SURETY BONDING & CONSTRUCTION RISK MANAGEMENT

2020 CONFERENCE

January 27-29, 2020 | Bonita Springs, FL

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AGC's Surety Bonding & Construction Risk Management 2020 Conference

January 28, 2020

Surviving the Hard Market: Surety and Insurance Market Forecast

David Dolnick – Dolnick Risk Advisors (Moderator)

Brian Cooper – Arthur J. Gallagher & Company

William (Bill) Noonan – Alliant Construction Services Group

Megan Remley – Lockton Companies

Troy Wagener – BXS Insurance, Inc.

Panelists

Brian Cooper
Arthur J. Gallagher & Co

Megan Remley
Lockton Companies

William (Bill) Noonan
Alliant Construction Services

Troy Wagener
BXS Insurance, Inc.

Learning Objectives

- Market Cycles and why this one will be different
- How to position your firm (and your clients) for the changes in the insurance market
- Pragmatic steps to mitigate the impact of likely underwriting changes

How Did We Get Here?

What's Different This Time?

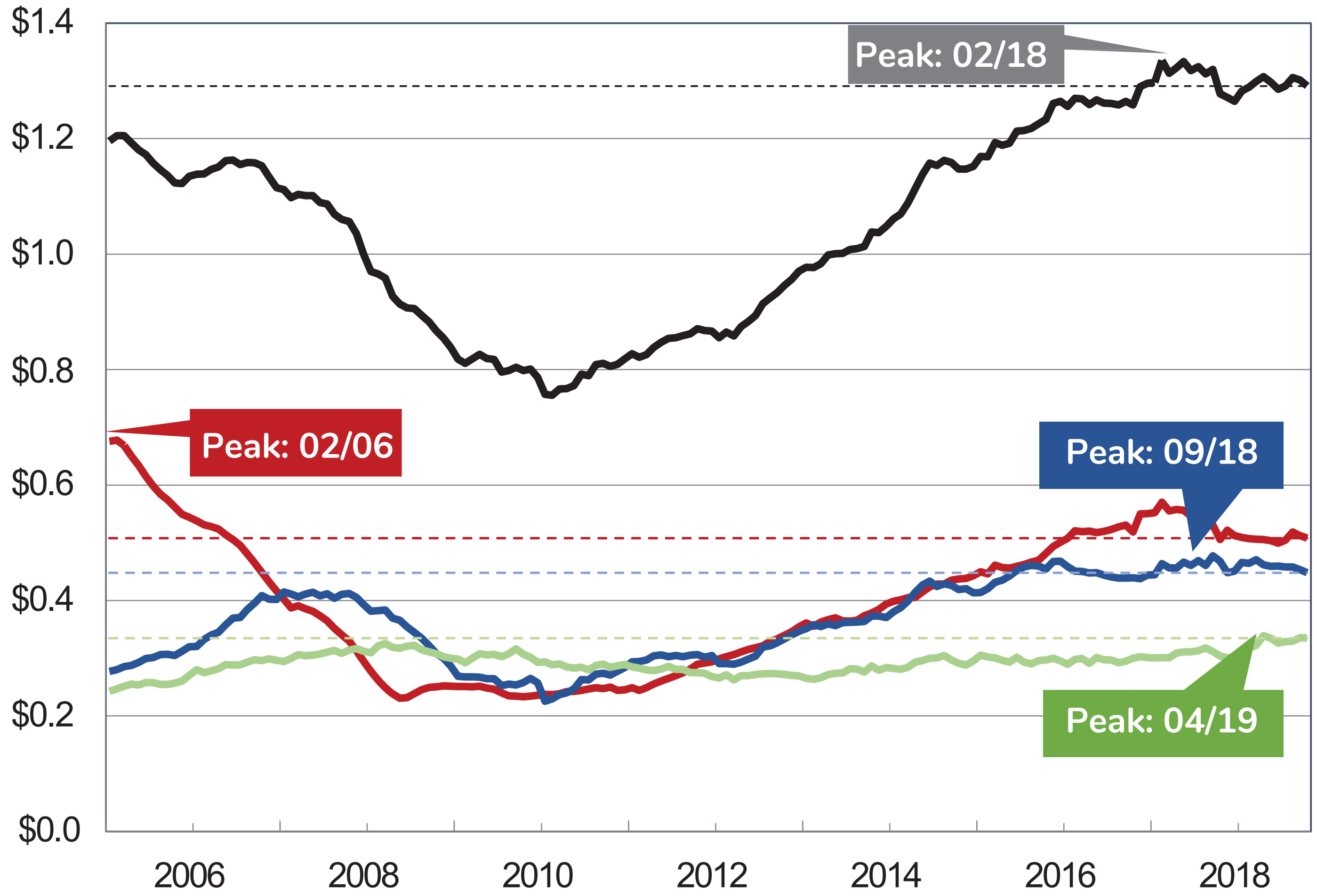
- Historic underwriting cycles typically 6 or 7 years
  - (1926–1932; 1932–1940; 1940–1946; 1946–1951; 1951–1957; 1957–1964; 1964–1969; 1969–1975; and 1975–1984)
- In 1984 the market cycle roughly doubled –1984-87 hard market was followed by a long soft market (1987-2000) as was 2000-2003 hard market
- The present soft market (16+ years) is the longest in recent history

What's Different This Time?

- In previous market shifts, most lines hardened or softened roughly together
- At present auto, property (especially vulnerable locations), D&O and professional are hard, GL is in flux, and workers comp remains soft in most area
- Excess Liability is the most impacted in recent months of this cycle
- What are the next three years likely to bring?

Construction Spending, 1/06–10/19

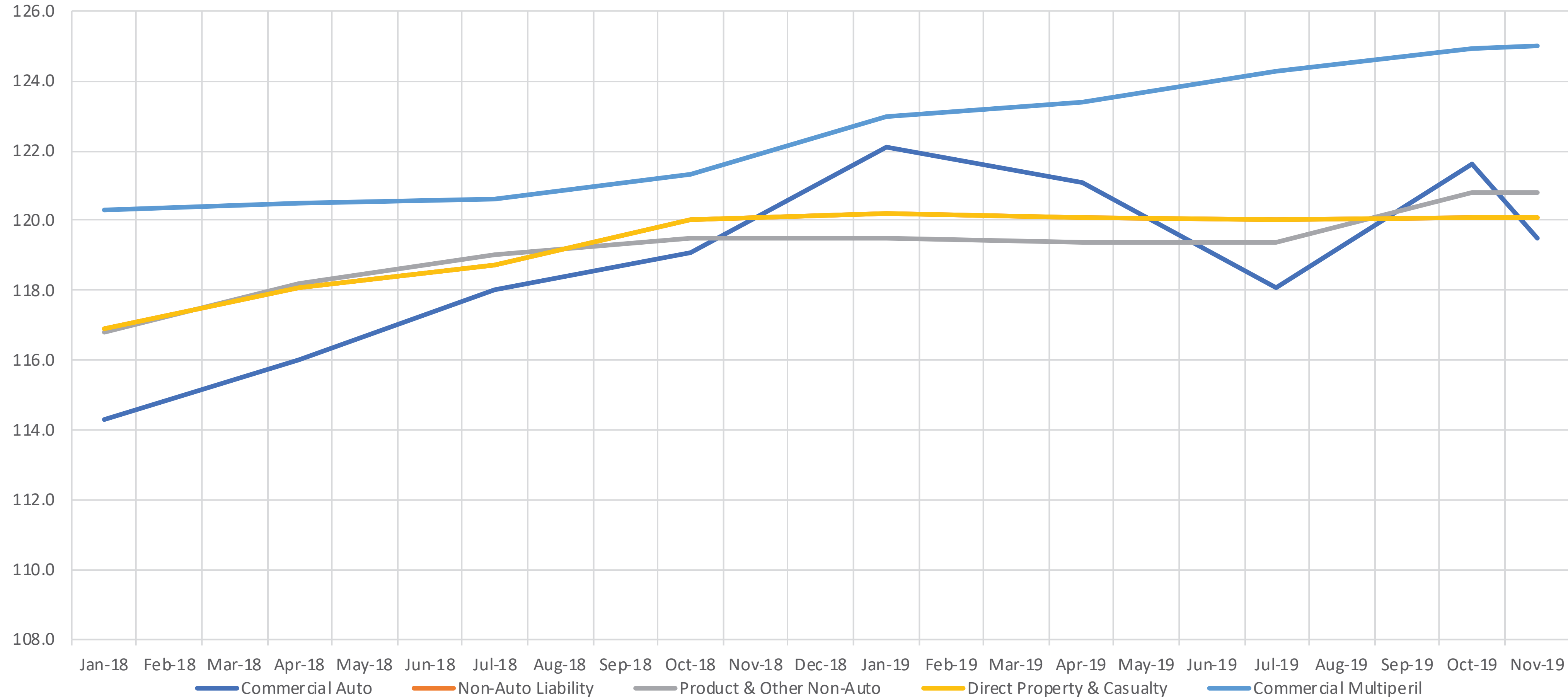
trillion $, seasonally adjusted annual rate; not inflation-adjusted



	10/19 10/18	Change from Peak
Total	1.1%	-3%
Private Residential	0.5%	-25%
Private Nonresidential	-4.3%	-6%
Public	10.2%	-1%

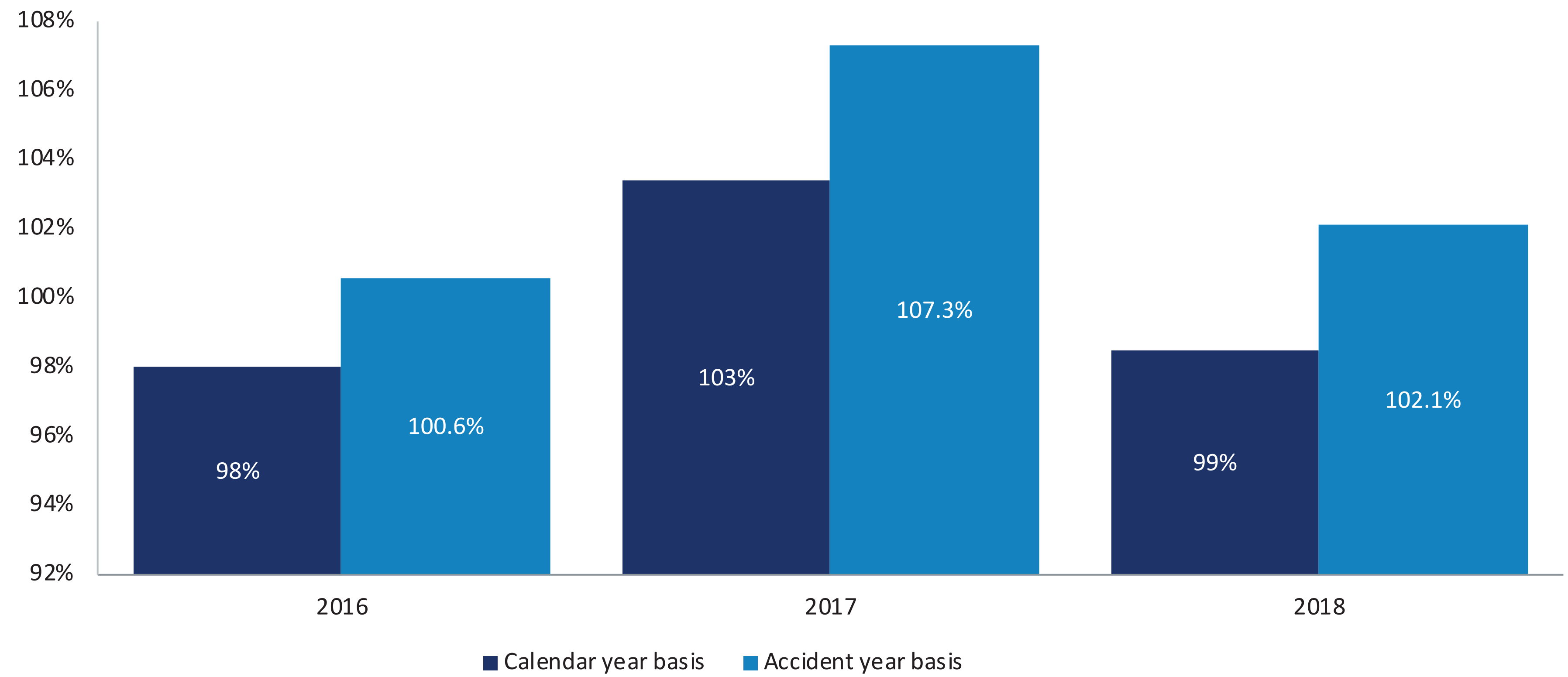
Source: U.S. Census Bureau – Prepared and Provided by Ken Simonson, Chief Economist, AGC of America

Commercial Insurance Indices



Source: U.S. Bureau of Labor Statistics – Base year (100) = June 1998

Combined ratios factoring in reserve releases



If reserve releases are removed from the results, combined ratios are more than 100% for 2016-2018, which means an underwriting loss.

Note: Negative amounts = reserve releases.
Source: Derived from NAIC annual statement, schedule P
Courtesy of Lockton Companies

What's Behind The Shift?

- Underwriting profit/loss in primary lines
- Reinsurance/retrocession market and losses
- Interlocking financial markets, capital allocation, hurdle rates all play a role
- Interest rates are low, lowers earnings on surplus

What's Behind The Shift?

- Catastrophe claims from severe weather (flood and storm surge, windstorms, hail)
- Catastrophe claims from earthquake, wildfire, etc.
- Medical Cost inflation
- Judicial impact/outsized verdicts, etc.
- Government interventions (ARRA, regulatory impacts, etc.)

WHAT TO DO?

WHAT TO DO?

- Frame each of the actions you take to your advantage
- Start by asking what if the sky doesn’t fall, after all?
  - What if this isn’t a hard landing but a series of mild bumps?
- Why are you better than the average contractor?
- Why are you better than your competitors?

WHAT TO DO?

- Tend to your knitting and increase management involvement
  - Align policy years with fiscal year and strategy
  - Polish your image in the marketplace
  - Tell your story well, open your doors and show the carriers your value
  - Make sure the carriers know you value relationships, that they are not a commodity
  - Start early, get in front of the underwriters fast and give them time
  - Focus on your story and its successes

WHAT TO DO?

- Focus on managing YOUR risks
  - Explore increasing your retentions (deductibles, SIR, corridor deductibles, etc.)
    - Don’t rely on insurance carriers to price your insurance. If you control the risk you should also control the cost.
  - Explore self-insurance (auto PD, small tool, etc.)
  - Increase deductibles/retentions
  - Consider reductions in limits, but only if absolutely necessary

WHAT TO DO?

- Focus on managing YOUR risks
  - Consider the efficiencies of integrated/package policies
  - Consider alternatives
  - Explore options through trade associations
  - Explore multi-year deals.

WHAT TO DO?

Review your financials carefully, adjust where you can!

WHAT TO DO?

- Increase your management focus and resource allocation
  - Claims management
  - Explore and implement early return to work
  - Safety/loss prevention
  - Cut other areas if needed, premiums won't go down
  - Emphasize risk transfer, contract review/negotiation

WHAT TO DO?

- Work with your broker/agent and expect more
  - Consider a negotiated fee arrangement
  - Develop and implement a strategy to “sell” your firm to underwriters.
  - Set realistic timeframes
    - Start early, work late, keep working right up to the end
    - Choose your battles carefully.

WHAT TO DO?

- Your company's financial picture drives the impacts you need

- Carriers respect C-Suite involvement and focus
  - Your P&C relationships should mirror your surety

- Every insurer will be asking:
  - What are the carriers looking to see?
  - What if you are in a financial bind?
  - How can you make changes to & improve your financial picture?

Questions?