

Workshop H1

Thursday, November 1, 8:30 a.m. – 11:15 a.m.

STRATEGIES FOR A SOFT MARKET

Presented by

Karen A. Reutter
Senior Vice President
Lockton

After several years of an exceptionally hard insurance market, contractors are breathing a sigh of relief as the market continues to soften. However, smart contractors will not sit back and bask in the comfort of the soft market but will look for ways to retake some ground and enhance their insurance programs. Some of these strategies are tried-and-true techniques that are common to any soft market, while others are specific to the current market.

- Outlines areas in which contractors can expect and obtain greater levels of service from insurance providers.
- Identifies areas in which coverage enhancements may be available that were not offered to most contractors during the recent hard market.
- Provides a summary of where prices are currently and where they appear to be headed.



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- 2. the act of being devoted to helping others.
- v.** 1. to meet the needs of.



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**Karen A. Reutter
Senior Vice President
Lockton**

Ms. Reutter, senior vice president, National Accounts—Construction, Lockton Companies, LLC, is one of the presenters for Workshop H1, “Strategies for a Soft Market,” on Thursday. She has extensive experience in the risk management and insurance industry, specifically focusing on the construction industry. She joined Lockton’s Construction Practice Group in 2007. At Lockton, Ms. Reutter’s role includes providing leadership on a national basis in the operations and production areas related to large construction companies and projects.

Previously, she was senior vice president, National Construction, at Willis; national director, Construction, at Zurich; and senior officer, senior account underwriter, Construction Practice, at St. Paul Companies. She began her career at International Risk Management Institute (IRMI).

She holds master and bachelor of business administration degrees from the University of North Texas and has also earned the Chartered Property and Casualty Underwriter (CPCU) and Associate in Risk Management (ARM) professional designations.

Notes

This file is set up for duplexed printing. Therefore, there are pages that are intentionally left blank. If you print this file, we suggest that you set your printer to duplex.



International Risk Management Institute
2007 Construction Risk Conference
Strategies for a Soft Market

Karen A. Reutter, CPCU, ARM
Senior Vice President
Lockton National Construction



Overview

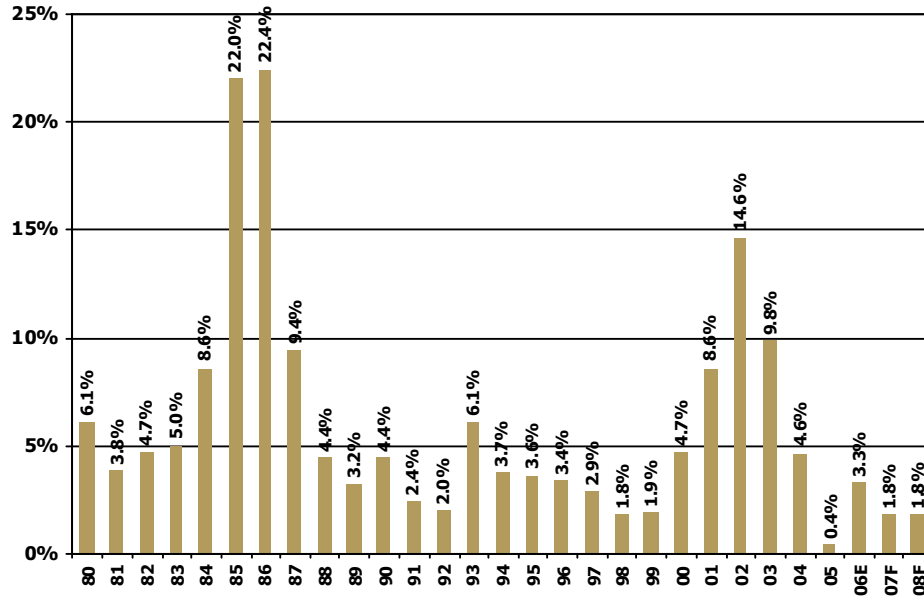
- ❖ Define Soft Market
- ❖ Market Perspective: P/C Insurance Industry
- ❖ Market Perspective: Construction Industry
- ❖ Rate Expectations
- ❖ Coverage Expectations

Information is current as of August 3, 2007.

1



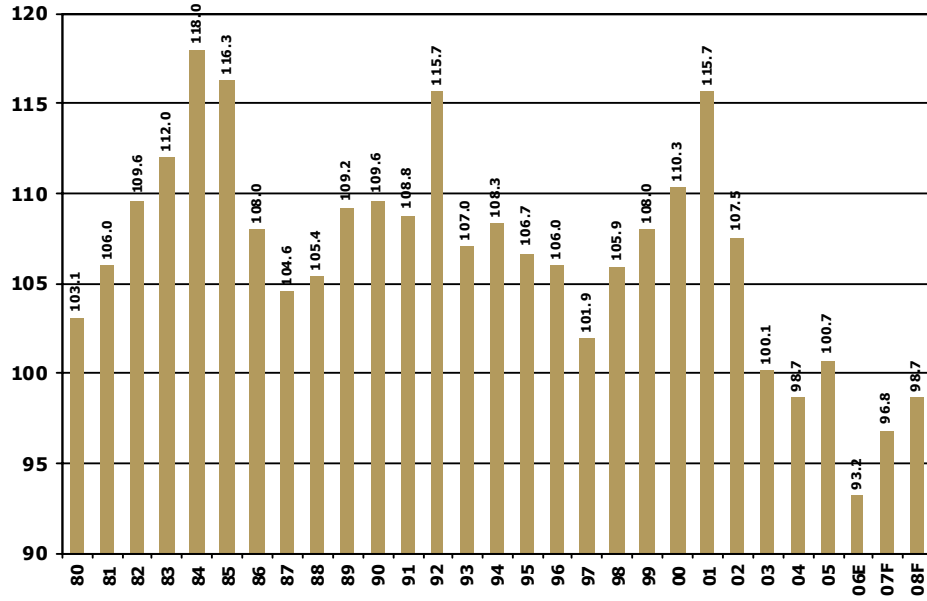
Net Written Premium 1980 to 2008F



Source: Insurance Information Institute



P/C Combined Ratio 1980 to 2008F

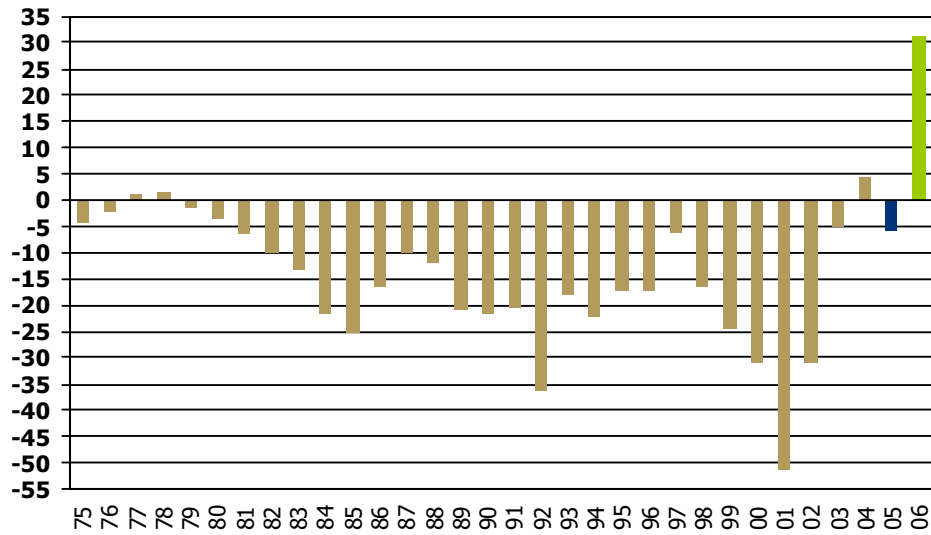


Source: Insurance Information Institute

3



Underwriting Gain/Loss 1975 to 2006



Source: Insurance Information Institute



Is the Industry More Disciplined Today?

- ❖ Signs suggest that the answer is yes
- ❖ Current period of sustained underwriting profitability is the first since the 1950s
- ❖ While prices are falling, underlying lost cost trends (frequency and severity) are generally favorable to benign
 - Suggest impact of falling prices will be less pronounced than late 1990s
- ❖ Reserve situation appears much improved and under control
- ❖ Management information systems: much more sophisticated
 - Insurers can monitor and make adjustments much more quickly
 - Adjustments made quickly by line, geographic area, producer, etc.
- ❖ Investment income
 - Relative to late 1990s, interest rates and stock markets returns are lower
 - Has effect of imposing (some) discipline
- ❖ Ratings agencies
 - More stringent capital requirements
 - Quicker to downgrade, slower to upgrade

5



U.S. Construction Market

- ❖ As perceived by underwriters
- ❖ Growth numbers by segment 2007
- ❖ Industry growth bumping into insurance issues
 - Subcontractor management and insurance
 - Construction defect trends
 - Anti-indemnification trends

6



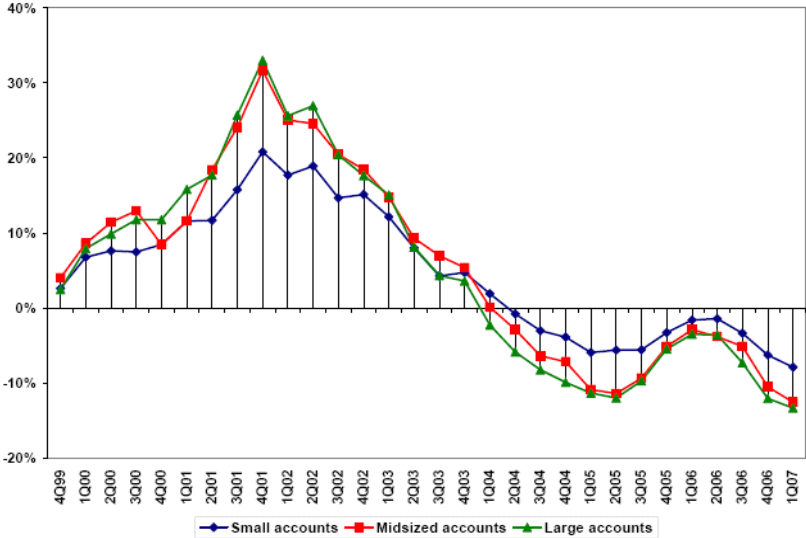
Rates and Coverage Expectations

- ❖ CIAB survey
- ❖ Recent trends: 07/01 and 10/01 renewals
- ❖ By line of coverage table



Average Commercial Premium Rate Changes by Account Size

Average Commercial Premium Rate Changes by Account Size





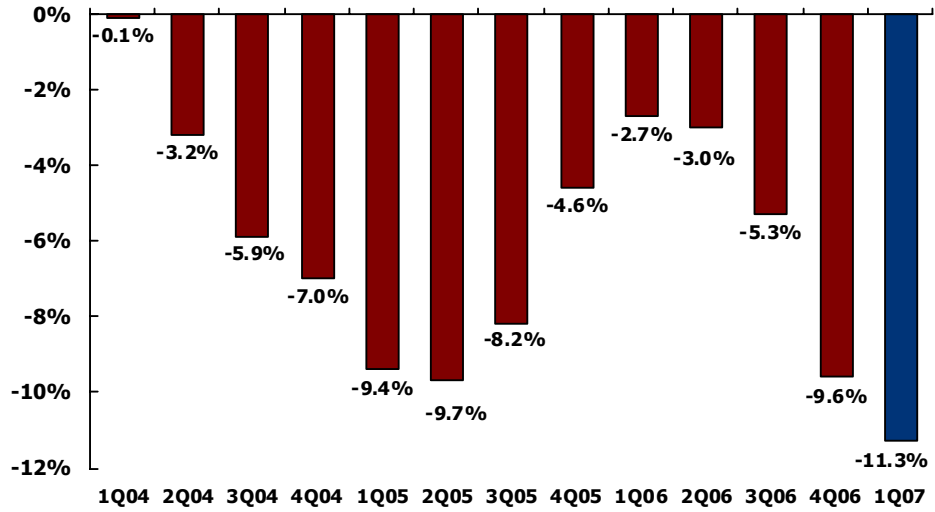
Average Rates

| Average Rate Declined 11.3% in 1Q07 | | | | |
|--|--------------|------------|--------------|------------|
| | Small | Mid | Large | Avg |
| 1Q07 | -7.9% | -12.6% | -13.4% | -11.3% |
| 4Q06 | -6.3% | -10.5% | -12.1% | -9.6% |
| 3Q06 | -3.4% | -5.1% | -7.3% | -5.3% |
| 2Q06 | -1.4% | -3.8% | -3.6% | -3.0% |
| 1Q06 | -1.6% | -2.9% | -3.5% | -2.7% |
| High (4Q01) | 20.8% | 31.7% | 33.0% | 28.5% |
| Low (1Q07) | -7.9% | -12.6% | -13.4% | -11.3% |

Source: Council of Insurance Agents & Brokers
60% surveyed indicated flat to 20% off of "construction risks"



Average Commercial Rate Change, All Lines (1Q04-1Q07)



Source: Insurance Information Institute

10



By Line-of-Coverage Rate Expectations

| | |
|---|--|
| General Liability | 0 to -10% |
| Automobile | +5 to -5% |
| Workers' Compensation | Other than CA: +5% to -5% California: -15 to -20% |
| Umbrella/Excess | 0 to -15% |
| Property and Builder's Risk | Outside of catastrophic areas: down 10-20% In catastrophic territories (Earthquake, Hurricane): flat, continued use of significant deductibles (can be 5 to 10% of limit) |
| Pollution Liability | 0 to -10% |
| Professional Liability-Practice policies | Flat |

11



General Liability Coverage

- ❖ Contract certainty: property damage completed operations
- ❖ CIPs: DIL and DIC
- ❖ JV's
- ❖ Manage additional insured endorsements
- ❖ Professional liability coverage
- ❖ Consider GL only wraps on commercial work, where warranted
 - Coverage issues
 - Not price driven
 - Maybe geographic
 - Developed out of residential trends

12



Excess Liability Coverage

- ❖ Same issues as general liability, however, additional issues on limits by carrier becoming troublesome due to CIPs
 - Excess of CIP coverage: with good information, markets providing this coverage subject to anti-stacking endorsement
- ❖ Increasing capacity, new markets
- ❖ Residential exclusions: have exposure underwritten, not just excluded
- ❖ Recent court cases favoring insurers on late notice; greater importance to put excess carriers on notice
- ❖ Rate decreases taking the form of exposure increase absorption

13



Builders Risk Coverage

- ❖ Attempt max deductible, per occurrence
- ❖ Press for flexibility in underwriting terms to conform with contracts
 - Contract requirements by owners unachievable
 - Requires close review (and early) of contract by broker
- ❖ More and better underwriting info = better rates
 - Suggest conference call/meeting with underwriter, broker, client
- ❖ Need for additional capacity, coordination of coverage due to treaty restrictions in CAT areas
 - More difficult to get full capacity from one player
- ❖ CAT limits are reserved by underwriters for master program clients; puts others at competitive disadvantage in bidding work
- ❖ Deductibles
 - Status quo
 - Sub limits for CATs may improve, if no CATs this year
 - ❖ Flood is tight due to recent experience

14



Contractors' Professional Liability Coverage

- ❖ Contractors' professional carefully underwritten and closely watched
 - Not as competitive as A/E professional
 - Not necessarily "soft"
- ❖ Some forms provide coverage for agency CM only; not intended to cover agency at-risk
 - Amend form to provide coverage for agency at-risk, at least by project
- ❖ Amend coverage form to provide excess coverage over project specific form
 - Usually claims from projects covered under other policies are excluded
- ❖ Punitive damages
 - Amend to provide coverage where allowed by law
 - May need to amend an exclusion as well as definition of damages

15



A/E Professional

- ❖ A bit softer than contractors' professional; flat to small rate decreases
- ❖ Most forms cover Agency CM
 - Same issue regarding CM at-risk as under Contractors' professional
- ❖ Equity interest exclusion
 - Amend this exclusion to provide coverage for up to 49% ownership
 - Delete portion of exclusion related to officer or director
- ❖ Product design excluded
 - Amend to allow for software sold or supplied by insured to customers in connection with the providing of professional services

16



Contractors' Pollution/Environmental Coverage

- ❖ Occurrence based forms are available for renewals/new business
 - Carrier will require Claims Made Microbial Matter endorsement.
- ❖ CIP policies available
- ❖ Multi-year terms are becoming available
- ❖ Increasing capacity, new markets
- ❖ Residential exclusions: have exposure underwritten, not just excluded
- ❖ Exterior Insulation Finishing System coverage available
- ❖ Watch for Silica and Mold exclusions in the GL, pick up coverage with the CPL

17



Final Thoughts

- ❖ This soft market is different than past soft markets
- ❖ Continued underwriting discipline
- ❖ Casualty lines are driven more by coverage issues than pricing, today
- ❖ Need to have program strategy prior to marketing and negotiating
- ❖ Need to review/enhance risk management processes
 - Subcontractor selection and management
 - Understanding of professional liability and its relationship with general liability
 - Legal trends (anti-indemnity; business risk doctrine)
 - Contract requirements: what's fair, equitable and achievable
 - Consider your budget for risk management expenses and consider spending wisely
 - Don't allow the softening of rates to relax your safety and loss control efforts

18

If you have questions for Ms. Reutter or Mr. Duty regarding this topic, their contact information is provided below.

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