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Difficulties continue in several construction industry segments. Worrisome credit markets continue to impact many projects, causing delays or outright cancellations. The credit crunch continues to decimate the residential market and much of the commercial market, including the gaming, office, retail and hospitality sectors. Lower overall construction volume means enhanced competition in almost every market sector and fewer opportunities for contractors and subcontractors. The financial health of the construction community will be increasingly stressed. Declining backlogs will likely lead to consolidation and bankruptcies as the year progresses.

Construction insurance underwriters are all experiencing premium decreases. Coupled with increased competition from new markets and fresh capacity, the result is a continued soft market for the foreseeable future.

The federal government's stimulus package is one bright point for the construction sector. The following are several key areas where the federal dollars will be spent:

- **Transportation** – \$49.3B
- **Defense/veterans** – \$7.8B
- **Energy** – \$30.6B
- **Buildings** – \$13.4B
- **Water and environment** – \$20.1B
- **Housing** – \$9.6B
- **State fiscal stabilization** – \$53.6B

Unfortunately many in the industry feel the stimulus will not be large enough to reverse the widespread declines. While the federal input may help drive growth in infrastructure, energy, power and health care, nonresidential building construction continues to decline at record levels. Another critical issue is the fact that the stimulus projects and funds are not materializing soon enough.

The trend toward privatization of public projects continues, but political forces combined with current credit market environments make such projects very uncertain.



In construction insurance, Property and Casualty capacity is abundant. Pricing remains very competitive and we are seeing flat renewals or premium reductions on the majority of non-CAT business. Contributing to the soft market are smaller regional carriers aggressively entering into new markets with very competitive pricing. In the first half of the year some insurers anticipated a hardening market and lost business due to internal mandates to drive premium increases. In the third quarter of 2009, with most insurers' production levels down, insurers responded as expected. Retention has become the number one priority, as new construction and project-specific opportunities have all but disappeared. With reinsurance rates flattening, we do not anticipate a hardening market anytime soon.

## BUILDERS RISK AND PROPERTY

To the list of factors contributing to the soft Construction market, we add one in regard to Builders Risk and Property insurance: a relatively quiet 2009 storm season to date. We see nothing reversing the soft Builders Risk market well into 2010. Here are some issues to consider as buyers take advantage of the current market for annual Property programs, master Builders Risk and project-specific Builders Risk policies.

- **Competitive pricing.** Nationally, master Builders Risk programs are renewing flat or in some cases with reductions of 5-10% if competition is involved. Project-specific placements are highly competitive. The continued soft market is driven largely by increased capacity (traditional markets offering higher limits and European markets establishing domestic operations, i.e., Beazley and Hiscox), reduced construction activity, underwriter premium production pressures and flat reinsurance treaties – as well as reduced utilization of facultative reinsurance.
- **Broader terms/conditions.** This is an opportune time to negotiate broader terms and conditions on both master Builders Risk programs and project-specific placements. Buyers should expect increased limits and sublimits, lower deductibles, lower number of days related to soft costs/delay deductibles, manuscript forms and removal or modification of key exclusions. Many buyers will be glad to see the departure of wording along the lines of: “Rain, snow, sleet or ice, whether driven by wind or not. This exclusion applies only to personal property left in the open.”
- **Coverage for green construction/LEED certification.** Many carriers now offer green construction coverage enhancements via endorsements. These endorsements address the growing number of green/LEED-certified projects and their associated exposures. A large number of projects associated with the federal stimulus package are expected to have LEED-certified requirements.

- **Know your exposure.** Review your upcoming year's construction pipelines and estimated annual receipts. The current climate may have altered your exposure base significantly. Being aware of these possibilities well in advance will help you manage your renewal more effectively. Make certain your coverage reflects actual exposure.
- **For Marine policies (such as Contractor's Equipment) consider how the equipment is being used.** In some cases, equipment is being stored for extended periods. It may be appropriate to change your policy to cover only catastrophic exposures (such as a tornado hitting the yard or a major fire) rather than all operational risks on job sites. This strategy should only be applied to pieces of equipment that will be truly mothballed. Some contractors are reducing ownership of their equipment and renting when needed. Contractors should be sure to review equipment values, as most policies cover actual cash value (replacement cost less depreciation). With the surplus of equipment in the current market, prices have flattened on used equipment, which can lower the insured value.

## CONTACT

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