TUESDAY GENERAL SESSION #1

FOCUS ON THE FUTURE

Presented By

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Mr. McIntyre is cochairman of this Conference. He will also be a keynote speaker for Tuesday's General Session #1, "Focus on the Future," and will be a presenter for Workshop E, "Protecting Contractor Interests in a Wrap-Up," on Tuesday afternoon. For more than 30 years, Mr. McIntyre has been involved in the insurance industry. He is chairman and a shareholder of American Contractors Insurance Group, Ltd. (ACIG), in Dallas. ACIG is construction-industry-owned. Mr. McIntyre has been very active over the years with the Associated General Contractors of America, writing articles and reviewing contract documents, and he is currently serving on AGC's Risk Management Committee. He has written many articles on insurance and risk management for construction and insurance industry trade journals. He coauthored *101 Ways To Cut Business Insurance Costs,* published by International Risk Management Institute, Inc. (IRMI). Mr. McIntyre also is a technical adviser for IRMI's reference manual for contractors, *Construction Risk Management.*

Notes

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FOCUS ON THE FUTURE

William S. McIntyre
American Contractors Insurance Group Inc.

I. Introduction

A. Insurance market has substantially tightened since we last met.

B. Historical perspective

1. The last complete cycle was approximately 17 years versus the usual 5-8 years.
2. Cash flow underwriting.
3. Excess capital.
4. Insurance buyers and agents have become more sophisticated.
5. Many buyers opted for guaranteed cost plans – delegated risk management through premium payments.
6. Alternative risk financing plans were less attractive.
7. Insurance became a commodity.

C. Current market

1. Prior to 9/11, lower investment returns were putting upward pressure on rates and premiums.
2. The improvement in WC experience bottomed out in 1999.
3. Medical cost inflation has far exceeded the CPI – affect approximately 50% of the WC loss dollars.
4. Insurance company returns have fallen to an all time low.
5. The 9/11 event addressed most of the excess capital problem.
6. Solvency of insurance companies has emerged as a key concern, especially for second and third tier insurance and reinsurance companies.
7. Who thinks insurance rates and costs will go down in the next 12 months?

84/87 D. Line by line review – all increase

50-100% 1. Property – 15-25%.

50-100% 2. Builders Risk – some capacity problems

a. Quota-share - 15-25%

b. Facultative and long term projects - 30-60%

25-50% 3. Contractors Equipment and Auto Physical Damage – 25-50%.

200-400% 4. General Liability – depends on losses – minimum 35% up to 200%.

50% 5. Auto Liability – 25-100%.

1,000% 6. Umbrella – reduced capacity – 50-150%.

60% 7. Workers Compensation – manual rates – 6%; market rates – up to 35%.

N/A 8. Surety

c. Loss experience has deteriorated

d. Some companies are reducing their commitment

e. Declining economic environment

1,000% 9. Professional liability – relatively stable – 10-15% - reduced flexibility, capacity and coverage.

N/A 10. Environmental – also stable – 10-20%.

D. The “Animosity Cycle” is alive and well

II. Key Renewal Action List

A. Assemble a First Class Risk Management Team

1. Designate Top Management Point Person

2. Engage reputable Agent/Broker who specializes in construction insurance

3. Include a financially intact insurance carrier with good claims and safety expertise

4. Consider retaining a risk management consultant

5. Consider a one day boot camp for strategic planning

B. Start the renewal process early – 4-6 months before renewal.

McIntyre Wait Factors	
Days Before Renewal	**Difference**
90 – 120	25%
60 – 90	12.5
30 – 60 (Normal)	0
0 – 30	(10)

C. Develop a well-documented database for all key lines for the last 5 complete policy years as well as first 6 months of the current year.

D. The Risk Management Team should perform a critical analysis of the contractor's operations to see where risk improvements can be made in the area of risk management, safety, and contract administration.

E. Review all losses over $50,000 to see what could have been done to avoid the claims and what operational adjustments are needed.

F. Apply the usual formulas to the contractor's financial statements to develop the range of maximum risk retention. Weigh the financial benefits against the contractor's risk appetite.

G. Prepare a high quality and complete request for a proposal (RFP) to be submitted to your insurance carrier or the insurance market. Carefully outline desired coverages, retentions/deductibles, and suggested loss levels. (Look out for reduced coverages.)

H. Submit the RFP to the market 90 days before renewal with the request that proposals be submitted 30 days before renewal.

An option is to submit an RFP to your existing carrier and negotiate the renewal earlier. If acceptable terms cannot be negotiated, then submit the RFP to the overall insurance market.

I. As a backup, request a 30 to 60 day extension of your current plan from your existing carrier.

J. Review alternate funding programs such as deductibles, association plans, risk purchasing groups and captives.

K. Perform a careful comparison of renewal quotes placing proper emphasis on price, coverage, services, and financial stability of the insurance carrier.

III. Other Action Items

A. Coordinate your renewal date with the reinsurance renewals of your insurance carrier.

B. Umbrella renewals will be a major challenge.

1. Avoid contractual obligations to provide unusually high limits.

2. Price the $1mm x $1mm with umbrella carriers *and* primary carriers.

3. If umbrellas will be based on primary premiums:

a. Try to shift premiums from AL/GL to WC.

b. Assume some deductible.

c. Use primary premiums net of dividends on retro returns.

d. Be prepared to reduce limits.

C. Review insurance costs being included in the bids.

D. Tighten the review of subcontractor certificates and the carriers providing coverage.

E. Avoid dividend plans.

IV. Summary

A. The worst is yet to come.

B. Projection of insurance cost will be difficult for long term projects as well as short term jobs.

C. It's truly a time to return to basics.

D. Better prepared players – contractors, owners, agents, and underwriters, will do better. This market presents a chance for all of these stakeholders to out-perform their competitors.

E. One Last Thought

- Approximately 5,000 people killed on 9/11.
- 3 people have died from Anthrax.
- Horrible statistics resulting from horrible and evil deeds!

- But think about these 2000 numbers:

	All Industries	Construction
Occupational deaths	5,915	1,154
Lost time injuries	1,702,470	193,765
Traffic fatalities	41,800	Not available

- The people in this room cannot do much individually or collectively about the terrorist problem.

- However, we can reduce the construction injury numbers. I hope you will make a personal commitment to do just that.