

# What's the Buzz?



Aon Benfield Credit Bond & Political Risk Conference

June 2010

Laura A. Shanahan

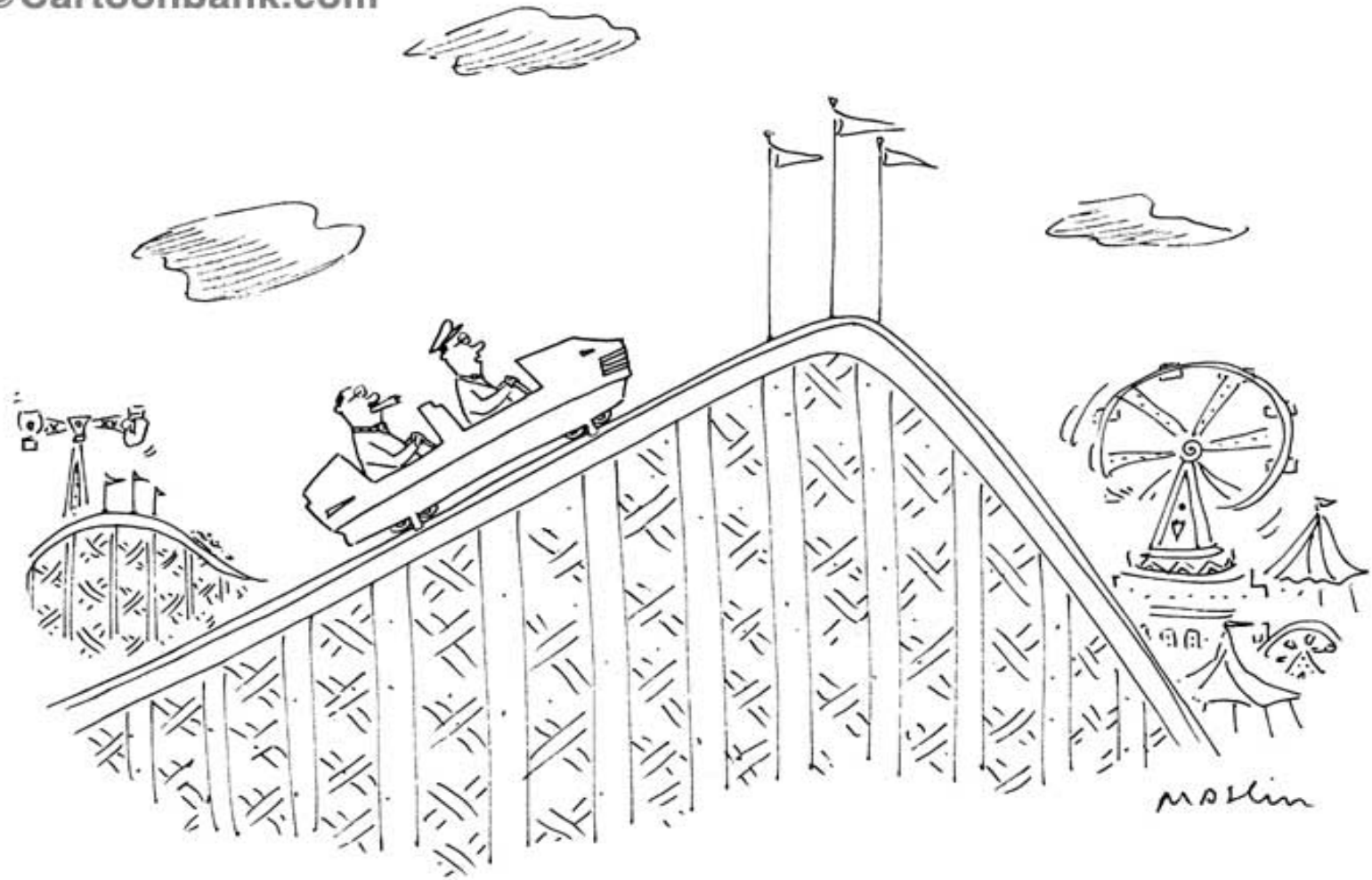
Endurance Reinsurance Corporation of America



# US Surety Perspective

- Past
- Present
- Future Challenges

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*“I’m afraid there is no more up, sir—there is only down.”*

# Our Challenges

- Economic, Legislative, and Judicial Impacts
- Increased Risk
- Expense Considerations
- Underwriting Discipline
- Capital Constraints and Allocation Issues

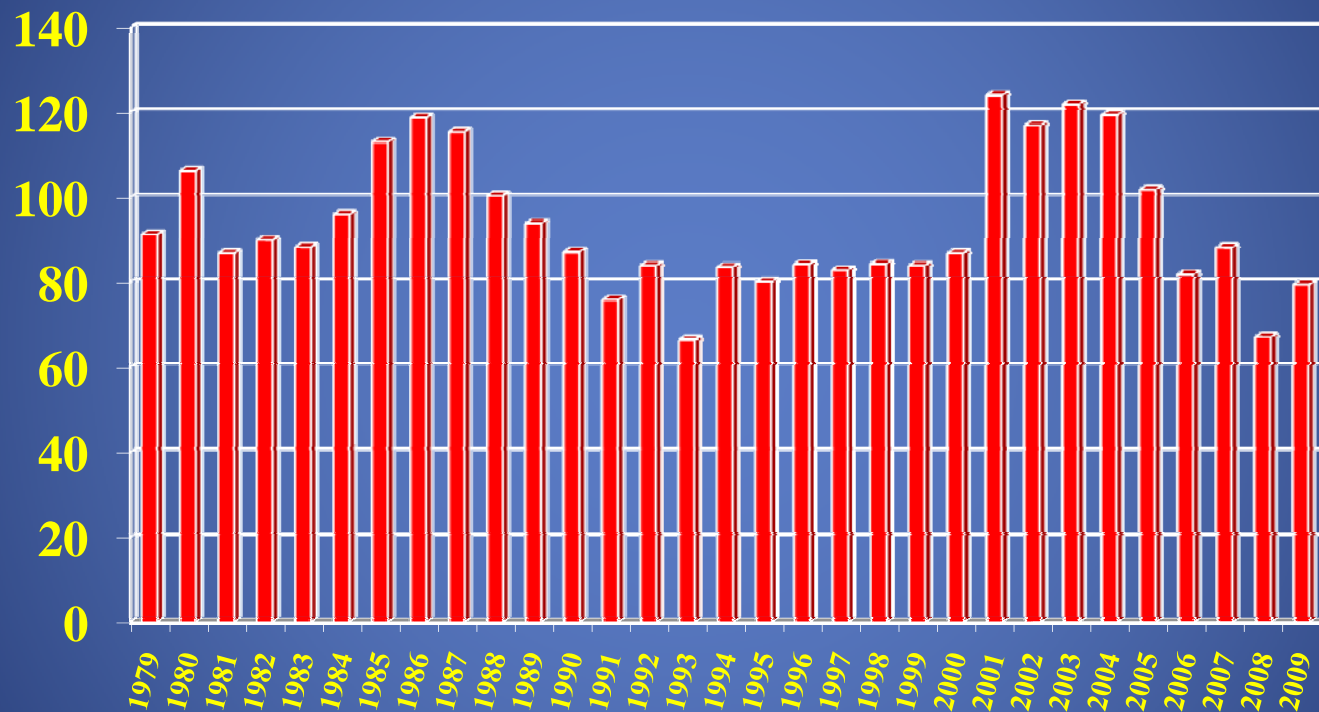
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*“Word is we’re being held up by a major flight of capital.”*

# Appendix

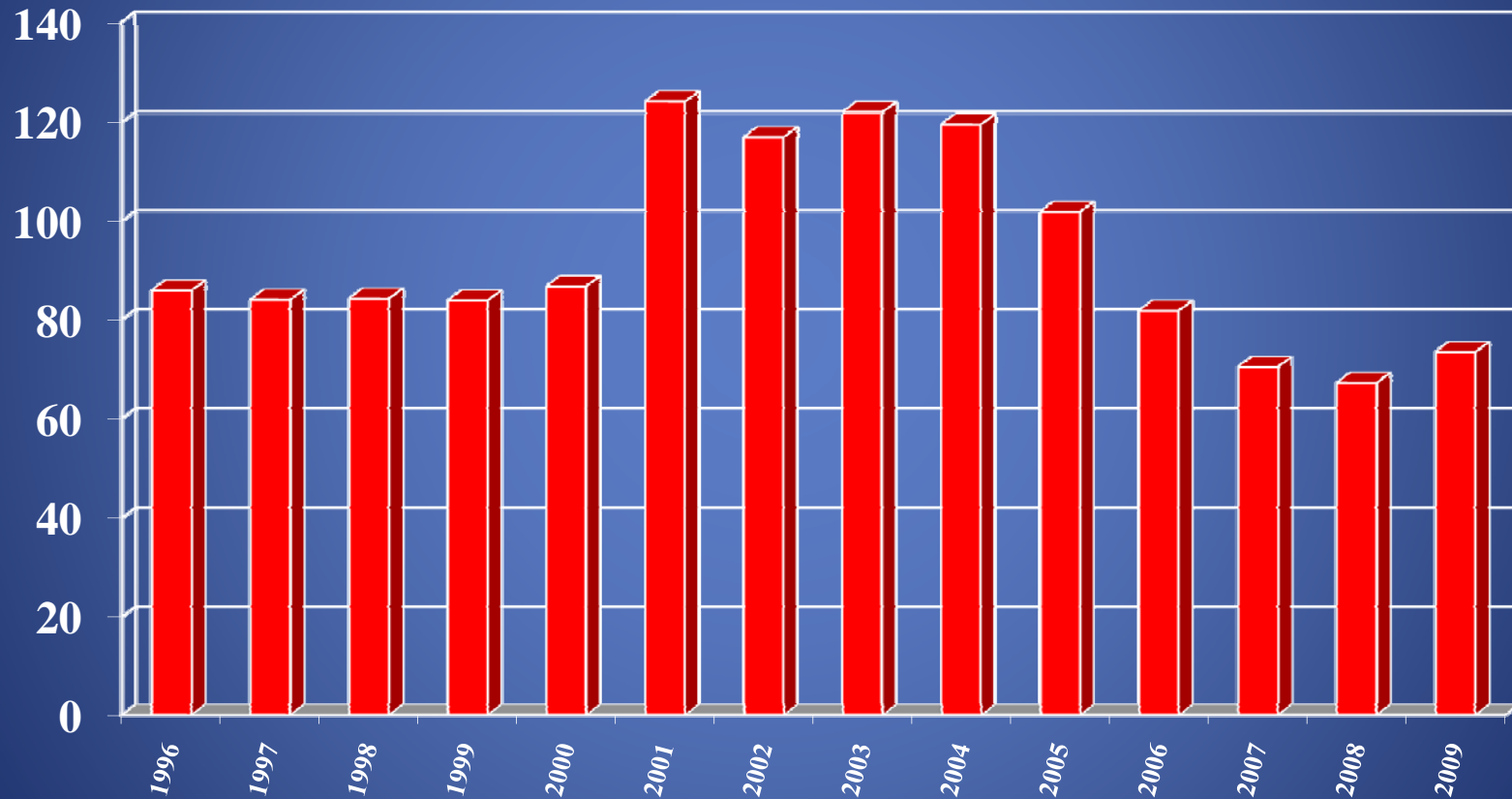
# Surety Net Combined Ratio - Actual



1979 – 2008 Data from AM Best; 2009 Data from Highline



# Surety Direct Combined Ratio

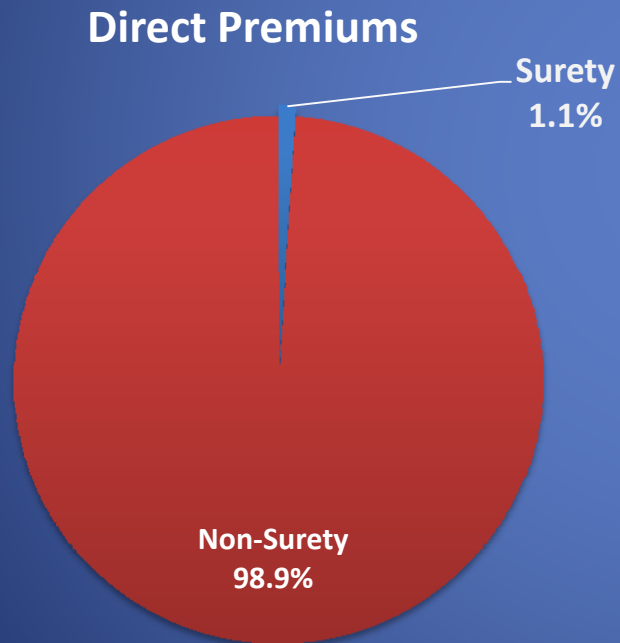


1996 – 2008 Data from AM Best; 2009 Data from Highline

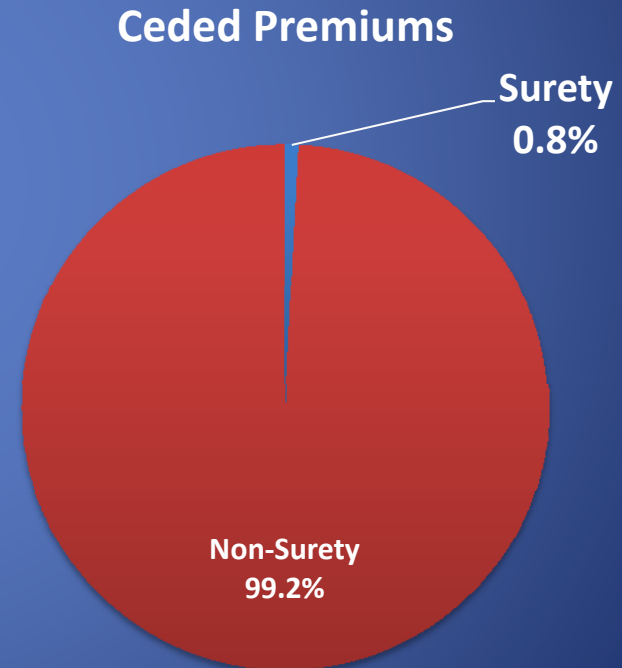


# 2009 P&C Direct & Ceded Premiums US Market

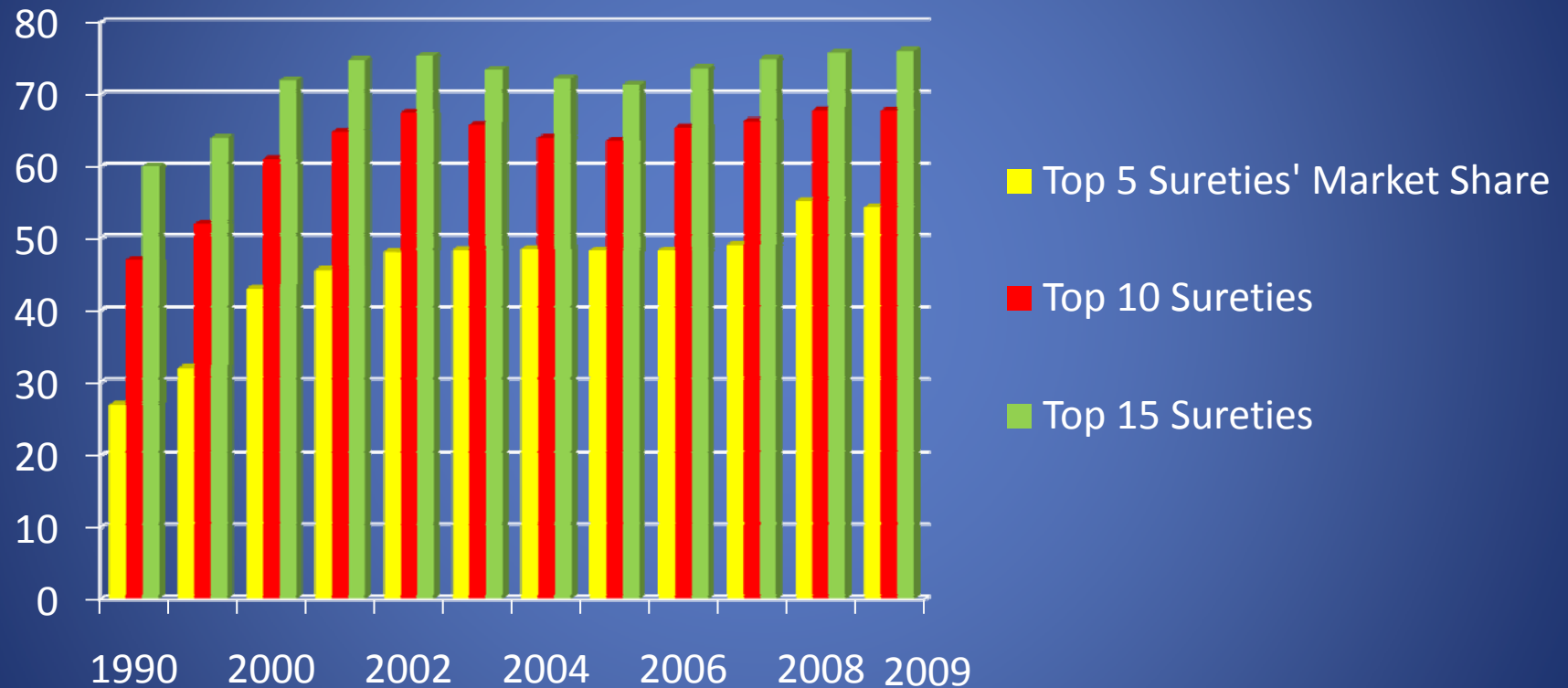
Direct Premiums Written for 2009:  
\$475.2 Billion



Ceded Premiums to Non-Affiliates for  
2009: \$65.2 Billion



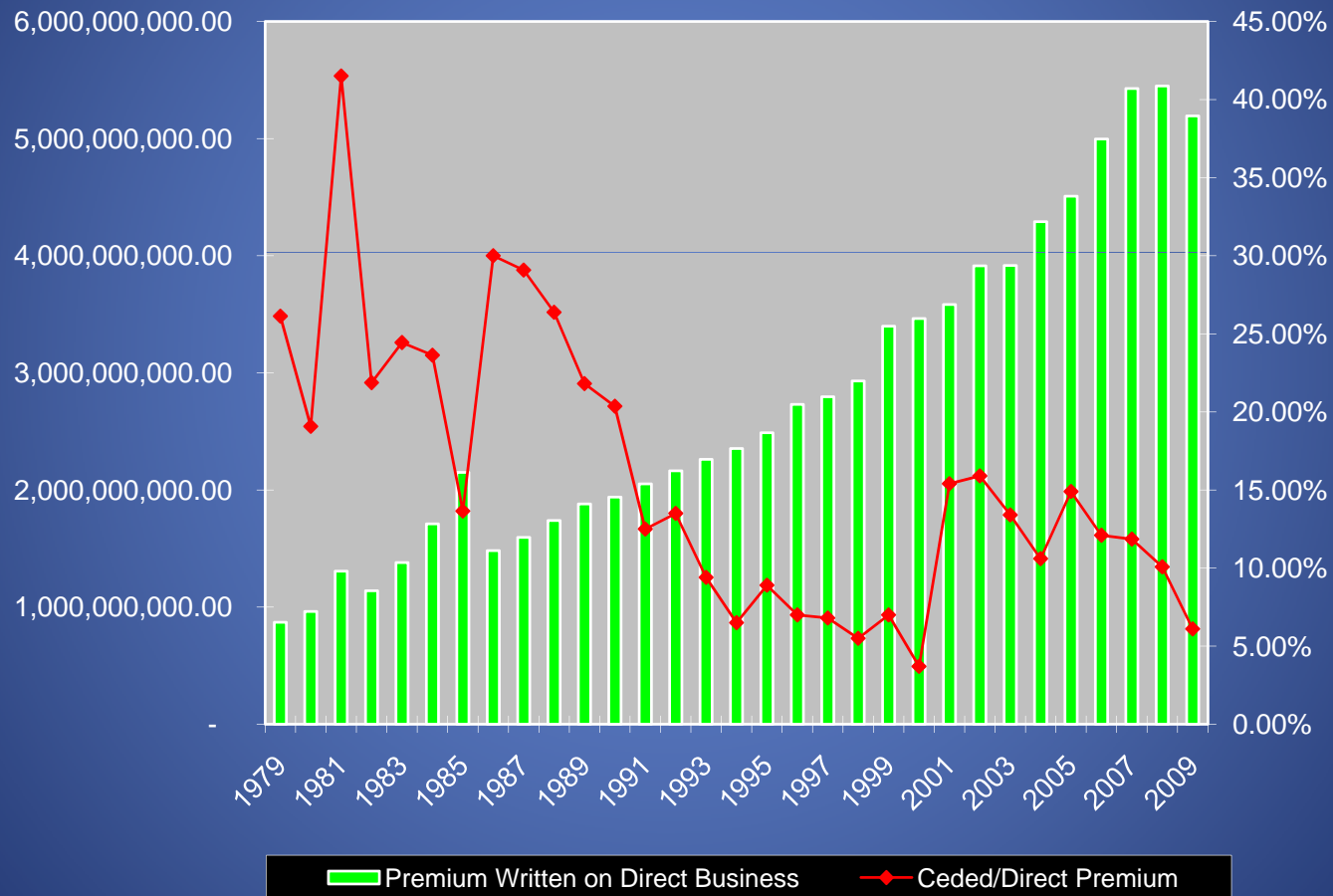
# Concentration in the Primary U.S. Surety Market



Data from Surety Association of America



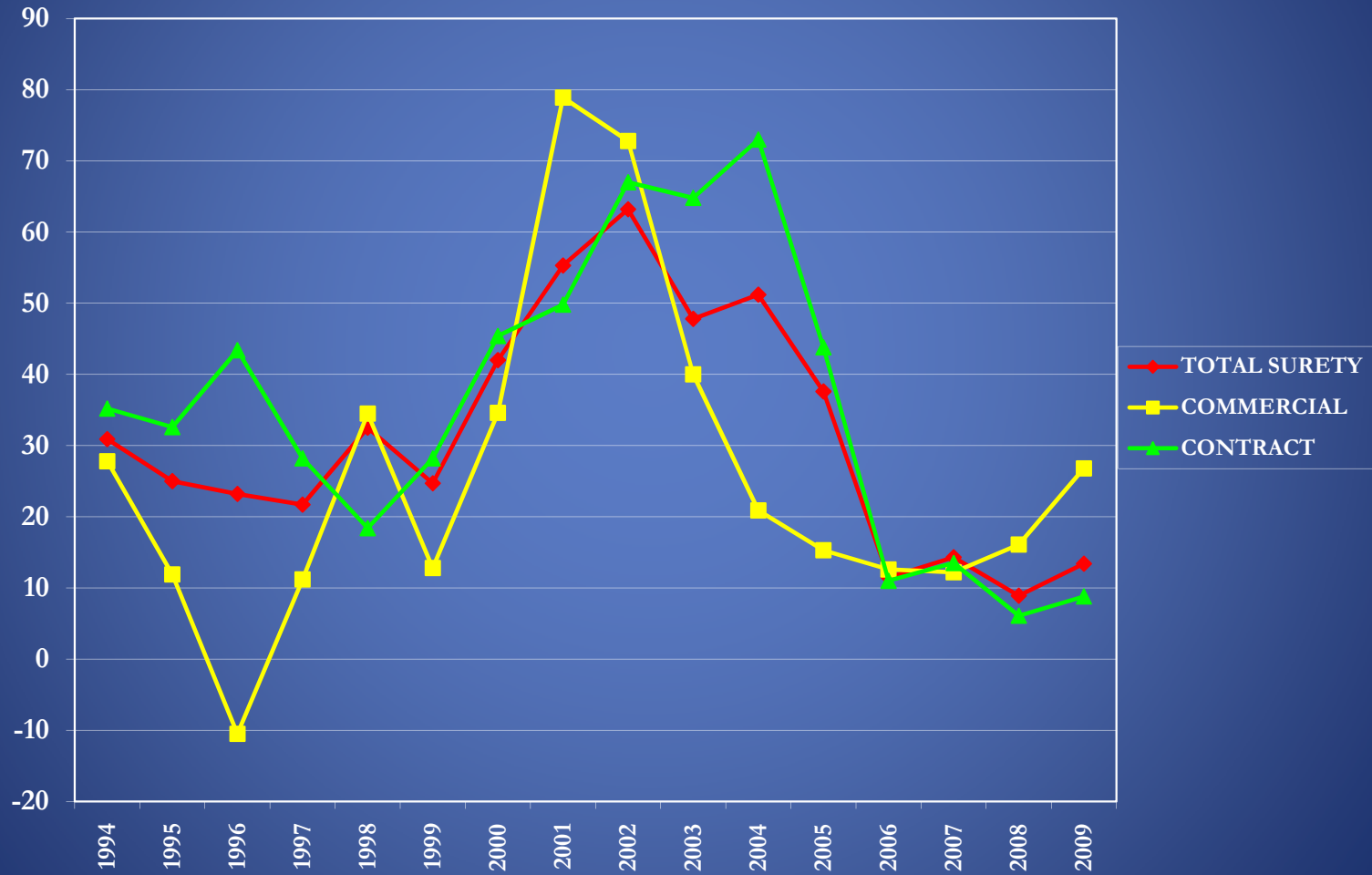
# Surety DWP & % Ceded United States



1979 – 2008 Data from AM Best; 2009 Data from Highline



# Direct Surety Loss Ratio Analysis Contract, Commercial and Total

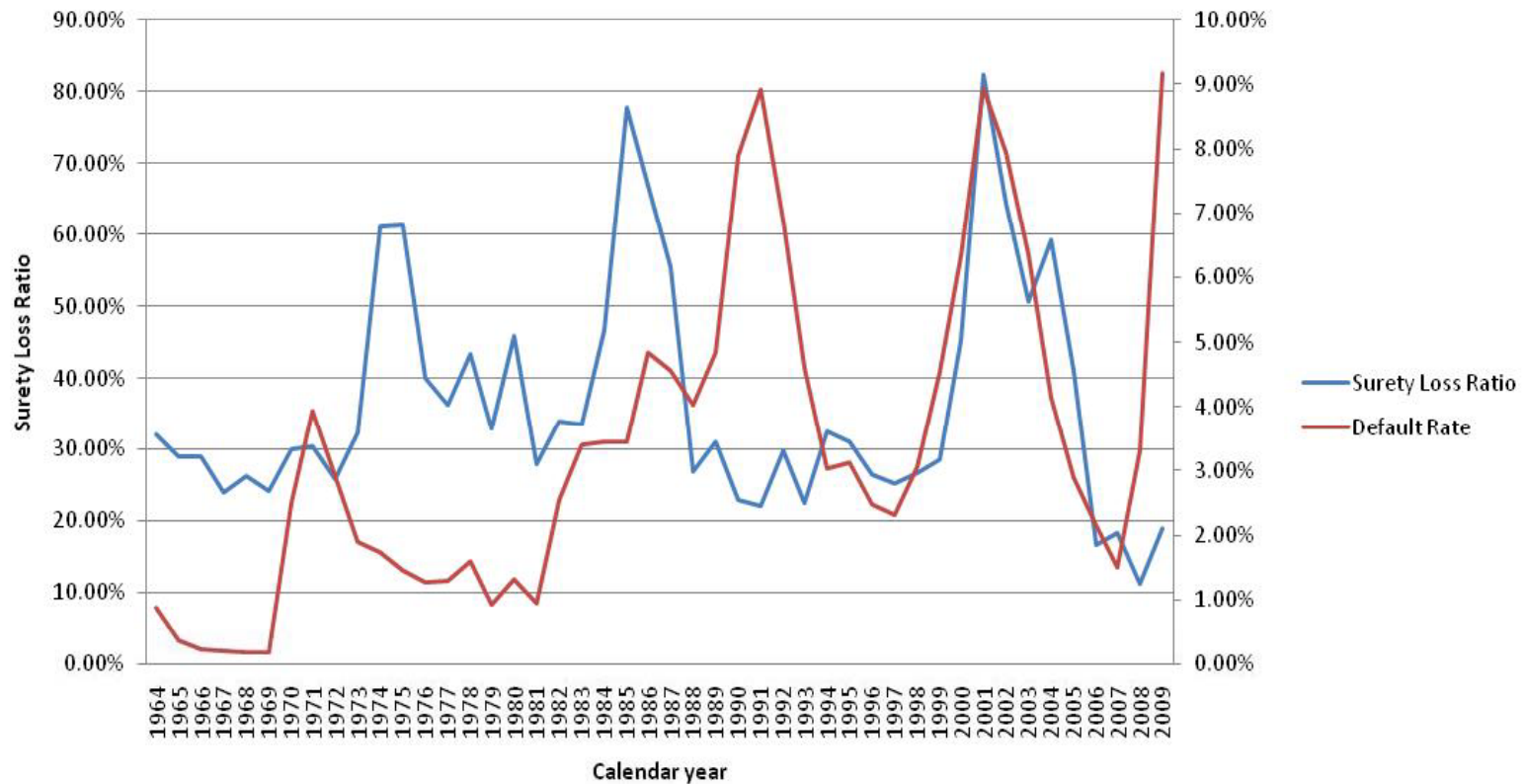


Data from SFAA

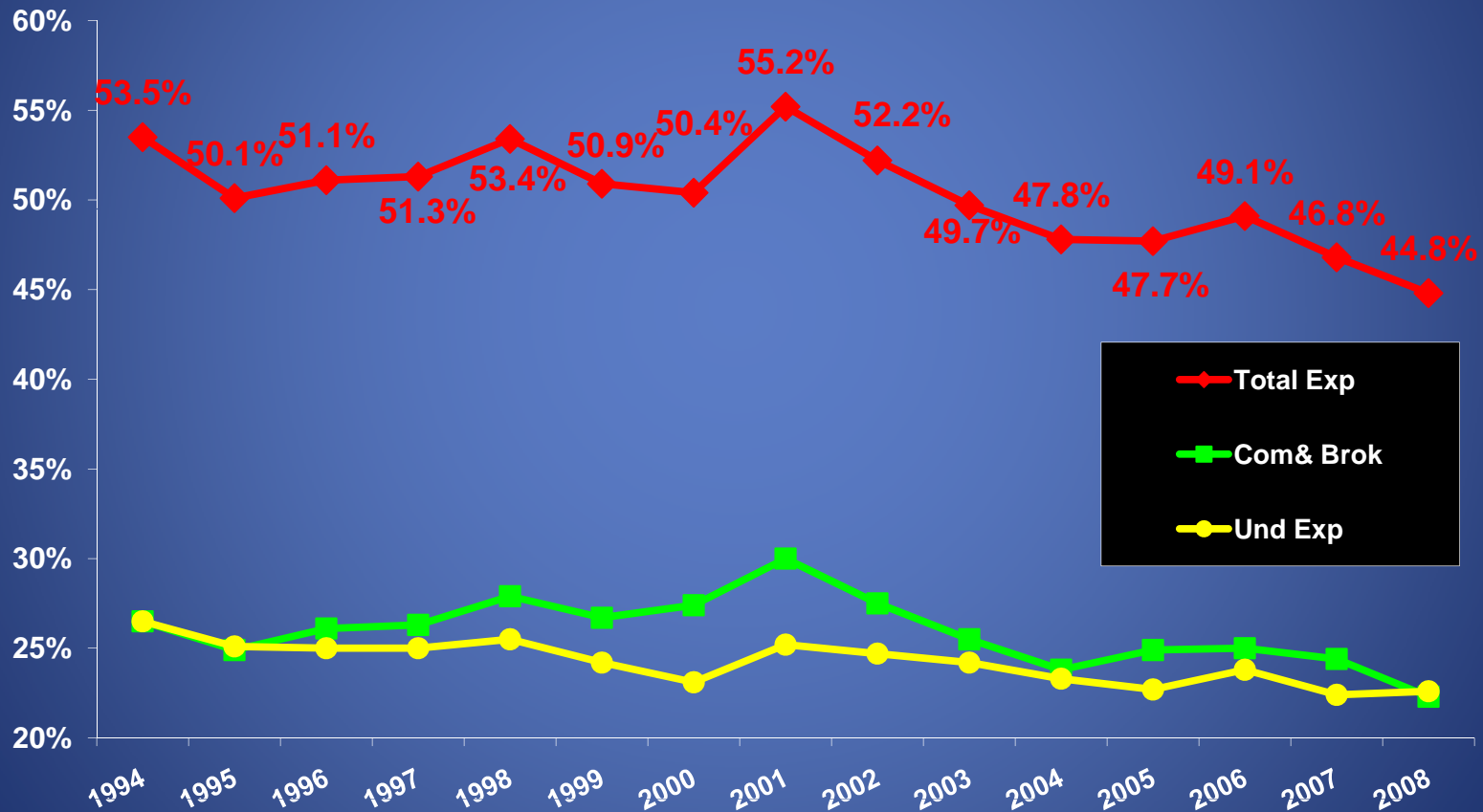


# Surety – Sensitivity to the Economy

Surety Loss Ratio vs. Default Rates through 12/31/2009



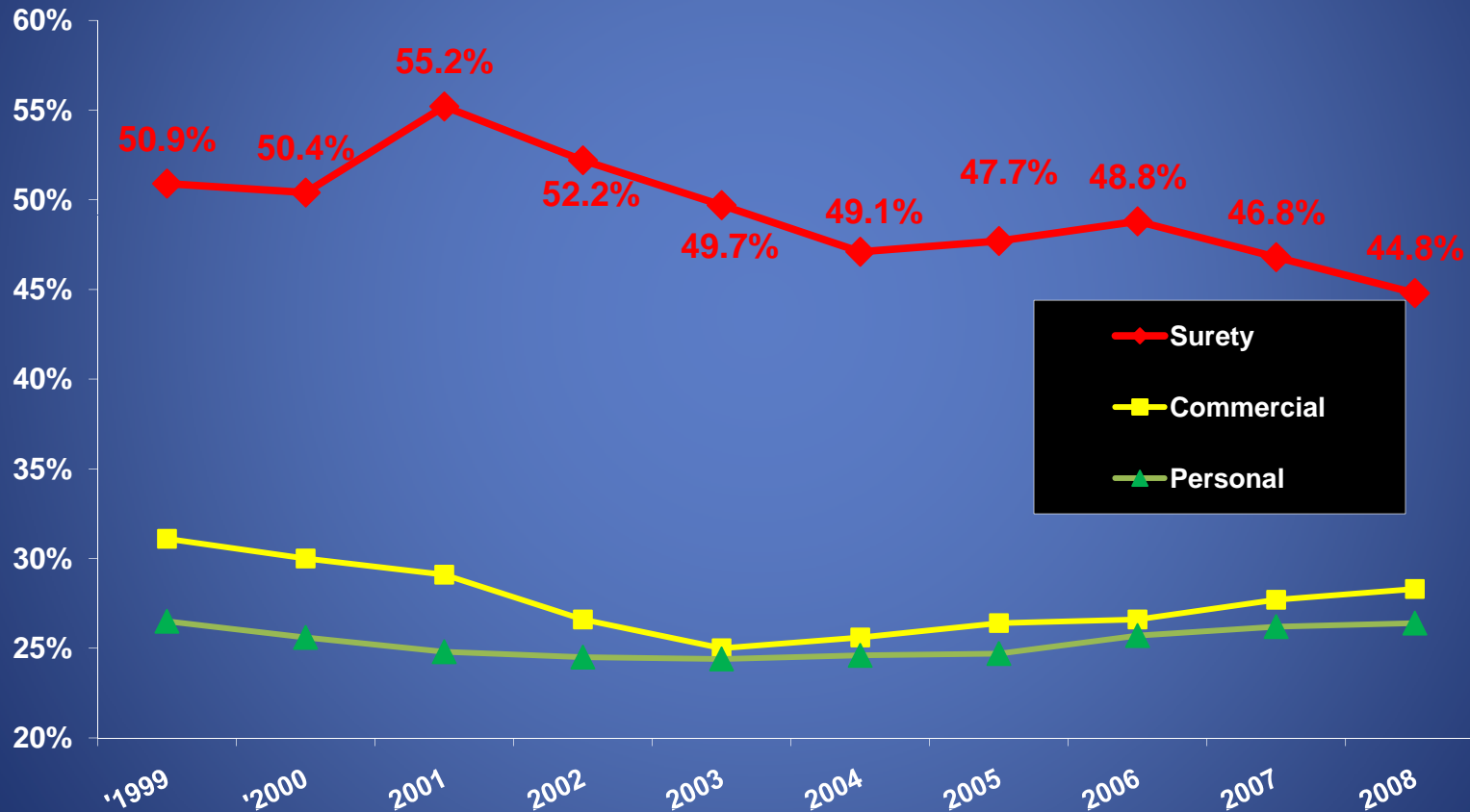
# Surety Underwriting Expense Ratio Components



Data from AM Best



# Surety, Commercial and Personal Net Underwriting Expense Ratio



Data from AM Best

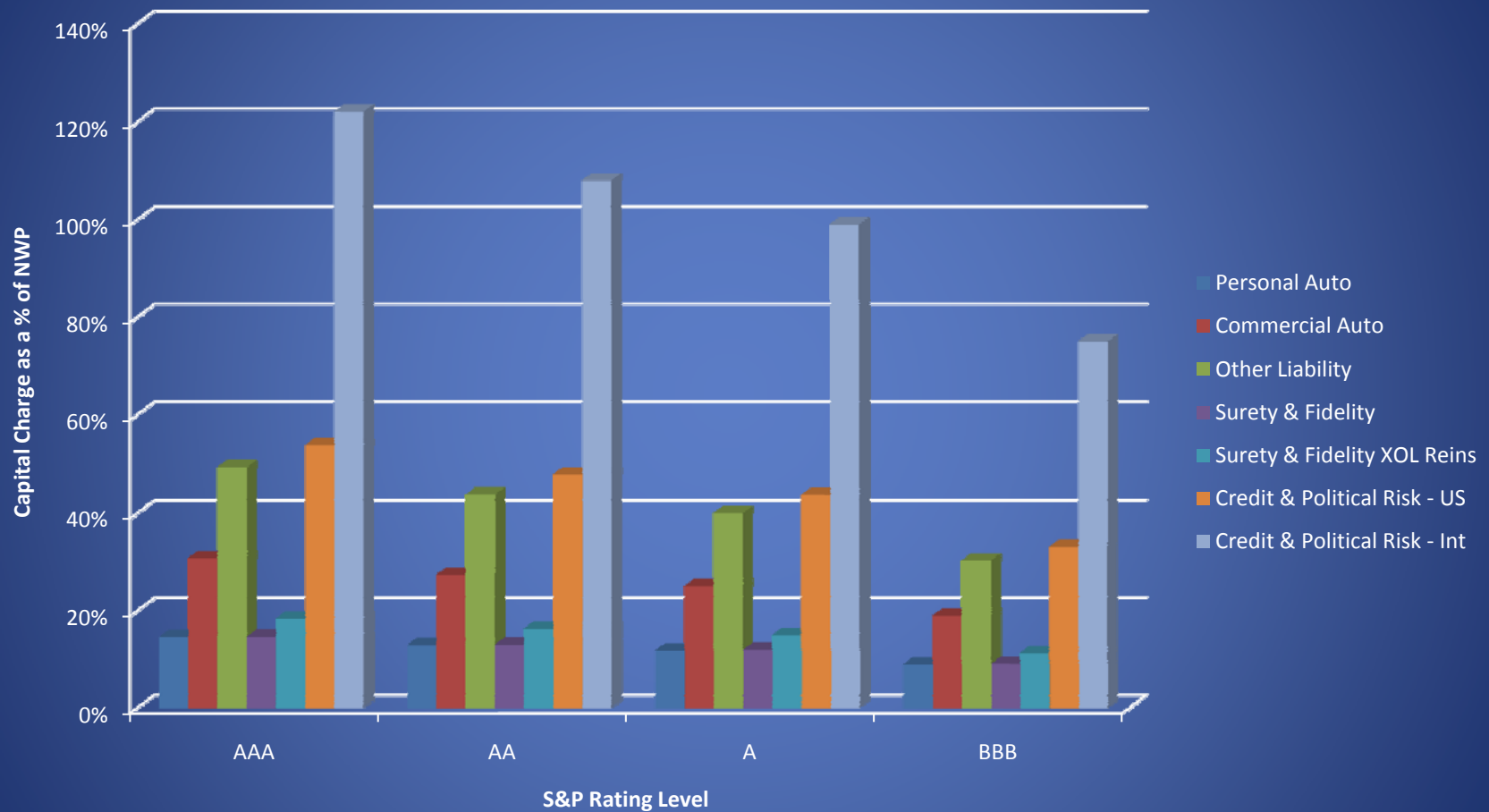


# Solutions

- Underwriting
- Pricing
- Exposure Management
- Expense Reduction
- FOCUS

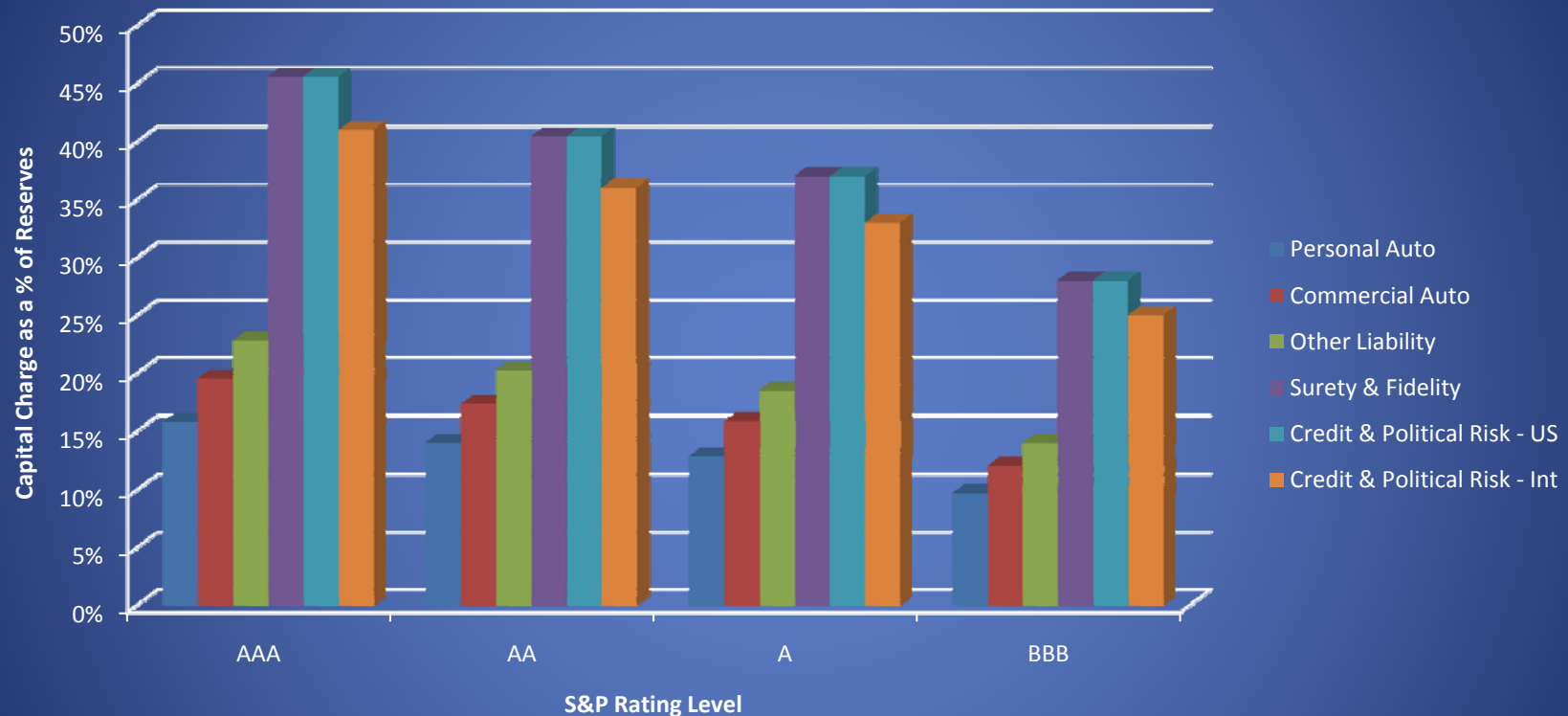
# S&P Net Written Premium Charges

## Sample Lines of Business



- Premium charges are a percent of NWP that vary by line of business and by S&P rating level
- Surety & Fidelity charges are relatively low
- Credit and Political Risk charges are the highest for any class

# S&P Net Reserve Charges Sample Lines of Business



- Reserve charges are multiplied by carried reserves. Charges vary by line of business and S&P rating level
- Reserve charges are the same for primary and xol reinsurance
- Surety charge is high; soft market results took a few years to emerge as adverse development
- Impact on casualty lines is understated in this slide, as reserve charges for an accident year must be held for many years.

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*C. Barsotti*

**"Where do you want us to start, Chief?  
Our expansion plans or our bankruptcy plans?"**

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*"That's settled, then. We'll lower our standards to meet the competition."*