Marsh

Construction

2021 Pacific Insurance Market Recap

March 2022

Part 1 - Global construction market snapshot

During 2021 we saw signs of rates stabilising for the Construction Insurance sector, but insurer capacity remained tight. Insurance placements remained challenging for projects requiring large limits or with heavy exposure to natural catastrophe risk. Tough insurance market conditions continue to exist for many companies across several regions. The general trend towards increased pricing and more restrictive coverage across most aspects of the construction industry remained, including for single project placements for developers and contractor annual programs.

Alignment of terms across the major global markets via a greater level of underwriting discipline across the insurer's portfolio is resulting in increased consistency of pricing and coverage offered. With less authority granted to them, underwriters have struggled to deviate from core "traditional" coverages for construction risks and have struggled through the terms offered to build in and differentiate different risk profiles presented to them by clients.

Annual placements

Cumulative increases began to slow throughout 2021.

While many accounts continued to experience minimal increases, insurers continued to focus on the wording restrictions, targeting coverage for infectious disease (driven primarily by COVID clauses), "silent" cyber, customer/suppliers extension triggers and claims preparation costs.

There is a bifurcation in some regions where insurers are providing preferential terms and conditions to those contractors and developers presenting what is considered a 'good' risk, low to no claims with a strong focus on risk control and improvement.

Project placements

Coverage for projects continued to trend upwards but also at a slower rate than has been experienced in the recent past. Insurer risk selection as always plays a key part. Projects involving wet works or dams or delays in startup (DSU) coverage and those exposed to natural catastrophe risks have the greater challenge.

Overall there was upward pressure on water damage deductibles and similar pressure on natural perils deductibles in some countries. The following graph shows the overall slowing of increases.

Figure 1 : Global composite insurance pricing change

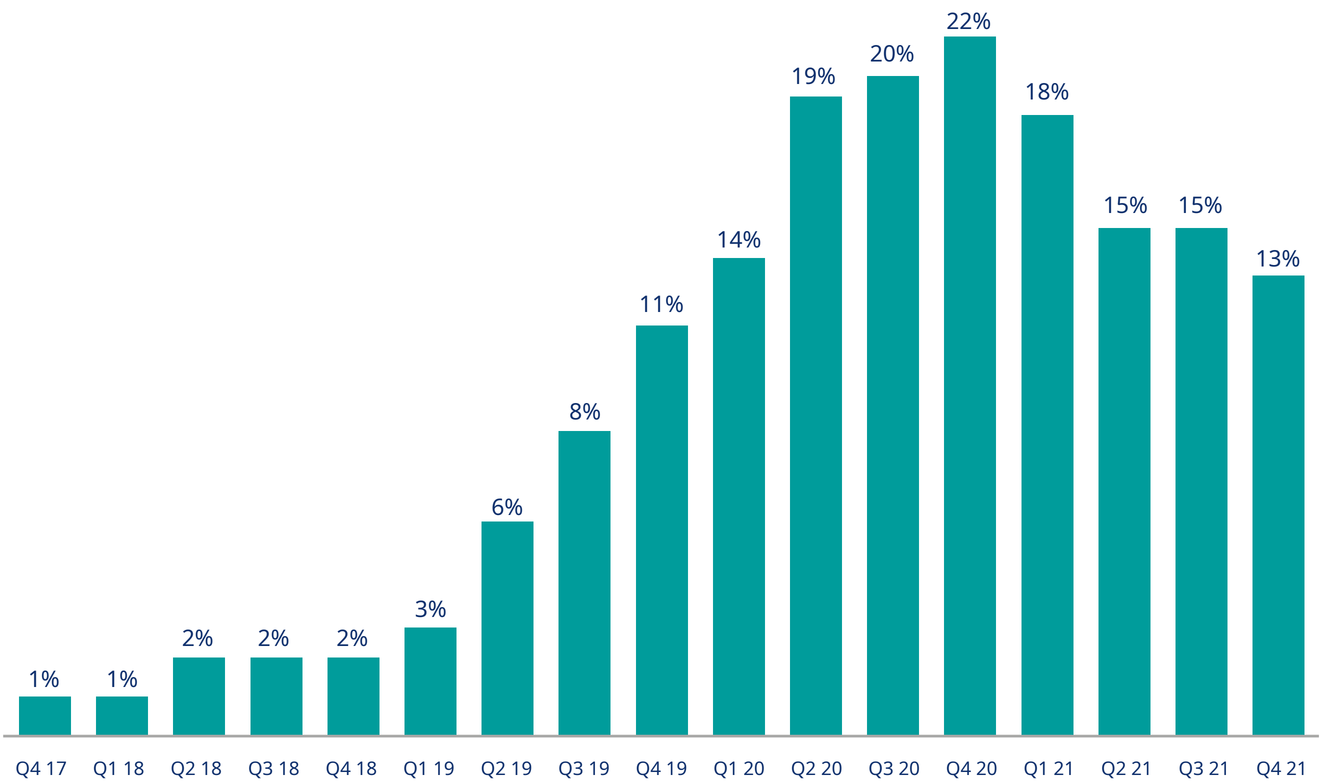
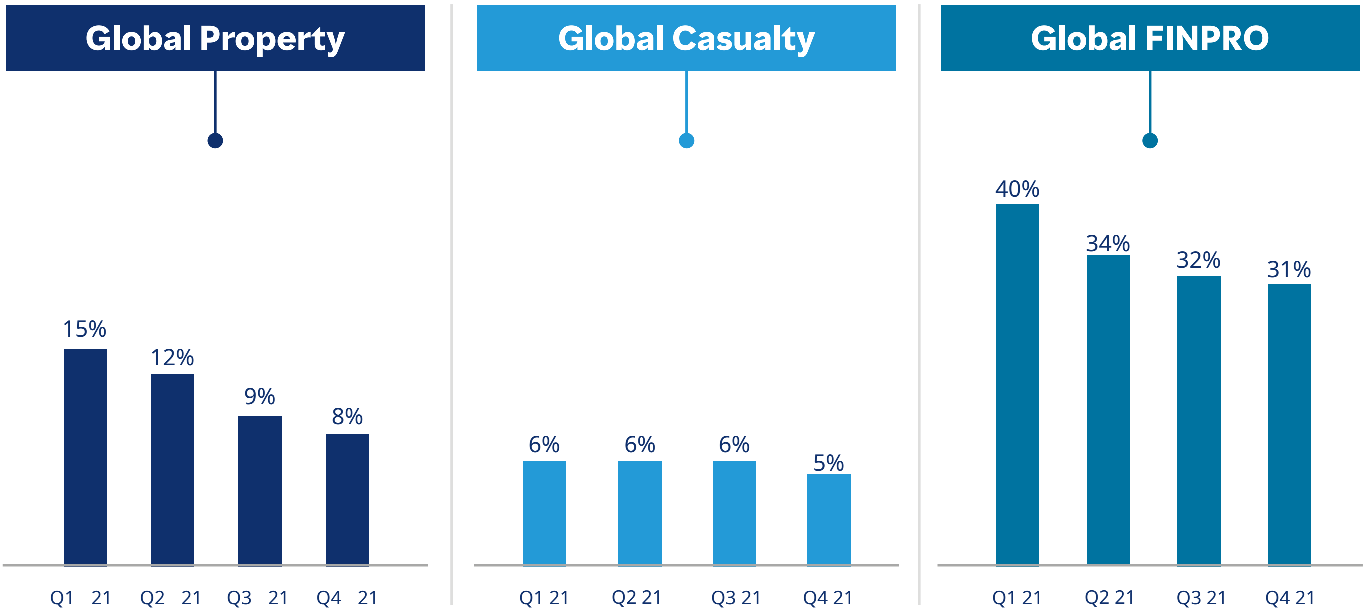


Figure 2 : Global composite insurance pricing change — by coverage line



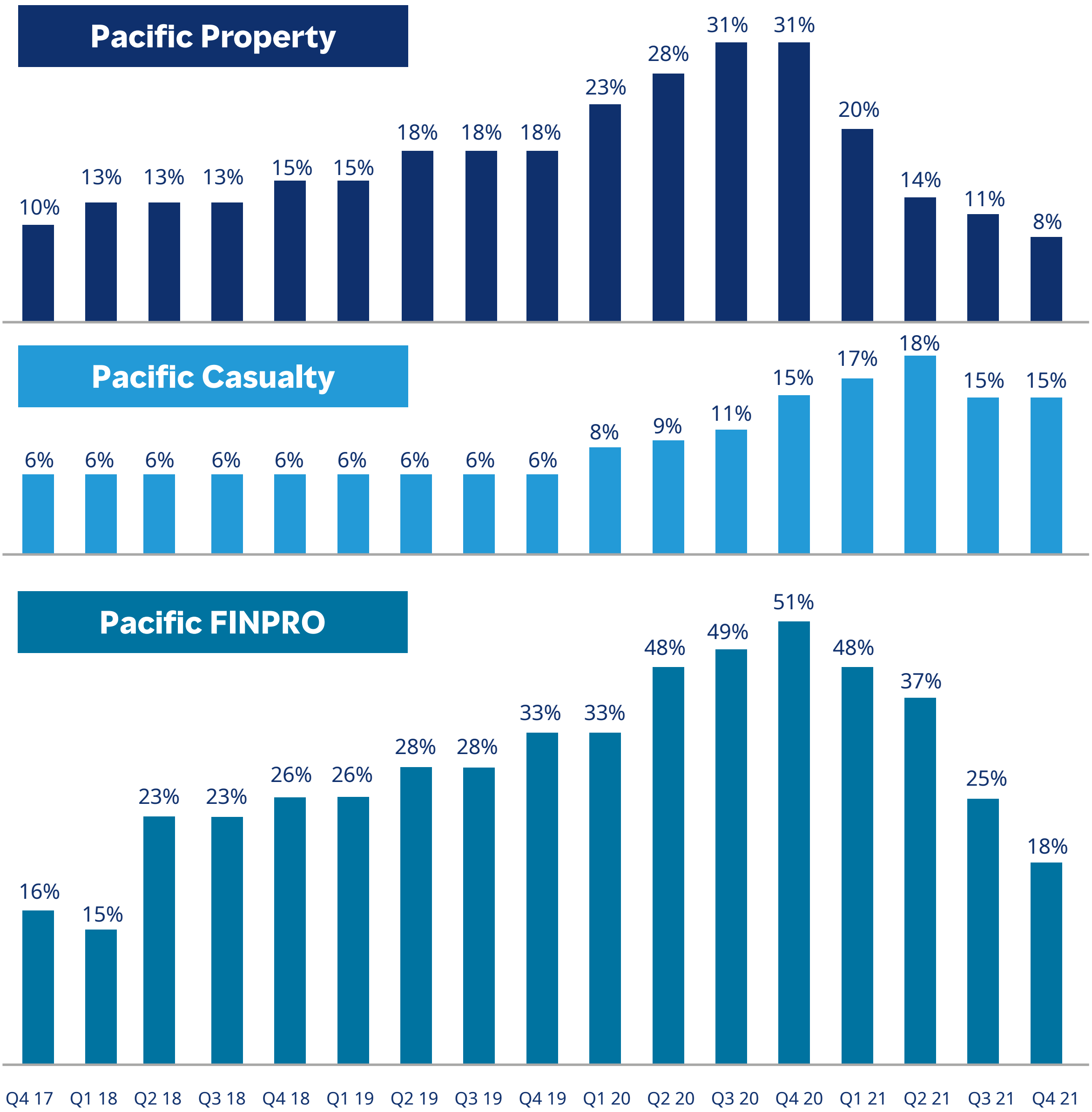
Source: Marsh Global Insurance Market Index, Q4 2021

Part 2 - Pacific region construction market

The Pacific region experienced similar challenges to the global construction insurance market, however there were positive signs that "new" capacity was starting to return to the region. We also saw price increases in Contract Works Material Damage flatten significantly towards the latter part of 2021 as shown in Figure 3 below per "Property". Financial and professional lines also experienced reduced increases across their portfolios.

All composite lines of insurance (including property and casualty) showed a reduced or flattening trajectory.

Figure 2 : Pacific composite insurance pricing change — by major coverage line



Source: Marsh Global Insurance Market Index, Q4 2021

The following section provides the year-in-review for the Pacific region in relation to the following construction-specific insurance classes: Contract Works (CW) and Construction Third Party Liability (TPL)All composite lines of insurance (including property and casualty) showed a reduced or flattening trajectory.

Contract works (CW) insurance market

Figure 2 : CW insurance market sentiments 2021

During 2021 insurers continued to look to rectify their book through restrictive terms and conditions against coverage provided previously. Risk differentiation from clients appeared not to be a driving factor in 2021, with a greater internal focus remaining front and centre for insurers. Pleasingly, in the second half of 2021, insurer management began to emphasise that the construction insurance market was "open for business" as opposed to the focus on rate increase and reduced scope of coverage.

Coverage and underwriting trends

The following trends continued to be observed across the CW insurance market globally throughout 2021 and continued to have a direct impact on local markets:

No change on insurers to write new business from their management. The emphasis on writing business at profitable terms and conditions. The second half of the year did start to see a shift from management.

Project extensions and policy changes required longer negotiation times, complicated by some markets no longer writing the class and being in run-off. Simple extensions and policy changes that were once negotiated and agreed with insurers without issue, now a challenge.

Stricter guidelines mean underwriters are required to obtain approvals from global head office for large or complex risks. Once lead terms are set and internal referrals approved, approaching follow market support to lead terms is challenging as underwriters are restricted from deviating from their original approved terms. Consequently, many underwriters are waiting for lead terms to be finalised before considering their participation and starting the referral process.

Obtaining broader coverage terms and conditions continues to be a challenge in the current market.

Insurers placing greater emphasis on analytics and reliable data, particularly in respect of historic claims activity.

Water damage a key concern for insurers, with extensive claims activity for residential and building projects relating to risks of water ingress. Consequently, premiums have increased and, in some instances, cover is sub-limited or excluded altogether.

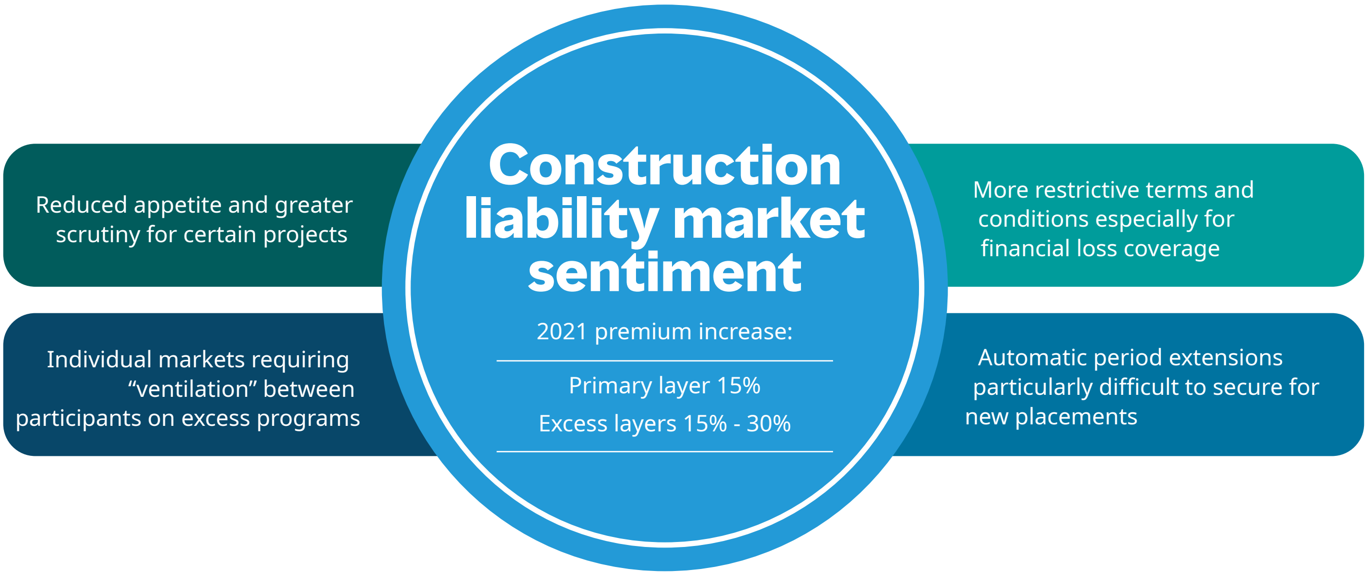
There has been significantly reduced market appetite for long contract periods. Capital is moving away from long-term risk and back to short-term risk exposures. Construction is now deemed “medium” tail business.

Some authorisation points for insurers have seen more input from head office or major hubs, delaying new and existing policy negotiations.

Within certain sectors, such as residential, some insurers are downsizing their portfolios, with fewer underwriters offering lead terms.

Construction liability/ casualty market

Figure 5 : Construction liability market sentiment 2021



Despite the push to introduce restrictions in coverage and increase in premium rates, capacity is still available in the market. Having seen a withdrawal of insurers' pre 2021, especially in the primary space, last year saw some insurers come into the market and providing greater competition to the incumbents.

Casualty insurers are looking more closely at their underwriting profits and cost of capacity. Similar to the CW market, there is a growing emphasis for insurers to write business on sustainable terms and conditions only.

ESG

Environmental, Social and Governance (ESG) matters have also had an impact on capacity concerns. Construction insurers, through their ESG committees, are increasing their scrutiny of insureds' active commitment to ESG factors. Risk acceptance in both the short and long term will be impacted. In-house ESG committees and/or consultants are reviewing insureds' actual activities against global conventions and against the insured's own officially publicised company position on ESG. We have witnessed capacity reductions and the withdrawal, or intention of future non-renewal, based on an individual insurer's assessment of a client's ESG activities.

Coverage and underwriting trends

The following trends continued to be observed across the CW insurance market globally throughout 2021 and continued to have a direct impact on local markets:

Project extensions and policy changes require longer negotiation times.

Automatic extension clause (previously at nil premium and/ or pro rata) are challenging to obtain in current market.

Reduced appetite and greater scrutiny for projects involving consequential loss exposure, tunneling risks for road and rail.

Financial loss coverage increasingly challenging to place.

General desire from insurers to increase attachment points and require "ventilation" or gaps between layers on liability programs in order to spread their risk across a program and avoid over-exposure within an excess tower.

Increasing use of sub-limits on certain extensions or restrictive terms. For example, reluctance to provide professional liability write-back cover in relation to property damage and personal injury.

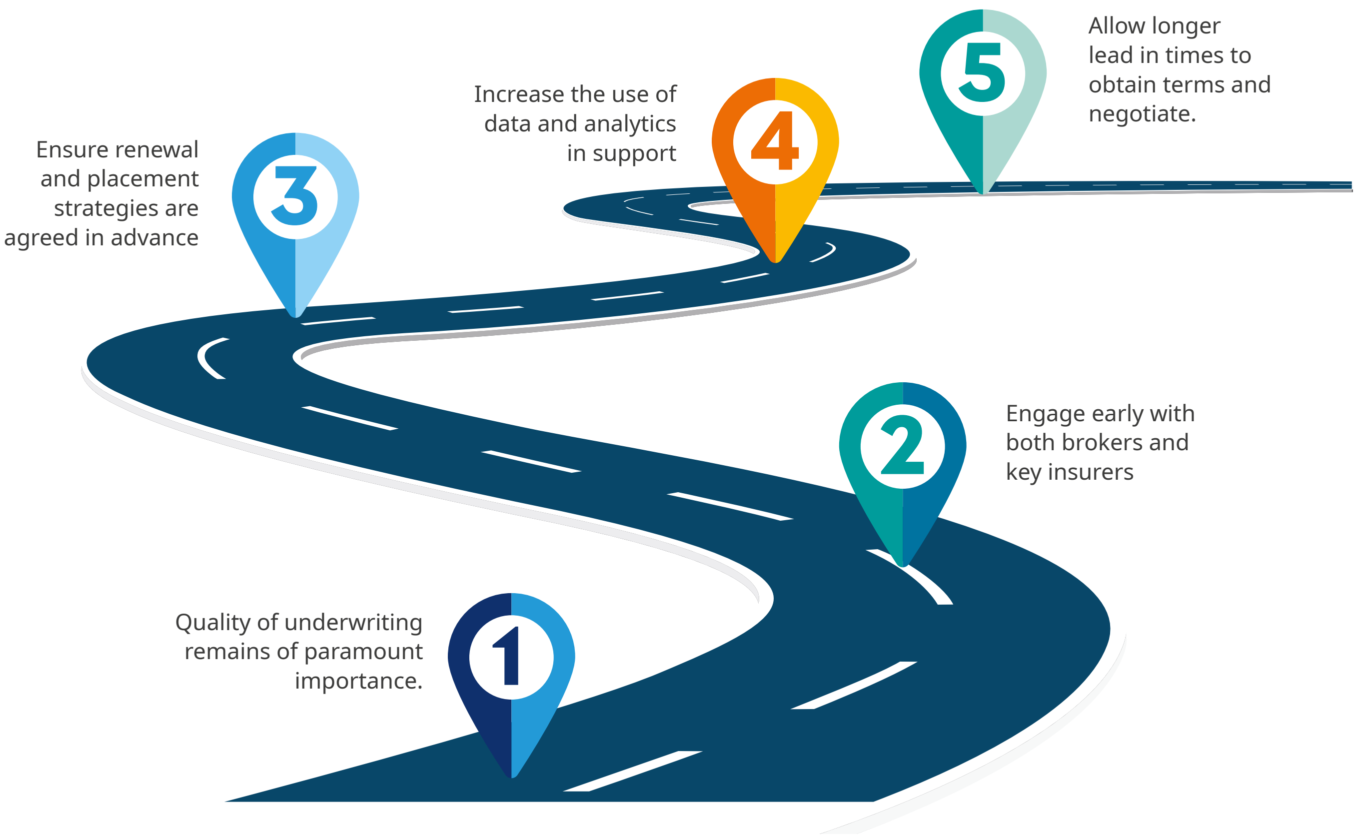
Where to from here?

As the insurance market has sought to correct and re-balance, we expect insurers to continue to focus on writing profitable business and being more selective with their terms and conditions of providing cover for construction risk.

Despite the continuation of challenging market conditions throughout 2021, insureds can still position themselves to generate better outcomes and navigate the market successfully in order to limit cost increases. It is important to invest time into working with your brokers to develop an organised and methodical risk transfer strategy. The more effort dedicated to developing and evaluating risk information in the early stages, the more effective the risk transfer will be.

Those insureds that can continually demonstrate risk quality, articulate a proactive approach to reducing risk and associated capital spend, minimise claims experience, and maintain key insurer relationships will be best-positioned to obtain the broadest available cover and above average pricing changes. Insurers will be moving away from their internal corrections of their portfolios which are now complete and will start to re-focus on risk selection and differentiation.

Figure 6 : Navigating your risk transfer successfully



For further information, please contact your local Marsh office or visit our website at marsh.com/au

Maarten Van Haaps
Head of Construction, Marsh Specialty, Pacific

maarten.vanhaaps@marsh.com

Gary Hastings
Construction Practice Leader (SVP), Risk Management (NSW), Marsh Specialty

gary.hastings@marsh.com

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