2022 Q1: Umbrella and Excess Market Update

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After 2+ years of a turbulent casualty market mainly driven by rate increases and carrier-initiated displacement in the excess liability lines, we seem to have found more level ground. Through the first quarter of 2022 we still witnessed a lot of displacement, but now this is being driven more from brokers and insureds pushing to contain costs vs. carriers re-underwriting their books.

We had over 20 new excess casualty market entrants between 2020–2022 and these carriers, along with all of the existing capacity with lofty growth goals, started getting more aggressive on new business deals. Many of the accounts we worked through the first three months of the year were oversubscribed and a few actually saw a rate reductions year-over-year.

Incumbent carriers are at a disadvantage for the first time in a number of years which is positive news for buyers. While we think pricing outcomes will be more favorable in 2022, we will still have pain points with turnaround time as there is a big gap between the number of underwriters needed within the industry and the number of underwriters available.

There isn't much more to say about the excess market at this point so let's shift our focus to the construction liability vertical. There has been an influx in new capacity with broad guidelines and aggressive rating models for project/wrap and practice business both from a primary and excess standpoint. This has intensified competition on low- to medium-hazard accounts and given buyers more options. Here are some factors to keep in mind for 2022 and beyond.

A LACK OF SKILLED LABOR AND INCREASED DEMAND

It's no secret that the labor market in the construction space is showing signs of strengthening, however, it has been estimated that the industry will need to hire about 650,000 more employees on top of normal hiring just to keep pace with the demand for new construction. With the passing of the recent Infrastructure Investment and Jobs Act, the construction industry is in dire need of skilled labor as companies work to modernize America's infrastructure and keep pace with the new housing demand.

While this data may paint a bleak picture, it does offer great opportunity for individuals looking to enter the space. However, the lack of skilled labor may pose problems for insurers as the work needed to be done is that of high skill and specificity. If training from the construction companies is not up to par, this could lead to claims complications down the road upon completion of these projects. For broker and companies alike, it is imperative that training and safety protocols and procedures are well-documented, as carriers will want to understand the process and training needed in order to provide the most competitive rates for projects.

LINGERING COVID-19 EFFECTS

The COVID-19 pandemic is a defining event for not only the world, but for the construction industry as well. The industry has dealt with numerous slow-downs for ongoing jobs which has forced contractors and insurers alike to pivot and get creative in offering extensions to project terms.

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In addition to the slow-downs and job delays, supply-chain issues have upended budgets and job timelines further as materials are not only being delivered late (and sometimes with no timetable at all), but also at an exorbitantly higher-than-budgeted-for cost. While materials costs have decreased from their all-time highs of mid- to late-2021, building materials costs are still up about 14% year to date, putting a strain on construction budgets and making future jobs more difficult to forecast from a cost and timing standpoint.

INDUSTRY TRENDS

With the increased demand for new commercial and residential construction and upgrades/improvements to current infrastructure, the construction industry is poised to see unprecedented growth. Accompanying this growth are a few key trends outlined below; some of these have been growing in popularity over the last five or so years. As an expert, it's important to fully understand the technology and process behind to accurately convey information to underwriters to help secure the most comprehensively covered and competitively-priced program available in the marketplace.

- **Modular and Prefabricated Construction** - With the clear advantages this new type of construction presents, such as a smaller physical jobsite footprint, waste reduction and a decrease in disruption to the jobsite, be prepared to see an increase in contractors getting into the space, as well as projects utilizing this process. Modular construction is expected to reach almost $160 billion by 2023.
- **Sustainability, ESG and Green Construction Technology** - Green construction will continue to increase with the global push for environmental sustainability and the decrease of waste and carbon footprints. Over the last decade alone, LEED-certified projects have increased from just about 300 projects back in 2008 to almost 70,000 by 2018.
- **Design-Build Exposure** - Design-build, which consists of a single firm taking on the responsibility of architects, contractors and construction workers, has become increasingly popular, with 47 of the 50 U.S. states now using this method for their public construction projects. Brokers should expect this trend to continue and ensure that full understanding of the responsibilities of the insured are being taken into account by all parties, including underwriters. The increase in exposure may not be easily understood, so it is paramount to partner with an industry expert who can accurately and effectively convey the exposures to underwriters and management.

While the excess and umbrella market is showing signs of leveling off regarding rate increases for low- to medium-hazard accounts, it's important to be cognizant of the above, especially in regards to the construction vertical with its predicted growth. Partnering with an expert intermediary with a deep understanding of the current issues and trends in the space can greatly reduce confusion insurance buyers as well as secure the most competitive programs available in the ever-changing marketplace.

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