

# Arizona Department of Insurance

## 2011 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 their 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 2010:

- The market is concentrated in the Top 25 insurers that have a market share of 86.8%.
- Thirty-four groups have a total market share of 94.7%.
- Arizona's surety market is concentrated in contract surety.
- Arizona's 2010 incurred loss ratio of 0.8% is better than the national ratio of 14.2%.

### Historical Experience (All Insurers Page 20, Line 24, Annual Statement Data, Year Ending December 31)

	1	2	3
CY	Written Premium	Earned Premium	Paid Losses
2010	\$93,759,398	\$92,593,769	\$3,352,607
2009	\$98,299,027	\$104,397,248	\$13,573,355
2008	\$111,484,798	\$114,267,890	\$18,368,108
2007	\$117,230,620	\$114,033,404	\$3,054,581
	4	5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2010	\$760,804	0.82%	
2009	\$15,480,780	14.83%	
2008	\$802,141	0.70%	
2007	\$11,750,664	10.30%	

### IV. Survey Responses:

Insurers (57) having 97.5% of the market responded to the 2011 survey. The majority said that their particular company:

- Is actively seeking new business.
- Is not increasing the number of declinations or nonrenewals in 2011 as compared to 2010.
- 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)
2010	\$91,743,145	149,995	\$612
2009	\$95,697,981	115,754	\$827
*			
2008	\$108,376,343	162,290	\$668
2007	\$115,189,531	169,196	\$681
	4	5	6
CY	Paid Losses	# of Paid Losses	Average \$ Paid Claim Col 4/5
2010	\$3,726,556	3,107	\$1,199
2009	\$12,354,521	3,179	\$3,886
2008	\$13,524,040	1,949	\$6,939
2007	\$3,798,889	1,389	\$2,735
	7	8	9
CY	Incurred Losses	Incurred Loss Ratio	Combined Ratio
2010	\$2,187,135	2.43%	49.38%
2009	\$14,877,926	14.65%	70.67%
2008	-\$960,869	-0.86%	55.21%
2007	\$7,535,850	6.72%	67.09%

## V. Surety Market Trends:

**Trend # 1:** Most surety written in Arizona is contract surety. In 2010, a market share of 80.3% (81.3% in 2009) 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 decreased in Arizona. Arizona's direct written premium decreased by 4.1% in 2010 compared to an increase of 0.3% nationally. The decline in Arizona appears to be attributable to the downturn in residential and commercial construction due to poor economic conditions.

**Trend # 3:** The market is concentrated in the Top 25. The market remains concentrated in the Top 25 that wrote 86.8% of the market in 2010 (85.2% in 2009). The Top Five insurers in 2010 controlled 46.9% (up from 46.7% in 2009) of the market.

**Trend # 4:** Groups control a major portion of the market. Thirty-four groups control a market share of 94.7% in 2010. The Travelers Group has the largest share with 19.3% in 2010, down from 22.2% in 2009.

**Trend # 5:** Arizona's loss experience is performing better than the national market. The Arizona 2010 all-insurer surety incurred loss ratio of 0.8% is better than the national 2010 incurred loss ratio of 14.2%.

**Trend # 6:** The Arizona surety combined ratio decreased. The 2010 combined ratio of 49.4% is lower than the 70.7% in 2009. The last six 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:** An equal number of insurers are exiting as entering the market. Six insurers entered, and six exited.

**Trend # 8:** A majority of the market continues to actively seek new surety business. A market share of 78.7% (same as in 2010) is actively seeking new Arizona surety business in 2011.

**Trend # 9:** Insurers are not increasing or decreasing the number of new business declinations or nonrenewals. A majority of the market (89.6% for new business declinations and 89.7% for nonrenewals) is not increasing or decreasing the number of declinations or nonrenewals in 2011.

**Trend # 10:** The degree to which insurers believe rates impact solvency decreased considerably. A market share of 41.5% responded in the 2011 survey that rates impact solvency, down from 64.9% in 2010.

**Trend # 11:** Reinsurance is available. No companies responded in 2011 stating that obtaining reinsurance would be problematic. In 2010, a 0.3% market share felt obtaining reinsurance would be problematic.

**Trend # 12:** The majority of the market perceives that underwriting cycles impact surety. A market share of 80.3% responded in the 2011 survey that underwriting cycles impact surety.

## VI. Conclusions:

Most surety business written in Arizona is contract surety. Incurred loss ratios and combined ratios decreased in 2010. The past six years have been profitable for surety in Arizona and Arizona performed better than the national market. The market remains concentrated in the Top 25 insurers and the same number of insurers exited as entered the market. Insurers are actively seeking new business, are not increasing declinations or nonrenewals and find reinsurance is available.