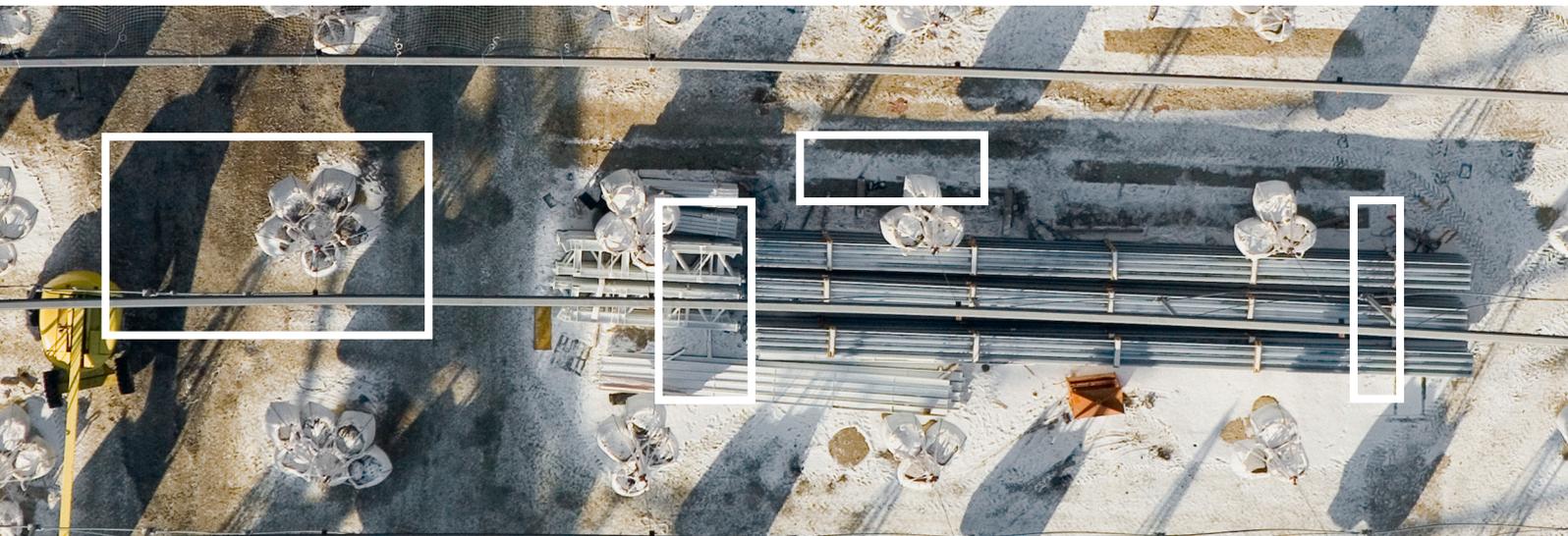


Construction Market Update

Australia - June 2020



Premium rates



Contract Works - Material Damage

+10% to +30%

(+50% to +100% if claims impacted)

Construction Liability

+10% to +30%

(+30% to +100% if claims impacted)

Design & Construct Professional Indemnity

+20% to +50%

(+50% to +100% if claims impacted)

Contract Works – Material Damage

- Local Australian markets are looking at rating and deductible increases with a corresponding reduction in available capacity / line size. Insurers are closely interrogating the appropriateness of Limits of Liability and corresponding Sub-Limits.
- Previously available coverage enhancements such as Guaranteed Maintenance and Design Exclusion (LEG3 or DE5) are either no longer available or are only offered with increased rating and deductibles.
- Annual programmes with repeat loss history and exposure to extreme weather conditions are facing a rapid change to coverage and insurer capacity available, with insurers imposing separate Major Perils and Water Damage deductibles.
- Annual programmes with exposure to principal arranged insurance cover on infrastructure projects are also seeing restrictions or significant rate increases in 'difference in conditions' cover.



Local insurers are reviewing their underwriting appetites and becoming more selective with the risks they want to underwrite, with reduced flexibility on the terms and conditions they will accept.

- The London market has continued to experience change following the Lloyd's Review and the exit of many long-standing construction insurers. Those that remain are reducing capacity, increasing rates and tightening policy terms and conditions. Global insurers operating in the Australian market have not been immune to change with many insurers undertaking internal reviews of their Contract Works portfolios. Combined this has further reduced the available capacity.
- Large infrastructure and major projects still have a supply of capacity available, however rating and deductibles are higher than 12 months ago and policy terms and conditions are narrower. Insurers are underwriting with greater scrutiny given to Contractor performance on previous projects.

The Outlook

The Contract Works market has been firming since 2019 and will continue to do so for the remainder of 2020.

With large international insurers and Lloyd's syndicates exiting or severely reducing their appetite for the Contract Works market in Australia, we have seen a previously large supply of capacity becoming more restrictive, limiting competitive tension.

Local insurers are also reviewing their underwriting appetites and becoming more selective with the risks they want to underwrite and with reduced flexibility on the terms and conditions they will accept.

Brokers and clients must continue working together on a short to medium term plan, with early engagement essential with 'partner insurers'. Building a robust programme for the medium to long term will be key to navigating through this changing market.

Construction Liability

- Australian markets are starting to restrict their appetite resulting in fewer credible primary insurers.
- Rating for primary and excess layers is firming quickly, with insurers also reviewing primary capacity deployment and monitoring their accumulations.
- Worker to Worker claims continue to be the main focus of Construction Liability underwriters. Given the long tail nature of Personal Injury claims, the need for brokers and construction companies to work together and being proactive in managing legacy claims is paramount.
- Worker to Worker deductibles are continuing to increase in order for insurers to manage the continued surge in Worker to Worker claims.

The Outlook

The Construction Liability market has accelerated in its firming since 2019 and will continue to do so for the remainder of 2020.

Historical claims data needs to be thoroughly interrogated by the broker, their client and historical insurer/s to ensure the current panel of insurers has the most comprehensive update available. A clear understanding of actions being taken by all parties on legacy claims is crucial.

Insurers are looking at seven to ten years' claims history on Construction Liability to be able to deeply analyse incident trends, with a significant focus on Worker to Worker claims.

Design & Construct Professional Indemnity

- Professional Indemnity (PI) continues to be the most affected construction class in 2020, with sustained losses further reducing local and international insurer appetite, resulting in significant pricing increases for all programmes. Pricing pressure is even greater for programmes with poor claims histories
- All insurers are now seeking their own versions of a Cladding Exclusion, some extending to Non-Conforming Building products. Previously available extensions for loss mitigation and rectification costs, express fitness for purpose and related parties are being scrutinised by insurers with levels of coverage being reduced or coverage being removed entirely. Strong underwriting submissions from brokers are required in order to maintain appropriate levels of coverage.

- The Project Specific PI market continues to be a heavily scrutinised class of insurance with local and overseas insurers re-thinking their approach to participating on large infrastructure projects for multi-year periods. This has significantly reduced the available capacity and coverage available for these projects. Long lead in time is required working with all project sponsors and both the local and international markets to ensure a robust project PI programme is built.

The Outlook

Annual Design & Construct PI programmes must be managed closely by brokers and clients. This is the most volatile class of insurance for Design & Construct contractors and is likely to be their biggest insurance premium spend behind Workers' Compensation.

Insurers require a deep understanding of the business they will be providing protection for and how professional exposures are being managed at all stages of the renewal cycle. This constant engagement between all parties is the foundation to a well-managed renewal outcome for the client.

up to **+50%**

**Premium rate increases
are being experienced
for Design & Construct
Professional Indemnity**

Contact Us



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