MORETON & COMPANY

Property & Casualty Newsletter

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Builders Risk Market Update

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The property insurance market conditions have been difficult for several years now. Both admitted and non-admitted carriers are re-underwriting their property risk portfolios. As a result, rates are up and available capacity is down across all areas, but the market has been tough on certain regions, perils, and occupancy classes. One class of business that has been particularly hit hard is property insurance for large-frame construction projects. The construction industry has been plagued with large and severe fire losses on the podium style and multi-story frame projects that have been popular with developers in recent years.

Builder's risk insurance, also known as course of construction insurance, is a specialized type of property insurance for developers and/or general contractors that helps protect buildings while they are under construction or renovation. A policy is typically issued to the owner/developer as well as the general contractor for the length of a project from ground breaking to certificate of occupancy, at which time the risk can be moved to a property insurance policy for completed operations. A builder's risk policy premium is calculated based on a rate charged against the Contract Values for the length of the project. Different rates will apply to both hard and soft costs as defined in the construction budget. Soft cost rates are typically higher than hard cost rates.

Current Events and Concerns

The current difficult market conditions are driven primarily by loss experience and a fear of large losses. A single podium project will often involve a fire area of 50M or more. The exposed frame construction has contributed to larger fires that are almost impossible to control once they are started. The response from carriers has been to limit their capacity in any single fire area. A fire area might be a single building or multiple buildings in close proximity. Where we might have seen multiple carriers offering $25M to $100M of capacity on a single policy, we now see many underwriters that will only risk $5 or $10M. In today's environment it is common to see 5-10 carriers sharing a risk.

The forces of supply and demand have driven rates higher. We are seeing project rates that are 50% to 100% higher than a similar project that was started two or three years ago. Conversely, a smaller project (e.g., under $25M) is still seeing higher rates, but the increase is mitigated because there is still some viable competition between carriers in that space.

Loss Control

Carriers are struggling to find solutions to these large fires. In the past, it was sufficient to check the box on the application indicating that the site would be fenced and lighted (of unknown quality). Today, we see carriers mandating more sophisticated surveillance systems, water flow monitoring systems, and 24/7 security guards. Typically, the underwriters that are trusted with the largest amounts of capacity will demand the most security and only trust certain vendors to provide monitoring. Some of these systems are substantially more expensive and the increased costs should be part of the discussion when budgeting for insurance.

Capacity for wood frame projects (residential in particular) is very tight due to the frequency and severity of losses.

Project Delays

Many projects have been experiencing delays (e.g., COVID, supply chain issues, labor issues, etc). Insurance buyers should not assume that an extension of coverage will automatically be available at the existing rates. Some carriers will no longer support the same amount of capacity going forward, while other carriers are limited to a 36-month period of indemnity. Regardless of the reason, the replacement capacity is difficult to arrange for all of the reasons outlined above. We recommend that a pro-rata extension be built into the original quote or binder as needed. It may only be for 30 to 90 additional days, but it will provide an extra cushion if the project is delayed. Another common solution is to move the construction project to the property insurance policy as a completed risk, but that is not always possible depending on the property underwriter's willingness to accept a risk before the certificate of occupancy is issued.

Other underwriting hot buttons:

- Many carriers will avoid projects in urban areas where arson and/or civil unrest has been an issue.
- Rates for risks that are being built in areas considered wildfire or brush fire exposed are dramatically higher.
- Earthquake and flood limits are normally provided to the amount required in the financing of the project; large EQ and flood requirements will also impact available capacity and price.
- The general contractor's expertise and specific loss experience will be a consideration for carriers.
- Expect higher deductibles for the peril of water damage, e.g., a minimum of $100,00 and likely up to $250,000 for larger projects.

A good submission is critical and should include the following:

- Complete builders risk application that includes a detailed description of the project.
- Site-specific geotech report.
- Construction timeline/Gant chart.
- Construction budget (breakdown of hard and soft costs).
- Information on site security, surveillance, and other loss control measures.
- Proforma for any rental income or earnings on the completed project.

This article was authored in partnership with:

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Please contact your Moreton & Company consultant with any questions.

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