

WRAP-UP TRENDS AND CASUALTY INSURANCE MARKETS

The current economic environment has created new and daunting challenges for both the marketplace and sponsors of controlled insurance programs (CIPs) or wrap-ups. This issue of *Blueprint* focuses on the state of the project insurance market, particularly the market's appetite for wrap-ups (traditional multiline programs, including Workers' Compensation, General Liability (GL) and Umbrellas) as well as more recent trends, such as GL/Excess Liability-only programs.

Over the past 15 years we have seen the market selection for CIPs dwindle from 12 or more insurers to as few as three or four, depending on who was sponsoring the program (i.e., owner vs. contractor), jurisdiction, duration and type of project.

Although insurer interest has expanded somewhat in the past two years, a number of factors determine the number of markets that will be interested in any specific project. Specifically, sponsors are now asking many more questions before placing their business and developing strategic partnerships with insurers which may have questions regarding their financial condition or are facing rating challenges. Since CIPs provide coverage for multiyear construction projects and include extended completed operations coverage for an additional 10 years or Statute of Repose, whichever is less, this becomes a key factor in determining the appropriate carrier for a project.

That being said, the current rate environment for primary coverages is competitive with little sign of rate hardening, although most carriers are trying to hold the line on pricing in this market. Also, with the passage of the Federal Stimulus Bill (American Reconstruction and Recovery Act) we expect more interest in major public works that may have extended construction periods, often over three years in length. To accommodate these types of job lengths, we are seeing both primary and excess insurers adapt to the potential time line for these projects and show a new willingness to work with their re-insurers to go beyond construction terms of five years or longer.

Before discussing carriers in this market, a few key points are helpful in thinking of the project marketplace:



1. The decline in numbers of major projects over the last year has increased competition. This is true in most types of construction and particularly true as fewer habitational/residential projects get funding.
2. With a better understanding of litigation trends, including defective work allegations, liability policies have evolved to include coverage through the appropriate state statute of limitations, which effectively closes a much discussed potential gap in older wrap-up programs.
3. The current market will create more opportunity for publicly funded major projects, which in many cases, were not previously insured via wrap-ups. Current trends indicate that these larger jobs may now be considered for wrap-ups and/or project insurance to address a variety of perceived challenges, including funding, coverage consistency and support of disadvantaged businesses.

CURRENT PRIMARY MARKETS

At the start of 2009, the standard primary CIP market consisted of:

ACE	Liberty Mutual
AIG	Old Republic
ARCH	SeaBright
The Hartford	Zurich

While all of these markets can be very effective on major projects, each has its own particular appetites.

- Several markets focus on contractor-controlled insurance programs (CCIPs). These include Zurich, Travelers and ARCH. Arch and Zurich will play a role on owner-driven projects, but for the most part had preferred to look at contractor-controlled programs, and Travelers will only support its own insureds when they underwrite CCIPs. However, these markets routinely look at their underwriting appetites. A recent example is Zurich, which had only been doing CCIPs for the last few years, changing its position to focus again on OCIPs. This change should increase competition for the owner market, which has been seeing fewer underwriting options.
- The other markets mentioned will look at both OCIPs and CCIPs for the primary lines (General Liability and Workers' Compensation).
- With Willis' assistance, Hartford re-entered the CIP market through a limited distribution network of select brokers.
- SeaBright initially was a Workers' Compensation-only market, which has now expanded to include General Liability on selective deals.

- Old Republic continues its 2008 efforts, moving from guaranteed cost to deductible programs and now is approved in most states.
- AIG continues to have a broad appetite for wrap-up business despite the current market challenges.

CURRENT EXCESS MARKETS

It used to be common practice to place all limits and coverages with one insurer who, in the event of loss, simplified the claim process. Now, a greater need exists to diversify the excess tower. The advantages of seamless claim handling by placing business with one insurer are now outweighed by the need for counterparty diversification due to credit concerns. Market participants providing the lead excess layer continue to dwindle. AIG and ACE/Westchester have typically dominated play for some time from a pricing, terms and conditions standpoint. Others, such as XL, Liberty and Zurich have been very selective in the types of risk they will underwrite. While other markets are trying to emerge and assume a more dominate role in the lead layer, our experience suggests a limited number of markets will emerge. Note, however, that insurer interest and participation expands in the \$25M X \$25M layer and then narrows again in the \$50M X \$50M layer.



CIP EXCESS MARKETS

ACE, USA /WESTCHESTER	\$50M capacity utilizing both companies
AEGIS	\$25M
ALLIED WORLD ASSURANCE COMPANY	\$50M
AMERICAN HOME (AIU COMPANY)	\$25M
ARCH (BERMUDA)	\$50M
ASPEN (DUBLIN)	\$50M
ASPEN OR CATLIN (LONDON)	\$75M Quota Share
AXIS	\$25M
CANOPIUS	\$25M
CAT EXCESS (AIU COMPANY)	\$75M above lead \$25M or \$150M capacity above \$50M
C V STARR	\$25M (Everest National \$10M & Starr Indemnity \$15M X 10M)
ENDURANCE	\$25M Capacity
FIREMAN'S FUND	\$25M Capacity above \$50M
GREAT AMERICAN	\$25M Capacity above Lead \$25M
LEXINGTON (AIU COMPANY)	\$50M Capacity
LIU (LIBERTY MUTUAL COMPANY)	\$50M Capacity above Lead \$25M
LLOYD'S	Various syndicates (TBD)
RSUI	\$25M
SCOR	\$25M
ST. PAUL TRAVELERS	\$25M
TORUS	\$25M
VALIANT	\$25M
XL INSURANCE	\$100M
ZURICH	Lead layer or \$50M capacity excess over the lead

E&S MARKETS (ACCESS POINTS)

In many cases the excess markets noted distribute through Excess and Surplus Lines brokers. While this is a common approach to placements in the marketplace, not all E&S brokers come with the experience and services to deliver on the best outcomes. Before accessing any market, buyers should develop a detailed marketing plan and vet that plan with a partner that has in-depth knowledge of all potential participants.

CIP PRICING

Due to the economic downturn in 2008, rates in the CIP market were initially forecast to harden. However, we have yet to see this, with rates remaining flat and some insurers selectively taking aggressive approaches on certain projects, because payrolls, construction values and project starts have shrunk. Contractor backlogs are also evaporating, and competition for each new project is intensifying, while existing deals are being renegotiated as owners seek price concessions from contractors. In a few cases the differences have been noteworthy, creating significant pricing confusion.

Carriers are expressing concerns about their ability to trigger premium rate increases in this market, fearing that such action may leave them vulnerable to more cautious competitors. It is also worth noting that carriers are aggressively seeking to maximize premium wherever they can. We are seeing the numbers of thorough audits and additional premium billings rise as carriers turn over every stone looking for revenue. While rates remain competitive, collateral requirements are becoming more stringent, as carriers closely watch their counterparty risk. Insurers are less likely to apply the credits they had before on collateral needs and are now scrutinizing the financial institutions the project sponsors are using to post letters of credit.

THE WILLIS HRH NATIONAL PROJECT INSURANCE PRACTICE

Change looms on the horizon, especially in the wrap-up and broader projects arena. The Willis HRH Project Practice has been addressing the evolving marketplace for years: carrier influx and insolvency, capacity restrictions, new coverage forms, inexperienced underwriting talent, program pricing constraints, etc. We have offered innovative and cost-saving solutions with each turn of events. Willis HRH believes that project placements require a national focus to provide the best marketing and service support possible. Our national team offers expertise in all aspects of our business, including benchmarking, pro formas, IT and data management, coverage leadership and claim advocacy. Our goal remains best-in-class outcomes for all project insurance participants. The project team is a full resource group accessible to all Willis HRH Associates and clients, affording speedy delivery of solutions to any project level issues that may arise.

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