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Builder's Risk Market Deep Dive

Unlike the overall property market, the builder's risk sector did not begin to experience firming conditions until 2020-2021. This initial transition was rather gradual with most of the steep increases occurring in 2022. Non-CAT rates increases have now started to plateau in 2023, but they're plateauing at higher rates than we've ever seen within this industry. CAT rates are still very fluid post Hurricane Ian / Nicole in 2022 and reinsurance treaty renewals in 2023.

While the demand for construction has not wavered, insurance programs are becoming more difficult to complete and growing in cost. This article explores the various factors impacting the builder's risk market and how insurance brokers and agents can achieve the best results for their clients.

Key Factors Impacting Rate

There's no single source to blame for whether an account is seeing rates level off or climb. Various drivers impacting rate within builder's risk, include:

Challenges in Capacity and Terms

The cost of capital has become more expensive leading to increased reinsurance treaty premiums and higher reinsurance retentions. Therefore, underwriters now have to quote smaller capacity lines at higher participation premiums. Program placements that previously needed five or six markets may require a dozen or more to fill in the capacity required.

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Key Factors Impacting Rate (continued)

To combat increased deductibles, buydowns are an available option, but come with a high price tag. Contractors and developers are often self-insuring to satisfy lender requirements rather than adding to their overall insurance program cost.

The need for capacity is especially critical for large projects due to market restrictions on TIV and project term length. When a program requires a large volume of capacity, markets that may not traditionally be specialists in the space should also be considered, though they will price their capacity differently than a traditional builder's risk market.

Transitions in the Residential Construction Market

Throughout the last decade, the residential market saw a shift in people moving to cities to reduce their commute times and be closer to the arts, restaurants, and other urban conveniences. Today, thanks to the pandemic, we are seeing a new shift towards suburban sprawl as more people are able to work from home.

The suburban sprawl has led to more garden style, townhome, and single family rental construction. This business tends to be more attractive within the builder's risk market as maximum severity exposures are minimized compared to single structure risks.

Additionally, crime risks are a concern for carriers and suburban areas tend to better on the crime scale compared to urban infill projects. In areas of higher crime scores, carriers require enhanced security, fencing, lighting, camera services, etc. or they will decline to quote altogether. Additionally, urban locations face exposures such as arson or aggregate issues when a loss event impacts a large concentration of properties. These factors lessen the capacity given to projects in these areas and increase rates.

While in theory these location-based exposures would equally impact commercial construction, however we're not seeing the same effects. This is likely due to commercial projects being more well-constructed in general and exposures like arson being more targeted to residential.

Catastrophe (CAT) Exposures

Builder's risk placements in wildfire, convective storm, and other CAT-exposed areas continue to be a challenge with rates and deductibles continuing to climb.

Many reinsurance treaties are shared between marine/builder's risk and property teams. This has led to an additional strain on catastrophe pricing as well as deployed capacity.

Most MGA markets are somewhat averse to these exposures as they have been charged by the various carriers on their panel, who are trying to divest their CAT portfolios, to write profitable business.

Insureds are also becoming better educated buyers and are looking at their modeled results in order to best determine the coverage they need versus the past where they would buy solely because the limits were readily available. Sophisticated insureds are trying to calculate their worst-case scenario exposure and then working to negotiate that with their equity partners, lenders, etc. to be more efficient buyers in the CAT space.

Key Factors Impacting Rate (continued)

Supply Chain and Inflation

Inflated material and labor prices, supply chain issues, and worker shortages are delaying construction projects resulting in the need for significant extensions that are increasingly difficult to obtain. Some carriers are walking away due to delays, with replacement capacity hard to come by. Additionally, original bound project rates and deductibles obtained during the “softer” market cycle are being reconsidered by underwriting panels on these extensions as peak exposures are being heavily evaluated.

In some regions, projects remain stuck at 95% completion awaiting the Certificate of Occupation (COO) permits. This puts contractors, who are obligated to maintain liability coverage, in the position of shopping for additional insurance at exorbitant rates and deductibles.

The marketplace is also facing escalating reinsurance costs as well as the need to recalculate insurance to value (ITV) assessments thanks to cost increases of raw materials and labor.

Water Damage

Most loss occurrences on builder’s risk policies are due to water damage. Markets have seen this trend within their books of business and have worked to combat it through:

1. Increased retentions/deductibles
2. Requiring mitigation technology

Water damage mitigation technology includes items like flow sensors, automatic shut off valves, and additional quality assurance/quality control protocols.

It becomes especially important on multi-story buildings where you could potentially have very significant water damage loss that effects multiple floors versus a garden style or even podium wood frame account that would be limited to five to seven stories worth of loss exposure.

Alternative Marketplaces

While we have not seen an influx of new capacity come into the builder’s risk space, we are seeing it come out of less traditional avenues.

Beyond traditional domestic marketplaces, the following should be considered when completing programs:

MGAs

Outside of CAT-exposed business, MGAs are becoming a larger player in the builders’ risk space. On larger wood frame business, we are seeing that 25% to 30% of capacity on a program is generated by traditional insurance companies with the remaining participation being completed by MGAs that specialize in the construction marketplace.

While MGAs make up a sizable amount of the marketplace, only a few are able to operate as lead markets. Most MGA capacity is follow form, so you will still need to find a lead market and be very deliberate in your marketing.

London

There has been a transition to more of a partnership between London and the domestic marketplace. Roughly two years ago, London began to start supporting domestic leads vs. competing against the domestic capacity. This has allowed London to become more ingrained in transactional business because they are seeing some of the best terms and conditions in the marketplace where capacity is needed.

Achieving Success

As the builder's risk sector faces the same challenges as the property market, in addition to unique circumstances of its own, underwriters have become increasingly more selective about the size and type of risk they will consider. To ensure the best terms and conditions for your clients, prepare submissions early and include all relevant underwriting data in a clear and concise way. This data should include a detailed scope of work, Gantt chart / timelines, site plans / renderings, geotechnical reports, safety / risk mitigation strategies, etc.

Partnering with a wholesale broker who specializes in this segment is more critical than ever. Amwins has builder's risk experts from coast to coast with unparalleled market access, exclusive capacity deployed through Amwins Special Risk Underwriters, and colleagues with boots on the ground in the London and Bermuda marketplaces.

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