



INSIGHTS



July 2022

Construction Insurance Market Update

Executive Summary

For the 18th consecutive quarter, we saw premium increases in Q1 2022. Previous issues related to COVID-19 were replaced by new challenges, including inflationary pressures, international supply chain disruption, and economic uncertainty.

Despite the convergence of these economic challenges, there are signs premium increases are beginning to moderate across most lines. Yet, in line with the previous few quarters, the cyber and umbrella markets continue to see double-digit increases. Due to increased demand and decreased capacity, cyber carriers heavily scrutinize each submission under increasingly stricter underwriting requirements.

This *Construction Insurance Update* will provide an overview of this dynamic, evolving Market so you can establish realistic expectations for your insurance spend. As always,

both macro market events—as well as areas within your control—will drive your coverage terms and pricing. These events include risk mitigation efforts, claims history, nature of operations, and volume of work.

We recommend working closely with your broker early in the process to establish a clear marketing strategy, develop a renewal budget, secure adequate underwriting details, and, when necessary, schedule carrier meetings with leadership to best tell your story. Buying decisions may warrant an evaluation of varying retentions, alternative risk financing, and program limits.

Ultimately, those who are proactive and transparent in their approach will mitigate surprises and secure the most favorable program terms in this market.

Average Premium Changes, 1999–Q1 2022



Source: CIAB

Workers' Compensation

↑ Market Trends: 1–5% Increase

- Workers' compensation (WC) continues to be one of the more desirable lines of business for carriers. This factor is driven by expected loss rates dropping 10–14% in construction class codes.
- However, manual WC rates are continuing to increase at a modest rate to compensate for increasing medical costs.
- The combination of good performance with increasing manual base rates has stabilized the WC pricing environment. Well-performing accounts may receive modest rate decreases while flat to 5% increases remain the norm.
- Payroll allocation guidelines have become more stringent, making WC audits difficult.
- The impact of COVID-19 on insurance claims has been minimal.

Mitigation Strategies

- OSHA continues to update and adjust its guidance. You can read about in [CA OSHA Guidance](#).
- Ensure you provide specific details around your Return-to-Work Program. What steps are you taking to minimize the cost of claims when they do arise?

General Liability

↑ Market Trends: 0%–5% Increase

- Q1 2022 reflected flat to low single-digit rate increases in general liability for most construction risks.
- The construction industry is seeing more stability and consistency in pricing coming from the major construction insurers. Rates continue to increase for certain industry segments, but the pace has certainly slowed. Contractors performing residential work, and high hazard wildfire exposures continue to be the most problematic areas. It's essential to identify the right carrier partners to fit your business needs early in your renewal cycle.

Mitigation Strategies

- Underwriters price for uncertainty, so the more detail you can offer an underwriter about your operations, the less they will price for unknown risk.
- Ensure your subcontractor risk transfer processes are current and well documented.
- Articulate to the underwriting community how your firm manages safety and quality control.
- Ensure that your submission gets the attention of the right insurers. It is even more critical to provide complete submissions and to facilitate live or virtual loss control visits when necessary.



Auto Liability

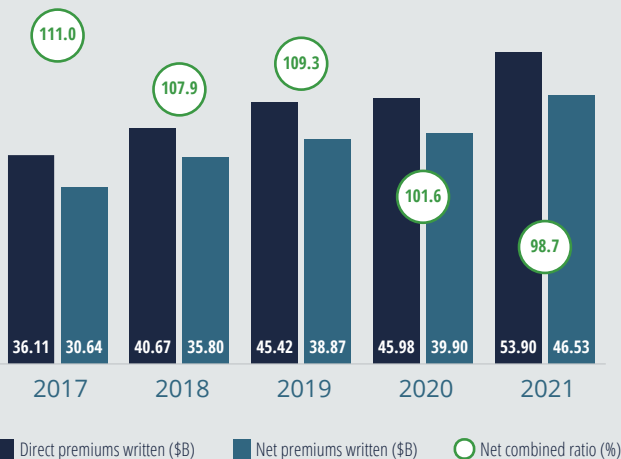
Market Trends: 5%–15% Increase

- For the first time in five years, the auto industry's combined ratio dropped below 100%. (See S&P Global Commercial Auto Chart).
- The cumulative impact of rate increases over several years has finally allowed auto insurers to collect premiums that exceed their net costs.
- The market continues to experience social inflation and nuclear verdicts impacting claim results, but rate increases have begun to decelerate.

Mitigation Strategies

- Implementing technology tools such as telematics and geofencing is critical for any insured companies with larger fleets, and the number of telematics offerings is widespread.
- In addition, effective driver training and program enforcement are a must for those with material auto exposure.

Industry's Commercial Auto Combined Ratio Dropped Below 100% in 2021



Source: S&P Global Market Intelligence

Excess Liability

Market Trends: 7%–20% Increase

- Umbrella prices continued to increase in Q1 2022 with an average increase of 10.5%. Though down from over 19.7% in Q1 2021, the Umbrella market continues to be a challenge for Contractors.
- We are beginning to see new entrants coming into the Excess Insurance markets, providing additional competition and capacity.
- Insurers have continued to look for opportunities to reduce the capacity (limits) they will offer, while demanding similar pricing. However, with new entrants coming into the market and offering up limits, we're seeing more predictability and stability in support for larger excess towers.

Mitigation Strategies

- Secure options for higher primary general liability and auto liability limits, or secure a buffer layer, to raise your attachment point and attract additional lead excess carriers.
- Utilize a quota share layering approach (multiple carriers sharing in limits) to attract more carriers to your account.
- Ensure you are providing quality information to the marketplace on any large losses that may implicate the excess layers.



Property / Inland Marine: Contractors' Equipment & Course of Construction

↑ Market Trends: 5%–20% Increase

- The fixed property insurance market (i.e., large property portfolio with heavy earthquake, flood, and wildfire exposed risks) continues to see upward rate pressure as well as increases on building valuations. Through the first quarter of 2022, rate increases averaged 8.6%.
- Contractors with relatively small property portfolios and favorable loss history can still negotiate competitive renewal terms for their equipment fleets.
- The contractors' equipment market continues to face rate pressure because of ongoing losses due to theft, vandalism, and catastrophic weather events, but these losses remain in the mid-single digits. Insurance carrier interest and market capacity for contractors with good loss experience remain robust and can help mitigate pricing increases.
- Those contractors with larger losses (thefts, etc.) can expect and may use increased deductibles to help mitigate rate increases moving forward.
- Builders' risk policies, both project-specific and master/renewable programs, are seeing small rate increases though pricing will vary based on losses and the construction type of each project insured.
- Deductibles on master builders' risk policies continue to rise with particular focus on water damage. Minimum deductibles now start at \$50,000 but are more commonly \$100,000-\$250,000 per occurrence for larger projects.
- Pricing for project-specific builders' risk policies can be bifurcated into wood frame and all other construction types:
 - The wood frame marketplace continues to be a challenge as large losses put upward pressure on rates and deductibles, including reduced terms and conditions. Insurers are both withdrawing capacity and underwriting the general contractor chosen for the project more closely. Mandatory protective safeguard requirements can include cameras, on-site guards, fences, and lighting. Projects greater than \$10 million in value are seeing multiple insurers required to provide the necessary limits.
 - For non-combustible projects, insurers should continue to provide extensive capacity and broad terms and conditions at competitive rates.
- Outside of fire losses, water damage claims continue to be the greatest challenge, and carriers are increasing their minimum deductibles to mitigate costs.
- For those projects with increased design exposure (design-build contracts, in particular), costs to add coverage enhancements like the LEG 3 endorsement continue to rise in combination with increased deductibles and lower sub-limits of coverage.
- Project extensions for builders' risk also continue to be an issue with surcharges on rates and increased deductibles required to extend the policy beyond the agreed end date. Allow 90 days in advance to request and process extensions on wood frame projects and 60 days for all other construction types.
- In the wake of COVID-19, virus and communicable disease exclusions are virtually standard on builders' risk, contractors' equipment, and property policies.

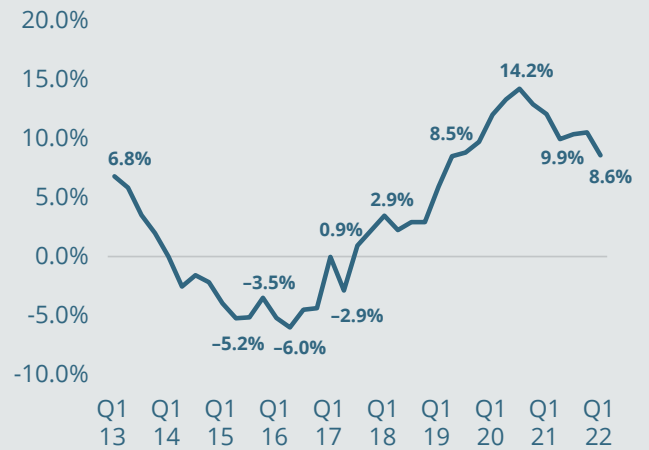


Property / Inland Marine: Contractors' Equipment & Course of Construction

Mitigation Strategies

- Document risk mitigation techniques for your equipment fleet. Tracking devices (GPS) and detailing project site and storage yard security measures will help in negotiating competitive terms and pricing.
- Recent building valuations and building updates, including documenting and confirming recent electrical and plumbing improvements, help underwriters provide competitive terms.
- Detailed underwriting information, project security measures, and risk management plans will aid in favorable new and renewal pricing for master builders' risk programs, as well as project-specific policies.

Premium Change for Commercial Property, 2013-Q1 2022



Professional & Pollution Insurance

Market Trends: Flat to +/-5%

- The pollution market remains steady with an increase in demand matched by an increase in carriers entering the market.
- For professional liability, project-specific capacity is beginning to shrink as carriers are beginning to be more selective.
- Additionally, carriers are more aggressive in their due diligence for submissions, particularly for design-build contractors. Note that virtually all carriers are requiring design builders to secure minimum insurance requirements for any design subcontractors used on a project.

Mitigation Strategies

- Establish a renewal strategy early. Communication with client(s) and insurer(s) is critical, especially as it relates to the specific services and obligations contractors are assuming under their risk profile.
- Submission of renewal specs to insurers should clearly outline expectations. Carefully review the definition for “professional services,” making sure it is broadly written and consistent with the insured’s activities/operations and includes work performed “by or on your behalf.”
- Claim-made and reported for professional liability: Insureds should understand the importance of disclosing matters that could lead to a potential claim under this coverage line. Most insurers allow for reporting of legitimate potential situations without penalty.
- Review renewal exposures against expected and prior years. As policies are generally flat rated, ensure you are using reasonable forecasts. Some insurers with automatic renewals might warrant quotes if there are material changes.

Management Liability (Directors & Officers Liability and Employment Practices Liability)

Market Trends: 7%–10% Increase

- Q1 2022 saw a 7.8% average increase in D&O pricing. Recently cited as a line facing increased pressure, D&O is beginning to show moderate price increases.
- Self-insured retentions continue to increase on renewals, but carriers expect retentions to stabilize.
- Employment practices liability can expect double-digit increases in retentions and pricing.

Mitigation Strategies

- Utilize carrier resources and counsel specializing in employment law to craft your risk management and human resource procedures. Bridge the gap between HR, Safety, Finance, and Operations to conduct an enterprise approach to help mitigate the risks associated with the ever-changing legal and compliance environment.



Cyber

Market Trends: 25%–50% Increase

- Cyber was among the most notable to see a rise in premiums, with an average increase of 27.5% and with several clients seeing premiums rise well above 50%. Most cyber carriers are increasing retentions in parallel with premium increases.
- Ransomware losses are piling up for carriers, which is driving more underwriting scrutiny in the form of additional supplemental applications and enhanced security requirements.
- The increase in the frequency of claims, severity of claims, and decreased capacity in the marketplace have caused tensions between contractors, brokers, and carriers.
- There also continues to be a huge rise in demand for cyber insurance due to the increased risk in ransomware attacks, digital workforce, and an increasingly unfriendly regulatory environment.
- Carriers have enforced stricter underwriting requirements, with a majority requiring multi-factor authentication before providing a quote. Insureds without or with insufficient controls are being denied renewal coverage terms.

Mitigation Strategies

- Continue to invest time and resources in IT security controls and policies. Gather quality data sets on your current enterprise information security practice and protections. Be prepared to answer questions about your security measures for remote workers. A ransomware supplemental application and the requirement for multi-factor authentication have become required by many underwriters to even quote on a risk.
- Outline your vendor management controls if you rely heavily on third-party vendors for any key IT and security services.
- Take advantage of all training opportunities your insurer may offer.

Minimum Protection

Email Security

- Email tagging
- Email content and delivery — Sender policy framework (SPF) checks
- Office 365 add-ons and configuration

Back-up and Recovery Policies

- Back-up key systems and databases

Internal Security

- Deploy and maintain a well configured and centrally managed antivirus solution
- Limit use of macros
- Patching cadence
- Well-defined and rehearsed incident response process
- Educate your users (phishing training, etc.)

Baseline Protection

Back-up and Recovery Policies

- Regular testing of back-ups
- Disconnect back-ups from organizations network
- Separately stored, unique back-up credentials

Internal Security

- Establish a secure baseline configuration
- Filter web browsing traffic
- Use of protective DNS
- Manage access effectively (e.g., MFA, privileged access)

Best Protection

Back-up and Recovery Policies

- Encrypted back-ups

Internal Security

- End-point detection and response (EDR) tools
- Comprehensive centralized log monitoring
- Subscription to external threat intelligence services
- Network segregation (i.e., via access control or well-configured firewall)

Woodruff Sawyer Construction Practice

Reach out to our contributing Construction authors for risk management and insurance advice, fierce advocacy when claims arise, and best practices in loss control and safety.



Bret Lawrence

Senior Vice President
blawrence@woodruffssawyer.com
415.402.6549
LinkedIn



Michael Landucci

Senior Vice President
mlanducci@woodruffssawyer.com
415.402.6634
LinkedIn



Kevin Reimers

Vice President,
Account Executive
kreimers@woodruffssawyer.com
415.402.6543
LinkedIn



Kevin Moore

Associate Producer
kmoore@woodruffssawyer.com
925.520.7469
LinkedIn



John Ward

Vice President,
Senior Account Executive
jward@woodruffssawyer.com
415.399.6421
LinkedIn



Tom Hughes

Vice President
thughes@woodruffssawyer.com
415.878.2465
LinkedIn



Matthew Parsons

Account Executive,
Vice President
mparsons@woodruffssawyer.com
415.399.6348
LinkedIn



Charles Shoemaker

Senior Vice President,
Construction Practice Leader
cshoemaker@woodruffssawyer.com
415.399.6416
LinkedIn

About Woodruff Sawyer

As one of the largest insurance brokerage and consulting firms in the US, Woodruff Sawyer protects the people and assets of more than 4,000 companies. We provide expert counsel and fierce advocacy to protect clients against their most critical risks in property & casualty, management liability, cyber liability, employee benefits, and personal wealth management. An active partner of Assurex Global and International Benefits Network, we provide expertise and customized solutions to insure innovation where clients need it, with headquarters in San Francisco, offices throughout the US, and global reach on six continents.

For more information

Call 844.972.6326, or visit woodruff Sawyer.com

Subscribe for Expert Advice and Insights

Sign up to receive expert advice, industry updates, and event invitations related to Employee Benefits and/or Business Risks.

