CONSTRUCTION INDUSTRY
2021 MID-YEAR MARKET UPDATE

GENERAL TRENDS

The rate environment is still firming for contractors. However, the acceleration of rate increases is starting to slow on a relative basis. We believe the recent pickup in construction activity will add more rate pressure due to the uptick in revenues, payrolls, and vehicles on the road. Headwinds persist for construction leaders around labor and material shortages, causing construction firms to evaluate emerging risk management strategies to control risk and contain expenses.

CORE RISKS

GENERAL LIABILITY

Because underwriters are inundated with submissions, it's more important than ever to achieve risk differentiation. Clients who don't provide comprehensive data or give underwriters enough time to perform will be met with bad outcomes. In addition to rate increases, companies are adding restrictive coverage endorsements to manage their cost of risk.

AUTO

The number of miles driven is down due to COVID-19. However, the severity of losses continues to rise due to increased litigation financing, anti-corporate juries, and replacement part inflation. It's more important than ever for construction firms to be proactive and on the vanguard of fleet safety, especially through the use of telematics to monitor and control driver behavior.

WORKER'S COMPENSATION

The market for construction worker's compensation (WC) has remained stable during the COVID-19 pandemic. Losses have generally been contained, but WC insurers are closely monitoring potential adverse risk factors. These include deteriorating mental health, rising indemnity claim costs, and a less experienced workforce.

UMBRELLA

The Umbrella market will remain hard throughout 2021, and few carriers will consider new business if they do not already write the underlying policies. The result is that many contractors are being forced to consider non-admitted markets at significantly increased costs. Industry class and type of construction are more important in the underwriting process than the individual company's risk profile. However, maintaining a competitive risk profile (minimal losses, documented loss control strategies) is the best way to mitigate the inevitable price increases.

CONTROLLED INSURANCE PROGRAMS

The Controlled Insurance Program market has been hit hard by the lagging Residential Construction Defect Claims. Both options and markets have experienced severe hardening on pricing and underwriting appetite. Capacity for significant Excess limits has also been limited, leading to longer lead times and continued upward pricing trends. Defense Costs can be had outside the limits, market dependent, with ancillary benefits like Pollution Liability built-ins and Engineering and Loss Control surveys' inclusions being deployed only for optimal risks. The best program design and implementation can be achieved with advanced lead time, a strong narrative, and well-understood project scope.

BUILDER'S RISK

The builder's risk market continues to reflect the challenges present in the property insurance marketplace in general with capacity constraints and abnormally high loss ratios. Specifically, wood frame new construction continues to see double-digit year-over-year rate growth. This can further be exacerbated by a wood frame project that is a single structure and in a cat-exposed geographical area. For larger projects ($50,000,000 and up), capacity per carrier deployed is limited, so the limit tower that needs to be built encompasses more carriers than in the past, making it more expensive. To achieve the best quote results, the more information that is available, as well as using a best-in-class General Contractor, type of project, location, and type of construction, all significantly impact a competitive quote.

SURETY

Underwriting within the surety marketplace is also firming up. Some surety losses have a few companies re-underwriting their books of business while others are keeping a close eye on the health and well-being of their contractor clients. Surety companies are needing even more timely CPA-prepared financial-year-end statements to make the best decisions they can in terms of program, rate, and indemnity packages. Similarly, they are looking for current, accurate, and detailed interim underwriting information, like quarterly financial statements with corresponding work-in-process schedules. The balance sheet makeup is as important as the balance sheet itself. Sureties want to see their contractor clients be as liquid as possible. That means strong cash positions, good account receivable turnover, controlled under billings, and limited bank line usage. Profit fade is another area of focus when securing surety credit. Maintaining or increases in gross profits will be paramount in maximizing a contractor's program. All these areas of interest will allow for a surety to extend the credit required to help a contractor grow.

EXECUTIVE RISKS

Management Liability – The Directors & Officers (D&O) market continues to see upward pressure on rates and retentions, with larger programs finding capacity sparse. The Employment Practices Liability (EPL) market remains hard with increases of 20-40% common, as COVID-19 related claims continue to rise. Fiduciary Liability also moved into a firming state due partly to regulatory uncertainty and a new presidential administration, with underwriters especially scrutinizing larger plans with $500 million in assets.

Cyber Liability – The days of limiting cyber risk to a data breach are long gone. The dramatic uptick in ransomware attacks over the past year or so are a testament to this. As a result, construction firms must remain vigilant about controlling ransomware risk due to the significant supply chain disruptions that can arise after an attack. Security awareness training, multi-factor authentication, and proper backup procedures are three examples within a lengthy list of cybersecurity best practices to consider right now.

Professional Liability – The Professional Liability market remains competitive, with renewals seeing flat to 10% premium increases. Project-specific placement solutions vary depending on the purchaser, with extensive project Architects & Engineers capacity shrinking, making placement more difficult.

In this firming market, Best Practices and understanding how to navigate the market remain the best way to control and/or lower one's cost of risk. As insurance costs are rising, the impact will be further affected by a contractor's claim experience, risk tolerance by the insurer, the length of a contractor's relationship with the insurer and other risk mitigating practices. But by implementing "best practices" and choosing partners well, one can navigate these times and help lower cost of risk.

BEST PRACTICES AND TIPS

- **Choose Quality Partners** - Whether it's a broker, CPA, attorney, etc., choose a partner who will work closely with you, is aligned with your business plan, and has extensive knowledge of your industry segment. From a broker standpoint, choose a broker who has a good understanding of your industry segment, as well as having strong relationships within the construction insurance community.
- **Invest in Risk Control and Safety** - Risk control and safety measures are most effective when an organization commits to making this a part of the overall culture within the construction firm. A focus on risk control and mitigation will not only help ensure your workforce is safe, but also help protect a contractor's insurability, thus bringing about better rates and coverage.
- **Focus on Contractual Risk Transfer** - Transferring risk downstream is critical to maximize a contractor's insurability. Strong subcontract agreements with hold harmless and indemnification clauses should be reviewed by counsel and refreshed, if necessary.
- **Start Early, Strategize and Demand More** - Get out in front of the insurance buying process. Develop clear objectives and formulate a strategic plan to achieve your goals. Depending on size and complexity, start the renewal planning process between 4-6 months out. Demand more in the following areas:
  - Craft a carrier RFP that highlights your positive risk characteristics and gains preferential treatment.
  - When appropriate, utilize analytics to project renewal pricing and improve negotiation leverage.
  - Consider using video conferencing to meet with competing underwriters and personalize the process.
  - Demand a detailed coverage analysis to avoid punitive exclusions being added to your program at renewal.
  - Request a detailed service plan after binding the renewal to ensure a return on broker compensation.

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