Global construction rate trend report

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Q1 2022 regional insights and rate trends

As we look back on the end of 2021 and into 2022, we can certainly see reasons for optimism. The construction industry outlook, for the most part, is positive. We still anticipate certain sectors will remain behind pre-COVID-19 levels (e.g., office) but the industry will be buoyed by increased numbers in other sectors such as infrastructure, manufacturing, and warehousing and even areas heavily impacted by COVID-19, such as hospitality construction, are eager to get back to developing and building. In our own industry, we are also seeing more indications of an improved marketplace but still supporting our commentary in the second half of 2021 that we are experiencing a **two-tiered market.** The tiers are delineated by those that have taken extra efforts to set themselves apart as best in class and can show the results. The required efforts transcend clients; today's marketplace requires insurers and brokers to work even more closely with clients and to use all the available tools such as data and analytics to create a bespoke story that shows why a particular risk is worthy of greater consideration from the markets and to set themselves apart from others.

Even as we see some positive actions, many trends highlighted in 2021 continue today and some of the more prevalent areas are:

- Underwriters still require very **detailed submissions** that clearly describe actions being taken to improve performance around risk as well as any supporting documentation around results that support the actions are having a positive impact.
- In their pursuit to restrict coverage and conditions, many of the markets are pulling in authority levels and centralizing some of the underwriting.
- The increased scrutiny and enhanced process all mean you will need **more time** to develop program options. Every stakeholder in the chain needs more time to perform their role in the underwriting process which means everyone needs to start their process earlier than in years past and develop clear strategy with milestones to assure proper capacity levels are achieved and ready to bind when needed.

- In the excess liability arena, markets are continuing the trend to reduce their capacity in any one project or program and as they reduce their capacity it is increasing the need to add multiple new markets to any given program to reach targeted limit levels. The trend raises some concerns around the possible coordination of insurers in a claim situation.

These trends from the last year continue but we are also seeing an acceleration of some new concerns that are impacting the market.

- **Cyber threat** which has been noted in last year's WTW Global Construction Rate Trend Report, continues to be an area of risk that is evolving more rapidly than the industries response with new product offerings. Clients are looking for clarity of exposure and balancing the value of products available to the anticipated premium to decide the best risk handling approach. We anticipate new product offerings around this rapidly evolving area of risk.
- The **2022 Reinsurance Treaties** renewals did not create significant impact to overall capacity availability but they did indicate some concerns around Environmental, Social and Governance (ESG) principles and their impact on underwriting and allocation of capacity. The shift in ESG positions will impact capacity in two ways:
  - If a project is not ESG compliant the insurers may / will not be able to participate in the placement. Coal Projects could be used in this situation as an example of one that may lose insurers' ability to participate.
  - If the company is not ESG compliant with the **2016 Paris Agreement,** we anticipate we will see more markets provide less capacity than those that are in compliance. This trend is one that is accelerating and will need on-going focus throughout 2022 and beyond.

- Beyond the global health impacts of COVID-19, the pandemic heightened awareness of **supply chain weakness** that have had ripple effects on the availability and costs of building materials as well as on the acute global shortage of labor issue. All of these factors have created impacts on project schedule which subsequently then are impacted by the difficulty to get term extensions of project specific insurance placements. Constant monitoring of a project's timeline to completion is needed to allow for the time to develop a strategy early if it appears an extension will be required because the request may be giving an underwriter the ability to re-evaluate the entire program and pricing.

In summary, the current environment is experiencing stabilization in rates for most lines of coverages, but that stabilization is only achieved with significant preparation and attention to detail around measures in place to control and limit loss activity. Renewals, new business and project specific submissions all require more time to develop, and each needs a far higher level of detail to obtain preferred treatment. More importantly, each submission needs a specific strategy to use as a guide to navigate the evolving marketplace. Each region around the world has some nuances that are important to recognize, and we hope our region-to-region summary gives you specifics that may have more application to your situation. As always, please reach out to any of our fully connected experts globally for more insight on any specific issue.

How should construction risk managers respond?

Utilise analytical tools to evaluate efficacy of current program structure.

Begin the renewal process a minimum of 180 days prior to program expiration.

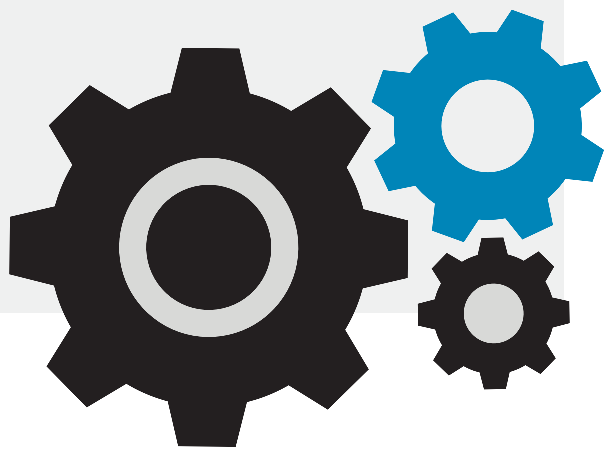
Prepare for continued increases in insurance pricing. Evaluate adequacy of insurance changes embedded within bids and contracts.

Work in conjunction with your insurance broker to develop comprehensive and accurate renewal data.

Consider alternative risk transfer (ART) program structures. Begin discussions regarding viability very early, as much as a year prior to renewal, as utilisation of ART structures may involve a lengthy educational process for internal stakeholders, owners and insurance partners.

Evaluate project schedules related to project placements. If a project has been delayed for any reason and will require the extension of any insurance placement, begin this process as early as possible. Project extensions have become challenging to obtain and can be quite costly.

Continue to develop and strengthen relationships with incumbent insurers. Take time to develop new relationships. Off-cycle market meetings with incumbents as well as potential alternative insurers are valuable.



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North America

Key Takeaway

Last fall, WTW reported that the worst of the hard market was behind us, and that continues to hold true. With insurance rates and interest rates highly (and inversely) correlated, we expect to find further relief in 2022 as interest rates are expected to rise. Ushered in by a wave of new market capital, the greatest improvement has been in the high excess marketplace.

Rate Movement

- **General liability:** +5% to +15%
- **Auto liability and physical damage:** +5% to +15%
- **Umbrella (lead):** +5% to +15%
- **Excess:** +10% to 25% (or more – depending on operations, geography, risk profile)
- **Project-specific builders risk:** Flat to +10%
- **Master builders risk/contractors block programs (renewable business):** +10% to +20%
- **Professional liability:** Flat to +10%
- **Contractors pollution liability:** Flat to +10%
- **Project-specific/controlled insurance programs:** +5% to +15%; +10% to +40% for excess

While we do expect prices to continue to rise across most North American geographies, it should be noted that rate predictions are national averages and are not predictive of an individual program renewal or the insurance cost attributable to a specific project.

Regional Insights

In general, for the region, construction activity is expected to rise in 2022. With the passage of the Infrastructure Investment and Jobs Act, significant increases in construction spending for infrastructure projects are anticipated. While infrastructure work is typically focused on heavy construction (roads/bridges, airports, rail, etc.), significant funds are allocated in the bill for "green energy" projects, pointing to a likely increase in alternative energy, solar/wind construction activity as well.

Capacity, cover and outlook for 2022

General liability rates have continued to stabilize while underlying exposures have risen. The mounting backlog of construction work presents opportunities for contractors, but delays in obtaining materials and rising labor costs will be a factor in upcoming renewals

Although the rate of price increases is moderating, certain high hazard construction operations (street and road, residential) will continue to see higher costs. Contractors with more challenging risk profiles, poor loss experience or ineffective risk management protocols will continue to experience a challenging marketplace. Contractors should continue to bolster loss control and quality assurance programs in an effort to improve the underwriting perception of the risk.

There is increased competition among insurers for best-in-class risks, resulting in positive marketing outcomes. In some circumstances, renewal decreases are being obtained.

The auto market remains challenging; however, rates are beginning to taper off after years of drastic increases. Fleet makeup is a significant factor in insurer appetite and program structure. Heavier fleets (e.g., extra heavy power units, dump trucks, ready-mix trucks, etc.) still represent significant risk, yielding continued upward pressure on rates and deductibles.

Despite years of substantial rate increases, umbrella and excess insurers are still conservative with their capacity in lower layers of an excess tower. However, recent new capacity has entered the excess market and the resulting increase in competition has encouraged rate stabilization and occasional rate decreases in excess towers.

Although general market conditions are improving, many contractors with high-hazard operations or who perform work in challenging geographies are forced to obtain coverage from non-admitted markets. Common coverage restrictions in the non-admitted marketplace include exclusions for cross suits, punitive damages, wrap-ups, residential/condominium conversion exclusions, and anti-stacking limitations. Insurers are willing to consider coverage modifications when contractors and their respective brokers negotiate effectively.

Although social inflation, COVID-19 project delays, drastic cost fluctuations of materials and the continuing trend of nuclear verdicts are continuing to impact controlled insurance programs (CIP) pricing, we have seen healthy competition within the admitted marketplace for commercial project risks. Whether pursuing an owner-controlled or a contractor-controlled program, a robust submission with comprehensive underwriting data remains the most important factor in pursuing insurer support for CIPs.

Regarding builders' risk, with the exception of wood frame construction, competitive terms and conditions are still achievable on most new ground-up projects. Prototypical technologies, unique construction methods and extreme natural catastrophe-exposed projects continue to face hesitancy from the marketplace and/or more restrictive terms and conditions. While extensions remain challenging on some projects, insurers have been more flexible and are offering more reasonable terms and conditions. The wood frame market continues to be extremely challenging, with finite capacity causing rates to rise.

The construction professional liability market remains relatively competitive, although increased underwriting scrutiny continues, with insurers careful about capacity deployment and retention levels. Additionally, the expected increase in construction activity in 2022 will likely raise the demand for contractors pollution liability (CPL) coverage. Recent insurer entries as well as contraction in the site pollution market makes CPL coverage a highly competitive product line. Slight rate increases are expected even with the increased competition.

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Great Britain

Key Takeaway

Into 2022, the construction industry sector should expect a relatively flat GB marketplace in terms of rate movement but a focus on the tightening of coverage and increase to deductibles from leading insurers. Capacity will be stretched especially for larger value and projects located in natural catastrophe areas and those with an ESG component, where insurers are reviewing ESG information before committing to cover certain projects/placements. The presentation of high-quality underwriting information remains paramount to enable brokers to secure optimal insurance terms and coverage for their clients developing new projects.

Rate Movement

- **General liability:** Flat to +10%
- **Excess/Umbrella:** Flat to +10%
- **Annual Program CAR:** Flat to +7.5%
- **Single Project CAR:** Flat to +7.5%

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Regional Insights

In an ever-changing global marketplace, WTW continue to see London as the market centre of global business. As more and more "regional" marketplaces retract in both size (capacity) and number of markets, we see more "global" risks benefitting from London market expertise, pricing and cover.

London International

Insurers began to show a significant change in underwriting appetite and approach during 2020 / 2021, noticeably evidenced by a more centralised control authority exercised by Global Line of Business Chief Underwriting Officers. Product line underwriters showed more hesitation in agreeing new opportunities without referral to senior management, engineers, or both. This has also led to a focus on stricter coverage conditions more aligned with those seen as "standard" for many years with a specific focus on sub-limits and extension clauses.

We are seeing much reduced line sizes being offered on major projects by many markets; these insurers are now basing their line sizes on the programme's Total Insured Values (TIVs) rather than its Probable Maximum Loss (PML). This generally results in much reduced line sizes being offered and invariably means more insurers required to finalise placements, in some cases resulting in blended terms to meet all insurer requirements as well as clients' objectives.

New methods of construction such as modular and timber frame are a focus for many insurers and their capacity is further reduced for such projects unless good risk management is evidenced. Therefore, there is a need for client differentiation in the "selling of the risk" – insurance buyers will find their options limited. It is vital for sponsors/projects to evidence to the market the specific risk management initiatives that have been initiated to differentiate each risk. Financing parties who are committing significant funds to projects will continue to insist that the insurance market plays a meaningful part in risk mitigation and protection.

Overall capacity

The 2022 reinsurance treaty renewals have been finalised (and the process was later than ever this year), however, our expectation is that capacity will remain the same as 2021, with the global PML capacity approximately USD 4.0 billion on a best risk basis. However, as an industry, capacities will start to be impacted by ESG in two ways: 1) if the project is not ESG-compliant, then insurers may/will not be able to participate in the placement (e.g., coal projects), 2) if the company is not ESG-compliant, markets may start to provide less capacity than to those which are.

Europe

Key Takeaway

Whilst trends across the region have commonality, risk specific features and local versus international market responses are key differentiators emphasising the importance of a broad marketing and high quality risk presentation.

Rate Movement

- **General liability:** Flat to +10%
- **Excess/Umbrella:** +5% to +10%
- **Annual Program CAR:** Flat to +10%
- **Single Project CAR:** Flat to +15%

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Regional Insights

We continue to see variances between individual local markets across the region. All countries report a continuing impact of the hardening market with rates generally increasing albeit at lower levels and signs of stabilisation through most of the region. Reflecting the differing impact of the cycle, those markets which saw earlier hardening such as Spain are starting to see green shoots; France reports increased stabilisation in the Contractor All Risk (CAR) market whereas Poland sees continued higher rates whilst the Nordics, until now relatively stable, seeing some movement towards rate increases more evidence of differentiated risk pricing. In all instances, certain sectors and covers are more challenging with insurers generally showing an increased risk scrutiny with greater focus on technical project risk information and details of risk management throughout the project. In line with the global market professional indemnity market conditions remain difficult across the region.

Capacity: Whilst no country has reported material capacity changes, we have seen a continued trend to a reduction in lead line sizes in most countries and ongoing market consolidation in some countries such as Poland as well as movement to underwriting decision centres outside of territory in for example France. In addition, the underwriter market seems to show a lot of movement between insurers across the region. Whilst capacity for large and complex risks is tightening, certain territories such as Italy note a differentiation on medium and domestic projects where increased competition between local insurers is providing additional options for clients.

Cover: The primary cover issue affecting the region remains professional indemnity which is challenged for all countries and with very limited appetite in certain sectors such as waste and offshore and some large single projects and a continued volatility in the Single Project Professional Indemnity market.

We continue to see insurers seek to restrict scope of cover for defects, extended maintenance and Natural Catastrophe (Nat Cat) covers and in line with increased underwriting scrutiny in some instances imposition of risk control requirements.

Outlook for 2022

Overall, in line with our Q2 2021 commentary whilst we are seeing increased stability, challenges remain particularly for higher risk construction sectors and single projects and no material changes to the market are envisaged in the short term.

Australasia

Key Takeaway

Insurers have maintained their focus on underwriting profitable and sustainable business for the long term and have continued to exit underperforming sectors/ occupations and poor performing clients. At the same time rates and excesses have continued to increase.

Rate Movement

- **Contractors All Risk (Annual):** Flat to +15%
- **Construction Liability (Primary & Excess):** Flat to +20%
- **D&C PI (Annual) (Primary & Excess):** Flat to +30%

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Regional Insights

Within the Australian market, the second half of 2021 experienced the same conditions as the first with insurers continuing their focus on underwriting discipline and risk selection to achieve profitability. Overall, 2021 finished on a positive note for most insurers with their construction portfolios returning to positive territory following the implementation of remediation strategies over the preceding two to three years. We see little change to this approach for the short to medium term, with a continued focus on wording and coverage including excess/deductible levels and capacity deployed.

Contractors All Risk

After two to three years of significant adjustments, during the second half of 2021 the CAR market started to see a moderation of premium rate increases. For 2022, we anticipate a stabilisation of rates across the majority of our clients, with insurers viewing premiums as reaching some form of pricing adequacy across most sectors. This will lead to a corresponding increase in competition for well performing clients, including from the London market which is showing renewed interest in Australian risks. The exceptions will be clients that continue to have poor claims performance, and certain sectors of the industry which have a higher perceived risk exposure such as civil contractors, renewable energy projects (particularly where there is prototypical technology or process involved), waste to energy, hydro, and natural catastrophe exposed projects,

Areas of focus for CAR insurers will continue to include mitigation strategies for water damage exposures both from a building quality perspective and weather-related events. The management of logistics issues, particularly stemming from global supply chain shortages, and the impact on the completion of projects on time, has led to resulting policy extensions proving more troublesome. In some cases, insurers are applying a different rating structure and restricting policy coverage to the policy extension. These issues are also having an impact on Escalation and Inflation provisions with the cost of building materials being severely affected and the corresponding ramifications for increased cost of construction and claims costs.

Construction Third Party Liability

The casualty market for construction through the latter half of 2021 continued the trend of significant rating increases for the majority of clients. Worker-to-worker/contractor injury claims continue to be the main focus and cause of losses in this space, followed by water damage and third-party property damage claims. There have also been some

significant losses under completed operations/product liability covers relating to faulty construction, with the Opal Towers claim being of particular note. Claims costs have increased significantly with legal and investigation costs leading the way and the levels of quantum to rectify damaged property increasing due to the same supply chain issues noted above.

Following significant lifts in rating and worker-to-worker deductibles in 2021 we anticipate that these increases will stabilise this year. Insurers will continue to focus on quality underwriting information particularly around contractor management and quality management, the previous loss history and any lessons learned and/or changes in their processes to mitigate future losses. The excess liability market we expect to be stable for the next 12 months following the sharp correction over the past two years.

Design & Construct Professional Indemnity

Challenging conditions for the Design & Construction Professional Indemnity (D&C PI) market continued throughout the second half of 2021, with insurers imposing rate increases, reductions in capacity, focused coverage restrictions and increased retention levels. However, we do not expect this trend to continue into 2022 at the same pace, with insurers achieving pricing adequacy and acceptable retention levels for most clients, so some stabilisation is anticipated during the next 12 months.

Insurers are still scrutinising prior loss histories and notifications, with non-conforming cladding and structural defects being a focus, particularly for clients in the high-rise residential sector. Other sectors and occupations such as renewable energy, waste to energy and large-scale infrastructure projects continue to be particularly challenged with many insurers not willing to provide cover for these projects or clients.

While we have not seen any new markets enter the primary D&C PI space, there are green shoots with more interest from insurers taking excess positions on construction risks with the view that insurers are achieving adequate premium rating for their capacity. This has not improved the primary capacity in the short-term but we anticipate that, in the medium term, it will lead to greater competition in this space. A cloud still hangs over the London PI market in the construction sector (including contractors, engineers, architects, valuers and certifiers) in the form of the fallout from Grenfell Towers and the inquiry into building practices in the UK. The inquiry has uncovered a raft of issues relating to building materials (not just cladding) which will have a significant impact on the London PI market. The relevance for Australia is that the London market is unlikely to be a solution in the short term.

Outlook for 2022

Across all Construction lines of insurance, we anticipate a stabilisation in rates and policy coverage requirements for most clients. The exception will be those clients with adverse loss histories, and for projects in perceived high-risk sectors and/or geographical locations.

Asia

Key Takeaway

The market, unfortunately, has not improved since the start of 2021. From what we have seen in the market to date, the signs suggest that the current hard market trends might persist longer.

Rate Movement

- **Construction/Erection "All Risks":** 0% to +10%
- **Delay in Start Up:** 0% to +10%
- **Third Party Liability:** 0% to +10%
- **Construction Plant & Equipment:** 0% to +10%
- **Professional Indemnity:** +5% to + 10%

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Regional Insights

2021 was a difficult trading market environment – the hardening trend sustained throughout the year as markets restricted policy coverage to better manage their construction risk portfolio. Overall, the number of market leaders and available capacity have reduced which meant that insurance programs had to be structured efficiently in order to effectively utilize insurers and their capacity globally.

Looking into 2022, we anticipate underwriters to continue to restrict coverage and conditions to balance their risk exposures. Certain high-risk projects such as dams, prototypical technology, coal power plants remain difficult to insure. Premium offerings will likely remain high but levelled as underwriters seek to maintain their market share. Project risk quality and risk management continues to be a key focus for underwriters with a greater emphasis on information request and analytical risk engineering approach.

Contractors continue to focus on worker's safety management as prices for worker's compensation insurance continue to rise for places like Hong Kong. Contractors are also looking into emerging risks such as cyber and finding alternative risk transfer solutions for risks that are too expensive or difficult to obtain in the traditional insurance market.

Outlook for 2022

As economies gradually begin to re-open across the Asia region and governments step up its infrastructure investments, we are optimistic to see stability in the construction insurance market.

Latin America

Key Takeaway

Rates and conditions seem to have stabilised but due to there being fewer market leaders for large and complex risks there is still pressure on the prospect of completing at same terms.

Rate Movement

- **Construction/Erection "All Risks":** 0% to +5% but 20%+ in Nat Cat areas
- **Delay in Start Up:** 0% to +10%
- **Third Party Liability:** 10% to + 15%
- **Construction Plant & Equipment:** 0% to +10%

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Regional Insights

By the end of 2021, most LATAM regional markets caught up to what had been a delay effect of hardening rates in comparison to what other markets like London and Europe have been enduring.

Underwriters are now more selective and analysing each project with a more technical approach and in many occasions, are reluctant to offer wider coverages like LEG 3 and even Delay in Start Up (DSU) in some projects and locations. We have also seen that insurers are now imposing loss limits close or below Probable Maximum Loss (PML) of the projects in order to calculate their lines more conservatively. These are also requesting a very high level of information on the work methodology, technical specs of equipment and material and understating of the key milestones in the life of the project. For wind exposed areas, insurers are also demanding mitigation and preparedness plans and contractor's experience in this respect. More time is now needed in the marketing process both in terms of submission preparation and securing capacity.

We have seen a further shift in underwriting authority centralizing to head office which is typical of a hard market and decision makers are in some cases not construction specialists which makes negotiations even more difficult at times. There have been many changes in the region in key positions as construction underwriters are moving from one insurer to another creating some gaps in service levels and response times.

Even for medium sized projects, we are experiencing a worrisome low number of possible lead markets specially in high Natural Catastrophe (Nat Cat) areas resulting in the almost impossible task of creating competition among these. Harmonizing terms is now the new norm. A clear strategy on market approach and access points is essential to achieving best results.

Outlook for 2022

For 2022, we are expecting the rates to finally stabilize, except to Nat Cat areas as the construction boom in the U.S. in some areas like Florida is putting pressure on the capacity available and pushing up rates especially in the Caribbean and Gulf of Mexico. There is no outlook in sight of rates decreasing or underwriters becoming more flexible in deploying capacity.

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximize performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success – and provide perspective that moves you. Learn more at wtwco.com.

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