CONSTRUCTION INSURANCE
MARKET FORECAST

CONSTRUCTION RISK PARTNERS, 2020
As we reflect on 2019 and navigate through the challenges of early 2020, one thing is abundantly clear: the dynamics in the insurance market have changed considerably since this time last year. The longest soft market in recent history has officially concluded with many underwriters increasing rates and narrowing appetite. While it remains to be seen how the political uncertainty and the economic ramifications of the COVID-19 outbreak impact the industry, we believe that the market shift has only just begun. Over the following pages, we will address the key factors driving the marketplace and how the new hard market may impact your business.

**PRIMARY & EXCESS CASUALTY**

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Workers’ Compensation seems to be one of the few exceptions to an otherwise hard market. Certain states issued rate reductions in the last few years that were unwelcomed by the carrier community; forcing underwriters to subsidize WC exposure through other lines of coverage. However, the market overall remains relatively stable. A continued focus and investment in safety combined with proper risk transfer and return-to-work practices have helped to improve workers’ compensation results across the industry. We expect rates and capacity to remain stable throughout 2020. As clients continue to invest in safety technology and predictive analytic capabilities, we are anticipating an increased interest in loss-sensitive and captive programs as a means to optimize their total cost of risk.
GENERAL LIABILITY

Civil contractors with heavy street and road operations can expect slightly higher rate increases than the general building sector. Capacity remains stable and we have not yet witnessed a significant retraction in coverage although this bears monitoring as the market becomes more challenging.

Carriers across the country are placing a heavy emphasis on state-specific underwriting. New York continues to remain in crisis mode as the cost of insurance on a New York project is often 4-5 times that of an equivalent project in any other state in the country. Contractors operating in New York also have fewer insurance options than ever before. Those without scale and liquidity to support higher retentions are often forced into the non-admitted insurance market where underwriting appetite, coverage terms, and claims handling capabilities are wildly inconsistent.

The residential market has also become extremely limited, particularly in states such as CA and FL where construction defect litigation is prevalent. Subcontractors have long been challenged in finding proper residential coverage under their GL program and we expect that capacity to continue to shrink in 2020. The underwriting view of what constitutes a “residential” risk continues to expand beyond traditional owner-occupied structures with increased scrutiny expected on apartment projects and projects with wood frame, podium, and/or cross-laminated timber structural components. In our view, wrap-up programs remain the most efficient means of maintaining proper premises and long-term completed operations coverage for any such project.

In 2020, contractors must be prepared to approach their renewals more proactively. We recommend strengthening executive level relationships and scheduling pre-renewal carrier meetings earlier in the process than ever before. Clients should be prepared to prioritize the importance of each element of their GL insurance program including rates, retention, collateral, coverage, and the carriers’ claims and risk control service. We expect an increased interest in captive programs and other alternative risk solutions as a means to offset a potential increase in fixed costs.

We expect General Liability rates on average risks to increase 5-10% in 2020.
AUTO

Not long ago, Auto was the outlier in an otherwise soft market. Even in today’s challenging marketplace, it remains an industry loss leader with very few carriers willing to write commercial auto without the benefit of other, more desirable lines of coverage. We expect rates to increase by 10-20% in 2020. Underwriters remain adamant that insureds focus on providing their employees with distracted driver training while also enforcing strict cell phone and personal use policies as well as proper motor vehicle record monitoring. Contractors with large fleets can expect increased underwriting scrutiny from both primary and excess underwriters as the pressure to increase the excess attachment point from $1M to $2M continues to build.

EXCESS LIABILITY

The umbrella and excess liability market changed drastically during the latter portion of the second quarter in 2019. As we continue in 2020, we expect significant increases in rate, attachment points, and minimum premiums as well as further reduction in market capacity. Clients who renewed in the first half of 2019 should be particularly prepared to feel the impact of the market change during their 2020 renewal. Purely from a rate perspective, the average risk can expect rate increases of 15+% on most excess programs. Clients with New York operations, residential risk, heavy civil work (such as street and highway work), heavy fleets and/or a poor claims or safety track record are subject to a more significant change in their program structure and pricing. Beyond pricing, clients should be prepared for the possibility that the limit structure of their excess tower may look significantly different than in years past. Excess underwriters are expected to be very disciplined in choosing when and where to deploy their capacity. A few short years ago, a lead $25M was widely available in the marketplace. In 2020, we expect that lead $25M in capacity to be fulfilled by the combination of at least 2-3 markets. We also expect continued upward pressure on underlying attachment points for both GL and Auto. Primary GL Limits of $2M/$4M/$4M are becoming standard even on favorable risks. Clients with a heavy NY exposure face limited market capacity through the first $10M of coverage. Structuring those programs requires a careful comparison between market rates in the primary, excess, and reinsurance markets.
The market for builder’s risk insurance hardened throughout 2019, albeit at a slightly slower pace than the property market. One of the driving forces behind the deteriorating market conditions is a reduction in global capacity. In recent years, poor underwriting results caused several global carriers to eliminate or greatly reduce construction appetite and capacity. What was once a wide gap between the U.S. and global market has begun to shrink as domestic underwriters increase rates and narrow terms and conditions. We expect these trends to continue throughout 2020 – particularly for projects with a higher risk profile.

Projects subject to high hazard CAT perils can expect significant impact in 2020 as capacity and reinsurance support continues to shrink. As underwriters become more protective of their CAT capacity, we expect larger projects to necessitate a quota share or structured program arrangement. We also anticipate a broader application of percentage deductibles in geographies that could previously be insured through a flat deductible. As water losses have become increasingly problematic across the country, carriers are now typically mandating minimum deductibles of $100,000 or more, per occurrence.

The market for wood frame, heavy timber, and treated wood construction is particularly challenging with average rates approaching $0.40 annually. Underwriters have seen significant frame losses through early 2020 and are placing a heavy emphasis on Temporary Heat, Roofing, Windows/Doors, Mechanical and Fire Suppression scopes. Underwriters are also increasingly insistent on policyholders investing in physical and electronic surveillance systems aimed at identifying and reducing the cost of loss driven by perils such as fire and water.

Given that builder’s risk policies are written on nonstandard forms, close attention should be paid to policy terms and conditions. While U.S. coverage terms remain broad, underwriters are becoming more disciplined when asked to provide their broadest coverage enhancements. A thorough review of the construction team (the architect, engineers, construction manager, and key trade contractors), their qualifications and experience has become standard.
PROPERTY

The commercial property market began to turn much earlier than other segments of the insurance marketplace with double digit increases common throughout the past 18 months. Despite a market that is saturated with capacity, underwriting performance continues to suffer. Not only has the market had to endure continued catastrophic storm and wildfire losses throughout 2019 and early 2020, but many carriers have been forced to increase reserves from past events such as Hurricanes Harvey and Irma due to continued loss development.

Overall, we anticipate further firming of the property market in 2020. Clients can expect 10-20% rate increases for non-CAT exposed properties with greater impact to high hazard or high-risk locations. This could come in the form of 20%+ rate increases, increased and/or uncapped retentions, and/or more complex program structures driven by more conservative deployment of carrier capacity.

SDI, PROFESSIONAL, ENVIRONMENTAL & CYBER

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SDI

The SDI market remains strong with more capital in this space than ever before. That being said, carriers are still very cautious in the type of risks they are willing to consider and the terms/conditions for which they will offer. The expectations on operational excellence for any SDI insured remain very high. The focus remains on a robust prequalification process, but at this stage, is just the price of entry. The expectations of the carriers have evolved to a clear emphasis on meaningful risk mitigation strategies and deep commitment around QA/QC programs.

It is our expectation, that despite the additional markets offering this coverage, the SDI terms, conditions, and pricing will remain relatively flat with the potential to trend towards a hard market should the economy slow. The frequency of subcontractor defaults has been growing slowly. If this slow growth becomes more rapid, we can expect the carriers to respond with tighter coverage terms and increased pricing. The good news is that the marketplace is clearly committed to this product. They all have a willingness to work with clients to ensure an economical and broad-based coverage offering is available today and for the foreseeable future. However, we should expect ongoing adjustments to coverage and program structure as this product continues to evolve.

PROFESSIONAL LIABILITY

The market for Construction Professional Liability insurance remains stable despite an increase in loss activity in recent years. While London capacity has shrunk dramatically due to poor underwriting experience, there remains an abundance of domestic markets offering a wide range of professional liability products. While most contractor programs can expect only moderate increases in rate, those involved with residential construction or highly engineered projects could face a more significant impact.

Two professional liability products that should continue to gain traction in 2020 are Owners Professional and Protective Insurance (OPPI) and Faulty Work coverage for subcontractors. In recent years, the OPPI product has become the most cost-effective option for insuring an owner’s design-related risk beyond the insurance and indemnity protection afforded by their underlying design professionals. As owners struggle to secure adequate limits of insurance from their architects and engineers, it is commonly less expensive for the owner to purchase their own OPPI protection than it is to pay the associated cost of increasing their design teams’ professional liability limits.

The re-emergence of Faulty Work Coverage for top tier subcontractors has helped to fill a critical gap in coverage for damages that are specifically excluded under Commercial General Liability insurance. Faulty Work coverage is now available as an amendment to many professional liability policies and is intended to provide coverage for the cost to repair or replace faulty work performed by the subcontractor as well as associated loss of use of such property. Underwriters are generally devoting their capacity to top tier artisan contractors and trade contractors performing electrical, mechanical, plumbing, and interior carpentry scopes.
ENVIRONMENTAL LIABILITY

The environmental market remains one of the more stable segments of the property and casualty space both in terms of contractor’s pollution liability (CPL) and pollution legal liability (PLL). The industry proved capable of withstanding AIG’s departure from the PLL space as new competitors have emerged to supplement and strengthen the overall market capacity. Buyers of both CPL and PLL policies can expect relatively stable rates, terms, and conditions throughout 2020. However, higher-risk construction operations such as wood frame and high-rise residential construction and projects built on historic industrial sites will face increased underwriting scrutiny and more limited market appetite.

CYBER

Despite new and evolving cyber crime threats as well as increased regulatory pressure, the market remains quite stable. This is particularly true for the construction industry where market conditions aren’t expected to tighten to the extent that other higher risk industries such as healthcare and financial services may. Premium rates and retentions should remain reasonable for the foreseeable future. However, close attention should be paid to coverage terms and conditions as new capacity enters the market. Cyber coverage forms are highly customized by carrier and must be reviewed carefully in order to evaluate the value of the protection afforded by the policy.

The market for CYBER LIABILITY continues to mature and is now flush with capacity.
Between the upcoming election and the early impact of the COVID-19 epidemic, 2020 is already shaping up to be a year filled with uncertainty. While we can’t confidently predict how these macroeconomic factors will impact the construction industry, we are prepared to guide our clients through the challenges that lie ahead. All indicators point towards a continuation of the unfavorable market conditions prevalent across the insurance industry. Adverse outside economic factors may only stimulate further market deterioration. More than at any time in recent history, a proactive and collaborative approach is critical to successfully navigating the changing marketplace.