

A Surety's Perspective on the Allocation of Risk

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Program Outline

- **Surety Market Update**
- **Surety Prequalification**
- **Owner Prequalification**
- **Allocation of Risk**
- **Questions / Examples**



Surety Update

- **Macro Factors Impact Credit and Results**
 - **Overall Economy**
 - Surety remained profitable during downturn
 - **Construction Market**
 - Sureties generally expected worse results
 - **Surety Industry Results**
 - Last year of Industry loss was 2004



Top 20 Surety Writers 2013

	Group/Company Name	Direct Premium Written	Percent of All Companies	Loss Ratio
1	TRAVELERS BOND	770,142,393	14.9%	-10.2%
2	LIBERTY MUTUAL GROUP	721,830,761	14.0%	34.6%
3	ZURICH INSURANCE GROUP	489,555,055	9.5%	24.5%
4	CNA SURETY GROUP	400,416,823	7.8%	8.3%
5	CHUBB & SON INC GROUP	206,235,860	4.0%	2.4%
6	IFIC SURETY GROUP	166,507,366	3.2%	11.1%
7	HCC SURETY GROUP	166,419,399	3.2%	4.9%
8	HARTFORD FIRE & CAS GROUP	160,260,215	3.1%	23.9%
9	ACE LTD GROUP	141,097,628	2.7%	19.1%
10	GREAT AMERICAN INSURANCE COMPANIES	110,306,163	2.1%	25.2%
11	RLI INSURANCE GROUP	104,236,729	2.0%	8.9%
12	LEXON/BONDSAFEGUARD INSURANCE COMPANIES	96,211,786	1.9%	37.9%
13	NAS SURETY GROUP	79,919,971	1.5%	1.5%
14	THE HANOVER INSURANCE GROUP	77,266,258	1.5%	67.1%
15	MERCHANTS BONDING CO GROUP	76,211,560	1.5%	12.3%
16	ARCH INSURANCE GROUP	74,734,012	1.4%	6.7%
17	WR BERKLEY CORP GROUP	62,448,751	1.2%	27.5%
18	AMERICAN INTERNATIONAL GROUP	60,112,788	1.2%	-6.4%
19	SURETEC INSURANCE COMPANY	59,195,807	1.1%	13.1%
20	ALLEGHANY GROUP	53,568,206	1.0%	19.2%



Top 100 Loss Ratios

- **Despite Weak Economy Surety Results Are Strong**

Average Loss Ratio Last 50 Years = 43%

	Industry	Top 10
2011	13.5%	5.5%
2012	21.6%	14.5%
2013	15.4%	13.4%
2014 "Q2"	17.3%	10.5%



Current Appetite

- **Even though the losses have been generally less than expected, sureties are no less wary:**
 - **Period of Prime Peril – overextension in the upswing**
 - **Surety credit is being extended to the worthy**
 - **“Responsible” growth is being pursued**



Surety Prequalification

- **Access to Superior Knowledge**
 - **Corporate Financials (w/footnotes)**
 - **Personal Financials**
 - **WIP Schedules**
 - **Knowledge of Personnel**
 - **Insight into Continuity Plans**
 - **Long-term Relationship**
 - **BLOC, LI, Aging Reports, etc**



Surety Insights

- **Best Prequalification Available to the Industry**
 - Largest Projects Completed
 - Largest Backlog Prosecuted
 - True Gauge of Capacity
 - Profitability Forecasts
 - Ongoing Concern?



Owner Prequalification

- **Collect information from a variety of sources and underwrite as a surety would**
- **Require a surety letter in connection with an RFP**
- **Require bid/final bonds**



Contractual Allocation of Risk

- **Fair and Balanced Transfer of Risk leads to Increased Competition and Better Pricing**
- **Key Areas of Surety Focus**
 - Dispute Resolution
 - LD's & Consequential Damages
 - Efficiency Guarantees
 - Warranty Duration
 - Bond Forms





QUESTIONS

