Surviving the Hard Market: Surety and Insurance Market Forecast

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Panelists

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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

• 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

Peak: 02/18
Peak: 02/06
Peak: 09/18
Peak: 04/19

<table>
<thead>
<tr>
<th>Category</th>
<th>10/19</th>
<th>Change from</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10/18</td>
<td>Peak</td>
</tr>
<tr>
<td>Total</td>
<td>1.1%</td>
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<tr>
<td>Private Residential</td>
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<td>-25%</td>
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<td>Private Nonresidential</td>
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<td>-6%</td>
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<tr>
<td>Public</td>
<td>10.2%</td>
<td>-1%</td>
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</table>

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

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Commercial Insurance Indices

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?