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2020'S EFFECT ON AN ALREADY HARD PROPERTY INSURANCE MARKET

Christine Barton | Account Executive, Project Risk Services

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Even before 2020 began, we were starting to experience a hard insurance market. Catastrophic losses, increased frequency and severity of bodily injury claims, and additional defense costs impacted insurers' reserves. Low-interest rates made it more difficult for insurers to invest and improve profitability. There was a domino effect where experiencing these issues, reinsurers increased their carriers' rates, causing carriers to raise their rates and implement more restrictive underwriting standards.

Property insurance suffered from these effects more than other insurance lines. From year-end 2019 to the first part of 2020, property premiums increased between 10% - 60% plus, depending on catastrophic exposure and loss history.

A report issued by The Insurance Information Institute, Facts + Statistics: U.S. Catastrophes, tracked the estimated property losses over the last 10 years due to catastrophic events (defined as \$25 million or more in insured property loss and affecting a significant number of policyholders and insurers). The number of catastrophic events during that span totaled 396, and the value of property loss was estimated at \$329.1 billion. 41% of the events and 55% of the monetary losses occurred in just the last three years.

2020 hasn't proven to be any better; the volume of wildfires across Washington, Oregon, and California has established

this the worst fire season on record. While still being determined, property loss numbers due to the wildfires are estimated to be in the range of \$5 to \$8 billion.

Those of us in the Pacific Northwest may not pay as much attention to hurricanes occurring in other areas, but 2020 is already being recorded as the second most active Atlantic hurricane season, and the season is not over. By Oct. 6, 2020, there have been 25 named storms, with nine becoming hurricanes and three at a Category 3 or stronger. Ten of these tropical storms or hurricanes made landfall in the United States, with losses estimated between \$5.8 and \$15.8 billion.

EFFECT COVID-19 WILL HAVE ON THE INSURANCE INDUSTRY

It is still uncertain if or what effect COVID-19 will have on the insurance industry. Reinsurance News reported as of Sept. 10, 2020, the running total for COVID-19 losses and reserve estimate was \$22.4 billion, but several insurers in this report have since increased their COVID-19 loss projections.

There are also approximately 1,000 open cases in the United States alone involving COVID-19 business interruption, and numerous states have introduced legislation that would require specified business interruption policies to cover claims for small businesses retroactively.

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Depending on the outcome of these cases and state bills, COVID-19 could have an even more significant effect. Lloyd's, one of the largest reinsurers, estimates total losses due to COVID-19 could have a \$203 billion impact on the insurance industry.

As if COVID-19 and catastrophic events haven't already been enough, property owners and contractors are also facing challenges of protecting their property or projects from rioters. Damage from riots across the United States is expected to cost \$1 billion in claims. We have already seen the effects of 2020 with carriers placing moratoriums on renewing and new property policies. Some are short-term moratoriums for states with active wildfires; others are for specific Zip Codes because of the civil unrest.

CHALLENGING BUILDER'S RISK PLACEMENTS: 5 WAYS TO BE PREPARED

As a result of these factors, placing a property policy to include builder's risk will be more challenging for the foreseeable future. Rates are continuing to increase; by the end of Q2 2020, property rates increased an additional 5% to 40% plus. Wood frame remains to be the most difficult to place. The carriers that are still willing to insure wood frame are further limiting their capacity, requiring a greater number of carriers to put together an insurance program for large wood frame projects.

How can you be prepared for difficult project-specific insurance placements?

- **Communicate with your broker early** – Starting the submission process in advance will give your broker more time to determine the best carriers to approach about your property or project. It will provide them with more time to have detailed discussions with the underwriters and explain the processes and safeguards you will be putting in place.

- **Improve your risk management efforts** - All carriers for wood frame building require some form of security, with numerous carriers requiring electronic monitoring from a pre-approved security company and others requiring on-site after-hour security. This requirement could likely expand for any metropolitan area projects. If there will be hot work, ensure your general contractor has well-established hot works procedures and follows through with them. Ask your general contractor for a quality assurance/quality control plan to monitor potential pipe disconnections/ruptures. Insured's who display a proactive approach and can demonstrate processes and additional securities have been put in place will be more favorably regarded than insured's who do the status quo.
- **Know your and your contractor's loss history** – Underwriters are being even more critical of loss history, and some are asking for the general contractor's loss runs. You and your general contractor need to be prepared to explain the factors contributing to a specific loss and the steps you've put in place to mitigate future losses.
- **Help your broker help you** – In a hard insurance market, insureds need to positively stand out, and underwriters need to feel comfortable insuring your property or project. Consider meeting with underwriters; they want to understand your property/project and feel more comfortable handling it. You and your contractor can explain your project in better detail than a broker can.
- **Budget wisely and plan ahead** – In many cases premium increases are unavoidable, and you should be prepared. If your broker provides you an early indication with a premium range, use the conservative number. The market is too volatile right now to depend on an indication provided three months ago.

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- **Consider a master builder's risk policy** – If you anticipate numerous projects starting in the near future, it may be beneficial to consider a master policy to which you can schedule the individual projects. Your rates and terms will be prenegotiated and protect against future rate increases and term changes. Communicate with your broker what your one to two-year project pipeline is and determine if a master policy is a practical option.

Those who are proactive, evaluate their exposures, and implement measures to control their losses will be better prepared for this insurance environment. Consult with an experienced insurance broker to guide you through the current state of the property insurance market.