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CONSTRUCTION MARKET UPDATE

H1 2024

MARKET VIEW FOR US RISKS – CAR/EAR/DSU

MARKET CONDITIONS

The London construction market has undergone a period of transition over several years from soft market conditions to a sustained period of hardening. Conditions have now largely stabilized for all, but for the most challenging risks.

The global remit of the London market has allowed it to remain focused on territories where construction development continues, despite the economic downturn in some geographic areas. There remains some historic poor loss legacy from risks that were written in significantly softer market conditions, but many of these policies are now coming to a conclusion. There does remain challenges in respect of cost escalation and project period extensions on historical project policies where insurers are bound for the full duration of the project, in many cases, at terms and conditions below levels of the current market.

The London market has also seen a number of midterm project placements where domestic carriers are either unable (largely due to project value increases), or are not obliged to extend project periods. This has created an opportunity for London carriers to offer solutions for clients for continued coverage through the project completion, albeit at current market terms and conditions.

Capacity remains consistent with a modest amount of additional follow capacity entered the market in 2023, and there remains a stable pool of recognized lead carriers for major projects.

The market maintains appetite and capacity for the full cross section of construction risks, but is cautious in respect of those projects in high natural catastrophe (Nat Cat) regions (EQ/Named Windstorm/Convective storm), as many carriers have more restricted treaty capacity in these areas. Carriers have also experienced higher levels of extreme weather.

Underwriting remains disciplined and focused on core product offerings. MGA capacity remains active, and an important role in small to medium sized projects and in a supporting capacity role on larger projects.

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COVERAGE

There are no significant deviations from the scope of traditional core CAR/EAR/DSU coverages. There continues to be increased focus on high rise buildings, timber frame structures and those incorporating cladding material and where historic existing structures are integrated into the project.

Demonstrating strong risk management and providing comprehensive, detailed project information remains key to securing the best coverage and capacity. There is greater scrutiny on capacity deployment modeling and internal underwriting referral processes leading to longer timescales for the procurement of lead terms and subsequently, full project placement. Early engagement of the project design/management team with brokers and insurers is fundamental in achieving the best coverage outcomes.

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RATING

Rating has stabilized and remained consistent over the last 12 months, with no significant signs of rate reductions. Continued focus has been on risk selection and maintaining underwriting discipline on coverage and deductible levels.

Carriers wishing to maintain profitable long-term annual accounts and maintain market share may ultimately come under rating pressure from those clients that are able to demonstrate a strong risk management ethos, positive long-term loss experience or ability for higher self-insured retention levels.

Rating for large, complex single projects continues to be driven by capacity requirements to achieve 100% placement. Lead carriers are generally offering smaller lead participations in order to manage portfolio exposures, meaning a larger number of carriers are required to complete a placement. This can result in additional time being required in concluding a placement with multiple carriers.

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MARKET CONCERNS

The unique nature of the London construction market which underwrites both domestic and large complex international risks bring a cross section of regional differences and influences, but there are some consistent factors that continue to be key concerns:

- Rising inflation on both contract value estimations, capacity deployment and adequacy of deductibles, especially on multi-year project policies
- Supply chain/contractor insolvency
- Hydroelectric projects and legacy poor loss experience
- Timber Frame Projects – loss volatility and fire/water management plans
- Legacy project policy extension provisions where terms and conditions were significantly lower
- Capacity deployment in highly exposed Nat Cat regions
- Frequency of escape of water claims in high rise commercial and residential developments
- Potential of unprecedented extreme weather events, e.g., wild fires and flooding, especially in mainland Europe and the civil engineering sector
- New emerging risks; cyber and the potential of losses on sites as a consequence of transitioning to electrical power, e.g., EV charging points, battery storage cells
- Ongoing ESG considerations and building legislation changes
- Modern Methods of Construction (MMC) – Quality Assurance/Quality control

SUMMARY

The trend that started towards the backend of 2023 of more consistent pricing from insurers on both traditional and complex construction projects seems to have accelerated in the first quarter. The marketplace is becoming more competitive as new capacity enters the market and appetite from existing providers is growing. This positive development stems from successful underwriting results in the class of business over the last 18 months.

ESG will continue to be a driver for many carriers, with greater scrutiny being placed further down the supply chain, which may continue to limit the pool of lead underwriters on specific projects.

Underwriting results have improved due to a combination of a lack of significant catastrophe activity combined with the rate increases experienced over the last few years as the market entered the hard market cycle.

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