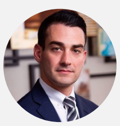
AUDIENCE Q + A

THE EFFECTS OF THE HARDENING EXCESS MARKET

Question from Clifton Kersey, CIC, CLCS, CRIS Vice President Vela Insurance Services

What are the long-term impacts of broker-driven, exclusive MGA programs in a hard market? Do you see broker exclusive MGA program shortening the length of the hard market or negatively impacting the need for higher rate adequacy for capacity limits?



Answered by Stephen A. Buonpane, Executive Vice President, Construction Industry Practice Leader at Chubb

Will broker exclusive MGAs make the market more competitive sooner, or will it have a negative impact in producing what the industry needs, which is effectively better pricing adequacy? There's a lot of layers to this, and it depends on a few things. And when you're talking about insurance programs, they need to have hundreds of millions of dollars of limit in place, I don't really see MGAs, even if they're pricing business aggressively, as having a significant impact in the aggregate. Maybe it will be some examples of one-off programs here or there where the pricing was a bit too aggressive, but even so, a lot of it comes down to the business model and the underwriting model and how MGAs are incentivized. Regardless of who the MGA is owned by or who it has an exclusive with, there needs to be paper that's going to support the MGA and what parameters are in place by that paper to ensure that your pricing adequacy goals are being met, all right?

If MGAs are only incentivized to produce top line revenues and transact business, then there is the potential for some longer-term problems that certainly exist. But a lot of it really all comes down to an alignment of incentives, but, and not to knock on MGAs because MGAs can be a really efficient way to transact, and as a result, reduce expenses for carriers, especially for highly specialized risks, such as construction.

If you take a look at the annual reports of all the major industry players, expense ratios tend to run anywhere from 27% to 35%, sometimes even higher. And yes, losses have been bad and pricing corrections are needed and they're justified, but we, as an insurance industry, we also need to look at ourselves in the mirror and figure out how we get better on the other side of the equation, right? 30% expense ratio is just too high. There are a lot of inefficiencies in the traditional insurance and distribution model and it needs to be addressed. Jeff Bezos said it, your margin is my opportunity. And there is margin to be had there on the expense side. That is an area where I think MGAs can address.

Same Question Answered by: Jonathan Luca, Vice President, Profit Center Manager of the Excess Construction Division at Starr Companies

I think the new capacity from MGA's will help stabilize the market in the short term. These markets are no doubt being aggressive and trying to take advantage of current conditions. The long term impact will entirely depend on the longevity of these markets. History shows that for the most part, MGA's are in and out of the market depending on the cycle. When an MGA is put in place, they're put in place for certain pieces. So if you're building a GL and a $100M+ XS tower, an MGA is really not going to be able to impact too much of the overall solution. They can help with the GL, or a lead XS layer, which is very helpful to overall reduction, however, many carriers are now needed in order to complete a larger XS tower. With the need to have more carriers now involved to round out a placement, pricing stabilization becomes tougher.

Another factor to the use of an MGA helping stabilize the market is that the MGA program markets will have to earn the trust of experienced buyers. On project business, a multi-year term with the associated completed operations is a long term commitment a carrier needs to give an insured. As mentioned, the history of the longevity of an MGA can be questionable, and some insureds have mentioned they need to understand the commitment of the market in order for them to be considered.

With all this being said, there are several successful program markets that have been in the space for many years and seem to do a good job with handling claims, managing the risk transfer piece properly, and providing some meaningful loss control. But there have also been several that come in and out of the space which makes an experienced buyer uncomfortable with attaching themselves to this new capacity when looking for long term or more stable carrier commitments.

Question from Joseph Madsen, Martin's Heating & Air

Given the conditions reported in the market -- including exclusions, no follow form etc and difficulty securing limitations to comply with project required insurance coverage are owners / developers, and insurance administrators revising the standards for trade contractors etc to enable compliance with project required insurance coverages.

Answered by: Bryan Paul, Senior Insurance Manager at L&M Development Partners Inc.

We are not revising our insurance requirements. We review full policies from all of our subcontractors prior to awarding the bid. If there are deficiencies that need to be corrected then we will make sure the sub includes the increased costs to correct those deficiencies in the bid prior to award.

Question from Anonymous Attendee (did not leave name)
Are certain primary GL carriers preferred or avoided by excess carriers when considering pricing, attachment point or capacity?

Answered by: Jonathan Luca, Vice President, Profit Center Manager of the Excess Construction Division at Starr Companies

I would say certain GL carriers are avoided under certain circumstances. A multi year project policy including the extended completed operations, is a large commitment. Excess carriers need to be able to have the comfort that the GL carrier will be in the market to properly handle claims during the course of construction, and into the 10 year, or more in certain states, statute of repose. There have been too many examples in the last few years for Excess carriers to ignore the reality that certain markets have left the space, and are now not handling claims to the best of their ability. More pressure is put on the Excess carriers to mitigate these claims. The Excess product is intended to be there for catastrophic events, and not priced to handle frequency into the Excess layers, along with the expensive back end claims management piece.

Preferred GL carriers would be carriers that have a clear history of commitment to the space. This would include carriers that have historically handled claims properly and carriers that provide meaningful loss control to their insured, whether directly, or using a reputable 3rd party vendor.

Now more than ever, Excess underwriters are evaluating primary carriers, along with the insureds, as part of the overall underwriting process.

Question from Anonymous Attendee (did not leave name)
Does Facultative Reinsurance help carriers that want to reduce their net line and still offer expiring capacity in the primary or excess?

Answered by: Jonathan Luca, Vice President, Profit Center Manager of the Excess Construction Division at Starr Companies

The shrinkage of capacity in the direct market has contributed to the overall hardening of the market. Facultative reinsurance is a good way for carriers to provide an increased capacity solution to an insured, while maintaining a comfortable net line. Carriers that use this approach still maintain a large piece of the risk and are responsible for the pricing along with the terms and conditions. When market conditions are appropriate, using facultative reinsurance is an effective way for carriers to provide additional capacity to a client when needed.

Question from Nick Kuntz, CSP ARM - Vice President - Alliant Insurance
What size tower and or premium sizes do Corridor Deductibles become feasible? Is this for the contractor that has 750K excess spend or more like 2M+ spend. Trying to gauge at what point to deploy this as a strategy.

Answered by: Bryan Paul, Senior Insurance Manager at L&M Development Partners Inc.

It becomes feasible when the premium to buy a limit is almost the same so it would be more than $2M+ in premium.

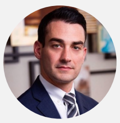
Question from Anonymous Attendee (did not leave name)

Some subcontractors do not like to be part of OCIPS or CCIPS because their brokers are telling them their practice policy rates will otherwise increase. Is this true?

Answered by: Bryan Paul, Senior Insurance Manager at L&M Development Partners Inc.

Subcontractors should not shy away from work if a project is insured under a wrap-up. While your rates may go up due to less volume under your practice policy there are many other benefits while working on wrap-up projects that outweigh this increase. With a practice program, if you have work that continues more than 1 year or into multiple policy years then there is rate risk on your renewal. If it's double than the cost you included in the bid then I would assume that eats away at most of your profit. This way you are taking on more risk than if you worked under a wrap-up where you are taking the insurance cost out of the equation.

Question from Anonymous Attendee (did not leave name)
Is there inadequate loss reserves due to carriers not providing highly experienced adjusters and low level management with the tools they need and that low level's apprehension to report accurately to senior management the true loss because the overall effect is on that underwriting region and the employees bonuses are affected by lower profitable results?



Answered by Stephen A. Buonpane, Executive Vice President, Construction Industry Practice Leader at Chubb

A lot of layers to this and I hope I'm thoughtful in this response - but the inadequate loss reserves are more of a function of loss trends rising higher than what was expected when the original program was underwritten. A frequency of severity to the point loss trending was missed in the underwriting, not necessarily the claims adjusting or apprehension of reporting accurately.

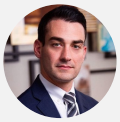
Question from Rick Bunker Railroad Constructors, Inc.
We need to get owners on board with the difficulties in the NY market. There are projects out for bid right now requiring $300 million excess project specific on a $150 million contract value.

Answered by: Bryan Paul, Senior Insurance Manager at L&M Development Partners Inc.

Are these purely owner driven requirements? In my experience this may be lender or government agency driven requirements which is hard to negotiate.

Question Greg Perruzzi, Sphere NY

How are Excess U/W's looking to the future with respect to technology based risk management / QAQC /safety services integrated into CM's operations as a way to evaluate risk and offering of rates/coverage and capacity??



Answered by Stephen A. Buonpane, Executive Vice President, Construction Industry Practice Leader at Chubb

There's a lot of emerging construction tech that's out there, whether it's wearables, whether it's IOT sensors or artificial intelligence. And right now it's very difficult to say what kind of impact these tools or products are going to have on loss costs.

I think we're actually starting to see some positive impact, at least as it pertains to shorter tail lines of business. So thinking about property or builder's risk, where you can figure out what your loss costs are going to be over a shorter period of time, but when it comes to workers' compensation and general liability and subsequently excess casualty, it's going to take a number of years to play out in terms of the impact, at least from a loss cost standpoint, in terms of what these products or what these emerging technologies will have.

But, doing something is better than doing nothing. And I will tell you that it's very hard for us objectively, from an underwriting standpoint, to figure out what that discount would be for using a new tool in the construction space. But subjectively it does have an impact, right? If you're just doing the bare minimum and not trying to get in front of these industry trends, the renewal cycles are just going to continue to get more difficult. And if you're really studying where you have consistent loss drivers, where you could have potential issues and you're looking into new and innovative ways to address it, then that's where emerging technology comes in, that's where things such as predictive analytics come in. It's signals and approach, a behavioral approach, all right? To the market, to the underwriters, that subjectively can go a long way.

The technology space right now it is really fragmented. It comes down to the individual contract or the program, the problems that you're trying to solve, in some cases it's a hammer looking for a nail, but doing something is better than nothing. It's just a matter of time, I think, until these products become more mainstream.

Question from Peter Koppisch Vice President · William H. Connolly & Co., LLC
In your rolling GL only OCIP are most projects similar; offices, residential or warehouses, etc.

Answered by: Bryan Paul, Senior Insurance Manager at L&M Development Partners Inc.

Mostly affordable housing residential rental apartments. One of the buildings is mixed use with affordable rental and retail spaces.

MODERATOR

Joshua Rogove is president of Consolidated Risk Solutions (CRS), an independent insurance wrap-up administrator.

Rogove drives a client-first, agile culture at CRS, where he promotes innovative thinking through technical leadership and industry knowledge based on nearly two decades' experience in the sector.

Previously, as AIG's New York Regional Manager, Rogove led business development for construction wrap-up programs and contractor practice programs in excess of $300 million in premium. Now at CRS, he advises clients on construction project exposures, and insurance rates related to types of wrap-up programs, including commercial office buildings, tunneling projects, rail projects, universities, hospitals, data centers, and more.

Rogove is passionate about finding new ways to add value to the customer experience. He comes to work every day to make a meaningful difference on behalf of his clients. Most recently, he guided CRS' Blockchain Initiative, called Wrap-Block®, and API integrations with vetted partners. He led the way on CRS' SaaS (Software as a Service) product line launch, bringing it from concept to market in just six months.

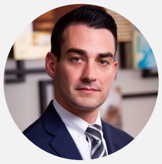
By monitoring key market trends to identify new product opportunities, he was the driving force behind new client tailored solutions Worldwide Wrap®, Certify®, Carrier Insight®, and CCIP-Guard®. These new offerings have helped CRS expand into new markets and globally. Rogove coordinates each product launch with CRS' marketing team to develop promotional support, including explicit plans and action, ensuring a successful market introduction.

Passionate about increasing efficiencies through technology, he has improved productivity by identifying and eliminating workflow bottlenecks. Most recently, he improved document management by implementing document automation, tracking, and electronic signatures across the organization. To improve data gathering with fewer errors, he led the charge of launching online forms with automated workflows. He transformed CRS' sales operations by driving new internal processes for sales automation, forecasting, and pipeline management. These efficiencies allow CRS' team to devote even more time to client needs rather than internal administrative tasks.

Rogove holds an MBA in finance from St. John's University, a BBA from the University of Florida, a Construction Risk and Insurance Specialist (CRIS) designation, and is a licensed Property and Casualty broker. He serves on several boards of directors, including the Spencer Reid Foundation.

Joshua Rogove resides with his wife in Staci, his daughters Hayley and Emily, and his son Dylan in Jericho, N.Y.

PANELISTS



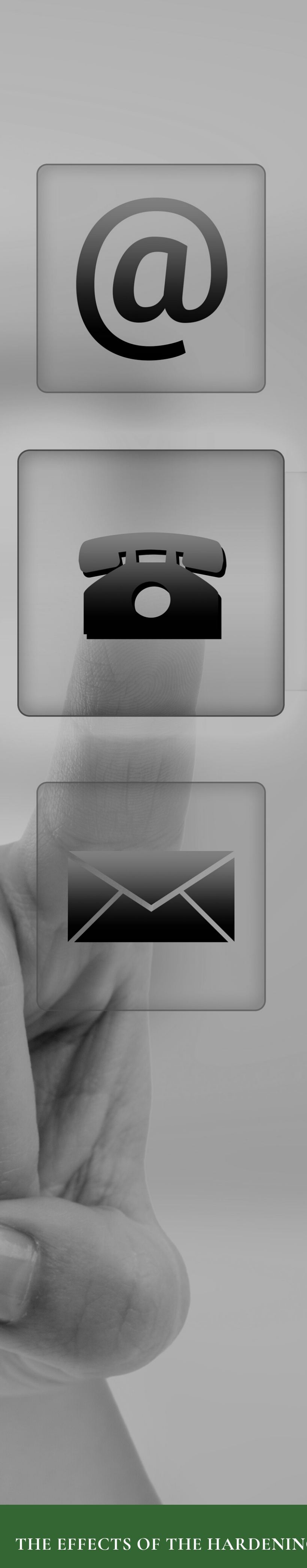
Stephen A. Buonpane is Executive Vice President, Construction Industry Practice Leader for Chubb Major Accounts and oversees underwriting for Chubb's Primary and Excess Casualty Construction divisions. He has been with Chubb since 2009 and started his career in 2003 at AIG as primary construction underwriter. Prior to joining Chubb he spent 21 months on secondment with the British Government as UK Trade & Investment's US Financial Services Sector Lead.

Mildred Claire is a Vice President for Risk Management at AECOM and has over 16 years of industry experience with AECOM Tishman, construction manager of the world's most iconic buildings, defining the skylines of the world's most notable cities. As Vice President of Risk Management, Mildred is responsible for contract review and contractor insurance review for all AECOM Tishman projects, and manages all insurance programs, including Contractor Controlled Insurance Programs, Builders' Risk, Pollution, Construction Manager's Professional Liability, Railroad Protective Liability and Subcontractor Default Insurance. Mildred also serves on the board of Women's Builder Council.

Jonathan Luca is Vice President, Profit Center Manager of the Excess Construction Division at Starr Companies. Starr Insurance Companies is a leading insurance and investment organization, providing commercial property and casualty insurance across the world. Jonathan has over 17 years industry experience starting his career at AIG working in the Excess Casualty Division.Jonathan has been with Starr Companies for the last 12 years in the Excess Construction division.

Bryan Paul is a Senior Insurance Manager for L&M Development Partners. L&M is a vertically integrated affordable housing developer, owner, builder and property manager. Bryan has over 10 years' experience for Risk Management in Construction.

The Hard Market began in November, 2019, a product of its half drunk creator's imagination, it has grown over the last 18 months into a, well, no one really knows what it is quite yet. What is known is that there is a community of nearly 12,000 followers stopping by for a laugh at the state of our market, the effect of COVID on our jobs, and the never-ending unmitigated goal of alphabet houses. There is also a sense of responsibility to share ideas and insight and the occasional coverage tips. Follow @thehardmarket on Instagram.



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