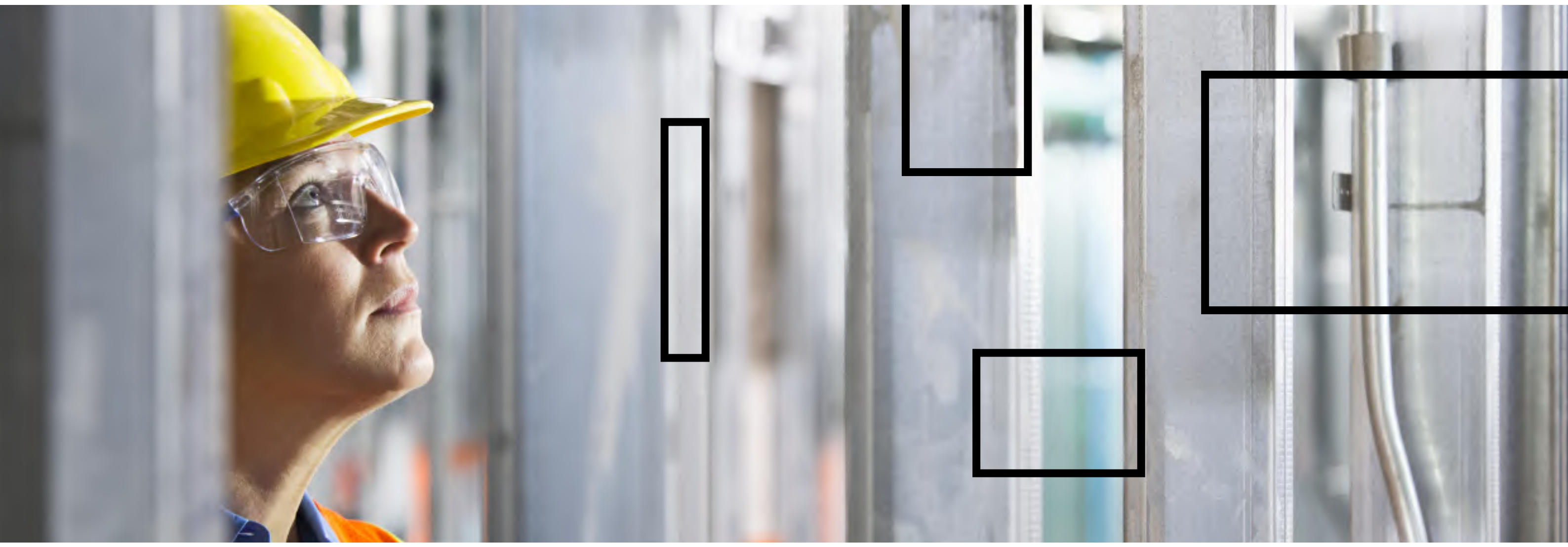
Construction Market Update

Australia - July 2021



Premium rates

Contract Works - Material Damage (Annual)

+15% to +25%

Primary Construction Liability

+30% to +60%

(Excess Liability +20% to +40%)

Primary Design & Construct Professional Indemnity (Annual)

+50% to +100%

(Excess Professional Indemnity +50% to +80%)

Introduction

The first half of 2021 saw a continuation of the trends experienced within the Australian construction insurance market in 2020.

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. The markets are still showing an increase in rates and excesses, a reduction in policy limits and capacity, and further scrutiny of policy terms and conditions. Compounding the reduction in capacity we have seen notable exits from the market with a major national carrier exiting the construction sector completely and a major international insurer exiting the primary construction liability market.

Contract Works – Material Damage

The Australian Contract Works market has started to show some signs of moderating. While insurer portfolios are not necessarily profitable, many underwriters are reaching the end of their remediation strategy with premium rates reaching a point that they believe will be more sustainable in the longer term.

As a result, clients that have experienced two or three significant rate adjustments over the preceding renewals and have positive loss histories, are generally experiencing rate increases at the lower end of the scale. We are seeing increased competition in the market for these clients, but poor performing clients and those who have not experienced the same rating adjustments can expect to see increases at the higher end of the scale in this renewal cycle.

Contract Works insurers continue to focus on their exposure to water damage and natural catastrophe events, which are driving loss ratios. Clients are being scrutinised on their mitigation strategies and work practices to minimise insurers' exposures to these losses. Increased major perils and water damage deductibles are still being imposed within policies.

> **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.**

Primary Construction Liability

The primary construction liability market has experienced an accelerated adjustment during the first half of 2021, with significant rating increases being experienced by most clients. Worker-to-worker/contractor injury claims continue to be the focus from insurers and causes of losses in this space.

Worker-to-worker deductibles are still increasing across the board. We have also experienced markets exiting this space which has reduced the number of primary carriers available in Australia. The Excess Liability market has moderated slightly with increases in pricing at the lower end of the scale, following the significant adjustments experienced in 2020.

Design & Construct Professional Indemnity

The Design and Construct PI market remains extremely challenging with insurers continuing to impose large rate increases, further reductions in capacity they deploy, focused coverage restrictions and increased retention levels. 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.

Certain sectors and occupations such as renewable energy, high rise residential and waste to energy are particularly challenged with many insurers not willing to provide cover for these projects or clients, leaving the possibility of clients being uninsured or the cost of the cover being uneconomical.

This trend is ongoing in the Excess PI space where availability of capacity is key rather than cost. Insurers are no longer discounting their minimum premium levels to the same extent for capacity deployed on an excess basis rather than at a primary attachment point, meaning that, for certain programs, the Excess layers are priced at the same levels as the primary layer. However, we are seeing some new entrants in the Excess space as premium levels are deemed to be nearing their peak and we expect that some of this newer capacity will start to participate in the primary space in the next 12 to 18 months, bringing back some competition to the market.

The outlook for the second half of 2021 is more of the same, as we do not expect any easing of market conditions any time soon.

Contact Us

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