

State of the Contract Surety Market and the Impact on Bond Availability

Tri-Service Cost Engineering Workshop

June 3, 2003

The Surety Association of America

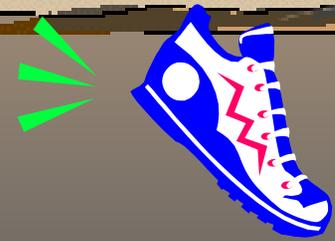
Agenda

- ⇒ Setting the stage – financial results.
- ⇒ Current market responses and conditions.
- ⇒ Impact on availability of performance and payment bonds.

Setting the Stage

- ⇒ Over 12 consecutive years of profitability.
- ⇒ Battle for market share.
- ⇒ Strong capacity/Available reinsurance.
- ⇒ Soft pricing.
- ⇒ “Flexible” underwriting.

Softening Economy



- ⇒ Surety results are closely linked to performance of economy.
- ⇒ Signs of weakness late 2000, early 2001.

Other Factors

- ⇒ High profile bankruptcies.
- ⇒ September 11, 2001, tragedy.
- ⇒ Contributing factors, not the main cause.

Results up to 2001

(in thousands of dollars)

<i>Year</i>	<i>Written Premiums</i>	<i>Incurred Losses</i>	<i>Underwriting Profit/Loss</i>
1997	\$2,795,753	\$665,455	\$342,130
1998	\$2,930,601	\$723,292	\$387,066
1999	\$3,399,321	\$902,319	\$383,642
2000	\$3,363,352	\$1,491,053	-\$216,388
2001	\$3,473,090	\$2,748,424	-\$1,345,897

Source: The Surety Association of
America

2002 Results

- ⇒ SAA Top 100 Writers Report.
- ⇒ Written premium - \$3.72 billion.
- ⇒ \$2.36 billion in incurred losses.
- ⇒ 67% loss ratio

Market Responses

- ⇒ Unwind the trend.
- ⇒ Tighter underwriting.
- ⇒ Restricted reinsurance/retention increases.
- ⇒ Judicious use of capacity.
- ⇒ Limits on duration because longer duration = higher risks.
- ⇒ Impact on availability.

SAA Response

- ⇒ Model Contractor Development Program.
- ⇒ Address bond threshold legislation.
 - Focus on the surety value proposition.
- ⇒ Dialogue with project owners.

Questions

