Marsh

## Marsh Specialty

# Global Construction Market Update 2022

Summary of the Marsh Specialty Construction practice market update webinar held in December 2022.

“The consensus that emerged from the recent construction market webinar was that caution should be applied to any outlook for the construction sector this year. A weakening macroeconomic outlook and geopolitical challenges look set to continue to cause turbulence globally, with inflation, supply chain issues, and natural catastrophes (NatCats) creating uncertainty around treaty conditions and the demands of the reinsurance market.

While that may be an uncomfortable message, there are some green shoots of new and re-entering capacity within the market. Construction demand is still good and, overall, the sector has seen improvements in terms of profitability.

Our regional leaders showed that amid this economic outlook, several universally consistent themes have surfaced across the regions. Unsurprisingly, inflation is a key concern for our clients, and the impact of the Russia-Ukraine conflict has further dampened economic sentiment. The growing interest in environmental, social, and governance (ESG) factors reflects the view that ESG risks and opportunities may affect the market and should therefore be given serious consideration.

Another area of focus is NatCat, in terms of available capacity and also rating adequacy. The recent devastation that Hurricane Ian brought to the US could potentially make it the largest NatCat loss ever and has firmly put the topic of NatCat back at the top most insurers’ agendas.

That said, it’s still factors such as location, required limits, program structure, retention, and claims experience that most directly impact insurance market conditions in the construction sector on any one risk.

It’s a challenging time for all industries. However, there are positives. Marsh is responding to these challenges through greater collaboration across the Marsh McLennan businesses and by Marsh colleagues globally. In the coming weeks, Guy Carpenter will release an update to recap the January 1 treaty renewal results and we will provide further advice in relation to the anticipated implications for construction companies following that report.

With all the changes that have taken place within both the construction and insurance industries over the past two years, the return of face-to-face presentations is having a positive impact on how capacity is deployed, as well as the policy terms and conditions quoted by insurers. Where possible we continue to encourage all clients to help foster a rapport with the insurers through in person meetings and presentations.

We look forward to working with you throughout 2023. If you have any questions or would like further information on anything contained in this report please do not hesitate to contact your Marsh contact, regional construction placement leader or me.”

**RICHARD GURNEY**
Global Head of Construction

# Regional overviews

# Asia

Insurance pricing and terms remain challenging, but are stabilizing.

**Yoon Chien Wong**
Asia Placement Leader,
Construction, Marsh Specialty

Insurance prices and terms remained at a higher level at the end of 2022. Conditions have stabilized for most sectors within construction, except for petrochemicals, where several high-profile construction and operational losses have led to a tightening of pricing and coverage.

## Capacity

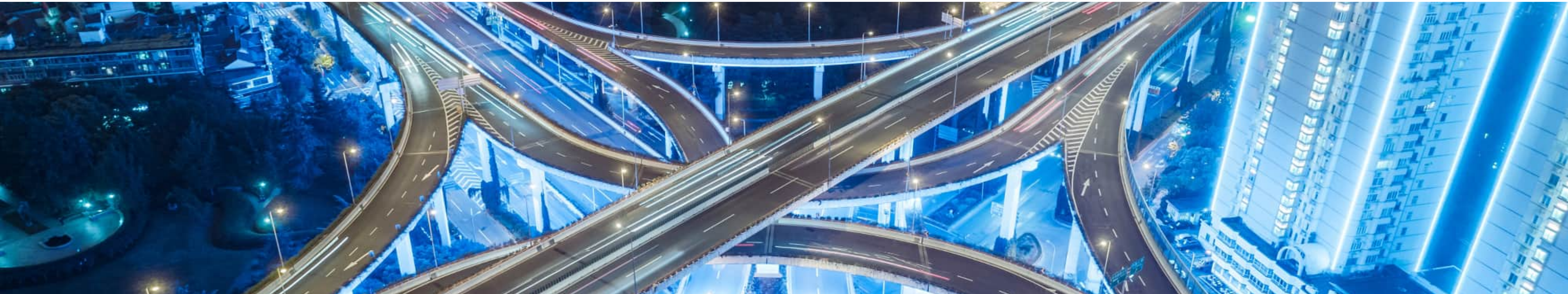
Underwriters, already maintaining strict underwriting controls and discipline, are now being more careful when assessing projects and deploying capacity. Deductibles for petrochemical construction such as LEG2, hot testing, commissioning, and extended maintenance have on average increased by more than 50% in 2022, and rates are generally in-line with the levels quoted by London markets. Coal-related risks and hydropower projects remain challenging to place as a result of changing underwriter appetite and industry claims experience.

## ESG

Heightened attention to environmental, social, and governance (ESG) and sustainability issues is driven by head-office directives. Emphasis is being placed on underwriting guidelines to ensure they are strictly followed and subsequently, underwriters are reluctant to review risks that may have any ESG-related challenges. In the region this is playing out most acutely for coal risks where capacity continues to reduce as markets continue to withdraw to support their net-zero commitments.

## Supply chain disruption

Supply chain disruptions have impacted repair and replacement lead times, especially for projects that commenced before the Russia-Ukraine conflict. In contrast, start dates and construction schedules may be affected for newer projects due to rising procurement lead times and costs. This is impacting both sum insured under the policy as well as requiring companies to give further consideration to policy periods, particularly where delay in start-up coverage is in place.



# Europe

## Increasing insurer appetite while insurance prices show signs of stabilizing.

**Elaine Casaprima**
Head of Bowring Marsh, Continental Europe

Insurance pricing continues to show signs of stabilizing, with overall pricing increasing by 6%, the same rate of increase as in the prior two quarters. Factors influencing the region's outlook include improving loss experience, risk quality, and size and type of construction. As elsewhere, pricing varies between countries, reflecting the diversity of both construction industry participants and the maturity of local insurers. For instance, the market in France started to flatten in H2 2022, whereas in Eastern Europe, where there are fewer market players, rates are still increasing.

### Natural catastrophe

Projects with higher exposure to NatCats (such as earthquakes, wind, and wildfire) continue to see upward pressure on rates. Companies with exposure to these risks should engage early with their broker to clearly articulate the risk and mitigation to insurers and well as understand the coverage levels required in a shifting market place.

### Capacity

An improved overall rating environment has increased insurer appetite for construction risks in recent years, although insurers remain disciplined on capacity deployment and pricing. In most countries in the region, capacity for professional liability continues to reduce, adding pressure to the challenging environment. This means insurers are becoming more selective and there is ongoing focus on policy terms, conditions, and rates for professional indemnity (PI) placements. Meanwhile, there is evidence of new players emerging, particularly in the property space increasing competition and moderating previous pricing increases.

# Latin America

## Global headwinds come into play.

**Jean Paul Hart** Head of Construction, Peru

After years of managing to subside global pressures due to strong local capacities and competitive retail markets, the global nature of insurance markets has caught up with construction companies in Latin America. The impact of this has manifested in less available capacity and higher pricing.

### Capacity

Inflation is impacting not only construction companies but the insurance market as well. In areas prone to natural catastrophes, such as Peru, Chile, and Colombia, or projects with a higher level of complexity, including mining or energy, large levels of reinsurance is usually needed to support local insurers. The formerly established construction reinsurance market within the region has slowly contracted, with several strong players withdrawing their underwriting offices and repatriating decision making back to global head offices.

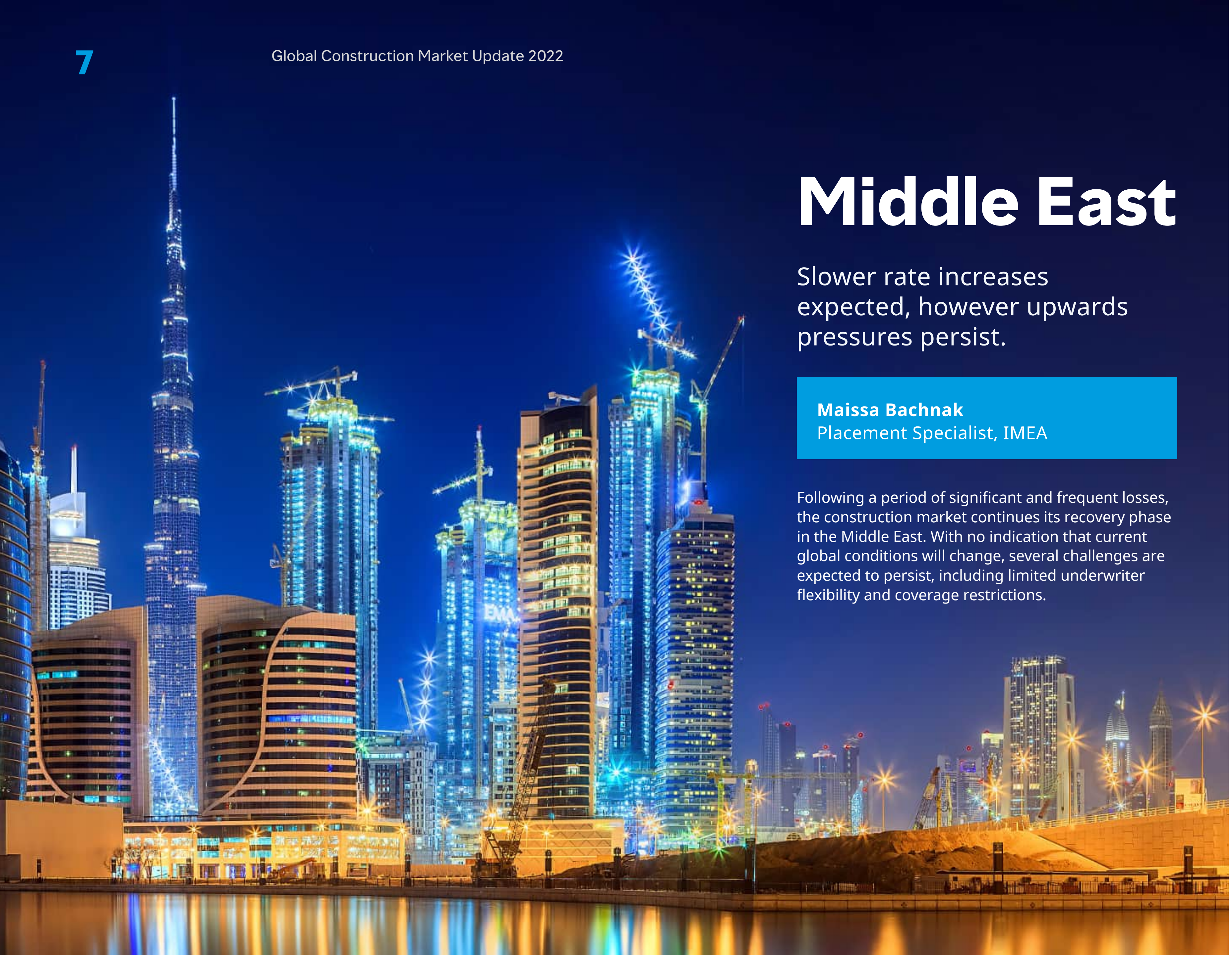
Less local competition and available capacity has led to higher pricing and more restrictive terms for deductibles and coverage.

Political uncertainty in countries, including Chile, Mexico, and Peru, led to major claims in 2020 and 2021 and resulted in the insurers significantly limiting capacity for strikes, riots and civil commotion, and sabotage and terrorism. Detailed information is now required in order to be able to obtain this coverage, and in countries perceived as high risks increasing costs have yet to stabilize.

### ESG

ESG issues are becoming more relevant in the region, a trend that is likely to continue, given its vulnerability to natural disasters. Underwriters are being more selective when offering their capacity. Projects in ports, mining, power, and other areas that could leave an environmental or social footprint are now required to undertake detailed analysis, including social impact studies and environmental assessments. It is increasingly important for companies to articulate their ESG position and journey towards improvement as alternatively insurers rely on publically available information that may not always portray a complete picture; information from sources like the Marsh ESG Risk Rating Tool can help companies do this.

The ESG Risk Rating, is a complimentary self-assessment drawing on 10 internationally recognized standards and frameworks. It enables companies to measure their organization’s environmental, social, and governance performance (across 19 themes), improve their ESG risks, and gain access to risk and insurance benefits.



# Middle East

## Slower rate increases expected, however upwards pressures persist.

**Maissa Bachnak**
Placement Specialist, IMEA

Following a period of significant and frequent losses, the construction market continues its recovery phase in the Middle East. With no indication that current global conditions will change, several challenges are expected to persist, including limited underwriter flexibility and coverage restrictions.

### ESG

As elsewhere, ESG issues are increasingly coming into sharp focus and gaining traction within the industry. Capacity restrictions are tightening for projects and clients that do not conform to low-carbon targets or are unable to demonstrate their transition journey. We expect that this will continue through 2023.

### Capacity

The region has a sufficient capacity level, however, the availability of potential lead markets has decreased due to a decline in global reinsurers' capacity and their cautious approach to deployment. Until additional capacity is accessible to create competition, the rating movement trend is unlikely to change.

### Third-party liability

Third-party liability remains stable and competitive in the region. Excess line capacity continues to be available, keeping pricing competitive and coverage relatively broad.

# Pacific

## Natural catastrophe coverage comes into focus.

**Maarten van Haaps**
Head of Construction, Pacific

Prices in the industry flattened in early 2022, however, following a spell of bad weather, the focus is now shifting to natural catastrophe coverage.

### Natural catastrophe capacity

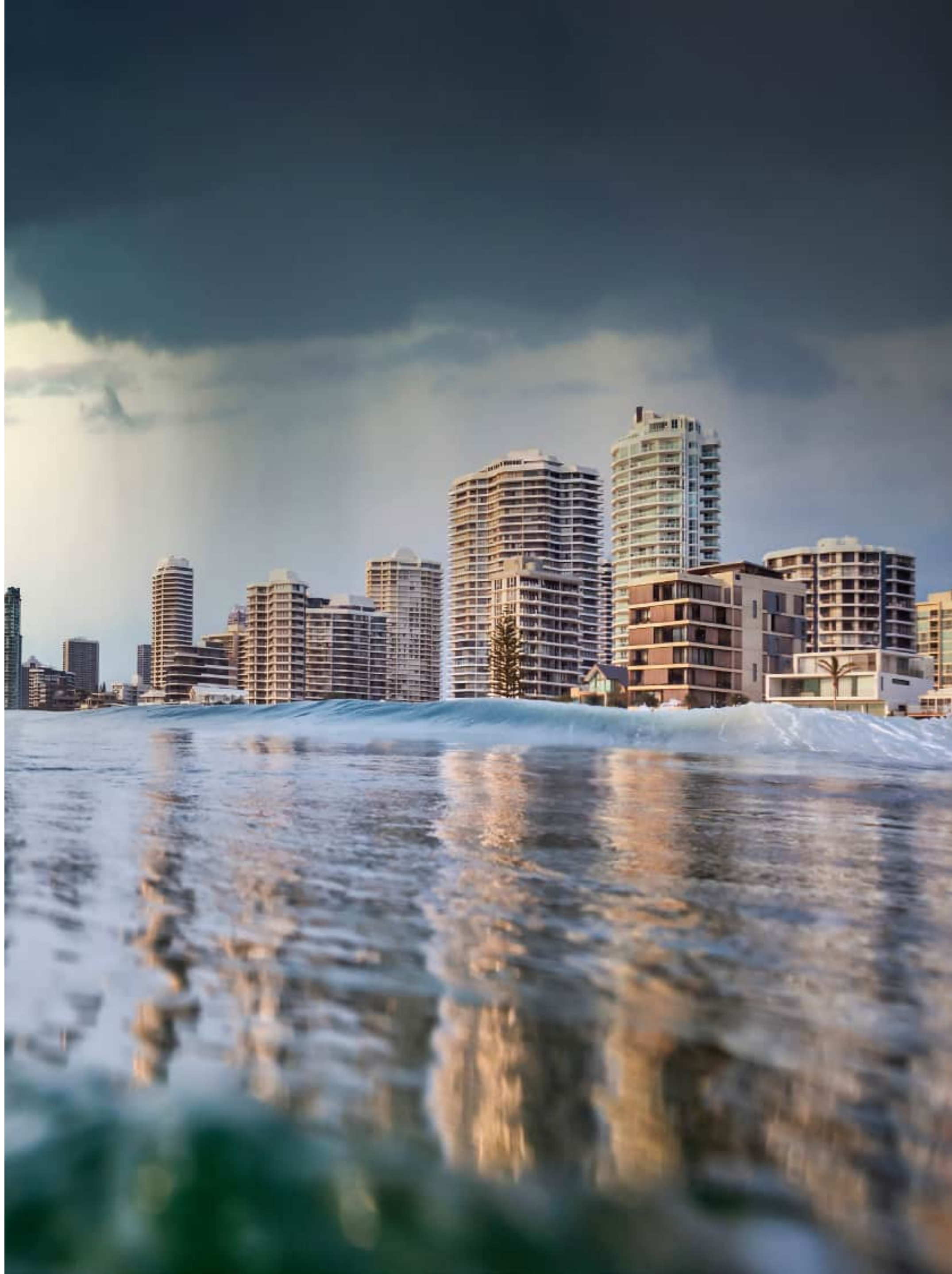
Poor weather conditions in 2022, specifically wet weather on the eastern seaboard of Australia, meant construction underwriters on certain risks (civil or long linear trajectory) concentrated on coverage for NatCat. This has seen insurers starting to impose sub-limits on such coverage which is particularly evident in civil projects (such as road and rail projects). While alternative risk transfer options, such as parametric solutions, may be a more costly alternative, they are increasingly being considered as alternatives to ensure projects are bankable and can proceed. This trend is likely to continue into 2023.

### Inflation

Inflation is impacting not only construction companies, but also the insurance market with many insurers citing inflation as the next major issue. Clients need to consider the impact of rising costs on their declared values as well sums insured including sub limits. Some markets are looking to impose stronger coverage restrictions relative to declared values and underinsurance. In the region, Marsh is countering the insurer position with updates on estimated contract values where appropriate. Construction companies should be mindful that many polices are adjustable at the end of the period and budgets may need to be adjusted accordingly. This affects projects already at risk in the main, so the values and sums insured should reflect current conditions more accurately.

### Professional indemnity

Construction professional indemnity (PI) policies remain a challenging market for similar reasons to those in Asia, with a run of losses over the past 10 years, particularly for project-specific PI, and the market experiencing more frequent and severe claims. Despite capacity availability, these issues continue to put pressure on prices for PI. As a result, several construction companies within the Pacific are moving towards annual policies such as those in the UK market, rather than placing stand-alone project-specific coverage.



# UK

## Stable outlook, but more capacity required.

**Alistair Urquhart**
Global Head of Construction Placement, Marsh

Overall, the outlook has improved from the volatility of the past few years in the UK construction sector. The London market has been buoyant throughout 2022, with one of the busiest years to date in terms of increased risk flow.

## Construction

For annual construction programmes, dependent upon claims performance we have seen a stabling or levelling of premium rates and cover.

However, for standalone single project business we continue to see variation in insurers approach to both pricing and also policy coverage.

Capacity has come under pressure in recent years, with an estimated loss of 20% of the market capacity that was available prior to 2018. Even with some new capacity entering the market conditions remain relatively flat and competition for the most challenging risks is still limited.

## TPL

2022 was a dynamic year for the casualty insurance market and whilst there is still continued pressure for rate, the strong availability of capacity has enabled more consistent pricing and coverage remains broad.

## Professional indemnity (PI)

PI market conditions have improved significantly in the last twelve months. Clients without claims concerns can now expect flat rate renewals rather than the mandatory rate and premium uplifts we have seen in recent years.

Whilst those clients with legacy claims can expect continued scrutiny at renewal, the aggressive programme adjustments have diminished. Overall, insurers are prepared to consider each risk on its own merits.

That said, prudent insureds should continue to engage closely with both broker and insurer during the renewal process.

There has been a significant improvement in PI construction capacity in the London market with a number of new entrants in the space, as well as an increase in the general appetite from legacy markets. This is helping to drive competition, leading to highly successful renewals.

## Inflation

Insurers are challenging clients more and more to demonstrate that adequate and suitable contingency costs are being built into project values especially for longer terms risks placed before 2022. Unlike the property market new project risks have the benefit of new and current values so pressure to consider underinsurance is most prevalent to legacy risks.

The imposition of new conditions relating to under insurance has so far been resisted by Marsh.

## Natural catastrophe

The devastating effects of European storms and Hurricane Ian have firmly put natural catastrophes at the top of most market agendas in terms of capacity and rating adequacy.

Commercial markets are reacting quickly in anticipation of treaty renewal outcomes and are trying to reduce the extent of natural catastrophe coverage they are willing to provide, particularly to those clients with a significant exposure to this risk.

The expectation of increased NatCat costs will become apparent as we go further into 2023, with insurers recognizing risk location and the client's risk appetite and loss history when assessing prices.

# US and Canada

Typified by natural catastrophe exposure.

**Michael Pignataro** US Contractor Builders Risk Leader

The US and Canadian markets continue to experience levels of hardening, particularly in the builders risk space. NatCat exposure typifies the environment, which is unlikely to change in the future. But there is also a substantial backlog of construction work and the region is currently experiencing a change in occupancy classifications.

## Natural catastrophe

Climate change has driven further significant flood and wildfire events this year. In September, Hurricane Ian — a large and destructive Category 4 Atlantic hurricane — caused widespread damage across the Caribbean and the southeast United States, especially the states of Florida and South Carolina. Various estimates predict that the loss will be in the range of US$45 billion to US$65 billion recoverable from the insurance industry.

Hurricane Ian arriving on top of a number of high profile NatCat loss events over the preceding 12 months – including European storms, floods, and global wildfire events – has seen the capacity for NatCat cover shrink dramatically, with sufficient capacity for all of the risks not currently available in the market. This is expected to see (re)insurers forced to reduce capacity deployed for risks that are exposed to NatCat, which will further drive pricing increases on individual risks in the region.

## Capacity

The market has a backlog of construction projects, although there has been a radical change in occupancy away from commercial and residential projects leading to somewhat of an “industrial revolution” in the sector. The market is seeing supply chains moving towards more localized, secure lines which is changing much of the underwriting mentality, with underwriters applying more intense scrutiny and requiring more information.

## Inflation

Another area is the impact of inflation on terms, conditions, and capacity. It is important for North American clients and brokers to understand that, in many cases, the reinsurance treaties that carriers rely on are denominated in euros. As the dollar strengthens relative to the euro, some carrier capacity may reduce. The less capacity there is in the market, the more markets are required to complete a placement, which often leads to more punitive terms and conditions.

## Mass Engineered Timber (MET)

The use of timber in construction and buildings has many benefits in relation to environmental sustainability and operational performance. MET is a product that offers versatility as well as a number of positive environmental, aesthetic and construction factors.

As such we expect to see a significant increase in the use of MET. Unfortunately, insurers continue to note some critical challenges with the use of MET.

The US in particular has experienced a number of large wood frame fire losses. Although this has not involved MET it does add to underwriter caution to adopt a conservative approach when it comes to assessing newer materials like MET.

As more buildings incorporate MET, the insurance markets’ knowledge of claims performance and risk factors will also increase. In the current transitioning market conditions, where many insurers are taking a conservative view of MET and are seeking to limit their exposure, it is essential to plan ahead and be prepared to meet requirements to obtain coverage.

## About Marsh

Marsh is the world's leading insurance broker and risk advisor. With over 45,000 colleagues operating in 130 countries, Marsh serves commercial and individual clients with data-driven risk solutions and advisory services. Marsh is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. With annual revenue over $20 billion, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses: Marsh, Guy Carpenter, Mercer and Oliver Wyman. For more information, visit marsh.com, follow us on LinkedIn and Twitter or subscribe to BRINK.