PREPARING FOR THE INDUSTRY OF TOMORROW

Surviving the Hard Market: Surety and Insurance Market Forecast
The following CE credits are offered for this session:

1.0 AIC CPD Credit | AGC of America has been approved to offer Continuing Professional Development (CPD) credits for qualifying programs by the American Institute of Constructors (AIC).

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This session is designated for 1.2 CPE credits in the field of Business Management and Organization.
How to earn CE hours for this session

Participants must:
1. Check in with attendance scanner at the door or in the back of the room.
2. Attend at least 95% of the session.
3. Complete the session and post-program evaluation.

Additional instructions will be emailed to attendees requesting CE credits.

For those requesting AIA credits, please provide your AIA number so we can report your attendance. You may contact Jo-Anne Torres, Manager of Professional Development and Continuing Education, at jo-anne.torres@agc.org or (703) 837-5360 for questions.
Learning Objectives

By the end of this session, participants will be able to:

1. Explain typical insurance market cycles and articulate why this cycle will be different and in what ways.

2. Describe how to position their firm for the coming changes in the insurance market both in the short term and the long term and define specific risk management steps to take to maximize success in their efforts.

3. Outline specific and pragmatic steps their firms can take to mitigate the impact of likely underwriting changes the hard market will bring.

4. Discuss specific and pragmatic steps their firms can take to mitigate increases in pricing and rates that are the hallmarks of a hard market.
What’s Different This Time?

• Historic underwriting cycles typically 6 or 7 years from peak to peak

• 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

• Insurance and surety have generally moved either together or roughly in synch - that may not be true this time
What’s Different This Time?

• In previous insurance 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

• Umbrella and excess liability is the most impacted in recent months of this cycle

• What are the next three years likely to bring?
What’s Causing The Change?

- Underwriting profit/loss in primary lines are unfavorable
- Reinsurance markets and losses are tougher today
- Interlocking financial markets, capital allocation & tighter hurdle rates all play a role
- Interest rates are low, which lowers earnings on surplus funds
- Surety rates have been low, putting pressure on profitability
What’s Behind The Shift?

- Catastrophe claims from severe weather (flood and storm surge, windstorms, hail)

- Catastrophe claims from earthquake, wildfires, etc.

- Medical Cost inflation

- Outsized verdicts, etc.

- Government interventions & regulatory impacts
What To Do?

- Start with a plan and a strategy, work to gain advantage

- What if this isn’t a hard landing but a series of mild bumps?

- Know and explain - Why are you better than the average contractor, and than your competitors?
What To Do?

• Stick to what you know best and increase management visibility

• Polish your image in the insurance marketplace

• Tell your story well; open your doors and show the carriers your value
What To Do?

• Relationships are critical
  • Make sure the carriers know that you value relationships & they are not a commodity
  • Start renewals early, get in front of carrier quickly and give them time
    • A rushed answer is usually unfavorable to you
    • When pressured, underwriters retreat to the safe answer, typically a, “No”
What To Do?

• Focus on managing YOUR risks

  • Explore increasing your retentions (deductibles, SIR, etc.)
    • Work with your carriers to impact your insurance costs.

  • Explore self-insurance (auto physical damage, small tool, and more?)
What To Do?

- Focus on managing YOUR risks
  - Consider reductions in limits, but *only if absolutely necessary*
    - Know your minimum value at risk & cash flow impacts
    - Understand your comfort with risk (risk appetite)
    - Understand potential contract impact
What To Do?

• Focus on managing YOUR risks
  • Consider the efficiencies integrated/package policies

• Consider captives or similar arrangements

• Explore options through trade associations

• Explore multi-year deals
What To Do?

• Increase your management focus and resource allocation
  • Claims management

• Explore and implement early return to work

• Emphasize safety & loss prevention

• Allocate more resources to proactive measure
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?

• Every insurer will be asking questions:
  • Know what the carriers are looking to see
  • Know what to do and say if you are in a financial bind
• Be acutely aware of your company’s financial picture
  • Know what changes you can make to improve your image
The Surety Picture

• Expect more scrutiny from your surety
  • Know what to do and say if your financials are not exceptionally good
  • Know what changes you can make to improve your image
  • M&A/Consolidation could cause tightening
The Surety Picture

• The surety market should be competitive through 2020
• Issues to face and steps to take now
  • Changes to accounting methods could impact balance sheets (e.g., lease accounting changes due 2021)?
  • Retain key employees – Sureties worry about the labor shortage
  • Pay close attention to your backlog, overhead, and cashflow
  • Negotiate and nurse agile credit and banking resources
Questions?