Global construction rate trend report

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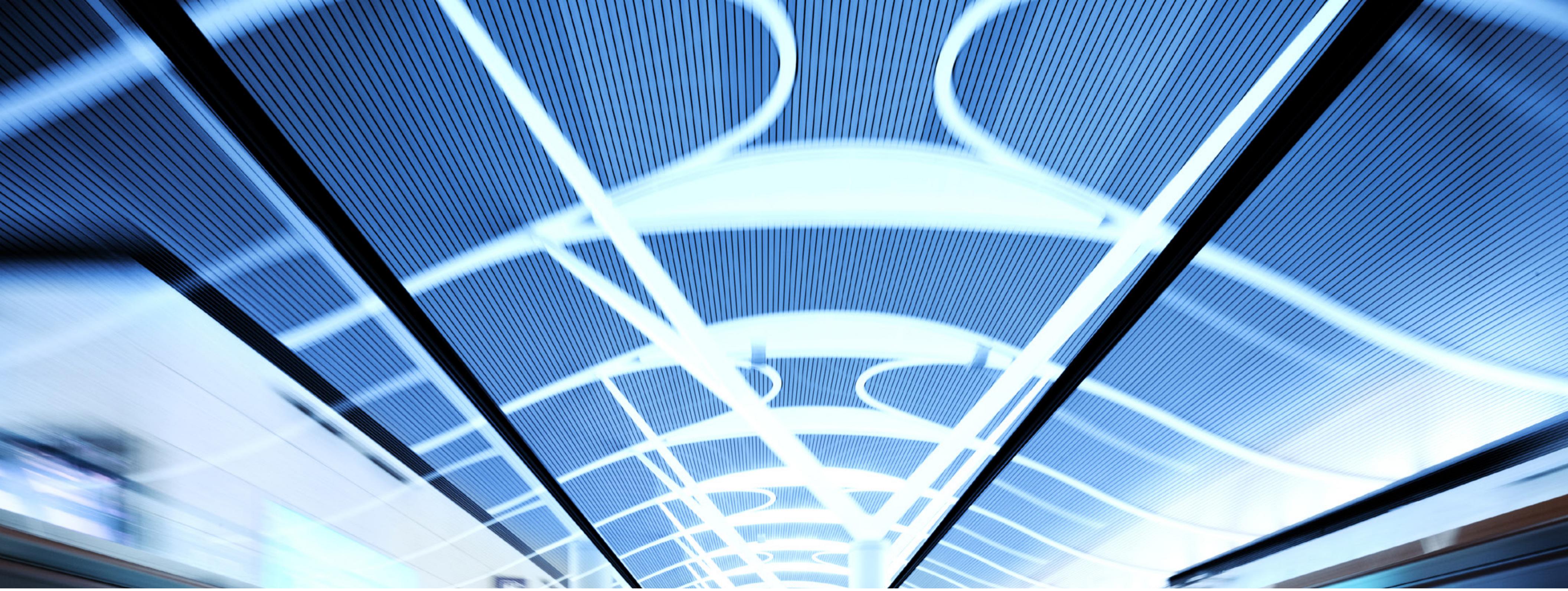


Global construction rate trend report

This update analyses our observations of the current market conditions for the construction insurance marketplace. All rate changes are for guidance only and will vary depending on risk profile and individual circumstances.

Introduction

We have seen consistent themes within the global insurance marketplace thus far in 2023. As we enter the last quarter we see less volatility and unpredictability and in many areas, rate increases are finally easing after 5 years of a continuous hard market. Most regions continue to experience this stabilization with flat or single to low double-digit rate increases. As we have observed improved pricing conditions, coverage, and capacity for most commercial lines of business we have seen the exceptions for Natural Catastrophe (Nat Cat) exposed projects and projects/risks and renewable programs with poor claims experience, lack of robust risk management plans and prescriptive formal loss mitigation protocols. These projects still experience rate increases in the double digits and sometimes, more importantly, see capacity becoming less available.

Challenges are still notable globally in professional indemnity (PI) project specific professional liability less on annual programs, decennial, inherent defect liability (IDI) in Europe and auto in the U.S., with continued limited capacity, increases in rates and deductibles in most type of projects where self-retentions are becoming more common particularly on excess layers.

With re-entering markets, new players and access to ample capacity from local, London and other international markets overall capacity remains robust, and we are starting to experience healthy competitive tension amongst insurers leading to positive outcomes for our clients. Local insurers are focusing most of their appetite and efforts in accommodating competitive terms for small and medium sized projects. Co-insurance arrangements by maximizing local retentions are becoming a common practice in some territories to avoid approaching more costly reinsurance.

Additional capacity has re-emerged in the excess liability market in the U.S. and the construction all risk/builders risk markets in London, Asia and Europe that previously exited but are now reconsidering a return after years of compounding increases in rates and profitability. We are also starting to experience gradual increases in line sizes, with some traditional follow markets seemingly losing their conservative approaches and attempting to lead some of the smaller to medium size risks. This should improve the competitiveness that we had lost in the past few years, but this is still not consistent along all regions.

On large and complex projects, insurers are still reluctant to lead and deploy full capacity in more players and costly reinsurance is needed in some cases to complete placements when there is unwillingness to accept primary or lead terms therefore imposing blended terms and conditions. This emphasises our familiar refrain on the importance of quality risk presentation and considered program structuring.

Insurers remain extremely cautious and conservative with clients/projects that are exposed to higher Nat Cat perils but are also focusing on other major perils such as water damage, flood, and wildfires where they are increasing excesses, imposing sub-limits and restricting cover and demanding a clear Hurricane Preparedness Plan.

Everyone is closely monitoring the 2023 hurricane season which at the date of this edition has seen few named storms, but we are still early in the season! The industry saw the impact of late season named storms in 2022 that set a negative course for the reinsurance markets that subsequently impacted worldwide Nat Cat pricing and appetite even in non-damaged areas and loss free clients.

Most insurers are focusing on improving profitability and taking a more technical "portfolio view" approach to underwriting, considering their accumulation and reservation of capacity for group clients or on annual/renewable programs providing better solutions in support of long-term partnerships and closeness and familiarity with risk. At the same time, insurers are targeting growth, and most are investing in new hires and opening hubs in additional locations with underwriters that hold notable technical expertise in sectors such as infrastructure, energy (particularly in renewables) and the utilities sectors which remain a major driver of overall global construction output and investment.

Just as described by our leaders on the activity outlook within their regions, public sector spending remains a key driver in the construction industry with investment programs in the U.S., Europe, and China well underway. According to Global Data[1], overall global infrastructure construction output will grow at an annual average rate of 6.3% in 2023 to 2027, while the energy and utilities sector will expand by an annual average rate of 6.4%. Some projects although nearly recovered from the impact of COVID-19, are still experiencing delays in some regions like Latin America influenced by election processes, political driven uncertainties and social unrest resulting in reduced confidence of international investor and funding.

On the contrary, high inflation and a sharp rise in interest rates has resulted in deceleration of investment in the residential sector, especially in Europe and North America. The squeeze on household incomes from the rising cost of living, as well as home builders having to pass on surging construction costs has resulted in residential sector growth slowing sharply in 2022, and is now predicted to contract by 7.8% in 2023 and drop further by 1.9% next year.[2]

Globally, government efforts are supporting initiatives driving power generation construction away from carbon-based energy to renewable energy sources such as wind, solar, hydrogen and nuclear power. Our markets and clients are also shifting their appetite and balancing their portfolios favoring ESG green energy transition projects. They are clearly preparing themselves for this type of activity with an already large influx of risk coming into the market and adjusting their risk assessment and pricing models to account for the improved risk profile of ESG-compliant projects and clients.

[1,2] Global Data, Global Construction Outlook, Quarterly Update, Q2 2023, June 2023, pp. 5.

Availability of and increased cost of materials like steel, components, skilled labor and the possible cost overrun effects on projects continues to impact coverages, limits and pricing imposed by insurers. They are also increasing time excess for delay in start-up (DSU) and reducing storage and automatic increase limits due to the fear that supply chain issues and prolonged lead times for critical items could have an impact on project schedules and replacement values. There are also concerns that defect claims could also be on the rise due to the lack of skilled labor and new materials and methods such as modular and offsite construction and other new risks that these could potentially generate.

The increased investment in infrastructure and technology, surging in building costs and values of projects has resulted in the creation of mega projects across many geographies. These generate a huge volume of premium for the construction insurance market and as a result some insurers are close to reaching targets by the first half of the year. This could have a consequence in reduction of appetite for those insurers who might not feel the pressure to deploy further capacity. We recommend resolving this by having a clear understanding on the best access points to local, regional, and international capacity depending on the size, complexity and expectations of cover and retention appetite of the insured in order to avoid declinations and weak responses from insurers.

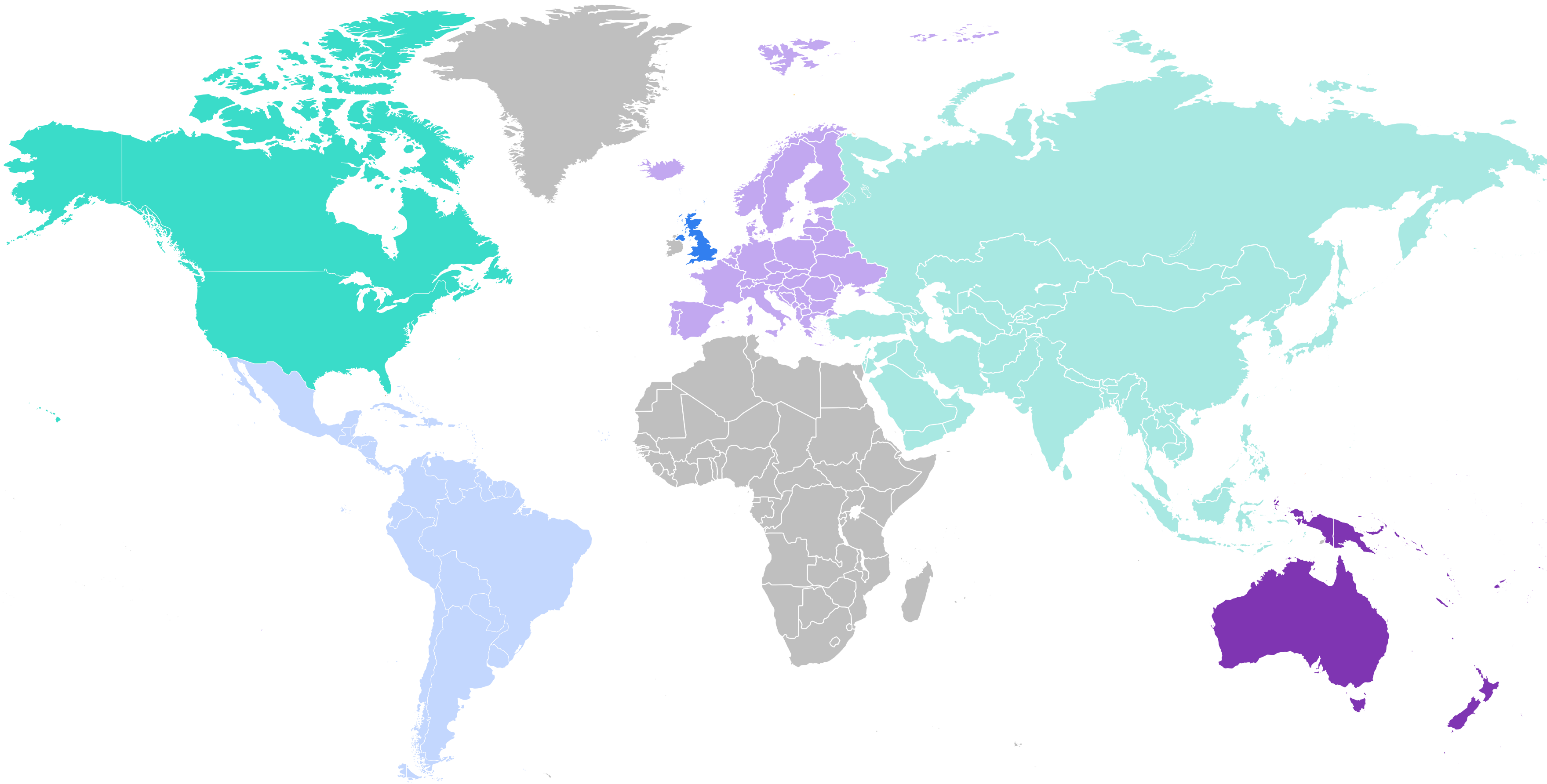
Creating a long term robust and transparent partnership with key insurers is becoming crucial in this current market environment. Early engagement and careful preparation of quality submissions and in some cases face-to-face negotiations and roadshows are recommended to achieve the best results from the insurers.

Contractors and project management teams will need to articulate and have a convincing commitment to safety and quality control to stand out to markets who reserve their capacity and commitment to “best in class” clients and risks.

We hope you find our regional updates interesting and informative. Please reach out to us if you have any questions or would like to discuss any issue in greater detail.

Global construction rate trend report by location

Click on location for details



North America

Key takeaway

Although rate decreases on renewals are still rare, we are experiencing positive trends in renewal pricing for contractors that we expect to persist throughout 2023. As interest rate hikes have recently slowed, we expect continued economic uncertainty to continue to put pressure on prices, labor and supply chains. While the Casualty insurance market has shown some improvement for contractors and project owners, recent natural disasters have put significant pressure on the property and builders risk insurance market. Owners and contractors should review all project pricing estimates and policy limits for adequacy.

Rate movement

General liability
+5% to +10%

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

Workers compensation
Flat to +5%

Umbrella (lead)
+5% to +15%

Excess
+5% to +15%

Non-High Hazard Nat Cat Project Specific Builders Risk
+5% to +15%

High Hazard Nat Cat Project Specific Builders Risk
+25% or more

Master Builders Risk/ Contractors Block
+10 to +20%

Professional liability
Flat to +10%

Project specific/ controlled insurance programs for excess
+5% to +10%/
+5% to +30%

Regional insights

Although rate decreases on renewals are still rare, we are experiencing positive trends in renewal pricing for contractors that we expect to persist through the end of 2023 and into 2024. As interest rate hikes have recently slowed, we expect economic uncertainty to continue to put pressure on prices, labor and supply chains. While the casualty insurance market has shown some improvement for contractors and project owners, recent natural disasters have put significant pressure on the property and builders risk insurance market. Owners and contractors should review all project pricing estimates and policy limits for adequacy.

We anticipate significant construction activity will continue through 2023 and into 2024 primarily in infrastructure (roads, bridges, airports, alternative energy), industrial manufacturing, (semi-conductor chip plants, EV battery plants, data centers and distribution facilities) and healthcare (hospitals).

Capacity

Umbrella/Excess

The lead umbrella market continues to be controlled mostly by the insurer that writes the primary casualty lines. Capacity for un-supported lead umbrellas (when a different insurer writes the primary casualty) remains slim, however some markets have expressed a desire to offer capacity for best-in-class contractors. Additional capacity has reemerged in the excess market after years of compounding increases which has made the market a more enticing environment to compete for business. Often the lead umbrella/excess pricing can dictate what carrier is the most competitive in a marketing process. Additional umbrella/excess capacity is more prevalent due to recent increased primary attachment points particularly in auto liability.

Builders Risk

The builders risk market for commercial construction generally has sufficient capacity although this capacity has become extremely restricted for projects in Nat Cat exposed geographies. The wood frame market continues to be extremely challenged with finite capacity causing rates to continue to escalate. Access to global markets, particularly London, is often required to obtain necessary capacity for wood frame construction.

Coverage

One-off Project Specific Programs/ Controlled Insurance Programs (CIPs)

Markets continue to limit new CIP project terms to 5 years or less due to tightening of their reinsurance treaties. This emphasizes the need to have conversations about any potential extension of the program as early as possible. Providing detailed project status, construction values and changes in scope along with ongoing protections in place at the project site will improve the success rate of obtaining needed extensions. Expectations of any extension without additional premium should be managed closely as this is less frequently the situation for most cases unless negotiated at the inception of the project.

CIP insurers are beginning to broaden capacity and provide more deductible options to create long-term partnerships in support of project-specific programs. While increased insurer competition, especially in the direct marketplace on tougher risks, may yield better results for rolling CIPs incumbent partners continue to propose pricing and coverage even to the point of larger rate reductions than expected. This is in part due to the incumbent's familiarity with the previous rolling programs which provides these insurers a level of confidence that allows for increased underwriting flexibility. Excess and Surplus (E&S) wholesale markets are the exception to this when rolling programs include more difficult risks such as residential, framework, or increased risk for CAT perils.

Auto

Auto liability remains one of the more challenging and unprofitable lines of business in the insurance market. Rising costs of healthcare and auto repair/replacement coupled with the increasing frequency of nuclear verdicts continue to have adverse impacts on insurer results. Underwriters are increasingly analyzing insureds' safety procedures, particularly if they have a large and heavy fleet.

Contractors that are proactive in their implementation of advanced safety protocols such as telematics and cab-facing cameras are given preferential treatment by the market. While premium discounts may not necessarily be given, these contractors will attract more market appetite and will likely see improvement in claims frequency which could ultimately reduce future insurance costs.

General Liability (Gl)

The labor shortage and supply chain delays have greatly impacted contractors not only in their ability to complete jobs on time, but by artificially inflating exposures with increased payrolls and by pressuring contractors to find alternative building materials, which could give rise to additional claims.

Labor shortage issues persist throughout the construction industry regardless of sector. Contractors are challenged to find adequate skilled labor to perform necessary duties on their jobsite. This can lead to defect claims if work is not done to spec in an attempt to meet strict deadlines. Labor shortages and deadlines aren't the only pressures facing contractors. Margins continue to be squeezed as material costs fluctuate, exacerbated by supply chain deviations and delays. As a result, contractors have had to look for alternative materials and suppliers potentially opening them up to defect claims if the material is of inferior quality.

Another impact of the labor shortage is that contractors need to offer more competitive wages to find both skilled and unskilled workers. Payroll estimates, which are a main exposure base for contractors GL, are seeing growth year over year which impacts total GL premium spend despite the same scope of work being contemplated.

Another GL exposure base, subcontracted costs, has also increased for similar reasons. It is unclear whether increased payroll or subcontracted costs represent true additional exposure to the insured, which could be a point of negotiation during renewal. High hazard risks (second tier) routinely experience limited market offerings and flexibility. These risks include street and road, residential, roofing and NY operations among several others. Contractors with a challenging loss history can also find themselves in this second tier. Contractors will need to display a clear commitment to safety and quality control to distinguish themselves as best-in-class risks to bring additional markets to the table. These contractors with best-in-class reputations can draw further interest from the market, leading underwriters to compete on pricing, coverage and service offerings to win business.

As the trend of increased underwriting scrutiny continues, organized and complete submission data is paramount to keeping the renewal timeline on track. Referral underwriting has increased as reinsurance treaties have changed, and underwriting guidelines are regularly revisited. This calls for additional lead time on all submissions, which can also give underwriters time to apply various credits if available. Working closely with insurers throughout the year can pay dividends at renewal; particularly a carrier's risk control engineering team as they are impactful on the underwriter's impression of the contractor's risk management program and strategy.

Market Outlook

Interest rates and insurance are correlated, meaning changes in interest rates can impact the profitability in the insurance marketplace depending on the specific circumstances and context. Insurance companies invest their collected premium to produce additional investment income which can be used to pay claims and expenses. Due to regulated investing requirements, insurance companies make substantial investments in such fixed-income securities as bonds and treasury notes. There is also the issue of bond premiums having an inverse relationship with interest rates, so if an insurance company needs to liquidate their bonds the yield could be reduced.

In contrast, reinvestment risk is introduced when interest rates rise. Insurers that have previously invested premiums in low-yielding, fixed-income securities may be missing additional profitability on higher-yielding securities, while they wait for their current assets to mature. As a result, insurance companies' investment income may be deferred so premium savings may not be immediately realized. Interest rates also have an impact on the calculation used to model the value of future claim payments. Reserve amounts calculated at present value are lower when interest rates are higher, resulting in lower reserve requirements and additional profit for insurance companies.

Renewal outcomes continue to trend in a positive direction. With the noted exception of property and builders risk in Nat Cat exposed geographies, contractors and project owners are generally experiencing successful annual insurance renewal with general rate increases below 10%. Contractors continue to experience a two-tier market in which best-in-class risks receive favorable renewal results that outperform the average construction risk. However, the second-tier contractor renewal results can be less predictable and disproportionately inflate average renewal results for the construction industry.

Although there is greater capacity in the market, particularly for well-performing insureds, incumbent partners are often willing to make compromises on pricing and terms to retain valuable clients and deter a marketing effort. Familiarity plays a lead role in underwriting flexibility when analyzing insureds' exposures. Therefore, incumbents have an advantage in retaining long-term clients.

Reinsurance renewals will greatly impact the outcomes and timelines for contractors' renewals for the remainder of 2023. Despite reinsurers benefitting from multiple years of compounded price increases, concerns regarding inflation and reserve adequacy during soft market periods will lead to increases in the remainder of 2023 and very likely in 2024. Reinsurance markets are cautious given challenges with financial market volatility and geopolitical tension. Increased scrutiny of individual risks has made achievement of consistent renewal outcomes difficult. It is becoming less common that contractors will receive the exact terms and conditions that were offered in the expiring year. The need for underwriter referral has been amplified, causing delays in the renewal process.

It is important to give adequate lead time during renewals, especially when introducing new markets to an insured.

Insights from Canada

The Canadian construction insurers are continuing to see volumes of construction project submissions for all types of projects. The market is still in a “hard” state and to this end it is imperative to provide detailed and timely project information to the markets to avoid delays in obtaining quotes. In addition, ongoing staffing shortages and underwriting approval by head offices are causing delays in quote turn around. For builder's risk coverage, capacity on large concrete high-rise projects in excess of $500 million as well as large wood frame projects can pose capacity challenges. Water damage deductibles continue to remain high and there is a deeper scrutiny on areas such as insulated panels, water mitigation technology and processes, along with experience and loss history of the prime contractor. With regards to wrap up liability, underwriters are taking a much closer look at damage to exiting exposures and are seeing an increase in rate being applied for such exposures.

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Key takeaway

With the “greener” approach to construction works as published in the UK government strategy document Construction 2025, which highlighted a blueprint for developing the industry, emphasising reducing costs, increasing efficiencies, and cutting harmful emissions, will insurers be able to adjust and incorporate new design methods, building materials and technology at the pace required?

Rate movement

General liability
+5% to 10%

Annual program CAR
Flat to +5%

Single project CAR
Flat to +5%

Single project EAR
Flat to +5%

Regional insights

Inflation

Within the UK sector, building material supplies suffer shortages in key products such as bricks, blocks, and cement, causing year-on-year rises. According to the Office for National Statistics (ONS) during May 2023, the construction output fell for the third consecutive month[3].This was mainly due to the decline in new projects which saw a 0.4% reduction.

It was revealed that the average cost of materials used in all types of work across the construction sector rose by 1.5% in May 2023 compared to the same month in the previous year.[4] In respect of steel, some industry commentators are quoting as much as a £30 per tonne price increase on structural sections. Following nearly six months of price falls during which time a reduction of around 20% was experienced against the recent peak at the turn of the year. The sustained high level of raw material input costs is cited, with many believing "the cost of steel is on the rise again".

Supply chain

Following the global slowdown during the COVID-19 pandemic, significantly increased levels of construction activity have begun with projects that were deferred now commencing alongside projects which were in initial planning stages. This has put additional pressure on the availability of materials, components and skilled labor as well as creating a bottle neck in the freight industry. These effects are not just realised because of COVID-19.

For example, the series of earthquakes hitting Turkey in early 2023 having dire effects on the steel export industry with approximately a third of Turkish steel mills halting production.

Whilst traditional insurance products can cover some risks, proactive risk management is a vital tool to identifying problems before they occur and can help alleviate cost pressures on insurance policies. The construction industry has specific risks in their supply chain. Most recently this has included the ever-increasing cost and availability of raw materials. Supplies of raw materials in the construction industry operate on a 'just in time' model, especially on sites where there are restraints in terms of secure storage spaces, meaning even the smallest issues can have a big impact on overall project schedules.

These supply chain complexities are having consequential effects on coverage and pricing.

Insurers are looking to impose value limitations on off-site storage locations with strict conditions on the protection of property stored. In addition, because of prolonged lead times, insurers are increasing time excesses for delay in start-up (DSU) insurances, requiring increased risk retention for insured parties which can lead to complications with project finance.

[3] Office of National Statistics, Construction output in Great Britain: May 2023
[4] Department for Business & Trade, Monthly Statistics of Building Materials and Components, Commentary, June 2023

UK house building

House builders in the UK are feeling increasingly frustrated or indeed pushed out of the industry in what is being perceived by many as a government anti-development policy in the sector. Many contractors are significantly scaling back activities. Recent changes in UK mandatory housing targets have seen many local councils and authorities pause local housing planning.

As sobering inflation, supply chain uncertainties and the economic climate increases costs for the industry, the addition of these new taxes, regulations and policy apply further pressure to profits, leaving many smaller businesses questioning the viability of continuing to operate in the sector.

Offsite modular construction

The construction market is forecast to grow by over 70% by 2025, and with this growth will come significant new opportunities for the UK offsite construction sector[5].

When the UK government published its strategy document Construction 2025, it set out a blueprint for developing the industry, emphasising reducing costs, increasing efficiencies, and cutting harmful emissions. There's a broad consensus across the industry that modular and offsite construction has numerous benefits over traditional methods. It offers a faster way to deliver high-quality new buildings by maximising efficiencies at every level. However, many UK based house builders are pausing production, nervous by others exiting the industry due to cost efficiencies being impacted by regulatory and planning uncertainties causing significant impacts to production.
Many contractors are raising concerns over the sustainability of supply chains, with a strong focus and need to work more closely with partners as they face the continuing challenges posed by Brexit, the pandemic, ongoing conflict in Ukraine and of course the current economic climate in the UK.

London Market

Capacity

The 2023 reinsurance treaty renewals produced a flattening of capacity, resulting in global probable maximum loss (PML) levels of approximately $4 billion USD on a best risk basis. The trend observed at the beginning of the year was insurers not using their full capacity for the vast majority of risks; on the contrary, they were only using a percentage of their "best risk" capacity, thereby reducing the global availability by a considerable margin.

During the summer of 2023 there was a spike in large projects presented to the market. We are now beginning to see an increase in underwriting activity from recently established capacity, some of whom are bolstering their underwriting teams.

[5] Construction 2025, HM Government Industrial Strategy: government and industry in partnership, pp 5

With rates at their peak and insurers continuing to impose stricter coverage conditions, more aligned with those seen as “standard” for many years an introduction of new capacity is becoming available.

Lead capacity remains strong for well-presented risks, however there is reluctance to commit significant lead capacity on more challenging risks, even by the leading insurers. Capacity is however less easy to come by for Nat Cat exposed territories, which is impacting limits available for certain perils.

The same continues to apply for timber frame projects, where it often takes several insurers to complete even the smallest of projects. Coverage for projects consisting of more than three storey high can be a particular issue, even with adequate separation between blocks. Market rates for timber frame buildings can be up to three times those of a steel frame build equivalent, and such policies incorporate higher deductibles.

Since the Grenfell fire tragedy in June 2017, underwriters have a cautious approach to cladding. Seeking a greater understanding of full construction methods, with a keen focus on composition and installation of cladding, particularly in respect of projects more than 18 metres in height.

Coverage

Coverage available in the market remains stable. Many insurers still remain reluctant to accept LEG 3 as a defect exclusion. Guarantee maintenance is also generally not available in the London market besides exceptional circumstances.

The London Engineering Group (LEG) has launched their new set of hydrogen clauses which are currently under review by all parties including the insured, brokers, claims adjusters and lenders alike.

Underwriters are still insisting on imposing inflation provision clauses, minimal automatic increases and still pushing the sum insured to be inclusive of sub-limits. Delay in start-up (DSU) values are also increasing, however we are noticing that appetite from insurers is going in the opposite direction. Lenders are becoming more flexible with their insurance provision requirements but still expect to test the markets on commercial availability of maximum coverages and limits available.

Insurers are looking to impose value limitations on off-site storage locations with strict conditions on the protection of property stored. In addition, because of prolonged lead times, insurers are increasing time excesses for DSU insurances, requiring increased risk retention for insured parties which can lead to complications with project finance.

Market Outlook

The global construction market is set for a sustained period of strong growth in future years, driven by factors such as a surge in government spending, rising populations, rapid urbanisation in emerging markets and the global drive towards a more sustainable world.

Important political and business drivers combined with the urgent need to cut greenhouse gas emissions are resulting in a strong global appetite for renewable energy sources, including hydrogen, offshore wind, solar, and waste-to-energy projects. As the demand for green energy has increased, solar and wind projects have become larger, the locations are more remote and wind turbines become much bigger.

Major insurers in this space have confirmed their continuing commitment to provide coverage and capacity. With continued investment and development in the key sectors in facilitating global economic growth. The long-term future outlook is positive.

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Key takeaway

Trends remain largely consistent in terms of stabilization and with ongoing scrutiny around coverage for defects, maintenance, natural catastrophe, and professional indemnity.

Rate movement

General liability
0 to 15%

Excess/Umbrella
0 to 15%

Annual program CAR
0 to 15%

Single project CAR
0 to 20%

Professional indemnity
0 to 20%

Regional insights

Across the region, we still encounter economic and political pressures impacting general cost escalations due to inflation, higher prices and pressure on supply chains as well as specialized labor force.

With some sectors seeing contraction, public sector spending in infrastructure, investments in the energy and data sectors remain key activity drivers.

Capacity

Markets show access to ample capacity and appetite from insurers in particular on the small and medium sized domestic projects and those in the renewables space with healthy competition between local insurers and in many cases co-insurance placement arrangements to guarantee best terms.

Some of the traditional markets are also showing signs and willingness to lead instead of waiting for lead terms which seems like a positive trend potentially resulting in more options for clients. For large and complex risks, particularly projects with tunneling and wet works, markets are however still reluctant to offer meaningful capacity with less possible leaders than previously offering historically low shares.

We are noticing a trend towards "portfolio view" underwriting as insurers consider accumulation and reserving capacity for group clients. Many insurers are now taking a stand and reserving their capacity for risks and insureds where they are able to participate on a “multi line” basis. We are experiencing more appetite from insurers for annual covers not only for local/home base territory but also for quoting and deploying capacity across boarders following contractors and owners globally.

As an almost standing comment at this stage, project specific professional liability remains at all time high level with less lead insurers available, continued increases in rates and deductibles in most type of projects.

Coverage

We continue to advise that for large and complex risks, longer response times throughout the placement and renewal processes can be expected as placements require more participants and insurers adopt a more conservative overall view and technical approach to underwriting, taking into consideration reputation of insured, understanding of critical paths, ESG credentials and quality of underwriting information. Specific focus remains on tunneling, wet works, delay in start-up (DSU) and Nat Cat exposures, defect and maintenance covers are also still being carefully considered.

Underwriter recognition of market factors such as increased cost of labor and materials, longer lead times for materials and equipment, naturally manifests in additional scrutiny and increases in deductible levels for DSU, harsher limits imposed on relevant coverage provisions - including extensions, automatic increase and storage clauses as well as indemnity periods. These factors are also challenging extensions in particular where increased project values are straining insurers capacity levels.

Market Outlook

As reported in our last review, we continue to see reports of stabilization for the region but not on a consistent basis with slight increases in construction “all risks” (CAR) and more notably in professional indemnity (PI) and inherent defects (IDI) noticed in most geographies.

Recent market movements in Europe have emerged with new European leaders for several top insurers, many of these with a global role which means that the decision making process is stronger than in recent years in the region. Insurers are reinforcing their teams and hiring talent with industry sector experience, particularly in renewable and heavy civil risks. More now have authority and a referral point to accept risks beyond their local territory. Underwriters in the construction market in Europe are beginning to be empowered at a country level with high levels of authority depending on experience and expertise in the sector, making them more autonomous and capable of facilitating more rapid responses in the near future.

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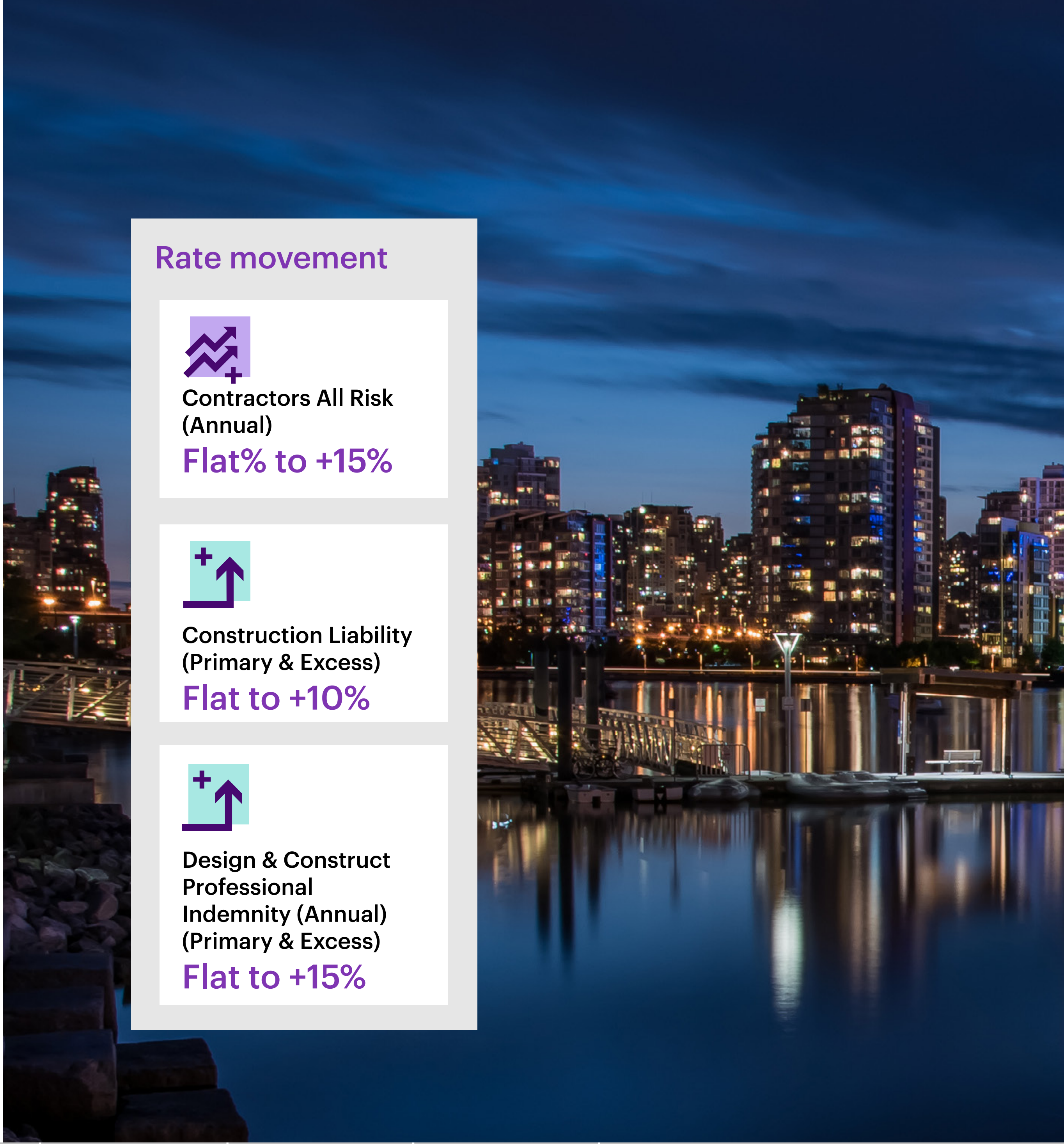
Key takeaway

During the first half of 2023 we experienced an easing of overall rating increases across the construction insurance sector. This is the result of greater competition, with new capacity entering the market, and improvements in insurers' profitability following remediation of portfolios. Insurers are now looking to grow within the sector. All these factors have led to more positive outcomes than expected for many clients.



Rate movement

Contractors All Risk (Annual)

Flat% to +15%

Construction Liability (Primary & Excess)

Flat to +10%

Design & Construct Professional Indemnity (Annual) (Primary & Excess)

Flat to +15%

Regional insights

The impact of the high cost of materials and labor has been more acutely felt in the residential sector with a number of high-profile insolvencies, leading to a decline within this space with home builders deferring investment decisions or cancelling new housing projects. However, this downturn will be offset by muted single digit growth in non-residential building sectors, with targeted government spending in infrastructure, healthcare, schools and defence. There will also be continued private sector spending particularly in renewable energy, mining, commercial and industrial sectors.

Capacity & Coverage

Construction All Risk

We began 2023 with an expectation that the construction "all risks" (CAR) market would continue with its general hardening in pricing following the January 1 reinsurance treaty renewals which were impacted by large scale flood events in 2022. Generally, insurers saw significant increases in Natural Catastrophe (Nat Cat) reinsurance costs, and it was expected that those would be passed through to insurers' direct portfolios. While this has been the case in certain sectors of the market, we have not seen the expected wholesale pricing increases due to increased competition with additional capacity entering the market and improving insurer profitability.

Insurers are remaining cautious with clients/projects that are exposed to higher Nat Cat perils. These include linear civil projects, particularly those in northern NSW and Queensland, which are susceptible to damage from flood/heavy rain, large scale solar farms and hail exposure, and other projects which can be significantly impacted by weather events. We are seeing insurers now increasing Nat Cat excesses, imposing sub-limits for Nat Cat perils, and restricting cover for open trenches, unsealed roads, and the like. Clients are being requested to provide details around their weather management plans and how they intend to mitigate their weather exposures throughout the course of the project's construction.

For general contractors, the market has seen the most easing with rating increases moderating and, in some cases, plateauing. Policy excesses/deductibles have stayed relatively static with insurers' focus being on the adequacy of major perils (flood, fire, hail, earthquake etc.) and water damage excesses/deductibles relative to the size and location of a project. Overall, policy terms and conditions have remained largely unchanged.

There is increased competition from both the local market and from London and other overseas markets for clients who have a positive claims record and can demonstrate lessons learned, have embedded positive and strong risk management processes, can articulate their strategy and have a well-presented risk. Their renewal/placement outcome is being rewarded accordingly.

Third Party Liability

The Construction Third Party Liability (TPL) market in the first half of 2023 continued the general trend of easing of rating increases, with insurers applying lower general increases to their portfolios. The focus has been on an individual client's loss history with this having the most significant impact on renewal rating. Clients with a poor loss history are receiving higher rating increases than those whose loss history is more benign.

Insurers continue to require up to 10 years of losses and are still focused on the impact of worker-to-worker claims. Claims costs and inflation continues to be a significant issue with legal and investigation costs leading the way and the levels of quantum to rectify damaged property increasing.

On a positive note, additional primary and excess capacity has entered the market with more capacity to enter in Q3 & Q4 of 2023. This renewed interest for Australian risks is primarily coming from the London/Lloyds market. This has increased competition for quality risks and projects which is tempering upward rating pressures resulting in some clients benefitting from premium rating reductions at renewal.

Professional Indemnity

Conditions for the design & construction professional indemnity (D&C PI) market continued to ease during the first half of 2023 with insurers moderating rate increases, stabilising levels of capacity and retention levels.

Contractors' solvency remains one of the key considerations for PI insurers, with a focus on a client's finances and cash flow to understand the short to medium term financial strength and their ability to withstand any cost blow-outs in their projects. Insurers are looking at client's risk profile and are wanting to gain a greater understanding of the levels of risk that they are accepting under contract and ensuring that the risk sharing is appropriate between the principal and contractor.

There are still sectors of the industry that are more challenging than others, with high rise residential, hospitals/health care, renewable energy, waste to energy, and large-scale infrastructure projects remaining difficult to source adequate PI coverage. It is therefore imperative that clients can demonstrate that they have positive risk management and mitigation processes in place throughout the project lifecycle.

The D&C PI market has started to see increased competition with insurers that were previously only offering excess capacity now looking at deploying primary capacity, and some insurers now becoming more aggressive in their approach to D&C PI risks. This is having the effect of increased choice of solutions for clients that have a positive claims history and positive risk and quality management processes in place.

Market Outlook

During the first half of 2023 we experienced an easing of overall rating increases across the construction insurance sector. This is the result of greater competition, with new capacity entering the market, and improvements in insurers' profitability following remediation of portfolios. Insurers are now looking to grow within the sector. All these factors have led to more positive outcomes than expected for many clients.

Across all construction lines, insurers are concerned with the ongoing effects of materials and labor inflation and its impact, particularly on the ongoing solvency of the construction companies they choose to insure. As a result, insurers are requesting greater detail around clients' financial position, their contracting regime and how they are mitigating against inflationary pressures. Insurers are looking more favourably on clients with a clear narrative on how they are dealing with these challenges.

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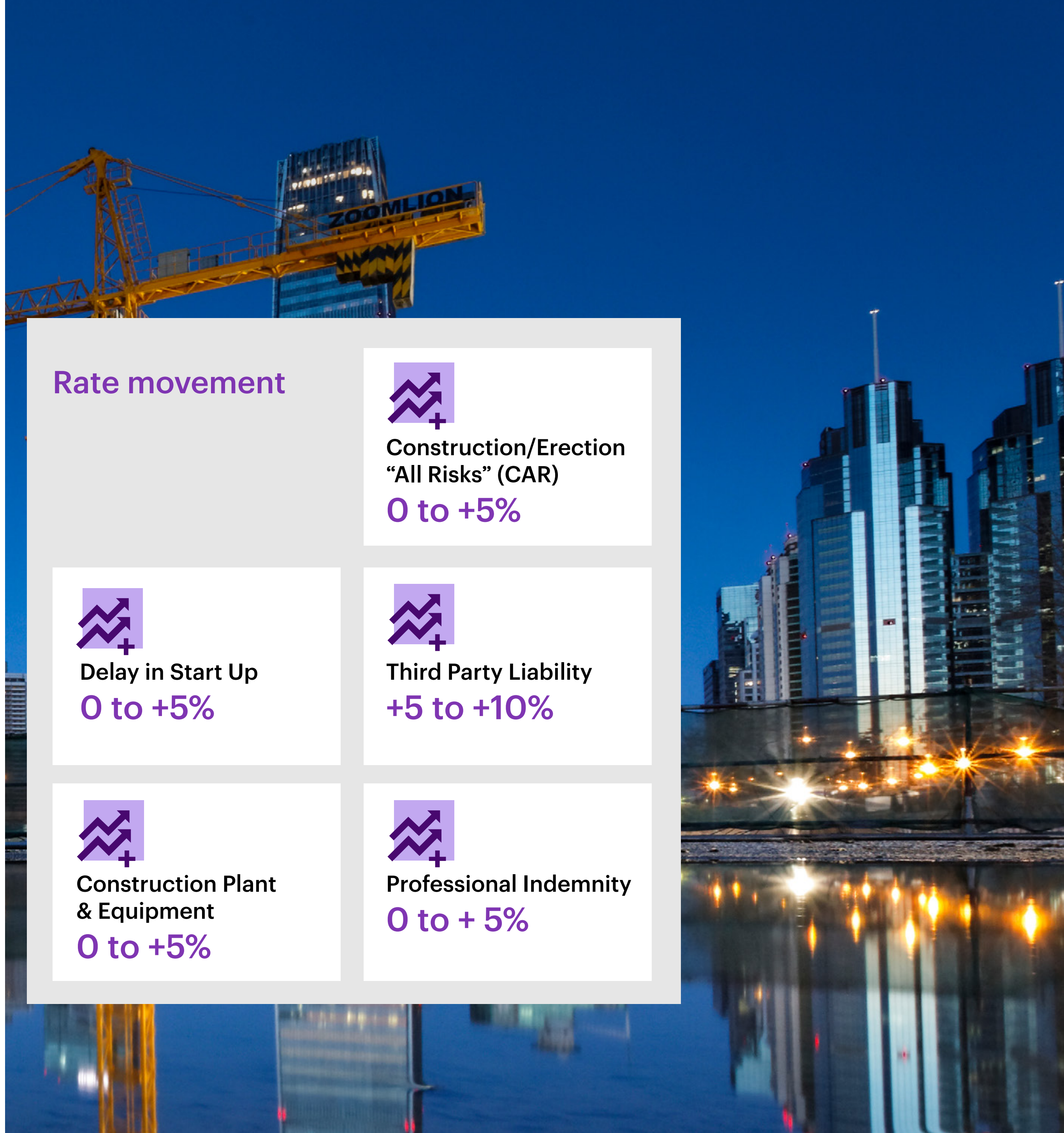
Asia

Key takeaway

Premium pricing has generally stabilized and remained high during the first half of 2023 with market maintaining their strict underwriting guidelines. Looking into the rest of 2023, we anticipate underwriters to scrutinize policy coverage and capacities to better manage their overall risk portfolios and accumulations.



Rate movement

Construction/Erection "All Risks" (CAR)
0 to +5%

Delay in Start Up
0 to +5%

Third Party Liability
+5 to +10%

Construction Plant & Equipment
0 to +5%

Professional Indemnity
0 to + 5%

Regional insights

The Asia market is experiencing positive trends as we see a significant investment with a healthy project pipeline in the renewable sector such as wind/solar, battery storage and hydrogen projects under development. We are also seeing increasing interest in hydroelectric projects mainly in Indonesia, Indochina, and the Philippines.

Other areas of interest are the major semiconductor projects, most of these over $1 billion USD in value and spread across several data centers in the region. The transportation sector is also very active, specifically metro and highways, mainly in developing countries such as Vietnam.

Public sector investment in infrastructure remains strong, particularly in developing countries like Vietnam, Indonesia and India where critical projects have been fast tracked. Chinese investors are not as active in investing as we have seen previously in North America and Latin America and are now mainly concentrating in the neighboring areas such as Indochina.

Capacity

Premium pricing has generally stabilized during the first half of 2023 with the markets maintaining their strict underwriting guidelines, especially for complex and high-risk projects such as dams and projects involving prototypical technology. We are, however, seeing a generational shift in senior underwriters stepping into retirement and a fresh wave of talent entering the industry, which naturally brings new dynamics into the construction market.

Insurers are looking to expand their teams and hiring has become more difficult due to the shortage of specialized talent, driving increases in operational costs of underwriting. Capacity is re-entering, not necessarily new markets but those that pulled out during the 2018-19 exodus at the same time as Lloyds and other construction markets.

Markets are also offering and deploying more capacity for selected best-in-class. This willingness from the market to commit more capacity compared to what we have seen in previous years could create some competitive tension, but we are still not there yet.

Coverage

Policy limits, Natural Catastrophe limits and higher deductibles are increasingly common on placements of large and complex projects located in Cat exposed locations as markets are faced with accumulation issues from their existing committed project risk in the same area. However, pricing has not fluctuated much since the beginning of the year.

Period extensions remains challenging particularly for projects which have suffered losses as underwriters continued to impose higher punitive pricing and/or stricter coverage conditions. Markets are taking advantage of the lack of automatic prevision sometimes charging premiums beyond technical rates even on risks with no claims.

Additionally, insurers are also imposing percentage of loss and increased minimums on Nat Cat deductibles, sometimes without a cap, on highly Nat Cat exposed projects and lowering their limits to maintain rate levels and capacity.

Market outlook

Looking into the rest of 2023, we anticipate underwriters to scrutinize policy coverage and capacities to better manage their overall risk portfolios and accumulations. With the recent investments in the construction insurance markets and new emerging engineering capacities, we may begin to see more competition and hopefully more equitable pricing with wider cover ahead.

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Latin America

Key takeaway

The Latin America market is in a period of decline due to high inflation affecting some of the countries in the first half of 2023, driven by government uncertainties and new electoral processes. However, on a global scale it is one of the regions that has recovered the fastest following the impact of the pandemic.

Rate movement

General Liability
+5 to +10%

Single Project Builders Risk/CAR
+8 Nat Cat to +15%

Professional Liability
+5%

Regional insights

The Latin America market is in a period of decline due to high inflation affecting some of the countries in the first half of 2023, driven by government uncertainties and new electoral processes.

However, on a global scale it is one of the regions that has recovered the fastest following the impact of the pandemic. Mexico, countries in Central America, the Caribbean, Argentina, Uruguay and Brazil are showing signs of growth in the industry for the next three years

Capacity

Although the perception is that we are still in the midst of a hard market, many insurers seem to be increasing and deploying more capacity in comparison to the more conservative approach that we saw in previous years. Some of the follow markets are now starting to consider taking more share in complex projects and offering larger line sizes and limits in line with leading construction insurers.

The lack of projects materializing, and the delay is progressing with construction activities due to the current social and economic downturn is also causing some competition - particularly on smaller and medium sized projects as these remain within the local markets, where rates and deductibles offered have been lower than regional and international markets.

The local product offered at times tends to be more restrictive in conditions and coverages, but we are also seeing more flexibility in offering wider non-standard clauses with higher limits and willingness from insurers to accept these in some cases to be in line with international standards in order to compete and retain the risk locally.

Coverage

Contractors and lenders are increasingly demanding limits on LEG3 coverage, as they discover that markets in general have been reducing their capabilities in large projects and catastrophic covers, especially for the risks located in the Caribbean, limiting even liability coverages to lower margins than traditional ones. This forces us to look for more insurers and reinsurers, which is an important challenge in risk placement management.

Insurers are also imposing limits or even declining to offer strikes, riots and civil commotions (SRCC) or any political violence coverage for certain exposed territories. Delay in start-up (DSU) in general is also challenging to secure in some projects and the sum insured, technical explanation and justification of how it is calculated is crucial in a submission.

Market Outlook

The commercial construction sector is expected to remain weak in the initial part of the forecast period, due to slowing activity in the services sector amid elevated inflation rates. The commercial sector is however expected to rebound at an average annual rate of around 3% from 2024 to 2027, supported by investments in the leisure and hospitality, stadium projects, retail, office, data center building projects, and strong pipeline of hotel projects across of the region.

Forecast-period growth in the energy and utilities sector will be supported by investments in renewable energy, oil, water, and telecommunications infrastructure projects.

In Brazil, the infrastructure construction sector is expected to expand by 1% in real terms in 2023 and record an average annual growth rate of 2.7% from 2024 to 2027, supported by public and private sector investments in road, rail, and port projects. Other countries such as Chile, Argentina and Colombia expect the infrastructure construction sector's output to decline by 1% in 2023, due to rising external debts, coupled with rising construction costs which is expected to affect spending on public sector infrastructure projects throughout 2023.

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