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**Q Do you anticipate an increase in bond claims activity? How can sureties be proactive about positioning themselves for a possible increase?**

There are a number of contra-indicators that make predicting and planning for increased claims activity difficult. Many surety companies saw claims activity rise during 2020 and 2021, but an almost equal number were flat or saw declines. This could support the hypothesis that losses are driven more by risk selection. It is hard to predict the ultimate effects of price increases, as well as labor cost increases, coming at a time when federal infrastructure legislation is also under consideration. There is also a great deal of unspent state pandemic funds, and it is not hard to imagine they could be used for school renovations, health clinics, or senior-related projects in the near future. Insurance company staffing generally is not a leading indicator but is instead a follow-on activity, so preparing is difficult. This is especially true given that even poor loss results may be driven by severity rather than frequency.

**Q Do you see material price volatility and labor shortages having a considerable impact on contractors and consequently the contract surety market?**

While material cost increases can be planned for, material price volatility, by its nature, cannot. This is especially problematic if material price exposure is contracted to the lowest-tier subcontractor. For example, an increase in the cost of asphalt on a \$10MM building project, which included a paving scope of 7.5%, would represent an exposure of 1.5% to the general contractor and may be able to be budgeted for, assuming there are not multiple simultaneous price increases. If this price exposure is contracted entirely to a paving subcontractor, this \$150k cost increase on the \$750k base contract would likely represent all allocated overhead and profit, leaving it unprofitable. Regarding labor shortages, U.S. schools continue to treat technical education, especially within the building trades, as “fall back” curriculum, leaving many unskilled and unemployed, while skilled laborers are now in demand.

**Q What has been the most rewarding experience that your company has experienced during the COVID-19 pandemic?**

A limited number of our employees were impacted by COVID-19, and we continued to conduct business successfully while working remotely. We witnessed the entire team step up during this challenging period while navigating both work life and home life and not missing a beat. We also discovered new ways to connect with our colleagues in a virtual world, which has unwittingly created a more proactive, collaborative team. Our strength is in our people, and I am very proud of all of our surety professionals. Lastly, we were able to attract top talent to our organization during the pandemic; and we are well positioned to successfully deal with whatever the future has in store for this market. ◀