

Arizona Department of Insurance

2013 Market Monitoring

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Surety

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I. Rate System:

Arizona's "open competition" law, applicable to surety insurance, prohibits insurers from charging excessive, inadequate or unfairly discriminatory rates, or rates that will have the effect of destroying competition, or establishing a monopoly. As a matter of law, the Department cannot find a rate to be excessive if "a reasonable degree of price competition" ("RDPC") exists at the consumer level. The law presumes a competitive market exists unless the Director, after a public hearing, determines that a RDPC does not exist in the market.

II. Market Monitoring Methodology:

To monitor the market, the Department relies upon insurers' rate filings and annual statements filed with the Department, insurers' responses to an annual Department survey, current trade press articles, and A.M. Best data.

III. Annual Statement Data:

The compiled annual statement data for surety evidence that overall in 2012:

- The market is concentrated in the Top 25 insurers that have a market share of 86.2%.
- Thirty-five groups have a total market share of 95.3%.
- Arizona's surety market is concentrated in contract surety.
- Arizona's 2012 incurred loss ratio of 59.2% is much worse than the national ratio of 19.6%.

Historical Experience (All Insurers Page 19, Line 24, Annual Statement Data, Year Ending December 31)

	1	2	3
CY	Written Premium	Earned Premium	Paid Losses
2012	\$91,497,708	\$92,705,648	\$42,117,983
2011	\$87,672,177	\$92,086,249	\$8,278,073
2010	\$93,759,398	\$92,593,769	\$3,352,607
2009	\$98,299,027	\$104,397,248	\$13,573,355
	4	5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2012	\$54,905,211	59.23%	
2011	\$2,371,038	2.57%	
2010	\$760,804	0.82%	
2009	\$15,480,780	14.83%	

IV. Survey Responses:

Insurers (55) having 97.2% of the market responded to the 2013 survey. The majority said that their particular company:

- Is actively seeking new business.
- Is not increasing the number of declinations or nonrenewals in 2013 as compared to 2012.
- Believes rates impact solvency.
- Believes the availability of reinsurance is becoming less problematic.
- Will not change its underwriting stance in the immediate future.
- Believes underwriting cycles have an impact on surety.

They also reported the following information:

	1	2	3
CY	Written Premium	Policy Count for Active Insurers	Average Premium (Col 1/Col 2)
2012	\$88,968,471	118,563	\$750
2011	\$85,582,451	103,808	\$825
2010	\$91,743,145	149,995	\$612
2009	\$95,697,981	115,754	\$827
*			
	4	5	6
CY	Paid Losses	# of Paid Losses	Average \$ Paid Claim Col 4/5
2012	\$38,628,909	3,969	\$9,733
2011	\$8,144,727	3,762	\$2,165
2010	\$3,726,556	3,107	\$1,199
2009	\$12,354,521	3,179	\$3,886
	7	8	9
CY	Incurred Losses	Incurred Loss Ratio	Combined Ratio
2012	\$53,251,578	59.36%	115.98%
2011	\$3,445,955	3.85%	52.54%
2010	\$2,187,135	2.43%	49.38%
2009	\$14,877,926	14.65%	70.67%

V. Surety Market Trends:

Trend # 1: Most surety written in Arizona is contract surety. In 2012, a market share of 80.1% (79.7% in 2011) responded that it primarily writes contract bonds. The demand for contract surety is dependent on Arizona's commercial construction, population growth and economic conditions.

Trend # 2: Direct written premium increased in Arizona. Arizona's direct written premium increased by 4.0% in 2012 compared to a decrease of 3.5% nationally. The increase in Arizona appears to be attributable to the increase in residential and commercial construction in the post-recession economy.

Trend # 3: The market is concentrated in the Top 25. The market remains concentrated in the Top 25 that wrote 86.2% of the market in 2012 (83.8% in 2011). The top five insurers in 2012 controlled 46.8% (up from 43.9% in 2011) of the market.

Trend # 4: Groups control a major portion of the market. Thirty-five groups control a market share of 95.3% in 2012. The Travelers Group has the largest group market share at 18.8%, reestablishing its number one market position after losing it to the Liberty Mutual Group in 2011.

Trend # 5: Arizona's loss experience is much worse than the national market. The Arizona 2012 all-insurer surety incurred loss ratio of 59.2% is worse than the national 2012 incurred loss ratio of 19.6%.

Trend # 6: The Arizona surety combined ratio increased dramatically. The 2012 combined ratio of 116.0% is much higher than the 52.5% in 2011. The previous seven years have been profitable; however, because the Arizona surety market is heavily based in contract surety, the volatile nature of these types of bonds could impact future experience.

Trend # 7: More insurers are exiting than entering the market. There were four insurers that entered, and nine that exited.

Trend # 8: A majority of the market continues to actively seek new surety business. A market share of 74.0% (73.6% in 2012) is actively seeking new Arizona surety business in 2013.

Trend # 9: Insurers are not increasing or decreasing the number of new business declinations or nonrenewals. A majority of the market (97.0% for new business declinations and 88.4% for non-renewals) is not increasing or decreasing the number of declinations or nonrenewals in 2013.

Trend # 10: The degree to which insurers believe rates impact solvency increased. A market share of 34.9% responded in the 2013 survey that rates impact solvency, up from 32.5% in 2012.

Trend # 11: Reinsurance is available. For the last three years, there were no companies that reported that obtaining reinsurance was a problem.

Trend # 12: The majority of the market perceives that underwriting cycles impact surety. A market share of 66.0% responded in the 2013 survey that underwriting cycles impact surety.

VI. Conclusions:

Most surety business written in Arizona is contract surety. Incurred loss ratios and combined ratios increased in 2012. The prior seven years had been profitable for surety in Arizona until 2012 when Arizona performed much worse than the national market. The market remains concentrated in the Top 25 insurers and five more insurers exited than entered the market. Insurers are actively seeking new business, are not increasing declinations or nonrenewals and find reinsurance is available.