

Insights with David Pesce

Head of Surety, Munich Re Specialty Insurance



Surety Market

Q: **What are the current dynamics of the surety market, particularly with respect to the Contract and Commercial segments?**

A: From a pure surety business perspective, the industry continues to be in a long run of profitability, as highlighted by a very strong 2021. The pandemic, which did impact some other parts of the market, had little effect on surety. We believe it's a good time to get into the market.

With respect to the primary surety markets we are getting into – Contract/Construction and Commercial – there are concerns about ongoing supply chain and labor issues. Will resulting claims affect the bond market if principals are sued or defaulted? Are claims defensible? These are the questions that need to be answered, as they could potentially kick back into surety.

The Commercial Surety segment continues to be strong. Rates, terms, and conditions have been driven down in recent years, and we've seen very good loss ratios. So much so, that a lot of players want to enter the market.

Q ■ The demand for surety bonds is quite strong throughout all market segments, but what are some of the potential issues of which we need to be mindful?

A ■ While the market itself remains strong, a potential issue for buyers is consolidation in the overall insurance industry, which includes many insurers' bond departments. Additionally, there are several new entrants into the market – who is backing these new entrants? It's definitely a case where disruption creates opportunity.

Still, there are barriers to entry in the market, including, but not limited to:

- Having a strong U.S. Treasury Listing; securing one is a difficult process
- A company's AM Best financial strength rating is critical, as a rating of A- or higher is required

Q ■ What types of questions are we getting from our broker partners, and how are we responding to best meet their needs and, ultimately, those of the clients?

A ■ We're beginning to get questions about capacity, types of accounts (in the commercial segment), and in our Contract/Construction area, a lot around renewable energy, to name a few.

We have chosen to enter with a broad array of products and capacity – and backed by the financial strength of Munich Re. Other providers of surety may have to focus only on specific segments. Others may have to focus on specific segments. Remember, as a company, we are not new to the surety market. Our Roanoke and Reinsurance segments have been offering surety bonds for many years.

We are looking forward to being a key player in this exciting market.