



INSIGHT

WHY TIMES ARE TOUGH

FOR THE CONSTRUCTION PI MARKET



Following a relatively benign few years, the professional indemnity (PI) market is now undergoing a tough period, particularly for construction-related business.

Challenging circumstances within a changing market have seen a number of insurers reduce their capacity or withdraw altogether, including several Lloyd's syndicates. With no sign of the market stabilising anytime soon, insurers and brokers are searching for ways to weather the storm whilst still providing clients with the cover they need.

A CHALLENGING ENVIRONMENT

Following its 2018 Thematic Review, Lloyd's instructed its syndicates to take necessary remedial action on their loss-making lines, including PI portfolios.¹ The message was clear: focus on profit rather than growth.

CONTRIBUTING FACTORS

For many years previously, overcapacity in the PI construction market resulted in very broad coverage and premium reductions; consequently insurers and brokers had to battle to turn a profit.

Since the market has moved, those insurers who haven't completely exited these lines have instead reduced appetite, increased premiums and excesses or looked to focus on larger layered programmes, whilst brokers have struggled to place certain risks.

The 2017 Grenfell fire has often been cited as a key cause, although opinion is divided on whether this was merely a catalyst for an already declining market. The tragedy certainly increased awareness around fire safety and heightened concerns surrounding the use of cladding, particularly Aluminium Composite Materials (ACMs) and the ensuing potential for some extremely expensive claims.

In fact, PI construction claims have generally increased due to more large-scale and complex construction projects which inevitably carry higher risk. As a result, insurers are offering brokers lower limits and are less inclined to negotiate terms.



Insolvencies in the construction industry have also exacerbated the issue. According to Q1 2019 government statistics, the construction industry was the sector with the highest number of new company insolvencies with 3,013.² This follows the financial collapse of British construction services company Carillion in January 2018, which had debts of up to £1.5bn, partly due to taking on too many risky contracts. Supply chains were subsequently impacted, creating disruption across the UK construction industry and making insurers nervous about construction firms' financial resilience.

Uncertainty in the current political climate is not helping the situation, with Brexit threatening the possibility of a recession and the Covid-19 pandemic causing widespread anxiety and disruption. Cautious attitudes are even more prevalent during times of economic downturn which translates to underwriters becoming more selective about the risks they accept. This may include making changes to the basis of cover, with additional restrictions and/or higher excesses.



PI CONSTRUCTION CLAIMS HAVE GENERALLY INCREASED DUE TO MORE LARGE-SCALE AND COMPLEX CONSTRUCTION PROJECTS



REMAINING POSITIVE

Despite the challenges, some argue that the insurance market is naturally cyclical and that movement within the PI market was long overdue. This may also present an opportunity for those brokers with strong expertise in PI to establish a solid footprint in the market and win business at reasonable rates.

THE BROKER'S ROLE

Brokers can support their clients through clear and timely communication. The earlier the renewal process can be started the better so that brokers can secure additional layers where needed and make clients aware of any potential changes in cover that may be offered. Further, brokers may be able to advise clients on risk management methods, to mitigate the chance of a claim.



BROKERS MAY BE ABLE TO ADVISE CLIENTS ON RISK MANAGEMENT METHODS, TO MITIGATE THE CHANCE OF A CLAIM.



SUMMARY

Insurers and brokers are accustomed to movements between soft and hard markets and so the current challenges may be generally considered part of the status quo. However it's anticipated it could be a few years before the construction PI market shows signs of improvement and starts the road to recovery.

It's more important than ever for brokers and insurers to work together to keep apprised of the latest market changes and react accordingly.

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