

# A Surety's Perspective on the Allocation of Risk

Presented by:

**Guy Armfield, Account Executive** 

**September 24, 2014** 





#### **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



PARKER | SMITH | FEEK

## 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%
GREAT AMERICAN INSURANCE 10 COMPANIES	110,306,163	2.1%	25.2%
11 RLI INSURANCE GROUP	104,236,729	2.0%	8.9%
LEXON/BONDSAFEGUARD INSURANCE 12 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%

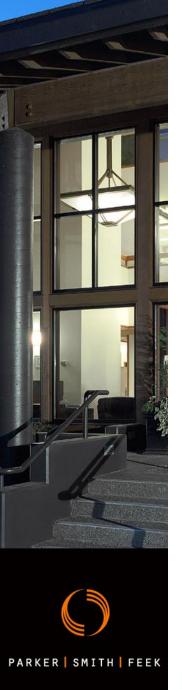
	Industry	<b>Top 10</b>
2011	13.5%	5.5%
2012	21.6%	14.5%
2013	15.4%	13.4%
2014 "Q2"	17.3%	10.5%





#### **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

