WOODRUFF SAWYER

Construction Insurance Market Update

2023 Edition

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Insurance Services | Risk Management | Employee Benefits

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Executive Summary

The first quarter of 2023 marked the 22nd consecutive quarter of insurance premium increases for construction companies. However, despite a slowing economy and continued supply chain issues, rate increases in most lines of coverage are slowing. Even cyber, which previously saw some of the highest increases, has begun to see relief both in premium and increased capacity.

The exceptions to this are the umbrella and property markets, which continue to experience double-digit increases.

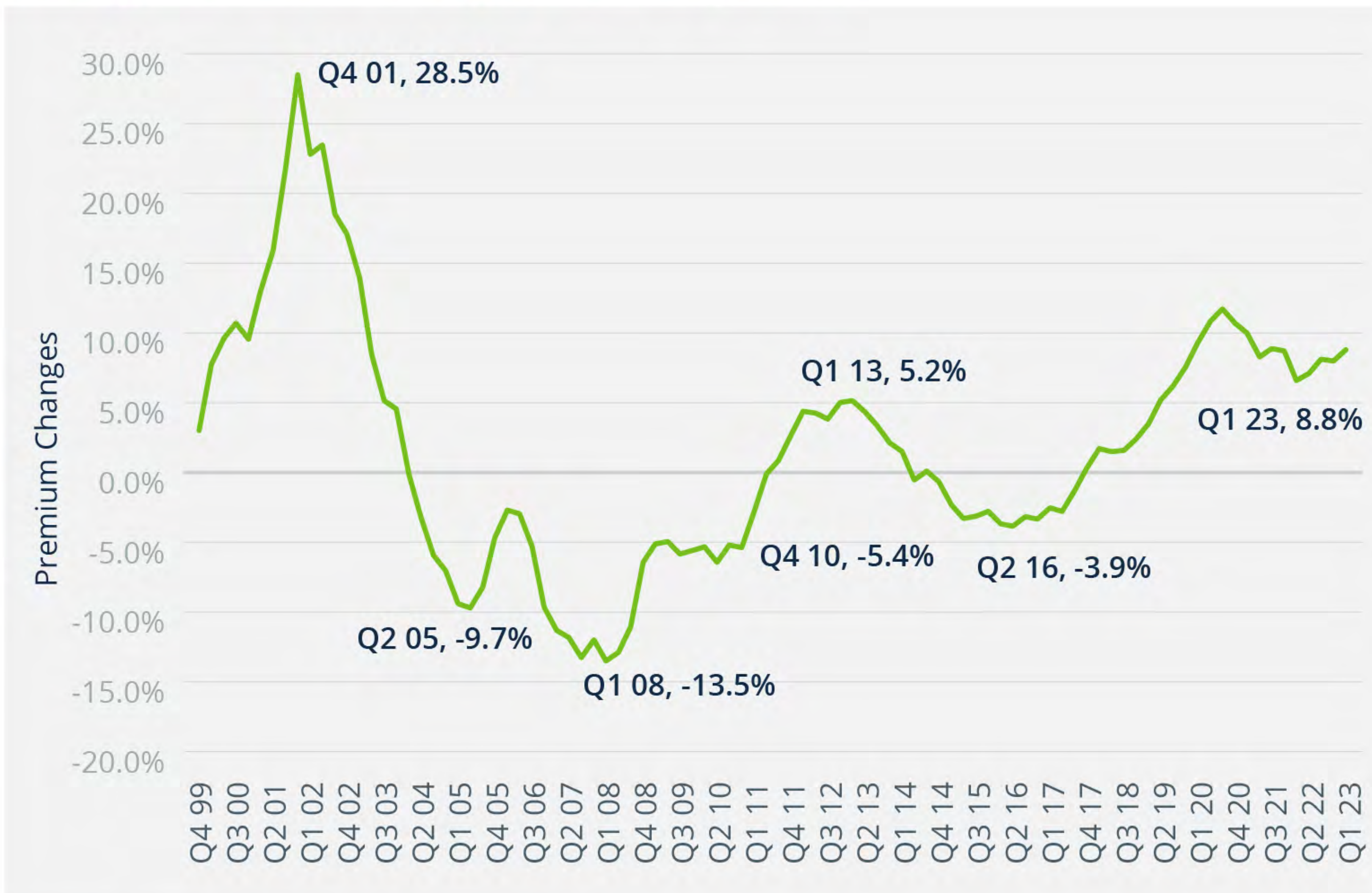
Despite signs of moderation, the property market has emerged as the central story, and for good reason. It saw an average premium increase of 20%, driven by catastrophic claims and inflationary pressure.

This Construction Insurance Market Update will help you understand the dynamic and evolving nature of the market so you can consider both macro market events and factors within your control when assessing your insurance spend. Controllable factors include risk mitigation efforts, claims history, nature of operations, and volume of work.

We highly 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 where necessary, schedule carrier meetings with leadership to best tell your story. Proactive and transparent approaches, along with early collaboration with your broker, will help avoid surprises and secure the most favorable program terms in this market. Buying decisions may warrant an evaluation of varying retentions, alternative risk financing, and program limits to help you navigate the evolving construction insurance market more effectively in 2023.

The data in this report details overall insurance trends, and it's consistent with what we're seeing for the construction market. We'll guide you through what it means for construction buyers and steps to take to get the best pricing on your renewal.

Average Premium Changes, 1999 – Q1 2023



Source: The Council of Insurance Agents & Brokers

Workers' Compensation

Market Trends:

Flat

- Workers' compensation continues to be the lone bright spot in rate relief for insurance buyers. For the fifth straight quarter, workers' compensation rates dropped moderately (-0.5% in Q1 2023). Expected loss rates continue to decrease and insurance carriers continue to experience profitability for the eighth straight year.
- However, concerns remain due to inflationary pressures and other macroeconomic trends. Increasing medical costs and the shortage of skilled labor continue to be at the forefront of concern for most.
- Workers' compensation insurance rates for commercial buyers are driven by safety measures and procedures. Customers with lower experience modification rates (EMR) will generally experience lower rates for their insurance.
- Technology and automation have contributed to lower injury rates for some contractors.

Mitigation Strategies

- Partner with your insurance carrier and insurance broker for continued focus on safety programs.
- A focus on advanced technology and efficiency can lead to lower injury rates and safer work environments.

General Liability

Market Trends:

0%–10% Increase

- Q1 2023 reflected flat to 10% rate increases in general liability for most construction risks.
- The construction industry is seeing more stability and consistency in the pricing that is coming from the major construction insurers. Rates continue to increase for certain industry segments, but the pace has certainly slowed. Contractors performing residential work, highway work that includes challenging traffic control plans, and properties with high-hazard wildfire exposures continue to be the most problematic areas. Identify the right carrier partners to meet 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. Subcontractor agreements are essential for submissions.
- Articulate to the underwriting community how your firm manages safety, quality control, and claims processes.
- 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:

8%–12% Increase

- Commercial auto markets sought their highest rate increase in the past several quarters as loss trends increased.
- With the pandemic behind us, roads have become more congested, and the cost of claims continues to increase.
- Supply chain issues and a shortage of auto parts have increased the cost of repair, making physical damage coverage not appealing to carriers.

Mitigation Strategies

- Technology tools such as telematics remain a requirement for insureds with larger fleets to help manage their risk on the road.
- Carriers expect employers to offer robust driver training and monitor their fleets to help mitigate their on-road exposure.

Excess Liability

Market Trends:

5%–8.5% Increase

- Umbrella prices continued to increase slightly in Q1 2023, with increases of up to 8.5%.
- New entrants are coming into the excess insurance markets, providing additional competition and capacity. However, underwriting appetite is not changing and the willingness to offer excess limits above $10 million in a single layer is still hard to come by. However, the new markets are helping contractors secure more limit in comparison to the past three years.
- Overall, there is more predictability and stability in support of 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.
- Use a quota share layering approach (multiple carriers sharing in limits) to attract more carriers to your account.
- Leverage your primary underwriting relationship and request higher excess limits from your carrier that already supports your workers' compensation, commercial auto, and general liability.
- Ensure that 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 in building valuations. Through the first quarter of 2023, rate increases averaged 20.4%.
- Natural disasters, including Hurricane Ian, drove losses estimated at $40–$75 billion. These severity losses combined with the increasing frequency of claims have put strong upward pressure on rates.
- Contractors with relatively small property portfolios and favorable loss history can still negotiate competitive renewal terms for their property exposures.
- The contractors' equipment market continues to face rate pressure because of ongoing losses due to theft, vandalism, and catastrophic weather events, but the rate increases 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 (such as thefts) can expect large rate and deductible increases.
- Builders' risk policies, both project-specific and master/renewable programs, are seeing small rate increases, though pricing will vary based on the geographic location and construction type of each project insured. 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 include cameras, on-site guards, fences, and lighting. Projects greater than $10 million in value may require multiple insurers to provide the necessary limits.

  - For non-combustible projects, insurers 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 sublimits 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.

Mitigation Strategies

- Document risk mitigation techniques for your equipment fleet. Tracking devices (GPS) and detailing project site and storage yard security measures will help you negotiate competitive terms and pricing.
- Recent building valuations and building updates, including documentation 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, Q1 2017 – Q1 2023

Source: The Council of Insurance Agents & Brokers

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Professional & Pollution Insurance

Market Trends: 5%–10% Increase

- The pollution market remains steady, with an increase in demand matched by an increase in carriers entering the market.
- For professional liability, buyers are continuing to see pricing increases along with increases in retentions for most risks.
- Carriers are also applying additional scrutiny to submissions, thus requiring a much more intensive information-gathering process. Equally as important, carriers are including additional exclusion clauses, which require keen scrutiny by buyers to ensure the terms are adequate.

Mitigation Strategies

- Establish a renewal strategy early. Communication between insureds and insurers is critical since this coverage is generally written with non-admitted insurers that don't have the pre-renewal notifications required of admitted insurers.
- Your 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."
- 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 exposures and those of prior years. As policies are generally flat-rated, ensure you are using reasonable forecasts. Some insurers with automatic renewals might warrant requotes if there are material changes.

Management Liability

(Directors & Officers Liability and Employment Practices Liability)

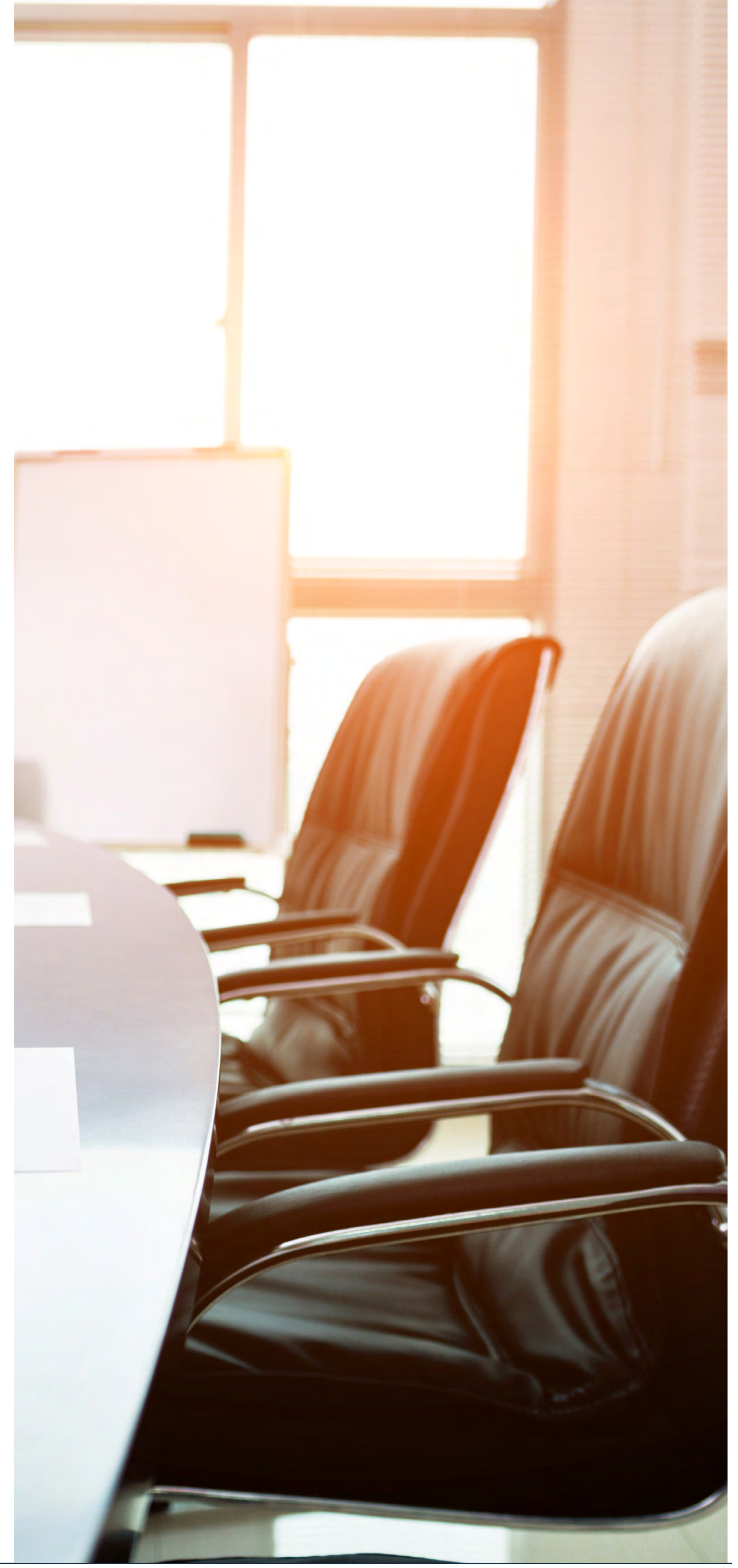
Market Trends:

7%–10% Increase

- In Q1 2023, we saw a 7.8% average increase in D&O pricing. D&O continues to show moderate price increases and an increase in capacity.
- Despite still facing some challenges, 2023 has presented a potential opportunity to decrease retentions, or at least keep retentions flat.

Mitigation Strategies

- Use 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:

5%–15%+ Increase

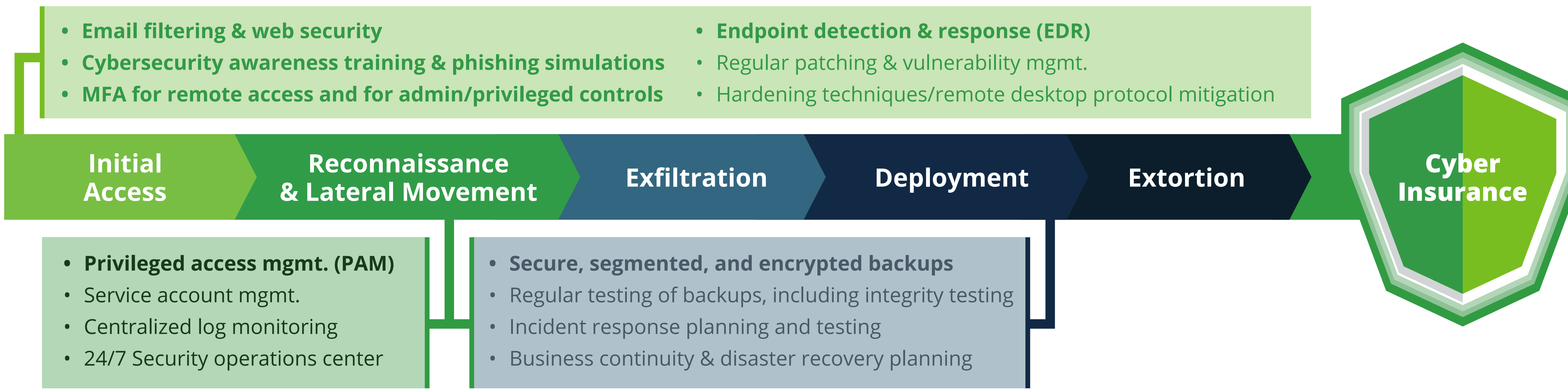
- Cyber was one of the most difficult coverages to insure in 2022, with an average premium increase of 27.5% with vulnerable firms seeing as much as a 50% rise. In 2023, cyber premiums have begun softening, with an average increase of 8.4%.
- Insureds have been implementing basic cyber risk management, with measures like multi-factor authentication and practicing good cyber hygiene, allowing cyber insurers to be more aggressive in pricing.
- Risk management controls have allowed new carriers to enter the market, allowing an increase in competition, which benefits insureds.
- There also continues to be a large increase in demand for cyber insurance due to the increased risk in ransomware attacks, a 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.

Premium Change for Cyber, Q4 2016 – Q1 2023

Source: The Council of Insurance Agents & Brokers

Critical Ransomware Controls — Prevention & Resiliency

Lifecycle of a Ransomware Attack*



*Source: Ransomware.org "Anatomy of a Modern Ransomware Attack"

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 security measures you've taken as workers operate in a remote environment. 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 training your insurer may offer.

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.

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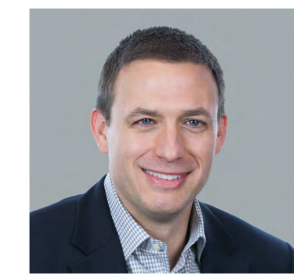

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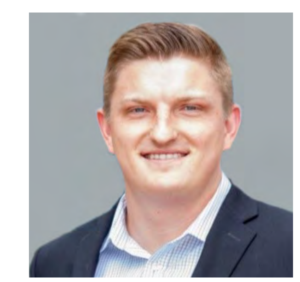

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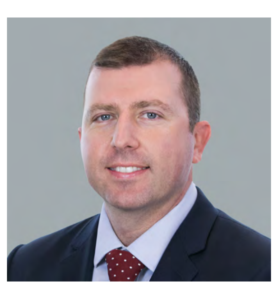

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