Marsh

Australian industry insights:
Construction insurance market update 2024

An addendum to the Australian Mid-Year Insurance Market Update 2024

Australian construction site

A business of Marsh McLennan

Introduction

Delivering industry specific insights and trends

Marsh's *Construction Insurance Market Update 2024* is an industry specific addendum to the *Australian Mid-Year Insurance Market Update 2024*. The full report covers trends and insights in key insurance lines including property, liability, financial and professional lines, cyber, environmental impairment liability, private health, accident and health, group life, and workers compensation.

To read the full report, click on the link below.

Download your copy

Click on a section:
1 Introduction
2 Market overview
3 Premium rate trends
4 Coverage & underwriting trends
5 Looking ahead

Construction insurance

Market overview

Contract works insurance (including delay in start-up)

In recent years, the Australian and other global insurance markets experienced a period of significant rate increases; however, in the first half of 2024 rates generally stabilised. Most clients with construction risks experienced rates at renewal that were generally flat to 5% increases, without any major changes or coverage restrictions. However, insureds that underwriters viewed as performing poorly from a claims perspective, or those with significant natural catastrophe (Nat Cat) exposures, typically experienced rate increases. Insurers have been selective in the type of new business they underwrite within the construction sector.

Despite market stabilisation, insurers remained cautious in their underwriting and pricing in the first half of 2024. We expect caution around pricing to ease in the second half of the year as market dynamics continue to evolve and insurers focus on growth strategies. In what was a potential marker of a softer market, some clients were offered long-term agreements with premium discounts at the renewal of two-year agreements, subject to certain parameters being met.

Insurers actively managing sub-limits, water damage and flood risks

Water damage and flood policy excesses/deductibles remained areas of underwriting focus. These types of claims were common in the Pacific region, which has seen insurers proactively addressing the associated exposure. Consequently, insureds with significant exposure to flood and water damage typically experienced higher excess levels on their policies, while additional coverage for these risks comes at a higher cost.

Insurers closely managed additional sub-limits for specific coverages, such as removal of debris, expediting expenses and loss mitigation as they struck a balance between meeting client needs by providing coverage and mitigating their own exposures. Higher sub-limits for certain coverages were available, but typically at higher rates.

Barring unforeseen circumstances, the trend of managed sub-limits and higher rates is likely to continue until new capacity and stronger competition enter the construction insurance market.

Design and construct (D&C) professional indemnity insurance

The Australian construction professional indemnity (PI) insurance market has stabilised over the last 12 months due in large part to an influx of new entrants and capacity into both the global and local PI markets, particularly for small to medium-sized enterprises (SMEs) in the construction space. While the majority of new entrants have focused on SMEs, some have also shown interest in larger contractors.

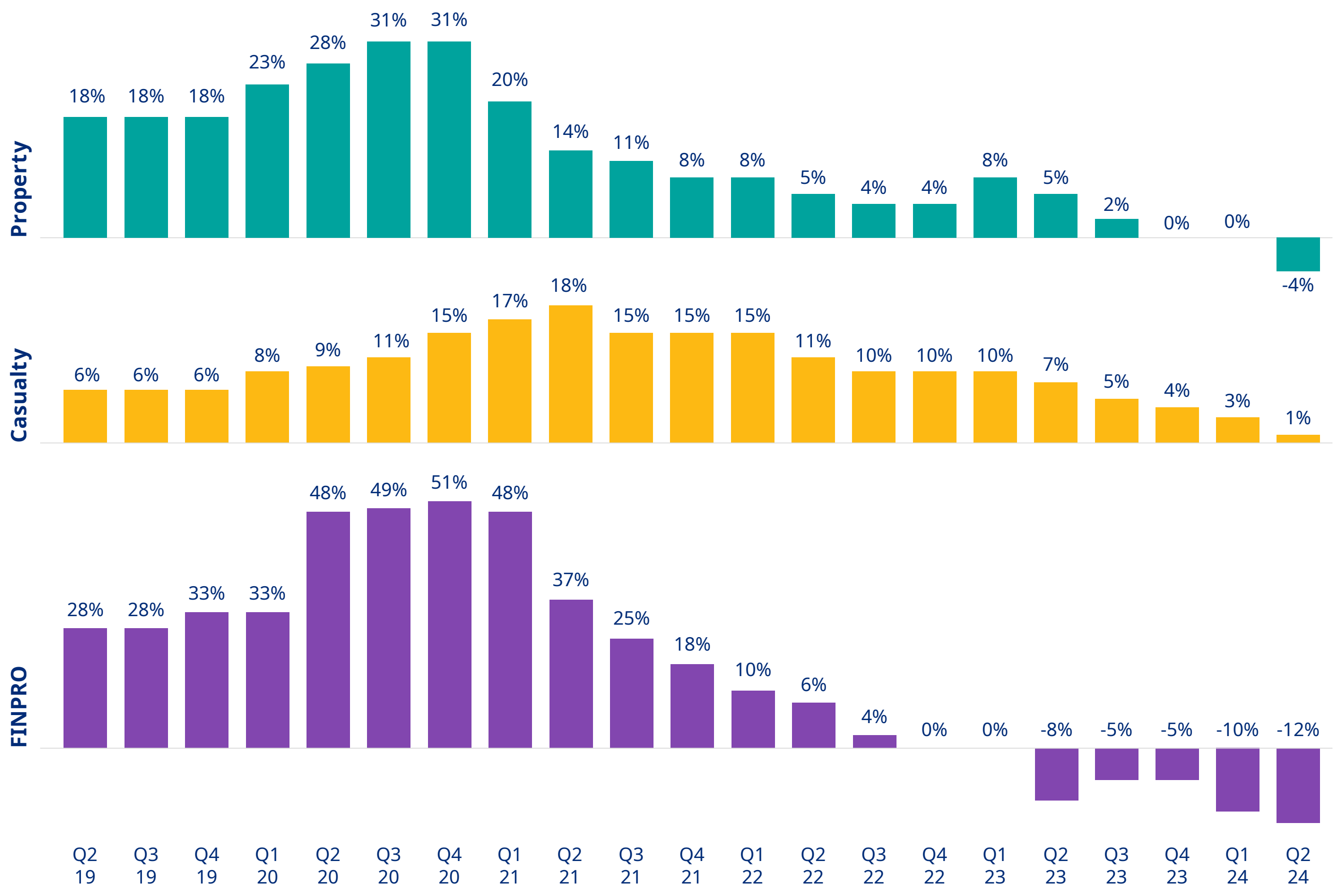
Premium rate trends

Rate changes ranged from flat to 5% increases across the Australian construction insurance market in the first half of 2024, an easing of increases compared to the same period last year, which saw increases of 5% to 10%. Rate outcomes have been dependent on claims activity, coverage, and sub-limit structures. Risks viewed by insurers as stable and of high quality generally experienced flat rates, and in some cases, rate reductions.

Compared to the overall financial and professional lines market, premium rates in the D&C professional indemnity insurance market declined at a slower pace.

01 | Pacific commercial insurance pricing change - by major coverage line

Source: Marsh Global Insurance Market Index, Q2 2024



Key coverage and underwriting trends

Risk engineers increasingly engaged during underwriting

Insurers have analysed risk in greater detail and their risk engineers have been engaged more frequently. This has lengthened the time of the overall underwriting process. As such, engaging the market early and with good engineering information/methodology is critical to allow adequate time for the underwriting process, negotiations, reviewing terms and making informed decisions.

Cautious approach to hail losses and solar renewables

Some industries have been under heightened focus from insurers more so than others. For example, significant hail losses experienced over the last 24 months have increased scrutiny of solar energy risks. Increased underwriting scrutiny is likely to continue into the second half of 2024. Additionally, water damage and Nat Cat exposures continued to be areas of focus in the Australian market.

Oversubscription spurs return of 'lead-follow' market positions

During the last five years, we have observed support markets seeking to narrow their coverage offered on insurance programs and applying their own set terms to participate as a smaller follow market. However, this trend stopped in 2024 as more risks became oversubscribed.

This allowed for the return of the traditional lead-follow market positions, where one insurer (the lead) assumes the primary role in underwriting the policy terms and conditions. Other insurers (the followers) participate on the insurance program with a smaller share based on the same terms as the lead.

Broader coverage options via global markets

Access to global markets in Asia and London continued to be available. The London market is known for its more mature approach to underwriting and not being as restrictive and/or reactive on coverage compared to local markets. Rather than imposing ongoing policy wording restrictions, the London market tends to focus more on the main exposures, which can be beneficial for insurance buyers seeking comprehensive coverage, as well as bring further competition back to the Australian insurance market.

Interest in parametric solutions persists

In response to limited Nat Cat capacity in the traditional insurance market, some insureds have turned to the alternative risk transfer market to explore non-traditional insurance solutions. In the Pacific region, we witnessed an increase in inquiries about and use of parametric solutions, particularly among insureds with Nat Cat exposures.

Parametric insurance contracts operate on predefined parameters, such as policy triggers, limits, or pay-outs, which adjust based on the movements of an index rather than the occurrence of a specific event or loss that would typically activate a traditional insurance policy. By using indices linked to relevant factors, insurers can provide customised and more flexible coverage to meet the specific needs of clients with Nat Cat exposures.

Looking ahead

As the insurance market continues to evolve, insurers are likely to maintain their focus on profitability and refining terms and conditions for construction risks. Despite persistent challenging market conditions in the construction sector, insureds can take proactive steps to potentially achieve better renewal outcomes.

Insureds should invest time into evaluating, understanding and effectively articulating their risk profile, as well as collating and assessing risk information during the early stages of the underwriting process, which can lead to more effective risk transfer solutions.

Insurers generally have moved away from portfolio-wide pricing remediation, and instead, have shifted their focus towards risk selection and differentiation. Insureds that can consistently demonstrate high-quality risk management practices and a proactive approach to risk reduction, maintain a positive claims history, and foster strong relationships with insurers are likely to be in a better position to secure broader coverage and more favourable pricing outcomes in the current transitioning market.

Working closely with your Marsh insurance broker to develop a well thought out and systematic risk transfer and placement strategy can help realise this.

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

About Marsh

Marsh, a business of Marsh McLennan (NYSE: MMC), is the world's top insurance broker and risk advisor. Marsh McLennan is a global leader in risk, strategy and people, advising clients in 130 countries across four businesses: Marsh, Guy Carpenter, Mercer and Oliver Wyman. With annual revenue of $23 billion and more than 85,000 colleagues, Marsh McLennan helps build the confidence to thrive through the power of perspective. For more information, visit marsh.com, or follow on LinkedIn and X.

It is important to note that reported pricing changes are averages and that the data used to estimate the changes cover a wide range of clients in terms of size, industry, location, claims history and other parameters. Many clients received pricing changes that deviated from the average, some higher and some lower.