

# The Surety Industry



# The Industry

- Boutique Industry
- \$4.3 Billion in revenue
- More than than \$430 Billion in risk
- Sureties typically divisions of, or wholly owned by large insurance companies

# Underwriting

<b>Premiums</b>	<b>2004 Surety</b>
<b>Direct Written</b>	<b>4,265,934,319</b>
<b>Direct Premiums Earned</b>	<b>4,081,720,567</b>
<b>Direct Loss Incurred</b>	<b>2,432,747,955</b>
<b>Direct Loss Ratio</b>	<b>59.6%</b>

# A Historical View

<b>Top 10 Writers (1979)</b>	<b>% of Market</b>
<b>United States Fidelity &amp; Guarantee (USF &amp; G)</b>	<b>7.9</b>
<b>Aetna Life &amp; Casualty</b>	<b>7.9</b>
<b>Fidelity &amp; Deposit Group</b>	<b>7.2</b>
<b>Fireman's Fund Group</b>	<b>5.9</b>
<b>Travelers</b>	<b>5.0</b>
<b>Reliance</b>	<b>4.7</b>
<b>Chubb</b>	<b>4.6</b>
<b>St. Paul</b>	<b>4.2</b>
<b>INA</b>	<b>3.7</b>
<b>Safeco</b>	<b>3.3</b>
	<b><u>3.3</u></b>
	<b>54.4%</b>

# The Players Today

<b>Top 10 Writers (2004)</b>	<b>Written Premium (in thousands)</b>	<b>% of Market</b>
<b>St. Paul/Travelers Group</b>	<b>919,353</b>	<b>21.6</b>
<b>CNA</b>	<b>353,464</b>	<b>8.3</b>
<b>Zurich</b>	<b>324,216</b>	<b>7.6</b>
<b>Safeco</b>	<b>261,955</b>	<b>6.3</b>
<b>Chubb</b>	<b>210,520</b>	<b>4.9</b>
<b>Liberty</b>	<b>173,838</b>	<b>4.1</b>
<b>Hartford</b>	<b>163,507</b>	<b>3.8</b>
<b>HICA</b>	<b>147,989</b>	<b>3.5</b>
<b>XL America</b>	<b>88,598</b>	<b>2.1</b>
<b>ARCH</b>	<b>87,598</b>	<b><u>2.1</u></b>
		<b>64.3%</b>

# Where We Are Now: 2005

- Large losses continue
- Capacity – Limited number of Sureties on Large Risk
- Mergers/Sold/Discontinued

# Surety Industry

- Reinsurance
  - Underwriting
  - Commercial surety
  - Contract surety
  - Capacity
  - Rates stabilized
- Markets:
    - ◆ SBA
    - ◆ Secondary markets
    - ◆ Regional
    - ◆ National

# The 3 “C’s” of Surety Bonding

- Character – a person’s moral & ethical nature
- Capacity – experience, skills and ability to perform the work
- Capital – a measure of the contractor’s financial ability to assume risk

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Cashflow – do you have the cash to survive?

# What Contractors Can Do

- Build a strong team: Insurance/Bond Agent, Surety, CPA, Banker, Attorney
- Open Communication , no surprises!
- Make gradual, incremental changes in job sizes.
- Use a construction oriented CPA
- Establish an operating bank line

# What Contractors Can do

- Avoid excessive equipment purchases
- Make a profit and retain it in the company
- Stay within known geographical area and scope of work
- Make sure the year-end financial presents itself in the best possible light.

# Thank You

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