

# Current Global Insurance Market Conditions

## Design and Construction Professional Liability

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*Revised*





# Introduction

Due to the COVID-19 pandemic, the world and many of its economies have experienced unprecedented challenges. Where we were once enjoying predictions of growth in 2020, we are now facing a profound – but hopefully short – recession.

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For contractors and designers, the effect of a recession comes on top of other recent professional liability challenges. The market has seen some insurers adjusting their appetite for risks, as well as twelve carriers withdrawing from the market altogether following the Lloyd’s “Thematic Review” in July 2018. To further compound the issue, contractors and designers operating in the United Kingdom, Australasia and the Middle East are continuing to deal with concerns around cladding, and insurers’ associated exposure. In South America, we see increased focus on mining activities (principally concerning tailing dams).

As far as contractors’ and designers’ professional indemnity/liability is concerned, it may be some time before things stabilize. The global market hardened significantly during 2019 and remains hard today. The London market (which writes risks on a global basis) has lost over \$150 million in professional liability capacity.

The reduced global capacity has enabled insurers worldwide to insist on blanket rate increases as follow:

- between 5-30% on primary layers; and
- as much as 50% for excess layers (which have been historically under-priced).



Insurers argue such increases are justified to remain viable and return their portfolios to profitability.

The onset of COVID-19 has only exacerbated the firming market, and while the pandemic may not in the first instance appear to have any direct impact on the professional liability market, insurers are nervous that a new global recession could affect construction risk in much the same fashion that the 2008 global financial crisis (GFC) did.



Some Insurers are starting to build-in additional factors to combat the potential effects of a recession. Insurers are conscious that, following the GFC, many contractors and designers agreed to onerous contractual terms and conditions, undertook low margin work, or began working in sectors where they didn't have adequate experience. Furthermore, the recession meant that the number of professional resources was reduced during so-called "right-sizing" exercises. The obvious hope is that contractors and designers will have learned from the recent past and not repeat similar mistakes.

Insurers are still evaluating how they are going to deal with COVID-19. In short, how do you deliver professional services in a remote work environment or while practicing social distancing? Specific areas of concern include:

- Impaired collaboration between professionals.
- Overseeing work undertaken by others and adhering to QA and QC procedures.
- Ensuring resources and not being under- or over-utilized.
- Authorizing payments.
- Inspection and construction management.
- Attention to circumstances surrounding delays because of supply chain impact and any attempt to push risk of supply chain delays or failures onto the design team, and the necessity to maintain detailed records on all projects.
- Digital and mechanical solutions are not always effective substitutes for in-person performance of professional services, and clients' agreement to how professional services are differently performed must be documented.
- Professional liability insurers are likely to focus on staff retention when assessing risk going forward.
- When life returns to normal, it is likely that there will be a resumed demand for professional services and, if staff have been furloughed, what will the effect be on firms' performance, in particular if different project teams are working to complete projects, than those involved at the beginning of those projects?
- Potential changes in design required in buildings (including elevators) to allow for new social distancing rules.

Some insurers are seeking to impose new exclusions; for example, one tried to apply a "transit exclusion" in connection with shipping or transportation delays. Globally, Aon is resisting such measures and, at the very least, we are insisting on exceptions for professional negligence.

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# Asia

Over the last six months, we have seen a gradual change in the appetite of markets in Asia for project risks.

Insurers are being more critical in their underwriting, and certainly not as flexible in their terms when compared to six months prior. Market appetite has narrowed with some insurers turning away new opportunities they were once very keen on writing, or insurers limiting project periods to five years or less. There are fewer primary lead markets for complex placements, with most insurers preferring to write excess.

With respect to capacity, markets that were once eager to put up \$25 million per project are now putting up a \$10 million maximum line size. Capacity has been less of an issue for projects that require limits of up to \$50 million for traditional project coverage.

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# Australia

Historically the London market has provided considerable competition to the local Insurers. This is no longer the case with several accounts repatriating back to Australia due the hardening London market.

Australian insurers are focused on cost over-runs, loss mitigation, warranties and cross liability, with related exclusions and sub-limits commonplace. As the Australian government tries to kick start the economy with infrastructure investments, capacity may become an issue.

*See Market Trend Tables* 

# Asia

## Market Trends

2019 Q3/4		2020 Q1/2
<p>Insurers warning of increased pricing. Some insurers are trying to increase their rates but overall, still manageable as we are able to pressure markets to follow the more competitive terms.</p>	<p>↔ Pricing/Rates ↑</p>	<p>More insurers are continuing to look for rate uplift into 2020 and will not want to participate on programs without achieving their technical pricing.</p>
<p>Limits required by Asia Clients still achievable, although the options on primary are now limited.</p>	<p>↔ Limits ↔</p>	<p>As 2019 Q3/4.</p>
<p>Increase in retentions overall.</p>	<p>↑ Deductibles/Retentions ↑</p>	<p>Increase in retentions overall, also Clients are increasing so try and manage the rate increases.</p>
<p>Relatively stable.</p>	<p>↔ Coverage ↓</p>	<p>Insurers are conducting underwriting reviews before they will consider providing more enhancements to the policy coverage.</p>
<p>Generally cautious.</p>	<p>↔ Capacity/Appetite ↔</p>	<p>Remaining cautious. Very little market appetite for more complex projects (e.g. infrastructure/offshore windfarms) where some insurers are committing limited capacity, with most declining participation.</p>
<p>Market feedback has been that there has been increase in claims notifications.</p>	<p>↑ Losses ↑</p>	<p>As 2019 Q3/4.</p>



# Australia

## Market Trends

### 2019 Q3/4

### 2020 Q1/2

<p>Back half of 2019 saw the beginning of considerable hardening of the Australian PI book with rates increasing anywhere from 10-100% depending on the appetite for the risk.</p>	<p>↑</p>	<p>Pricing/ Rates</p>	<p>↑</p>	<p>Going into 2020 Insurer portfolio reviews resulted in increased rates of on average 30%. COVID-19 has seen further rate increases as supply tightens and insurers relay concerns of a property market downturn and contagion claims across their portfolio.</p>
<p>The ability to purchase large limits is still possible, but new capacity could be relatively expensive compared to existing given the current market conditions.</p>	<p>↔</p>	<p>Limits</p>	<p>↓</p>	<p>Overall reduction in limit size offered by carriers. Greater utilisation of reinsurance capacity is required to fill programs. An emerging focus on excess layer rates in order to attract capacity.</p>
<p>Insurers are looking generally to increase deductible levels especially where these have not kept pace with turnover/fee growth of firms at previous renewals.</p>	<p>↑</p>	<p>Deductibles/ Retentions</p>	<p>↑</p>	<p>Where the insured or the sector in which they operate dictates increased deductibles are the preferred route for insurers rather than just premium uplifts which alone are inadequate.</p>
<p>Broad coverage still available from the Australian market. Loss mitigation sub-limits being applied by some carriers. London market is hesitant in following local Australian forms. Contractual liability, Cyber and pollution three areas of focus. Cladding exclusions being applied across the board.</p>	<p>↓</p>	<p>Coverage</p>	<p>↓</p>	<p>Greater focus from Insurers on coverage specifically in relation to loss mitigation, cost over-runs, warranties &amp; cross liability. Whilst we haven't seen a broad application of COVID-19 exclusions being applied, where Insurers perceive a heightened risk coverage is restricted.</p>
<p>Overall reduction in capacity &amp; appetite. Focus from insurers on aggregation across clients &amp; projects. Greater differentiation between sub disciplines resulting in a shortage of capacity for insureds in higher risk sectors.</p>	<p>↓</p>	<p>Capacity/ Appetite</p>	<p>↓</p>	<p>COVID-19 has added to the capacity constraints seen in the second half of 2019 with insurers concerned there will be a contagion flow of claims. Rate increases mean insurers are reaching their budgets without needing to write a lot of new business further reducing capacity. With limited supply of capacity for single project PI, insurers are rejecting the consultants in favour of the contractor where the rate will be higher.</p>
<p>There is a deterioration in insurers' back years pushing loss ratios towards the 100% mark.</p>	<p>↑</p>	<p>Losses</p>	<p>↑</p>	<p>There continues to be a deterioration in insurers' back years. Broad insurer wordings has resulted in the PI policy acting as a quasi-financial guarantee for cost over-runs and rectification where not enough attention was given at the pre-tender design phase.</p>



## Contractors Market Trends

2019 Q3/4

2020 Q1/2

<p>Rate Change: In relation to Annual placements, rate increases of 5-10% were felt by risks without a claims experience. Firms with a negative claims experience or firms operating primarily in a field with negative portfolio claims experience, rate increases in excess of 20% wasn't uncommon. In relation to project specific placements, rates increased.</p>	<p>↔↑</p>	<p>Pricing/ Rates</p>	<p>↔↑</p>	<p>Expected Rate Change: We expect the rate pressure to continue, with carriers coming off programs which have had a negative claims experience.</p>
<p>While clients are focused on benchmarking their programs against their peers, they are not seeking less or more limit generally unless driven by contract due to the increased pricing on their current towers. We found less capacity available in the market for complex risks with Insurers cutting their capacity. Key project specific markets are decreasing their available limits on a primary basis.</p>	<p>↔</p>	<p>Limits</p>	<p>↔</p>	<p>We expect firms to maintain the status quo, unless an external event forces them to seek additional limits or their financial outlook requires them to manage their spending.</p>
<p>We saw more carriers push for higher retentions on annual programs and Project Specific placements. Increased retentions are not yielding significant savings, but rather facilitate the insurer's participation.</p>	<p>↑</p>	<p>Deductibles/ Retentions</p>	<p>↑</p>	<p>Expect pressure on retentions to continue. We also expect clients to use retention levels to manage costs. At this time, insurers are accepting those choices by clients without the investigation of the client's ability to carry the retention on their balance sheet. We expect underwriting in Q2 to tighten in this regard.</p>
<p>Coverage broadening that was common in the market in 2019 is no longer the norm. Generally, more detailed underwriting discussions are required to maintain current levels of coverage. Carriers continue to seek to roll back coverage directly related to specific claim on a portfolio basis. Further, some coverage enhancements more routinely obtained for project specific placements in Q1 of 2018 are now not available at all.</p>	<p>↓</p>	<p>Coverage</p>	<p>↓</p>	<p>Due to the current economic and social environment, we expect additional underwriting questions surrounding work from home strategies, financial impact of physical distancing and lockdowns and changes in contracts as a result of the pandemic. We expect to see clarity of coverage as it relates to COVID-19. We expect to continue to experience a tightening of terms offered for project specific placements based on type of project, jurisdiction, and make-up of the design team.</p>
<p>Insurers continue to provide solutions for clean, proven and preferred clients on annual placements, however they are more selective in how they deploy their capital and their enhanced cover. Some markets have limited their capacity or are de-risking, other strategies have taken on more importance (excess layers or a quota share approach). Capacity for primary business in Quebec is shrinking.</p>	<p>↔↓</p>	<p>Capacity/ Appetite</p>	<p>↔</p>	<p>Increases in overall rate have made this space more appealing to carriers who have felt the historic rating model was too low. However, we expect proper risk appetite to overtake rate adequacy as the indicator of a market's participation. Further, given the global pandemic, domestic carriers are increasingly conservative seeking to support their current clients. There may be additional capacity from traditionally US led carriers, but that is linked to the terms and conditions Canadian firms are prepared to accept. We aren't expecting an increase in London capacity due to the continued scrutiny by Lloyd's of the syndicates trading on that platform.</p>
<p>As the Professional liability placements mature, their loss experience is increasing in severity and frequency on larger projects.</p>	<p>↑</p>	<p>Losses</p>	<p>↑</p>	<p>This trend is expected to continue.</p>





### 2019 Q3/4

### 2020 Q1/2

<p>Rate Change: In relation to Annual placements, rate increases of 5-10% were felt by risks without a claims experience. Firms with a negative claims experience or firms operating primarily in a field with negative portfolio claims experience, rate increases in excess of 15% wasn't uncommon. In relation to project specific placements, rates increased.</p>	↔↑	 <p>Pricing/ Rates</p>	↔↑	<p>Expected Rate Change: We expect the rate pressure to continue.</p>
<p>Clients are not seeking less or more limit generally unless driven by contract due to the increased pricing on their current towers; however, we found less capacity available in the market for complex risks with Insurers cutting their capacity. This requires additional carriers, and premium to maintain current limits for clients. Key project specific markets are decreasing their available limits on a primary basis.</p>	↔	 <p>Limits</p>	↔↓	<p>We have seen clients seek to manage their insurance spend during this global pandemic by more serious consideration of decreased limits, or lapsing their towers. In many instances, this is occurring without consideration of triggering the extended reporting period provisions.</p>
<p>We saw more carriers push for higher retentions on annual programs, and Project Specific placements. Increased retentions are not yielding significant savings, but rather facilitate the insurer's participation.</p>	↑	 <p>Deductibles/ Retentions</p>	↑	<p>Expect pressure on retentions to continue. We expect clients to use retention levels to manage costs. At this time, insurers are accepting those choices by clients without the investigation of the client's ability to carry the retention on their balance sheet. We expect underwriting in Q2 to tighten in this regard.</p>
<p>Coverage broadening that was common in the market in 2019 is no longer the norm. Generally, more detailed underwriting discussions are required to maintain current levels of coverage. Carriers continue to seek to roll back coverage directly related to specific claim on a portfolio basis. Further, some coverage enhancements more routinely obtained for project specific placements in Q1 of 2018 are now not available at all.</p>	↓	 <p>Coverage</p>	↓	<p>Due to the current economic and social environment, we expect additional underwriting questions surrounding work from home strategies, financial impact of physical distancing and lockdowns and changes in contracts as a result of the pandemic. We expect to see clarity of coverage as it relates to COVID-19. We expect underwriters will continue to narrow coverage for higher risk design professions. In addition, it is more difficult to get broader terms with incumbents on clean accounts and we expect a tightening of terms offered for project specific placements based on type of project, jurisdiction, and make-up of the design team.</p>
<p>Insurers continue to provide solutions for clean, proven and preferred clients on annual placements, however they are more selective in how they deploy their capital and their enhanced cover. Some markets have limited their capacity or are de-risking, other strategies have taken on more importance (ACT, excess layers or a quota share approach). Capacity for primary business in Quebec is shrinking.</p>	↔	 <p>Capacity/ Appetite</p>	↔	<p>Increases in overall rate have made this space more appealing to carriers who have felt the historic rating model was too low. However, we expect proper risk appetite to overtake rate adequacy as the indicator of a market's participation. Further, given the global pandemic, domestic carriers are increasingly conservative seeking to support their current clients. There may be additional capacity from traditionally US led carriers, but that is linked to the terms and conditions Canadian firms are prepared to accept. We aren't expecting an increase in London capacity due to the continued scrutiny by Lloyd's of the syndicates trading on that platform.</p>
<p>As the Professional liability placements mature, their loss experience is increasing in severity and frequency on larger projects</p>	↑	 <p>Losses</p>	↑	<p>This trend is expected to continue.</p>



# Europe

## Continental Europe

**Spain** > The hard market is now accelerating, and many Insurers are reducing capacity while implementing much stricter internal compliance and referral policies. This has resulted in premium increases of up to 10% for insureds with clean claims histories and increases of anywhere between 30% and 50% for insureds with poor loss histories. Retentions have traditionally been low in Spain but are now increasing. The conditions for project policies are even worse, with higher premiums and insurers implementing strict referral protocols. Capacity remains limited, and it is now impossible to obtain cross liabilities (insured versus insured) coverage.

**Italy** > Much like Spain, insurers' underwriting approaches continue to change, with authority being centralized in insurers' home offices. Insurers are reducing long term capacity for project policies, and only a few carriers are able to provide lead capacity. Some insurers insist on the opportunity to write multiple lines of coverage as a condition of doing business.

**The Netherlands** > The hardening market has affected premiums and retentions, but coverage terms have remained largely unaffected thus far. The market is still competitive for annual policies, although markets with a strong footprint in the UK are becoming less competitive. Terms remain broad for project policies, but we expect it to shrink. Extensions are becoming more difficult to obtain, with some insurers announcing they won't quote on projects that are longer than 5 years.

**France** > The market is hardening, but the extent to which it is doing so depends on the territory, limits, and complexity of the risk. Many clients who previously used London markets are now looking for local capacity, and French insurers are very interested. Capacity can still be found for project policies, even for large projects.

## United Kingdom and Ireland

Aon risks placed in the London market continue to benefit from the Aon Client Treaty; however, it is now limited to 15% per policy, with the total capacity also reduced in dollar amount to \$37.5 million (ex. US risks which is \$10 million). Although a hardening market combined with firms' organic revenue growth substantially boosted the profitability of London insurers' professional liability books. Although, we are seeing restrictions in line size from individual insurers, we are not yet seeing market pressure on capacity for placements under \$220 million.

Firms doing business in Ireland are seeing insurers capping their limits at €5 million in the aggregate. A further development is a reluctance on insurers' part to write an excess layer that "overhangs" the primary limit (i.e., where the excess layer limit is greater than the liability limit of the underlying layer).



# Europe

## Continental Europe Market Trends

2019 Q3/4				2020 Q1/2
Rate of increase depends on country and complexity of risk	↑	Pricing/ Rates	↑	Insurers quote every policy on a zero basis and give new terms according with their internal procedures.
Limits are stable but for higher limits on mega projects can be difficult to maintain.	↓	Limits	↓	Reduction in capacities and budget restrictions, make some Insureds reduce their limits.
Increasing, especially on more complex placements where insured sometimes must take higher retentions.	↑	Deductibles/ Retentions	↑	Insurers are looking generally to increase deductible levels especially where these have not kept pace with turnover/fee growth of firms at previous renewals.
Becoming more restrictive, cross liability and longer ERPs hard to obtain.	↓	Coverage	↓	In general, coverages keep the same, in general trying to use standard wordings instead of manuscript wordings. Special requirements like cross liability are not accepted.
Appetite for complex risks is declining due to poor loss records.	↓	Capacity/ Appetite	↓	Capacities offered by insurers and appetite, reduce significantly.
Increasing.	↑	Losses	↑	There is deterioration in insurers' loss record, particularly in Australia and Canada.


# Europe



## United Kingdom and Ireland Market Trends

2019 Q3/4		2020 Q1/2
<p>Insurers have taken the opportunity in 2019 to review their portfolios and manage line sizes on programmes. As well as reducing overall capacity on each placement insurers have also looked to ventilate their capacity by gapping on layered programmes. Rate increases have gained momentum in 2019 and coupled with organic growth of insureds have depleted insurers available capacity.</p>	<p>↑</p> <p><b>Pricing/ Rates</b></p>	<p>↑</p> <p>Insurers are continuing to look for rate uplift into 2020. We have seen some insurers who were slower to push for rate in 2019 now approach each renewal with sometimes what seems like arbitrary uplifts regardless of the exposure or loss experience of the insured.</p>
<p>The ability to purchase large limits is still possible, but new excess layers could be relatively expensive to the underlying given the current market conditions. Towers for practice policies above US\$250M have become more challenging from a capacity perspective</p>	<p>↔</p> <p><b>Limits</b></p>	<p>↔</p> <p>Similar to the Q3/4 2019.</p>
<p>Insurers are looking generally to increase deductible levels, especially where these have not kept pace with turnover/ fee growth of firms at previous renewals.</p>	<p>↑</p> <p><b>Deductibles/ Retentions</b></p>	<p>↑</p> <p>Where the insured or the sector in which they operate dictates increased deductibles are the preferred route for insurers rather than just premium uplifts which alone are inadequate.</p>
<p>Inadvertent silent cyber cover has been raised by Lloyd's and the company markets. There has not been a consistent approach taken by insurers however from 2020 wordings will have to determine cyber cover one way or other.</p>	<p>↓</p> <p><b>Coverage</b></p>	<p>↓</p> <p>The silent cyber cover has still not been addressed by many markets. At the start of the COVID-19 Pandemic there were a minority number of insurers that chose to put on standard market exclusionary language that excluded both indirect and direct losses and which was unsuitable for professional liability policies. Following lobbying revised market wordings were published which although not ideal were more appropriate for PI. Some insurers have chosen to focus on specific points of coverage and exclude the risk of increased costs of a claim due to short supply of resources as a result of COVID-19.</p>
<p>Some Insurers are closed to new business and only have capacity for their renewal book in the run up to the end of the year. Over the course of the year to date we have seen insurers review aggregation and reduce their exposure to a single insured by cutting line sizes.</p>	<p>↓</p> <p><b>Capacity/ Appetite</b></p>	<p>↓</p> <p>Insurers continue to review aggregation and reduce their exposure to a single insured by cutting line sizes. Insurers only have modest growth targets, so the renewal book is the main focus for most. There has been a further reduction in appetite for SPPI.</p>
<p>We are hearing in the market there is still deterioration in insurers' back years.</p>	<p>↑</p> <p><b>Losses</b></p>	<p>↑</p> <p>There is still deterioration in insurers' back years particularly in territories ex-USA.</p>





Aon Risks placed  
in London market  
continue to benefit from  
the Aon Client Treaty;  
however, it is now limited  
to 15% per policy...

Firms doing  
business in Ireland  
are seeing insurers  
capping their limits  
at €5 million in  
the aggregate



# Middle East

The local market is showing signs of hardening rapidly, although not to the same degree seen in other territories. Annual policies are priced more competitively than project policies, which will always be more expensive given the longer tail nature of liability.

For larger and more complex project policies, reinsurers are approving fewer treaty exceptions. Dubai-based reinsurers' rates continue to harden, and companies' underwriting appetites are contracting.

In terms of capacity, line sizes are reducing by up to 50% from some of the main players on larger project policy placements.



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# Middle East

## Market Trends

### 2019 Q3/4

### 2020 Q1/2

<p>Rate Change: 0% to +10%. We saw international reinsurers push for increased rates slightly.</p>	↑	 <p>Pricing/ Rates</p>	↑	<p>We have continued to witness international and domestic (re)insurers push for increased rates, to a greater degree than 2019 Q3/4.</p>
<p>Generally, there is a lack of understanding on sensible limits to purchase. Limits purchased are typically driven by contractual conditions.</p>	↔	 <p>Limits</p>	↔	<p>The experience of 2019 Q3/4 has remained consistent.</p>
<p>Re/insurers were continually pressurized to offer lower retentions whilst reducing premiums at the same time.</p>	↔	 <p>Deductibles/ Retentions</p>	↑	<p>We saw (re)insurers push for increased deductibles, especially in respect of the larger and more complex SPPI (prospective) placements.</p>
<p>Whilst some principals are becoming more educated, the general understanding still allows for 'basic' cover to be the norm. Buyers' sophistication centres around price more than coverage.</p>	↔	 <p>Coverage</p>	↔↑	<p>We have seen principals push for fitness for purpose cover in respect of some of the larger prospective SPPI policies.</p>
<p>No new re/insurers entered the market; this was driven by the availability of plenty of capacity and many projects big and small being put on hold or even cancelled.</p>	↔	 <p>Capacity/ Appetite</p>	↓	<p>We have not seen any new entrants to the market, and a contraction in line sizes offered by established (re)insurers in respect of SPPI policies.</p>
<p>Two significant losses reported in Abu Dhabi in respect of structural failure; quantum for each reportedly circa \$10M.</p>	↑	 <p>Losses</p>	↔↑	<p>Whilst the Middle East remains relatively non-litigious, we may see allegations made as a result of COVID-19 related delays masked in other guises.</p>



# United States of America

## Contractors

Over the past year, the insurance market for contractors' professional liability has solidified for the first time in fifteen years. Most contractors performing work in North America have been asked to take modest increases in their Self-Insured Retentions.

Fortunately, rates for professional liability have increased by no more than 5% on "clean" risks, and capacity has remained fairly stable. That said, carriers are starting to restrict capacity deployed on a single risk, both for corporate and project specific risks.

For the foreseeable future we believe that the market will continue to examine risks very carefully, with the availability of project policies being reduced. In addition, due elevated claims activity, large civil contractors engaged in design-build activity and contractors with significant in-house design capability are coming under increased scrutiny. This comes at a time when design-build delivery is increasingly favored by owners, and contractors are now assuming risks which have historically fallen directly to designers. The continued uptick of claims activity related to design means these issues are now hitting contractors' policies.

## Architects & Engineers

Beyond the financial consequences for firms attributable to the hardened London insurance market, US insurers, seeing the increased rates that London insurers are achieving, are now seeking their own rate increases. So far, the increases domestically are between 5-10% for large Architects & Engineers (A&E) risks and, fortunately, non-existent on small- and medium-sized risks.

There have been some changes in available capacity. For example, one prominent A&E insurers now limits the amount it will deploy on a single risk to \$10 million, down from a previous high of \$25 million. The same insurer has decided that it will no longer offer project policies in the New York area. Perpetuating the capacity issue, London market insurers continue to balk at writing project policies for US risks.

Unlike contractors' professional liability policies that are all sourced domestically in the US, the insurers for Architects & Engineers is a mixture of both from the US and London, and this has resulted in a significant reduction in total market capacity for annual corporate and project policies.










# United States of America

## Contractors Market Trends

2019 Q3/4

2020 Q1/2

<p>To a large extent rating is highly dependent upon client- specific factors, most notably claims history. On “clean” risks, expected rate change is 0% to -5%.</p>	↔↑	 <p>Pricing/ Rates</p>	↔↑	<p>Expect this to continue, with some carriers declining risks with multiple claims and those with high “design” risk content, particularly in the oil &amp; gas sector. On project policies, we are seeing a more conservative rating approach, with limits on the maximum policy terms and capacity.</p>
<p>Clients continue to evaluate limits due to the perceived severity of professional liability losses.</p>	↔↑	 <p>Limits</p>	↔↑	<p>This position is unlikely to change</p>
<p>Most clients have maintained their deductible/retention levels.</p>	↔	 <p>Deductibles/ Retentions</p>	↔↑	<p>No material change is expected; however, carriers continue to push higher retentions on larger clients in an effort to offset the risk of claims deterioration.</p>
<p>No material changes in the annual or project programs.</p>	↔	 <p>Coverage</p>	↔	<p>No material changes on annual or project programs.</p>
<p>While capacity continues to be readily available, the pricing on the excess limits is becoming increasingly scrutinized by insurers as claims values escalate. Lower excess layers are being priced more akin to primary coverage as carriers are viewing these excess limits as still being in the “burn” layer.</p>	↔	 <p>Capacity/ Appetite</p>	↔	<p>Capacity is expected to remain available for most insureds, but pricing will escalate.</p>
<p>Claims activity in the construction sector was fairly constant, but we continue to see an escalation in the severity of these claims.</p>	↑	 <p>Losses</p>	↑	<p>We expect this trend to continue, with year-over-year escalation in claim values and defense costs.</p>

# United States of America



## Architects & Engineers Market Trends

2019 Q3/4

2020 Q1/2

<p>Rate increases of 25% or more are common for insureds with claims.</p>	<p>↑</p>	<p>Pricing/ Rates</p>	<p>↑</p>	<p>On larger risks domestic insurers are generally looking for rates increases of 5-10%. For those larger US risks placed in the London market, the rate increases can range between 10-25%, particularly on Excess Layers that are under greater scrutiny as insurers evaluate their capital deployment.</p>
<p>We believe most firms will be focusing on maintaining their current limits in a changing market.</p>	<p>↔</p>	<p>Limits</p>	<p>↓</p>	<p>We have seen reductions in total limits being purchased due to reduced available capacity, or premium savings.</p>
<p>With the advent of larger claims, insurers are looking for increased retentions, especially with claims inflation running at 3% per year, and firms are considering higher retentions to offset premium increases.</p>	<p>↑</p>	<p>Deductibles/ Retentions</p>	<p>↑</p>	<p>We believe the current trend will continue.</p>
<p>Neutral, as previous enhancements were being evaluated by insurers.</p>	<p>↔</p>	<p>Coverage</p>	<p>↔</p>	<p>No changes at present but COVID-19 restrictions are being considered by London insurers.</p>
<p>As rates increase we are hearing that new insurers are considering entering this space, but this may only replace capacity that has already left the market.</p>	<p>↔</p>	<p>Capacity/ Appetite</p>	<p>↓</p>	<p>Overall market capacity has dropped for annual corporate and project policies.</p>
<p>Losses are increasing, with more claims coming from design-build contractors where there has been under-design at the bid stage and insufficient contingencies built in by contractors.</p>	<p>↑</p>	<p>Losses</p>	<p>↔</p>	<p>While the number of claims coming from contractors are increasing, limitations of liability are proving to be effective in limiting the severity of claims.</p>



## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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