Brown & Brown

Q3 2024 MARKET TRENDS

Surety

ESG Governance

Various governments and regulatory bodies have implemented stricter environmental, social and governance (ESG) reporting requirements through 2024. These regulations mandate companies to provide more comprehensive and transparent disclosures regarding their environmental impact, social responsibilities and governance practices. Surety underwriters must incorporate ESG factors into their risk assessment models more rigorously than previously required. This includes evaluating projects' environmental sustainability, construction activities' social impact and the governance structures of the firms they insure.

Companies seeking surety bonds will incur higher compliance costs to meet these enhanced reporting standards, which could influence their overall financial health and risk profile. More risk generally results in higher premiums, which traditionally diverts into a more challenging market and less overall capacity for new jobs.

Basel 4

Basel 4, the latest iteration of the Basel Accords, is set to go live in July 2025. It introduces new capital requirements for banks and financial institutions. These requirements aim to enhance the stability and resilience of the financial system by ensuring that institutions hold sufficient capital against potential losses. Surety companies, particularly those affiliated with banks or financial institutions, will need to hold higher capital reserves, which could affect their liquidity and capacity to underwrite new bonds. The need for increased capital may lead to more conservative underwriting policies, emphasizing the financial health and stability of companies seeking surety bonds.

Infrastructure and Inflation Reduction Act

The United States continues to roll out significant funding initiatives for infrastructure and public works projects to stimulate economic growth. These initiatives often come with specific regulatory requirements regarding project execution and sustainability. Projects funded by these initiatives must comply with stringent regulatory standards, including labor practices, environmental impact assessments and timely project completion. There has been a significant surge in demand for surety bonds to support these large-scale infrastructure projects, presenting a promising opportunity for the industry. Surety companies have been scaling up their operations to meet this increased demand while being met with a lack of new talent to fill gaps in the industry.

The Inflation Reduction Act will continue affecting cost structures and economic conditions for construction projects and the healthcare market. Changes in inflation control measures could lead to fluctuations in material and labor costs, impacting the overall cost of bonded projects. The broader economic impact of these amendments will influence the financial stability of contractors and developers, affecting their eligibility and risk profile for obtaining surety bonds.

How Brown & Brown Can Help

Connect with our Brown & Brown team to learn about our knowledge in your industry, how we build our risk mitigation strategies and how we can aid your business in building a cost-saving property & casualty program.

Read the Full Q3 2024 Market Trends Now

Brown & Brown

Find Your Solution at BBrown.com

Brown & Brown, Inc. and all its affiliates, do not provide legal, regulatory or tax guidance, or advice. If legal advice counsel or representation is needed, the services of a legal professional should be sought. The information in this document is intended to provide a general overview of the services contained herein. Brown & Brown, Inc. and all its affiliates, make no representation or warranty as to the accuracy or completeness of the document and undertakes no obligation to update or revise the document based upon new information or future changes.