

# **Surety Bonds in Europe**

**Series prospectus**

*June 2020*

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## What is the research?

Finaccord's series of reports about surety bonds in Europe – composed of an overview covering Belgium, France, Germany, Italy, Poland, Spain, Switzerland and the UK, plus eight individual country-specific studies (which are subsets of the overview) – is about the market for surety bonds and related guarantees covering both contract and commercial bonds. Based in part on a survey of over 120 leading participants in this sector, it provides detailed information about the value of the market for such bonds and guarantees across these countries, including trends from 2015 to 2019, plus the following segmentations of the market in 2019 alone:

- between the construction sector and other activities;
- between insurance companies, banks and other institutions (e.g. reciprocal guarantee companies);
- for insurance-backed surety bonds only:
  - by type of bond, e.g. advanced payment, bid, customs and performance bonds;
  - by size of customer, split between small, medium and large enterprises;
  - between domestic and non-domestic underwriters;
  - between cover intermediated by brokers and cover underwritten directly.

It highlights the underwriters of insurance-backed surety bonds that are most commonly used on a regular basis by brokers in each country plus the estimated market shares of underwriters of insurance-backed surety bonds in 2019 expressed as a percentage range (e.g. 5.0% to 7.5%). Finally, forecasts are provided for the likely value of the market for surety bonds and related guarantees in 2023, including a predicted segmentation of that value between insurance companies, banks and other institutions, for each of the eight countries in scope.

## What is the rationale?

Finaccord has produced this series of studies about surety bonds and related guarantees in Europe for a number of reasons. First, gross written premiums, commissions and other revenues from these products across the eight European countries investigated for this report were worth around EUR 6.90 billion in 2019, having grown at a nominal compound annual rate of 3.0% from EUR 6.13 billion in 2015. Moreover, within this market, sales of insurance-backed surety bonds alone were worth approximately EUR 2.14 billion in 2019 and are forecast to rise to around EUR 2.31 billion by 2023. As such, this is a substantial market.

Secondly, Basel III reforms that came into effect in 2014 stipulated that banks must hold an amount of capital that is adequate to cover their underlying business risks. This had the potential to encourage banks to reduce their operations in the surety bond sector, causing more business to flow to insurance-based products. This report series assesses trends in the share of the market distributed by banks and insurers to show what impact these reforms have had.

Thirdly, this is an under-researched market which is in part a consequence of the fact that three types of competitor are active in it, namely banks, insurers and other types of entity such as reciprocal guarantee institutions and government agencies, with each offering bond and guarantee products that can substitute for each other. This series of reports updates Finaccord's initial analysis published in 2016, as well as expanding on more limited public domain data.

## What methodology has been used?

This series of reports is based on an extensive program of primary and secondary research that took place in the last quarter of 2019 and the first quarter of 2020. Across the eight European countries in scope, Finaccord carried out a survey covering more than 120 leading entities involved in the market for surety bonds and related guarantees, including both insurance brokers and underwriters, in order to derive primary insights into key aspects of the surety bond market.

These survey results were used to build upon data acquired from multiple sources including the AECM (Association Européenne du Cautionnement), ICISA (International Credit Insurance and Surety Association), a variety of country-specific insurance associations, financial regulators, supervisory bodies and central banks (e.g. Assuralia and the NBB in Belgium), and the annual reports of insurers and other surety bond providers.

# What is the report structure (of the overview title)?

*Executive Summary:* provides a concise evaluation of the report's principal findings.

*Introduction:* discusses rationale, definitions and research methodology.

*European Overview:* an overview of the metrics contained in each country chapter that provides data concerning the value of the market for such bonds and guarantees across these countries, including trends from 2015 to 2019 with a forecast to 2023 plus segmentations of the market in 2019 alone between the construction sector and other activities and between insurers, banks and other institutions. For insurance-backed surety bonds only, premiums are segmented by type of bond, by size of customer, between domestic and non-domestic underwriters, and between cover intermediated by brokers and cover underwritten directly.

*Specific country chapters (eight):* for each of the eight countries in scope, these chapters provide the preceding data points in a country-specific format and also highlight the underwriters of insurance-backed surety bonds that are most commonly used on a regular basis by brokers plus the estimated market shares of underwriters of insurance-backed surety bonds in 2019 expressed as a percentage range (e.g. 5.0% to 7.5%). Finally, forecasts are provided for the likely value of the market for surety bonds and related guarantees in 2023, including a predicted segmentation of that value between insurance companies, banks and other institutions.

# What are the key features of the research?

Key features of this report series include:

- quantification of the market size for surety bonds and related guarantees across Belgium, France, Germany, Italy, Poland, Spain, Switzerland and the UK: how much is each market worth, and where is the fastest growth occurring?
- segmentation of insurance-backed surety bonds between contract and commercial bonds, with contract bonds further divided between bid, performance, advance payment, labour and material payment, and maintenance bonds, while commercial bonds are divided between customs, tax, licence and permit, and court bonds: which are the most significant types of bond by country?
- also for insurance-backed surety bonds, identification of the underwriters that are used most frequently by brokers for this type of business and presentation of likely underwriter market shares: how fragmented is the market for surety bonds in each country and how much business is placed with non-domestic insurers?
- forecasts for the market for surety bonds in Europe segmented both by country and by provider type: what is this sector likely to look like in 2023?

## How can the research be used?

You may be able to use this report plus the accompanying market data file in one or more of the following ways:

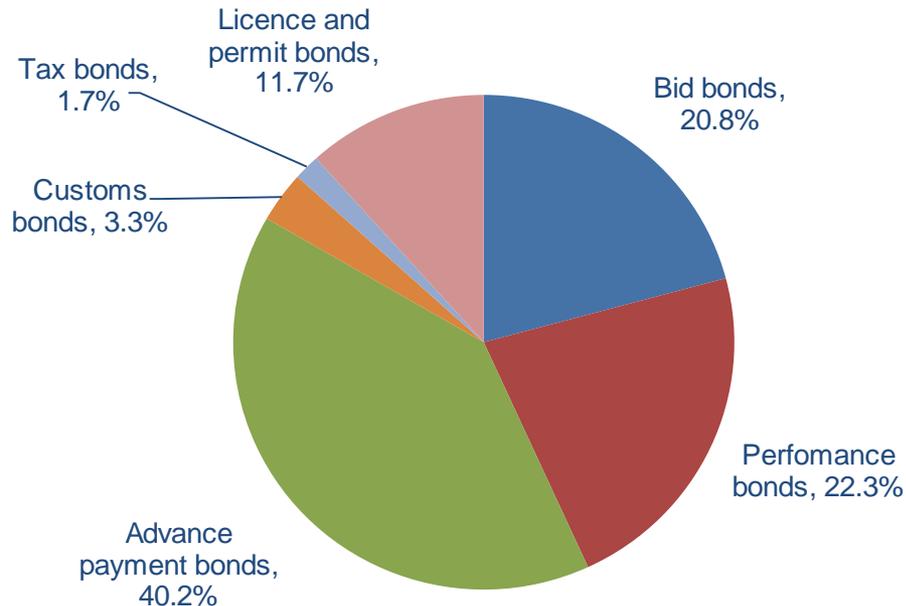
- to compare the size, segmentation and growth rates of the markets for surety bonds and related guarantees across eight major European countries;
- to appreciate the proportion of the total market value that is attributable to the construction sector and to identify which are the other major sectors by country;
- to understand the competitive environment for broking and underwriting of insurance-backed surety bonds in each country, including the position of underwriters active across multiple countries such as Atradius, Euler Hermes and Zurich, plus the value of business that is dealt with directly by insurers (as opposed to being intermediated by brokers);
- to gain insight into the likely future direction and segmentation of the market for surety bonds and related guarantees in each of Belgium, France, Germany, Italy, Poland, Spain, Switzerland and the UK.

## Who can use the research?

1. *Underwriters*: this report provides a unique analysis of a market for insurance-backed products that is forecast to be worth some EUR 2.31 billion across ten countries in Europe by 2023 and that offers valuable insights into its dynamics and future outlook for both actual and aspiring underwriters of surety bonds;
2. *Brokers*: in 2019, half of the value of the market for insurance-backed surety bonds across the eight countries was distributed via brokers: your organisation can understand more about the competitive environment in this arena by subscribing to this research;
3. *Banks and other institutions*: across the eight countries, banks account for more than 60% of the value of the total market for surety bonds and related guarantees, and other institutions (e.g. reciprocal guarantee companies) for a further 5%;
4. *Management consultancies*: is your organisation helping a market participant with its future plans for surety bonds and related guarantees in any or all of these eight countries? Gain access to key information through this publication.

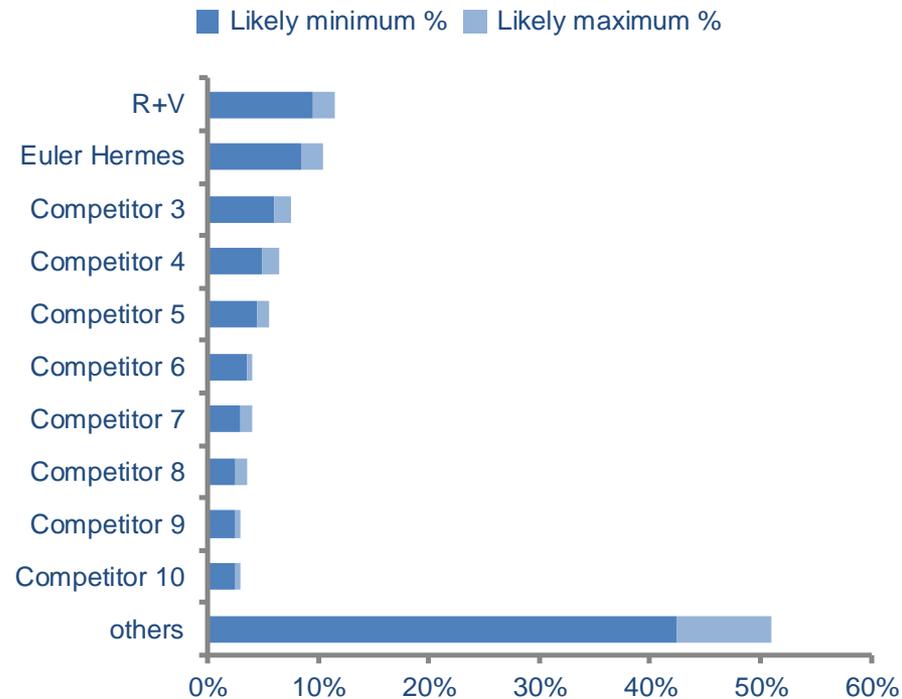
## What are some of the key findings?

1. In country X, advance payment bonds are the most important type of contract bond, while licence and permit bonds are the leading form of commercial bond



# What are some of the key findings? (cont.)

**2. Across the eight European countries in scope, R+V and Euler Hermes are likely to be the leaders by share of premiums in the market for insurance-backed surety bonds**

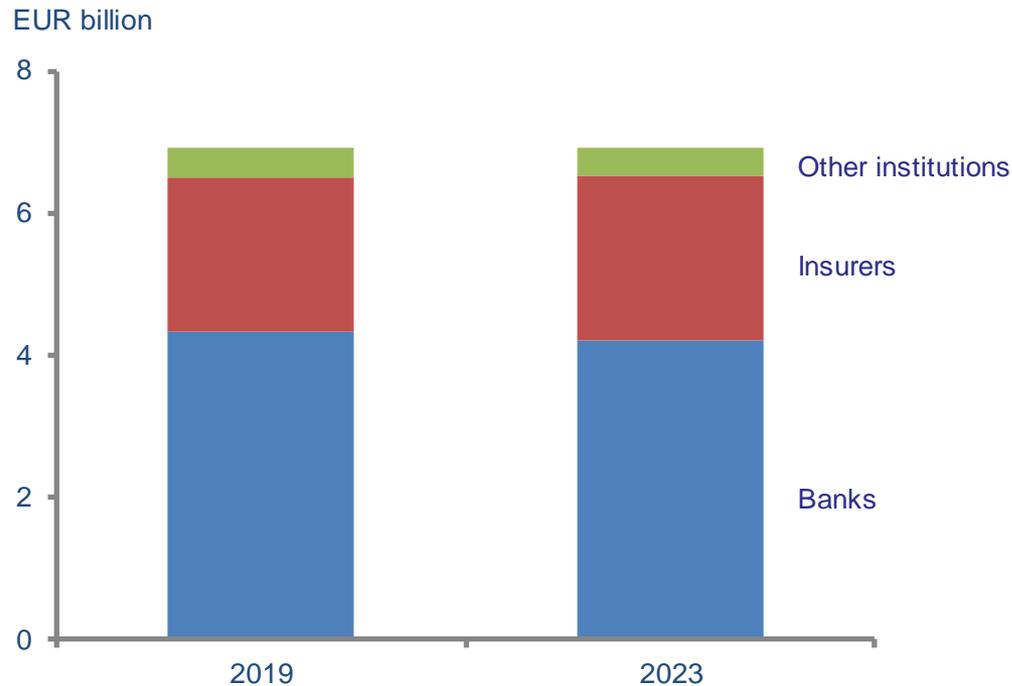


Market share of GWP for insurance-backed surety bonds, 2019

Source: Finaccord analysis

## What are some of the key findings? (cont.)

3. Across the same countries, insurers are likely to gain share up to 2023 within a total market for surety bonds and related guarantees forecast to be worth EUR 6.91 billion by that year



Source: Finaccord analysis

## What are some of the key findings? (cont.)

### 4. Key findings from the executive summary include:

- gross written premiums, commissions and other revenues from surety bonds and related guarantees across these eight European countries rose from a value of around EUR 6.13 billion in 2015 to around EUR 6.90 billion in 2019;
- insurance-backed surety bonds contributed around EUR 2.14 billion (or 31.1%) to the market total in 2019 with guarantees issued by banks totalling around EUR 4.34 billion (or 62.9%) and a residual amount of EUR 419 million (or 6.1%) to guarantees issued by other entities;
- while Euler Hermes was the leading multi-country underwriter of insurance-backed surety bonds in 2019, R+V's dominant position in Germany made it the market leader by premiums written;
- looking ahead, Finaccord forecasts that the total value of gross written premiums and commissions for all surety bonds and related guarantees earned by underwriters, banks and other entities across these countries will increase to around EUR 6.91 billion by 2023 with insurance-backed surety bonds making up a predicted EUR 2.31 billion of this total.