



The Surety Market Today & Tomorrow

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PRELIMINARY TOP 10 WRITERS OF SURETY BONDS—Calendar Year 2009*

Companies	Direct Premium Written (Millions \$)
Travelers Bond	\$924.2
Liberty Mutual Ins. Group	\$723.2
Zurich Insurance Group	\$486.8
CNA Insurance Group	\$406.1
Chubb & Son Inc. Group	\$277.0
Hartford Fire & Casualty Group	\$181.0
HCC Surety Group	\$165.2
International Fidelity Ins. Co.	\$147.1
ACE Ltd. Group	\$109.0
The Hanover Insurance Group	\$100.1

*Includes contract and commercial surety

Source: The Surety & Fidelity Association of America (SFAA)



Surety Company Results

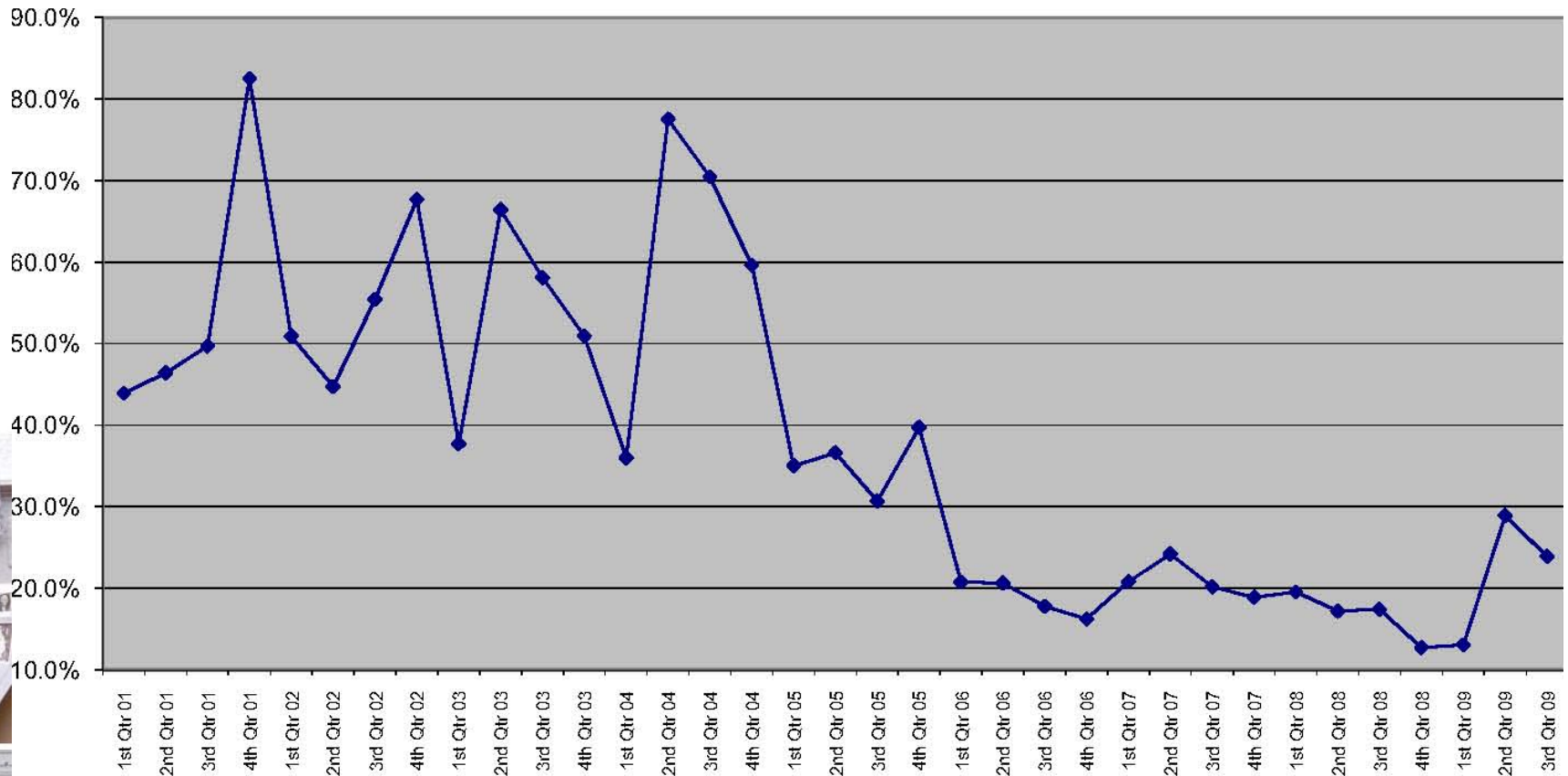
Dollars in Millions

(Source: The Surety & Fidelity Association of America)

	Direct Written Premiums	Direct Loss Incurred	Direct Loss Ratio
2002	3,932.6	2,470.0	67.7%
2003	3,727.5	1,833.2	50.9%
2004	4,265.9	2,432.8	59.6%
2005	4,509.4	1,738.2	39.7%
2006	5,030.4	774.2	16.2%
2007	5,432.7	979.3	18.9%
2008	5,502.0	685.8	12.7%
2009	5,191.0	1,028.2	19.3%

Surety Loss Ratios

Surety Quarterly Loss Ratios
1st Qtr 2001 through 3rd Qtr 2009



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2009

- Financial Performance

“Armageddon” did not come in 2009; it was a solid, profitable year for most sureties, though performance did not equal budget for some. Sureties have enjoyed successive years of profitability.

- Reinsurance

Expected losses did not materialize in 2009; reinsurers have “healthy balance sheets.”

- Investments in Organization

2009 saw many sureties investing in company infrastructure, including their technology and people.

- Claims Handling

Growing acknowledgment that Industry claims practices will be critical in the coming period.



2010 & Beyond

Producers & sureties are reporting signs of dangerous market conditions.

Producers

- Declining Revenues
- Struggling Clients
- Controlling Costs
- Finding & Maintaining Talent

Sureties

- Decreasing Premiums
- Increasing Loss Frequency
- Underwriting Pressures
- Finding & Maintaining Talent

Contractors

- Finding Work
- Shrinking Margins
- Cutting Overhead
- Maintaining Talent





Critical Industry Topics



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Surety Capacity

- Capacity is not a concern for most projects
- Capacity has expanded to meet large project needs
 - » E.g., Houston Metro Situation



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Small Business Issues

- Small businesses seeking entry into public construction market and advocating for relaxation or waiver of bonding thresholds
- State & Federal legislative and regulatory issue
- Financial risk exposure for owners, taxpayers, and downstream parties



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DBE Issues

- Marriages of convenience to pursue federal work
 - Teaming arrangements
 - Joint ventures
 - The “Wild West”?
- State DOT DBE requirements
 - Forfeiture of bid bond of rejected bidder – huh?
 - Missouri, Kentucky, Minnesota



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Surety Bond Verification

- Recent high profile instances of alleged surety bond fraud
 - E.g., Infinity Surety
- Present economic climate mandates that all project parties be alert to fraudulent or unauthorized surety bonds
- Perform your due diligence
- U.S. Treasury Dept. Circular 570 & State Insurance Departments



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GAP Financing

- Expectation by some owners that contractor will shoulder all or a part of the initial financing of construction projects
- Significant surety concern




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Miller Act Threshold Increase

- NASBP is opposing a proposed Federal Acquisition Regulations (FAR) change that increases the threshold at which performance and payment bonds are required for any federal construction contracts
 - Proposed rule increases the threshold from \$100,000 to \$150,000
 - NASBP submitted a letter in opposition and informed AGC of issue
 - A legislative fix is needed. NASBP & SFAA have developed a position statement and legislative amendment to accomplish this exemption.
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Green Building Requirements

- Opportunities & Challenges
- What is expected of the contractor?
- Warranting the attainment of a LEED status?
- Performance bond implications



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New AIA Bond Forms

- AIA revised its suite of bond forms: A310, bid bond, and A312, performance and payment bonds.
- NASBP requested and participated in the development of a commentary addressing the new forms and showing changes from the previous edition
- Industry needs to understand and transition to these new editions
- EJCDC expected to follow suit



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Joint Initiatives





- Repeal of 3% Tax Withholding
- Clarke Bill (H.R. 3771)
- Revitalization of the SBA Surety Bond Guarantee Program
- Curbing improper contract bundling
- ConsensusDOCS™
- Surety Underwriter Intern Program

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More Information



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