Surety Market Update

By **Dan Huckabay**, President, Commercial Surety Bond Agency

There is plenty of good news to report about surety companies these days. The industry as a whole is writing more bonds, both nationally and in California, which is reflected in the growth in total premium written by all surety companies combined.

It's important to remember that bond premium rates don't fluctuate like insurance premium rates, so when you see an overall increase in premiums, that generally means more bonds are being written, and therefore, there is more construction activity.

Another bit of good news is surety companies continue to be profitable. In fact, they've been profitable for the last 13 years, and their loss ratios (i.e. the percentage of bond claims they're paying out relative to the premium they collect) remain historically low.

Why should contractors care? Because it means we don't expect to see any sweeping underwriting changes in the near future, which gives contractors one less thing to worry about.

The last piece of good news is tied to some bad news: There are now more sureties in the marketplace than there have been in my 20-year career. The benefit is the wide range of options for us to access for our clients regardless of whether they're small, medium, or large.

California Surety Results

Year	2013	2014	2015	2016
Premium	$675,572,542	$695,963,755	$700,751,228	$753,410,917
Loss Ratio	30.88%	27.15%	-13.89%	4.57%

Based on results compiled by the California Department of Insurance

I'm sure you can guess what the problem is. Excess competition by sureties can lead to bad underwriting decisions with some contractors being approved for bonds they don't qualify for. This hurts reputable contractors as they're forced to compete with companies that normally would not be competitors.

While you'd think surety companies would be jumping for joy over their profitable results, most surety underwriters and executives I talk to have significant concerns that the heightened competition and bad underwriting decisions will lead to big claims for surety companies.

When sureties start to lose money, they tend to have a knee-jerk reaction and change underwriting standards even for the good contractors that didn't have any problems (similar to what banks did during the Great Recession in 2007).

Time will tell if this materializes.