Despite Rising Losses, Sureties See Signs of Positive Growth

With the continued slow economic recovery limiting job growth in the construction market, the surety industry will also face some challenges in 2014. Specifically, the increase in incurred losses remains a concern. Incurred direct losses through third quarter 2013 reached about $680 million, lower than the same timeframe in 2012, but much higher than 2011.

Lynn Schubert, president of The Surety & Fidelity Association of America (SFAA), says, “Incurred losses have increased annually since 2008, including significant increases in 2011 and 2012. In particular, we still have concerns about losses in the small and middle markets this year.”

On a positive note, Schubert notes that she is starting to see a slight increase in premium volume. Premium volume increased in each of the first three quarters of 2013 compared with the respective quarterly volumes in 2012. If that trend continues in 2014, it would be the first yearly increase in premium volumes since 2008.

As well, there’s still plenty of surety capacity. Although the lack of work in the construction industry is a problem, Schubert noted that there is more interest in infrastructure investment through public-private partnerships (P3s), which will increase the opportunity for contractors to work and for sureties to guaranty that work. She concludes, “Sureties stand ready to provide performance and payment bonds for both transportation and social infrastructure through both traditional and P3 delivery mechanisms, following the public policy of ensuring payment of subcontractors and suppliers on those projects and the availability of funds for completing the contract.”