Construction Insurance Market Update

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The commercial insurance market continues to harden, resulting in increased pricing and decreased capacity. Please join us for a 30-minute Insurance Market Update where we will discuss what the driving factors are and advise on how to best position yourself in the insurance marketplace.

- Insurance Market Overview
  - Property
  - Umbrella
  - General Liability
  - Commercial Auto
  - Workers Compensation
  - Cyber
- Claim frequency/severity
- Effects of COVID-19
- How to best position yourself for your renewal

Hardening Market

A Look Inside Coverage Lines

Line of Coverage	Current Marketplace (Range of Rate Increases)
Property	+15% to +40% or more
Umbrella/Excess - Supported Umbrella/Excess - Unsupported	+20% to +60% or more +30% to +100% or more
General Liability	+0% to +20%
Commercial Auto	+5% to +12%
Workers' Compensation	-2% to +5%
Cyber	+15% to +50%

The insurer that holds the key to the excess will be the best market for your company!

Compounding Factors

Casualty Market Drivers

Wildfire

Reinsurance Market

Nuclear Settlements

More vehicles on the road

Large Losses

NY Labor Law

Social Inflation

Class Action

Autonomous Vehicles

Distracted Driving

Opioid Crisis

Me Too Movement

Economy

Active Shooter

Stock Market

Construction Defect

Weather

Jury Settlements

So, What is Really Happening

Behind the scenes, you should know what and why

- As insurers started to feel the pressure from increased demands and jury settlements the first initial reaction was to increase pricing in an attempt to reduce the amount of insurance that was being purchased. This began in 2018 with rate increases between 3 to 5%.
- This continued into 2019 and by Q2 rates were up 5 to 10%.
- On the flip side, insureds continued to purchase the same limits of insurance with the increased premium.
- In Q4 the market went from 5 to 10% increases to 30 to 50%.
- 2020 Q1 marketed the beginning of capacity reduction by all standard market insurers. We saw lead umbrella capacity cut overnight from 25M to 10M. Insurers began to stop writing unsupported leads and completely pulled out of certain industries completely for excess placements.
- Q2 of 2020 surplus lines markets became inundated with new business submissions because of the moves by the standard markets.
- Surplus lines insurers reacted by shrinking their capacity to 5M or 10M on each layer no matter how high in a tower.
- In addition to shrinking capacity, EXCLUSIONS! BEWARE of EXCLUSIONS!!!! We do extensive coverage reviews and have found in most cases contractors have exclusions they are unaware of within their surplus lines' placements. Most impact coverage for construction defect latent claims, excluding completed operations.
- Surplus lines carriers are squeezing the general liability and auto carriers by forcing them to take higher underlying limits in very active layers of insurance, therefore we are seeing the rate impacted on the primary general liability and auto.
- Rate increases are real, and you should prepare!
- Everyone is feeling the pain, if you have had a claim in the excess layers of your program you are impacted more

Profitability by Coverage Line

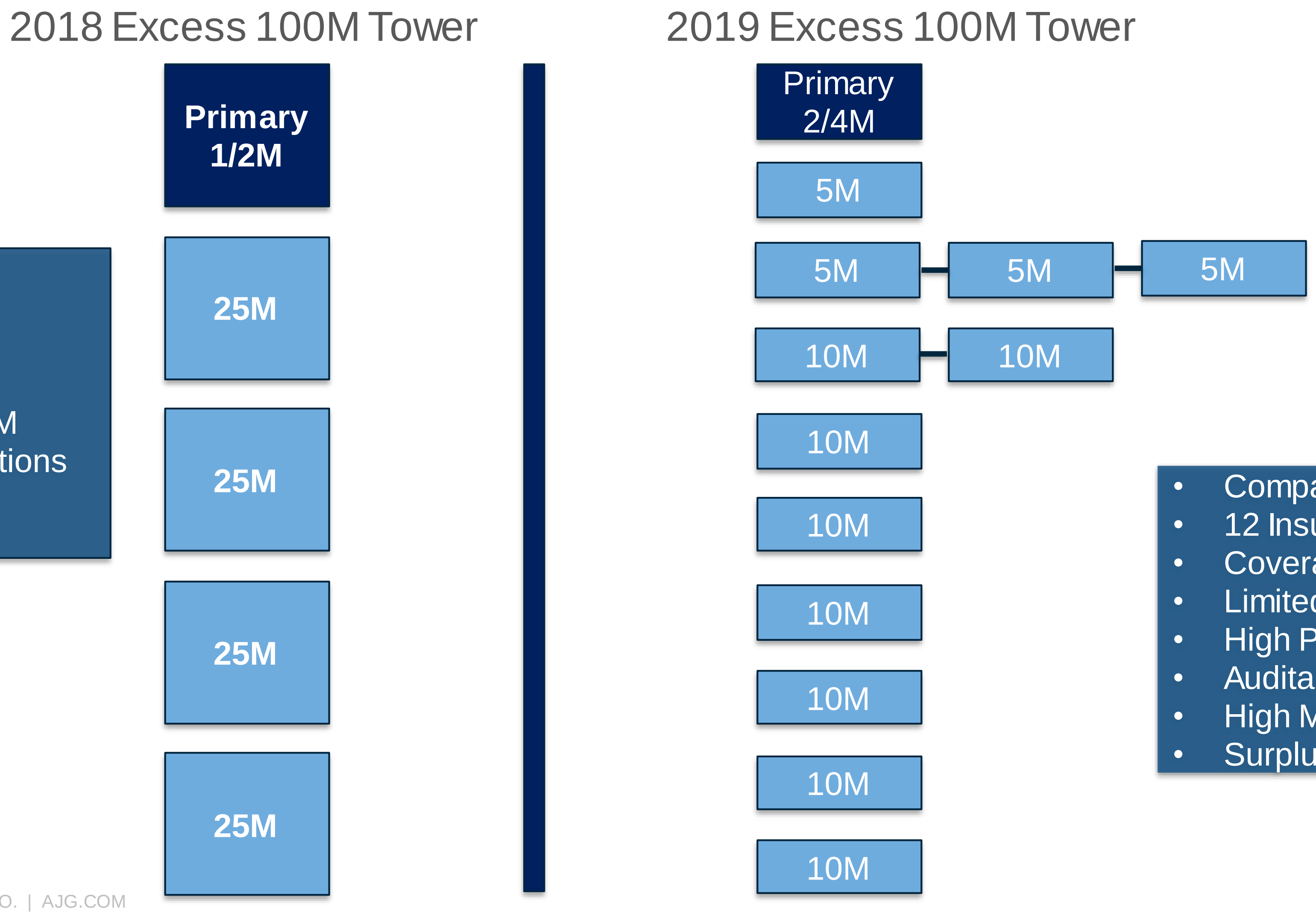
It is all about control

Workers' Compensation	• Control in the hands of insured • Pressure from EMR • Claims management – return to work, medical care, and immediate notification • Training
Property	• Some control is in the hands of the owner • Carrier's recommendations • Weather related claims are not controllable and cause this line to fluctuate in cost • Losses are immediate and insurers can plan for claims quickly
General Liability	• Control is somewhat in the hands of the insured, but with subcontractors the control lessens • Claims are often latent 2-15 years after completion of a project, some states if bodily injury is involved the statue is unlimited • No control over BI claims – medical, employment, and are often a surprise 2 years after the incident • CD claims are unknown until the occurrence
Automobile Liability	• Control over driver training and vehicle maintenance is in the hands of the insured • BI claims, like general liability, are often not brought to the attention of the insured until the 2-year statue • No ability to manage BI claims or even plan for the cost
Excess Liability	• No control • Claims are often severe when the excess carrier is involved and insured often has some negligence • Claims are not reported until they are severe, carriers do not have ability to plan for costs • Carrier does not really have the ability to manage the claim and rely on the underlying carrier (s)

Capacity

Building Excess Towers

- 4 Insurers
- Soft Market 20+
- Unlimited Capacity
- Coverage up to 100M
- Standard Market Options
- Competitive Pricing



- Comparable to 2002 Market
- 12 Insurers
- Coverage Restrictions
- Limited Capacity
- High Premiums
- Auditability
- High Minimum Premiums
- Surplus Lines Placements

March Renewal Example

What is the market saying?

Limits	Wild Fire Coverage	Excess Wrap Coverage	Per Project Aggregate	21-22 Premium
$10M	Yes	Yes	Yes	$315,900
				$3,159
$10M	Yes	Yes	Yes	$196,793
				$1,900
$5M	Yes	Yes	Yes	$98,396
				$4,750
$10M	Yes	Yes	Yes	$202,000
				$4,000
$10M	Yes	No	No	$207,150
				$0
$10M	Yes	No	No	$194,000
				$0
$15M	Yes	No	No	$225,000
				$2,250
$10M	Yes	No	No	$121,200
				$1,200
$10M	Yes	No	No	$110,000
				$5,500
$5M	Yes	No	No	$47,500
				$950
$5M	Yes	No	No	$49,199
				$2,375
Total Premium				**$1,793,222**

- This included primary attachments of 5/10M
- National contractor all states – Including NY and CA
- This client has excellent controls on all lines and are best in class
- In 2018 this tower included excess wrap up coverage and per project aggregates
    - Claims exist in the excess wrap up space
    - Capacity – per project aggregate
- While still a big concern, the risk from wildfire was is less of a concern than capacity.

General Market Trends

Construction Specific

- Excess insurance carriers are exiting the construction space
  - Street & Road – Look out
  - Residential – shrinking capacity daily and wicked exclusions
  - Certain states – NY, CA, and CO and wildfire areas
- Significant increases in attachment points are required
  - 2/4M General Liability
  - Auto fleets over 100 require 5M and higher for larger fleets
  - NY attachments points are upwards to 10M
- Most incumbent markets are maintaining their business at higher price points
- Most placements, even with minimal adverse loss history, are marketing and restructuring their programs, with excess & surplus markets – do you have relationships?
- New terms/conditions restrictions – EXCLUSIONS BEWARE!
- National vs Regional carriers

General Liability Market

Construction specific

- General liability insurers are being squeezed by the excess market. It is happening internally at insurance companies, one department is passing exposure to another to manage departmental P/L.
  - Primary limits that were 1/2M are now 2/4M on general liability and 1M up to 5M on the auto liability
  - The increase in primary limits are active loss layers this will ultimately increase general liability losses and rates
- The increase of primary attachment points will have an impact on horizontal exhaustion of limits. Larger contractors that were forced to increase primary attachment points open themselves up to significantly more liability in states that follow horizontal exhaustion.
- Increasing use of exclusions and nonstandard policy forms from the surplus market and regional insurers.
- Coverage that was purchased during the course of construction is changing during the completed operations period.
  - Additional insureds beware because there is no way to identify these exclusions on a certificate of insurance.
  - Insureds beware because your contracts hold you to 10 years completed operations coverage.
- Property damage as an occurrence – Most contractors do not understand the impact of this and how it impacts coverage in certain states.
- Excess wrap up coverage – This is a critical coverage that you should be paying attention to make sure is included within your program.

Exclusions Casualty Market

What you should be concerned about today?

Common construction specific exclusions insurers are adding that we are negotiating daily to remove!

- Excess wrap-up exclusion – All contractors need to protect themselves in the event a CIP/wrap up does not have enough limits, or your own coverage is broader.
- Progressive/continuous injury or property damage – aimed to exclude completed operations claims that occurred in years prior to placing coverage with that specific insurer.
- Per project aggregate – meaning that the limits are singular. Often contracts require this coverage within the excess layers and contractors could be in breach.
- Subcontractor warranty – contractor is required to verify that subcontractors have certain coverages and limits of insurance. In some cases, if they do not the insured is charged a rate, in other cases, coverage for that subcontractor is 100% excluded.
- Non cumulation of limits – if one occurrence during the policy period of on or more prior or future liability policies each occurrence limit is reduced by the amount of each payment.
- Punitive damages
- Uninsured and underinsured motorists
- Communicable disease exclusions – COVID-19
- EIFS – These exclusions can be tricky and need to be reviewed, some exclusions include language that says if EIFS is on any part of the structure even if the insured did not perform the EIFS install, no coverage.
- Wildfire exclusion
- State exclusions

How to Best Manage Casualty

Devil is in the details

- Believe that your rates are going to increase!
- Relationships matter not just on your primary insurance, but all the way up your excess tower, own as many of those relationships as possible.
- Tell your story – Why you are best in class?
- If you have had losses, how are you adjusted and managed? Not workers' compensation think 3rd party liability
  - Insurers want to know what you are currently doing to manage risk, not what you are planning on doing…
  - What did you learn from the losses?
  - What new protocols were put in place and what are the results from that implementation?
  - Why is your Q/C program effective?
  - If you have had auto losses, what training or safety measures have you taken to reduce?
- Partner with a construction experts (broker and insurer) vs. a generalist insurance advisor and insurer. The insurer and broker matter, one with a construction practice is a better long term fit than an insurer that dabbles in construction. Insurers that dabble in construction often are involved in disputes with insureds over policy language.
- Pay close attention to exclusions, read the policy. If your policy has exclusions, it is a sign you have a generalist vs. a construction expert.
- Increase your insurance costs in your bids today, do not wait for your renewal because you will be seeing an increase and that impacts your bottom-line.

Property Market

Specific to builders' risk

- The biggest issue we are facing with builders' risk is extensions for delayed projects. We are seeing carriers change terms and conditions, increase rates, and just not allow the extension forcing the insured back into the market with projects that are hard to insure because they are almost finished, and all the premium dollars were collected by the first insurer(s) making this not attractive to insurers and this is reflected in pricing.
- Rates are increasing and coverage enhancements are becoming costly or not available in the market.
- Frame capacity continues to be tough to find, on a positive note we are making some headway on mass timber in the standard market.
- Communicable disease – COVID-19 exclusions
- LEG 3 is still available, but with increased deductibles
- Water damage claims continue to lead the pack in project losses – Do you have a strong water mitigation program?

Recommendations on project delays

1. Talk to your insurer now about potential delays so that you understand the position so you can react now vs. later. Remember the market is hardening and coverage will be more difficult to place not easier.
2. Partner with a construction property expert that handles a lot of builders' risk that has relationships in the market. First impressions mean a lot! If you choose someone that does not represent you appropriately in the market and then try and replace that person that is not the best position.
3. Allow time - 90 days.

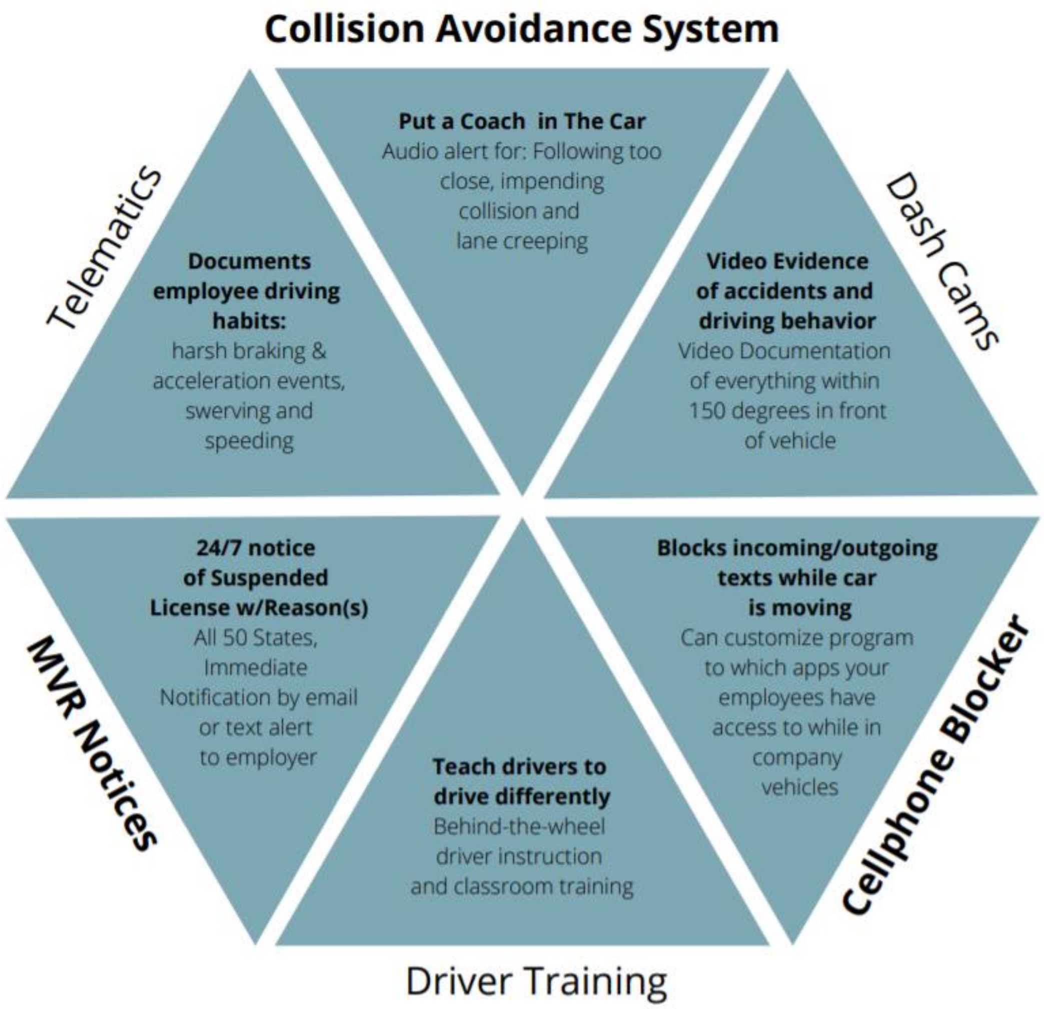
Automobile Liability

The line of coverage that started the hardening of the market

- In 2016 we began seeing auto liability rates climb because of higher settlements awarded, often claims were large enough to involve excess insurers. This rate increase was really the biggest increase since 2003.
- Another factor causing increased premiums is a continued reduction of reinsurance capacity for the primary insurers seeking buffer layer protection. Fleet size matters:
  - 50 often require a 2M attachment point
  - 100 require 2M to 5M attachment point
  - 500 and over require 5M to 10M attachment points
- DOT CSA scores matter! CSA scores can be checked online at FMCSA.com all you need is your DOT number. Drivers driving under their carrier's DOT number must check violations under your carrier's number. "Favorable underwriting consideration is given to those companies truly investing in their safety programs and truck technology," says Andrea Dickinson, Executive Vice President, Amwins Brokerage.
- Companies are increasingly eliminating company car programs and going to car allowances
  - To remove liability exposure, however non owned exposure is still a real exposure
  - Reduce costs
  - It is important to make sure that employees do not have exclusions for business use within personal lines policies, all policies are not created equally.
- It is important that your company keep up to date on implementation of hiring practices, training programs and telematics to prevent drowsy, distracted or dangerous driving habits. Your competitors are doing so to reduce auto exposure and rates. This is not optional anymore.

Automobile Liability

Staying up to date



Workers' Compensation

CHICAGOLAND ASSOCIATED GENERAL CONTRACTORS

Control matters

- Insureds control safety, hiring practices, management of claims, and the relationships with their employees making this the most profitable line of coverage for insurers we are discussing today.
- You need to protect this line so that it can provide premium support for the other lines of coverage. Insureds with better performing workers' compensation are attractive to insurers.
- We believe we are at the beginning of a turning point in the workers' compensation marketplace. We think this turn will be more gradual—moving from its current state of slightly negative to slightly positive in the coming quarters.
- Some industries saw a reduced exposure due to the COVID-19 pandemic with employees working from home, but construction saw an increased exposure as it was deemed an essential industry.
- As of January 2021, there were 123,674 COVID-19 workers' compensation claims reported
- Approximately 1.5% are severe cases involving ICU stays, 8% are moderate cases involving several medical treatment visits, and 90% are mild cases involving very little medical treatment. Reviewing these claims' value,
  - 73% are valued under $5,000,
  - 85% are valued under $10,000.

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How to best position yourself for renewal

Have a plan

- Make sure your agent or broker is a construction specialist.
- Make sure your insurer has a construction practice.
- Set expectations early by having conversations about your renewal as early as possible so you're factoring in increased insurance rates into your bids.
- If you decide to go out to market, pick who you want to represent you, let that professional control the market, dividing markets does not work because sometimes in a hard market there is only one perfect combination of insurers.
- The submission to the market is critical:
  - Underwriters have piles of account submissions on their desks, and they are going to be picky about what they work on. Now is the time you do not want to be the account that an insurer has seen 3 out of the last 5 years that did not make a move.
  - With extremely high volume of submissions going to insurer, sloppy submissions with missing information will be ignored or declined. Often agents will block markets with poor in adequate submissions, this hurts you, and is unprofessional on their part.
  - How well are your operations spelled out for the insurer?
  - Are your claims thoroughly explained?
  - Was your business plan outlined to the insurer?
- It is key to show the carrier that you have implemented controls surrounding COVID-19, including contract management.
- Relationships and leverage in the market are key.
- PURCHASE CYBER INSURANCE!!!!!

Construction Insurance Market Update

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Please feel free to reach out with any further questions.

Thank you.

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