

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

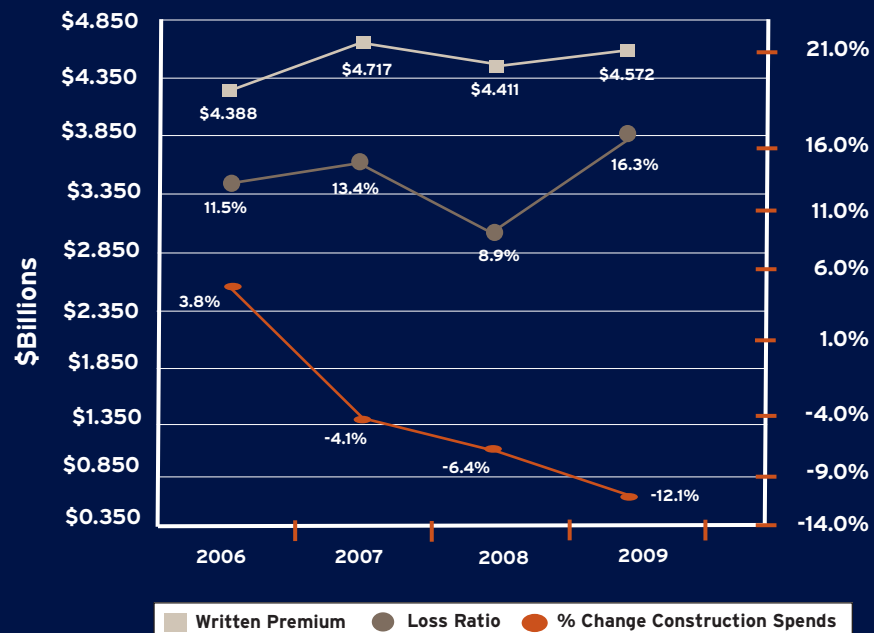
SURETY

- **The Surety market is competitive for the best accounts** on capacity, indemnity, rates, etc. and very difficult for contractors struggling in the tough construction market.
- We expect surety losses to increase in 2011 and 2012 as the downturn in construction activity means more bidders for fewer jobs and reduced contractor profit margins. **If losses mount, as widely expected by surety companies, underwriters will become more conservative.**
- However, we do not anticipate a sharp change in underwriting in the first half of 2011, as results are positive for underwriters. They should **stay interested in new, high-quality accounts.**
- **Surety industry results remain strong** after a very good 2009 and Q2 numbers for 2010 show a highly profitable loss ratio of 17%.
- **We see capacity increasing for single bonds** and maximum lines.
- Reinsurance results for surety have also been good and direct companies will find plenty of supporting capacity. As most have evolved to excess-of-loss reinsurance with large deductibles, underwriting shifts will be driven by the direct markets more than reinsurance restrictions.
- Surety rates continue to follow an inverted pricing curve, where the largest capacity users pay higher rates than the middle market, because **many surety companies are willing to write the middle market but only about five will write the large contractors** (\$500+ million work programs).
- Surety underwriters are concerned about project financing, collection of accounts receivable (and retainage) and most of all exposure to subcontractor default. As a result **they are requiring more subs to provide bonds to their prime and GC clients.**
- The residential and private construction sectors continue to struggle.

PRICE PREDICTIONS

Flat or down for desirable risks

CONTRACT AND COMMERCIAL SURETY (U.S.)



Sources: McGraw Hill Construction ENR, Surety & Fidelity Association of America

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