Construction Insurance Market Insights H1 2021

State of the Market – General

The first half of 2021 has seen an acceleration of the trends arising from the hardening insurance market. Strategic portfolio reviews in 2020 resulted in a significant reduction in capacity and upwards pressure on rates across all classes of business. Construction risks are being scruntised rigorously and disciplined underwriting, with focus on risk management, price adequacy and tightening of broad-based coverage as carriers are seeking to repair portfolios and return to profitability.

We are starting to see the true impact of the COVID-19 pandemic, still a live event. Losses are still accumulating, with estimates sitting close to USD 50-100billion. It has impacted clients and the industry in many ways from direct and specific losses arising from the pandemic to long term changes to how the construction industry operates moving forward. One major impact is the effect COVID-19 is having on projects being able to complete on time. Many projects are now seeking extensions from insurers as they face significant delays in both workforce and materials.

State of the Market – Material Damage

The Material Damage market remains particularly challenged as carriers look to improve their bottom line off the back of significant historical project losses. Pricing continues to increase while policy terms and conditions are deteriorating further. There is a continued focus on restricting coverage for maintenance periods, defects and water damage events. Projects with complex risk profiles, that have natural catastrophe exposures, and/or with contractors that have a poor experience in the market are now being particularly scruntised by insurers.

Technical information and risk management details are now an expectation for larger risks, with insurers favouring projects with a robust risk management plan in place and restricting capacity on those with heavy civil or natural catastrophe exposure. Risk management and self-insured retention remains a strong focus as clients undertake cost-benefit analysis between coverage and price.

Category	Outlook	Commentary
Pricing	↑	• Minimum rate increase on benign risks 15% - 25% • Increases expected greater for accounts with ‘high hazard’ and natural catastrophe (nat cat) footprints e.g. road projects, projects in Far North Queensland • Accounts with poor loss history are seeing rate increases in range of 50% - 100% • Capacity constraints leading to scenarios where follow markets are requiring additional premium loading

Category	Outlook	Commentary
Limits		• Policy limits and sub-limits being used as a means to manage pricing and capacity • Projects consider buying up to probable maximum loss (PML) instead of full project value to reduce pressure on capacity • Limits for additional coverages (i.e. mitigation, expediting etc) are reducing (to e.g. 5% of project value) • Sub-limits for extra expense and additional costs are limited
Retentions		• Increased retentions on placements with attritional loss activity or natural catastrophe exposure • LEG 3 and water damage deductibles continue to be major focus for insurers • Clients trading retention to manage premium rate increases
Coverage		• Carriers being critical of broker manuscript wordings • Markets are insistent on communicable disease and cyber-based restrictions being applied • Coal based project restrictions
Capacity		• Compressed capacity - line sizes reducing in general to manage portfolio volatility • True "Lead" capacity options diminished • Last 15% capacity on major projects stretching available capacity • Large civil infrastructure risk becoming increasing difficult to finalise • USD 750m PML capacity withdrawn from London market in last 2 years
Claims		• Costly global nat cat losses continue to hurt profitability • Major projects commenced in mid 2010s coming to completion with major claims being notified • Frequency issues as a result of soft market conditions in LEG 3 claims on road and pipeline projects • Potential for DSU claims as a result of COVID-19

State of the Market – Liability

The casualty market is under similar pressure as other product lines as carriers strive for profitability. Insurers are using capacity deployment and significant rate adjustment to offset historical losses and the growing reserve for long-tail claims. Capacity restrictions mean that insurers are looking reduce their line size with the cost of replacing withdrawn capacity coming at much larger cost. Historical coverage enhancements such as professional indemnity writebacks and open contractual liability coverage are being reviewed with some carriers limiting coverage in these areas.

Category	Outlook	Commentary
Pricing		• Rate increases across the board. Benign renewals in the range of 15% to 25%. • Unprofitable accounts will see sharp increases in premium • Capacity from withdrawing markets being replaced at a much larger cost • Excess capacity minimums have increased over 30+%
Limits		• As capacity becomes tighter clients are reviewing required limits vs nice to have limits • Carriers are reducing line size and writing smaller layer across major placements
Retentions		• Deductibles increasing across the board • Significant shift in Worker to Worker deductibles with insurers looking for between $100,000 and $250,000 minimum depending on turnover and claims activity • Clients are being forced to take higher retentions to offset premium increases

Category	Outlook	Commentary
Coverage	↓	• Enhancements in cover provided in the soft market are under review as insurers look to tighten back coverage • Professional indemnity coverage writebacks are under review • Mandatory cyber exclusions are being applied • Insurers are reviewing contractual liability coverage and seeking further information on indemnities and hold harmless clauses. • Bushfire liability exclusions are starting to be introduced
Capacity	↓	• Insurers preferring to write smaller line sizes ($10 - 20m) requiring more insurers to finalise larger placements • Capacity has significantly reduced • Bushfire capacity is also reducing with insurers managing a cross over of operational and construction programmes
Claims	↑	• Worker to Worker losses continue to heavily impact profitability. • Large one-off claims continue to impact the market • Insurers are requesting claims histories over a minimum 5 year period, preferably 7 – 10 years and requesting project specific loss history

Looking Ahead

We expect general premium increases for the next 12-24 months from anywhere between 15 - 25%, with unprofitable accounts having the sharper increases. Pandemic impact is expected to play out, at which point we then anticipate accumulative loss up to USD 100 billion.

We can lessen these increases by working together with our clients, ensuring they are aware of the risk and educating them on the causes behind major losses and how to avoid them. Using risk prevention strategies to mitigate losses should result in limited surprises come renewal.

Aon Contact

Alister Burley
National Practice Leader – Construction

t 03 9211 3138
e alister.burley@aon.com

aon.com.au/construction
aoninsights.com.au/construction