO: *How has your system changed over time and what have you received as far as feedback that you have incorporated to make the product better?*

Mr. McGinty: SuretyWave acquired IVT in July of 2017. At that time, the SurePath Network was very antiquated in its technology architecture and software programming including the user interface. Our challenge was to immediately understand what we bought and then set out to find out what the SurePath user community wanted as a next version or next step. We are referring to that next step as SurePath Digital. SurePath Digital will have the Azure platform, .Net software, mobility, data analytics, XBRL financial taxonomy, omnichannel connections to stakeholders, a new two-way API for integrations to other databases including surety systems and agency management systems as their core ERP. Pricing has already changed to a Software as a Service (SaaS) subscription. As our platform is also SaaS based, SurePath Digital will reduce our customers cost of administering legacy systems reducing cost and administrative maintenance.

CEOCFO: *What is your business model?*

Mr. McGinty: We are a Software as a Service (SaaS) with a B2B relationship with the sureties and large agencies and brokers. We have varying user levels that we charge active users, casual users, clients of our users and then the e-bid process principal, totally outside of that. We do have a minor charge to sureties for the housing of their electronic powers of the attorney. A surety grants and revokes those powers of attorney. We keep a hands-off kind of approach to it, but we allow them to go in and grant to an agent a power of attorney or revoke it. Each one of those users has a different set of pricing models. We have gone from a per site license, which was the IVT model, to a per user license. B2B integration costs vary based on the degree of complexity.

CEOCFO: *What is your focus as CEO?*

Mr. McGinty: My Focus is what is next and where do we have to be ahead of our competition. Where are we going tomorrow? It is not today,

today being already done. We must go ahead of our competition faster than the rest of the industry, and in doing so, I believe we will have a competitive edge out into the future. I talk lovingly about who we are. SuretyWave is an insure-tech start up that has a twenty-year history. The model of IVT was ripe to be digitized. We recognized that when we purchased the SurePath Network. SurePath Digital is in transformation, however, it is as vibrant and relevant today as it was twenty years ago, it just has a different look and feel today relative to its competition. Our competition is essentially fighting over less than a twenty percent market share and there are probably five or six competitors and maybe more that are fighting over this small pool of business. We are already the “eight-hundred-pound gorilla” in the marketplace. My challenge is to become even bigger.

CEOCFO: *What if anything might people miss when they look at SuretyWave?*

Mr. McGinty: We are aggressively pursuing the next wave of digital solutions that combine construction practice management, the driver of surety bonds, in an integrated process with SurePath Digital. Our direction is getting the attention of unsolicited investors. We are constantly evaluating our capital needs to push our agenda to market faster. Our current customer base is seeing the direction we are going, and they are helping us make SurePath more relevant and better. While no system is perfect for all users, we are conducting quarterly “Town Halls” where we share information about how the company is doing and how SurePath is helping them. More communication is better.

I think there is a misconception about surety in general. The misconception has probably been promoted primarily by those people most familiar with the surety industry, as a closed community. SuretyWave is actively supporting the National Association of Surety Bond Producers(NASBP). We also participate in some of the industry standards community. The misconception is that surety bonding is a closed environment. I believe that once people understand what surety bonding does, it allows for greater guarantees of major construction jobs. The two, three and ten billion-dollar jobs of the future will not necessarily carry a ten-billion-dollar bond. That financial guarantee could put a lot of sureties out of business. What it will do is allow the banks to free up capital as the project is being developed and/or finished. If the project is ten percent complete, that funding can be released to pay for that original ten percent and then it can go to fund the next ten percent. The use of a surety bond is a very strategic financial risk management tool that has been misunderstood for three hundred years.

