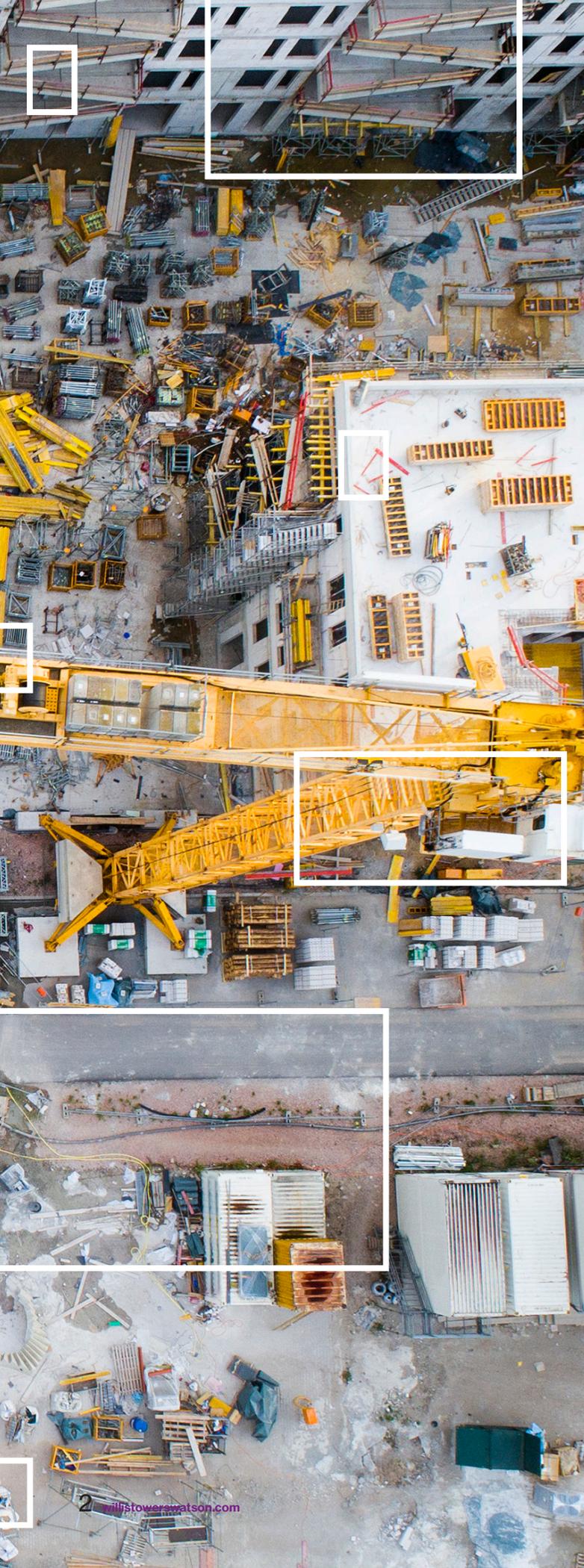


Global construction rate trend report

Q1 2021 regional insights and rate trends





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January 2021

Introduction

The market for insurance and particularly construction-related covers is seeing a divergence as we enter 2021. While the overall marketplace remains very difficult with continued upward rate pressure, we are seeing the emergence of different outcomes for clients. Those with good loss experience and risk profiles are likely to see a more moderate rate and capacity environment as underwriters differentiate accounts again. Those with poor experience or difficult risk profiles will continue to see significant rate movements. While new capacity has entered the market overall it is being targeted by type of construction and territory, so not all insureds will feel the same outcomes globally. A key challenge for the industry is to distinguish how specific markets will respond to different lines of coverage and what their definition of better risks will be.

What we saw for the last quarter of 2020 and for January renewals was a continuation of the challenging market we have experienced for the last two years.

Rate pressure and capacity restrictions have continued to impact construction across all regions and most lines of coverage. Past experience has shown that we should expect more capacity to return to the market as rates stabilize and investments coming into the market.

Most of our clients continue to experience challenging renewals including for Q1 2021. Historically the market adjusts to new pricing levels with increased capacity and we have started to see new capital enter the market over the last two quarters.

However, positive impacts will be tempered by underwriters focusing on specific project and client factors so we expect different outcomes from placement to placement with particular focus on:

- Loss experience: Clients with poor loss experience will continue to have challenges in this market.
- Specific risk characteristics will have major impacts on capacity and as a result pricing:



Wildfire: We do not expect any significant increase in capacity for this exposure as underwriters struggle to understand the risks and costs. Parametric solutions may be more prevalent for this exposure but all project participants from lenders to owners to contractors will need to understand the cost impacts and coverage limitations.



COVID-19: The industry continues to push back on proactive coverage for this exposure. For construction, the costs are driven by delays due to COVID-19 restrictions which typically don't meet the definition of resulting from a covered peril. Various courts are still weighing in on how coverage might apply for COVID-related losses but to this point, we have not seen any definitive construction related rulings that suggest coverage will apply.



Catastrophes: 2020 was a historically difficult year for catastrophe losses which drove up pricing and terms for cat exposed projects globally. A combination of catastrophes from fires to flooding rating to hurricanes and typhoons all impacted insurer results negatively. We expect catastrophe coverage and terms to remain significantly restrictive and construction budgets particularly for Contractors' All Risk (CAR) and Builder's Risk need to be carefully reviewed. As noted parametric solutions are growing in popularity to fill some of this gap in appetite but still have not become a routine purchase. We expect that to change as insurers continue to readjust their appetites.



Environmental, social and corporate governance (ESG): This may be one of the continuing challenges for construction. Prior to 2020, a number of insurers have pushed back on climate-related issues and many have been unwilling in cases to support carbon-based energy projects including coal, oil and gas. There has been momentum on renewable energy projects (e.g. solar) and with the U.S. reentry into the Paris Climate Agreement, we can expect additional focus on this in the future. However, the early results from renewable projects from an insurance perspective have not been good causing insurers to pull capacity back on some of these projects or restrict terms particularly for Professional Indemnity (PI) and completed operations cover. Lastly, as we conclude a tumultuous year concerning racial inequities and social injustice, the construction industry continues to struggle in diversifying its own workforce from a gender, age and racial perspective.

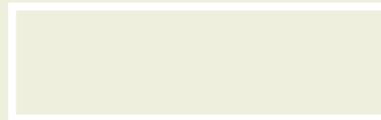


Project duration: Projects lengths over 5 years continue to be challenging to get committed capacity for the entire project term. We expect (and expect clients will plan for) repricing provisions to be needed to guard against unexpected cost escalations during the project term. This applies to contractual provisions as well as project budget

considerations. The impact of project duration is not limited to just new projects. Extensions on projects which in the past were common and fairly routine underwriting exercises have become extremely onerous with insurers re-underwriting risks they are already on and repricing deals to extend them. This disruption to current jobs as well as budgets is significant and continues to create friction between clients and insurers.

- In summary our expectation is that 2021 will continue to be a challenging market but we do see a trend toward stabilization of pricing and new capacity entering the market which should help moderate the market as the year goes on. While there will be specific lines of coverage which will see this impact later than others (PI, Excess Liability as potentially two key lines), signs now point to more options in key lines such as property and builder's risk/CAR as the year progresses.

Note: rate movement (in each territory) is the general or average rate movement for the 2nd half of 2020 into January 2021 and not a forward looking estimate of rate movements.



How should construction risk managers respond?



Utilise analytical tools to evaluate efficacy of current program structure.



Begin the renewal process a minimum of 180 days prior to program expiration.



Prepare for continued increases in insurance pricing. Evaluate adequacy of insurance changes embedded within bids and contracts.



Work in conjunction with your insurance broker to develop comprehensive and accurate renewal data.



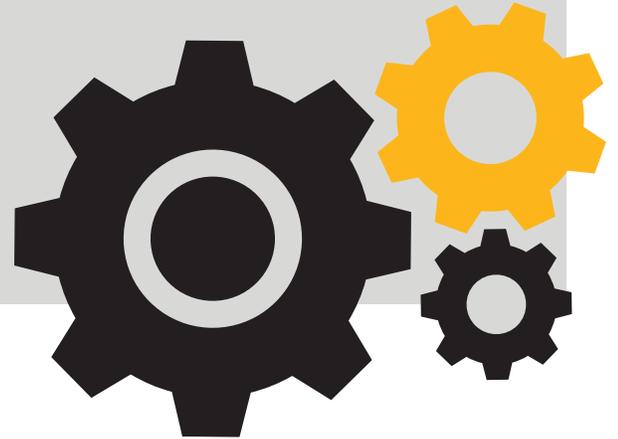
Consider alternative risk transfer (ART) program structures. Begin discussions regarding viability very early, as much as a year prior to renewal, as utilisation of ART structures may involve a lengthy educational process for internal stakeholders, owners and insurance partners.



Evaluate project schedules related to project placements. If a project has been delayed for any reason and will require the extension of any insurance placement, begin this process as early as possible. Project extensions have become challenging to obtain and can be quite costly.



Continue to develop and strengthen relationships with incumbent insurers. Take time to develop new relationships. Off-cycle market meetings with incumbents as well as potential alternative insurers are valuable.



Key Takeaway

The economic downturn caused by COVID-19 has resulted in many contractors forecasting lower exposure bases; sales, payrolls, contract revenue, vehicle count, etc., but as exposures decline, insurers are raising rates at an increasing pace to grow or at least maintain overall premium. Effective use of analytical tools will be critical to driving sound risk management decisions.

Rate Movement



General liability: +5% to +20%



Auto liability and physical damage:
+5% to +15%



Workers compensation: Flat to +5%



Umbrella (lead): +50% to +100%



Excess: +50% to 150% (or more)



Project-specific builders risk: +5% to +15%



Master builders risk/contractors block programs (renewable business):
+10% to +20%



Professional liability: Flat to +10%



Project-specific/controlled insurance programs: +5% to +15%, +10% to +25%
for excess



Subcontractor default insurance:
+5% to +10%

Regional Insights

The market for construction **general liability (GL)** continues to trend upward. However, while for several years insurers have signalled GL as the “next auto,” drastic rate increases have not always materialised.

Commercial auto remains one of the most challenging lines or insureds, with persistent rate increases and program structure changes.

While most construction firms have encountered a flattening of **workers compensation** rate reductions and premium offsets, the line continues to run well for most insureds and insurers.

The **umbrella and excess** marketplace for construction remains extremely challenging. The pace of rate increases is accelerating. Contractors are also experiencing significant restrictions in coverage. We expect these conditions to continue well into 2021.

Pushed by increased reinsurance rates and diminishing capacity, **controlled insurance programs (CIP)** pricing continues to increase. We anticipate rates will continue to escalate in the coming months.

The **builders risk** market continues to remain challenging, as insurers rebalance their portfolios in pursuit of underwriting profitability after years of global losses and soft market conditions.

The U.S. construction **professional indemnity/liability** market remains relatively competitive, although insurers are evaluating capacity deployment and retention levels and applying added underwriting scrutiny to certain coverage enhancements.

With construction activities looking to make a rebound from projects delayed and suspended by the COVID-19 pandemic, the utilisation of **contractor’s pollution liability (CPL)** will likely be at an all-time high in 2021. Fortunately, the CPL market (comprised of more than 25 insurers globally) will be ready to meet this demand.

Work delays and uncertainty resulting from the pandemic are likely to impact subcontractor risk and default into 2021. This trend has created increasing interest in **subcontractor default insurance (SDI)** coverage, resulting in additional insurer capacity entering the market.

Western Europe

Key Takeaway

The second half of 2020 has seen consolidation of the trends started in 2019 but rate increases are lower than those of the first half of the year except for large and complex projects in territories with high natural catastrophe exposures.

Rate Movement



General liability: +5%



Excess/Umbrella: +10%



Annual Program CAR: +5%



Single Project CAR: +10%



Professional Liability: +30% to +50%

Regional Insights

The second half of 2020 has seen consolidation of the trends started in 2019. However, rate increases are lower than those of the first half of the year except for large and complex projects in territories with high natural catastrophe exposures.

Insurers keep imposing severe limitations in policy extensions which create problems in some cases. **COVID-19** exclusions are now the norm and policy wordings are under scrutiny, with special attention to Defects Cover and Maintenance.

The need for more detailed underwriting information is an unavoidable requirement in most markets.



General Liability: Capacity is being reduced especially in the Excess Liability market and more players are required to complete Large Liability Programs. The forecast for 2021 is a more stabilised market with fewer surprises and more technical underwriting.



Construction PI remains an issue with capacity heavily reduced and prices still growing in two-digit figures. The market is still extremely selective with focus on profitability. Discovery periods are reduced, and deductibles increased. This the most volatile construction insurance class by far.



Brexit: The continental markets like Allianz, Munich Re, Generali, Zurich and others have been making Brexit plans for many years and were ready to operate in the new environment months ago.

Key Takeaway

In GB we see a continued flight to underwriting centre sign-off in London/Europe, and a return to the market centre of excellence for business globally. Whilst 2021 will remain a year of transition, the capacity from all construction and engineering insurance markets remains crucial to facilitating global economic growth; with capital being raised and invested into the insurance markets, we can expect new market entrants to take advantage of the market shift, giving clients a positive market outlook for the latter stages of 2021 into 2022.

Rate Movement



General liability: +5% to +10%



Excess/Umbrella: +20% to +25%



Annual Program CAR: +5% to +15%



Single Project CAR: +10% to +20%



Professional Liability: +50% (potentially higher for excess layer placements)

Regional Insights

London International

The construction insurance market remains in a state of transition. In Great Britain we have seen a consolidation of market capacity and London returning to be the market centre of excellence for business globally, with the removal of regional underwriting authority by many insurers and a continued flight to underwriting centre sign-off in London/Europe.

In the continuing hard market rate increases have stabilised - **annual business continues to benefit from slightly lower increases than for projects and in particular, the Excess Casualty market is seeking to redress the soft market balance and we have seen higher percentage increases.** However, moving into 2021 we forecast lower increases in rate/deductibles across contractors' all risk (CAR) and third-party liability (TPL) placements. Markets are further reviewing policy wordings and moving back to conventional "market standard" clauses to restrict the extended cover that many construction industry companies have seen in the soft market years.

In respect of COVID-19, construction markets have seen some, but not an abundance of claims, however, corporately many insurers have been hit hard (with the full extent of liabilities remaining unknown at this stage). Now all markets have a major focus on coverage, especially coverage for delay in start up (DSU)/cessation of works/infectious disease/denial of access. Markets in run-off continue to try to exit longer term policies or those requiring extensions and this can cause problems on certain placements requiring the capacity of the market and/or extensions at the low levels of premium provided when the contract was originally placed.

Market Highlights – Coverage



COVID-19 – Communicable disease exclusions are being added by all insurers across all classes with most accepting LMA5397 for construction risks. Infectious Disease cover and other non-damage triggered extensions are being removed/limited under DSU placements.



Delay in Start Up – DSU coverage remains closely scrutinised leading to longer waiting periods and more in-depth examinations on indemnity periods.



Social and Environmental Impact – Coal Fired Power Stations extremely difficult to secure support and place 100%.



Deductible increases – 50% average but as with rates for certain projects and in some territories deductibles have doubled (especially in CAT affected areas).

12 **Quotation validity restrictions** – Some markets imposing short validity quotation dates. Needs careful monitoring as quotations expire. Construction risks often have long lead in times making this a major issue.

Line Sizes – We are seeing much reduced line sizes being offered on major projects by some markets who are now basing their line sizes on Total Insured Values (TIVs) rather than Probable Maximum Loss (PML).

Period Extensions reduced and penalising in cost – Extensions more difficult to secure, even when the original contract provides an ongoing commitment to the risk.

Coverage Extensions – Standard extensions are still approved but non-standard extensions incur detailed negotiation and there is a continued “push” from insurers to reduce/limit coverage (e.g., Tunnel Clauses / strike, riot and civil commotion (SRCC) extensions).

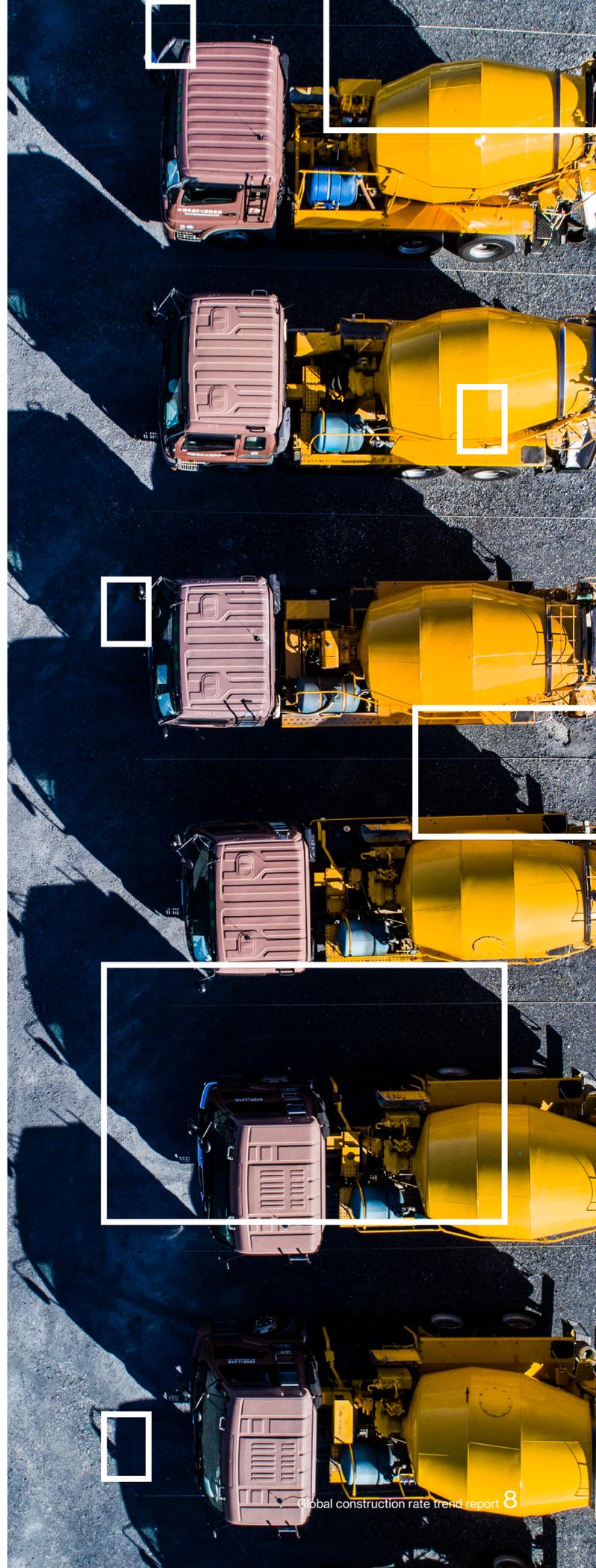
Protective Fire Proofing (PFP) – Together with Tunnelling, PFP is very topical and difficult to overcome.

Defects cover – London Engineering Group (LEG) and design exclusion (DE) clauses and other insurer equivalents) are being reviewed. Brokers equivalents whilst considered clearer are becoming harder to achieve due to top-down pressure from insurer senior management or treaty reinsurers.

Period restrictions – Projects are getting longer in build period, yet policies are getting shorter in insurance duration – a challenge at best.

Whilst 2018 and early 2019 saw a number of markets restrict/withdraw capacity, latterly (in 2020) we estimate around USD 500 million to USD 600 million of capacity has exited the market but we estimate current capacity remaining stable at approximately USD 4 billion on the basis of every underwriter writing their maximum line and on a “best risk basis”.

Looking forward and on a more positive note major insurers in the construction market such as: AIG, Allianz, Axa XL, Berkshire Hathaway, Chubb, Generali, Munich Re, SCOR and Swiss Re have confirmed their commitment to providing coverage and capacity. With continued investment and development in the key sectors of oil and gas, infrastructure, property development and power globally, the capacity from all construction and engineering insurance markets remains crucial to facilitating global economic growth. Limited new capacity has entered the markets, but with capital being raised and invested into the insurance markets we can expect new market entrants to take advantage of the market shift. Tokio Marine HCC are one such market who have stated to write medium sized business from their Lloyds platform in November/December with bigger plans for 2021.



Key Takeaway

Insurers have maintained their focus on underwriting profitability, resulting in continued application of increases in rates and deductibles, reductions in capacity deployed and restrictions in the levels of cover they are willing to provide.

Rate Movement



Primary Construction Liability:
+10% to +15%



Excess Liability: +50% to +100%



Annual Program Builder's Risk/ CAR:
+20% to +25%



Annual Primary D&C Professional Indemnity: +40% to +80%



Excess D&C Professional Indemnity: +80% to +100%

Regional Insights

The second half of 2020 saw no respite within the Australian construction insurance market with the same trends experienced within the first half of 2020 continuing unabated. Insurers have maintained their focus on underwriting profitability, resulting in continued application of increases in rates and deductibles, reductions in capacity deployed and restrictions in the levels of cover they are willing to provide.

A more recent trend is **insurers are no longer willing to maintain the validity of their terms over a longer period.** This means that projects that experience delays in commencement may need to have their insurance terms re-validated and, in some cases, the terms will change from the time initially negotiated.



The impact of COVID-19 has in some cases accelerated these trends with insurers now imposing blanket Communicable Disease exclusions, but also imposing additional policy restrictions, such as reducing the availability of automatic policy extension provisions and reducing the timeframes available under cessation of work conditions.

Natural Catastrophe exposures are a major focus for contractor all risk (CAR) insurers with markets reducing their available capacity to projects in Nat Cat exposed regions and to projects that have a higher risk exposure to weather events such as civil and renewable energy projects.

We have experienced corresponding significant increases in **Major Perils and Water Damage deductibles** and in limited circumstances insurers are imposing sub-limits to losses from these events.

The Casualty market has continued to see rate and deductible increases and reductions in available capacity. Typical primary limits available have reduced from the previous levels of up to AUD 50 million to lower limits of AUD 10-20 million. Primary markets continue to focus on Worker to Worker exposures which is driving loss ratios for these insurers.

The rate increases and overall reduction in Casualty capacity has been more acutely felt in the Excess Casualty market. Minimum rates on-line for excess capacity has increased significantly, in most cases doubled or even tripled from the minimum rates available in prior years. In addition, insurers are being more selective where within a tower they deploy their capacity and how much they will deploy for a particular client or project. Previously available large chunks of excess capacity are being reduced with insurers requiring their capacity to be ventilated between layers. Combined, these factors have seen Excess Liability towers increase significantly in their cost and now require more markets to complete.

The **Design and Construct PI** market continues to be extremely challenging with insurers continuing to impose large rate increases, further reductions in capacity they deploy, focused coverage restrictions and increased deductible levels. Significantly, insurers are becoming more selective of the clients and/or projects that they are willing to underwrite and in some circumstances PI insurance has become almost impossible to obtain.

This trend continues in the **Excess PI** space where availability of capacity is key rather than cost. Insurers are no longer discounting their minimum premium levels to the same extent for capacity deployed on an excess basis rather than at a primary attachment point, meaning that for certain programmes the Excess layers are priced at the same levels as the primary layer.

In the **Project Specific PI** space, we have seen a significant reduction in available capacity with several insurers exiting this sector completely. The effect of this is that the available PSPI capacity in the market is lower than the contractual requirements imposed on clients for particular projects.

The outlook for 2021 is more of the same, as we do not expect any easing of market conditions any time soon.



Key Takeaway

The hardening trend has continued but we are starting to see the premium increase plateau, with markets shifting more towards portfolio management and restricting policy coverage.

Rate Movement



Construction/Erection “All Risks”:
+10% to +15%



Delay in Start Up: +5% to +15%



Third Party Liability: +5% to +15%



Construction Plant & Equipment:
+5% to +15%



Professional Indemnity: +10% to +15%

Regional Insights

2020 was a mixed market environment – the hardening trend we saw in the first half, sustained into the second half, with poorer underwriting results continuing from previous years, leading to **tighter coverage and higher premium offerings**. However, we are starting to see the premium increase plateau, with **markets shifting more towards portfolio management and restricting policy coverage**.

Terms and conditions are now stricter, the breadth of cover being offered is more limited, and underwriters are placing greater focus on risk quality and risk management in order to improve future underwriting results.



This has led to an increase in information requirements, project risk analytics and a more stringent and selective engineering approach, especially for high risks projects.

We have seen several markets have readjusted their underwriting appetite and moved away from projects involving tunnels, dams, coal fired power plants, wet risk, long construction periods and as well as projects requiring high DSU limits.

Looking into 2021, **we anticipate underwriters to continue to restrict coverage and conditions**, and will likely increase deductible levels, impose policy limits, reduce period extension and design cover provisions in order to balance their risk exposures and balance sheet. Underwriting guidelines will be strictly controlled by both the leading treaty reinsurers and their senior management in their pursuit of improved sustainable returns.

Exceptions remain for projects in certain geographies where pockets of capacities and strong local market appetite still exist for smaller sum-insured and domestic projects. **Chinese market capacities are abundant and competitive especially for Chinese-interest and overseas projects.**

Overall, **Asia construction market capacity remains healthy to support upcoming Asia and overseas Asian-interest projects.** With economies gradually beginning to re-open across the Asia region and governments stepping up its infrastructure investments, we are optimistic to see the construction insurance market stabilize to a new ‘equilibrium’ towards the middle of the year.

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