

WEATHERING THE SLOWDOWN

Construction insurance pros eager for building rebound

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By Dave Willis

“Construction contractors’ big equipment was running white hot through 2007 and into 2008,” says Kevin Cunningham, NationsBuilders Insurance Services executive vice president. “Now most of their iron is in their yard.”

Today construction firms are dealing with financial strain from credit markets and the lack of projects, says Tom Grandmaison, senior vice president, construction division, Lexington Insurance Company. Adds Cunningham, “The lack of sponsor credit availability has literally caused projects to stop dead in their tracks.”

Residential trade contractors have been hit hard, notes Bill Sullivan, CPCU, vice president, The Hartford Construction Group. “Infrastructure contractors are doing better in some regions,” he adds. “In the Southwest, for example, we’ve even seen increases in exposure.”

In the Northeast, little to no private sector work exists, says Tim Cappellett, Oryx Insurance Brokerage sales and marketing vice president. “Where there is work, there’s a lot more competition. Bidder lists are huge. Large contractors are bidding on smaller jobs. Regional contractors are coming in from all parts of the country. Bids often come in at cost, just to keep people on payroll.”

Jeff Benson’s firm has seen remodeling pick up, and he’s noticed a slight uptick in residential construction, perhaps due to new homebuyer credits. “We’re seeing little positive signs,” notes Benson, senior vice president, Zurich Insurance Services, the program administrator for Zurich’s builders risk business.

According to Grandmaison, construction business unemployment is near 35%. Sullivan sees payrolls down anywhere from 15% to 20%, year over year.

Some construction firms are investing in equipment maintenance and upgrades, Cunningham notes.

“Others are just trying to sell equipment to keep the lights on.”

Some contractors are being asked to partially finance projects themselves, Cappellett notes, “or they may be owed money by developers.” Credit risk is lower in public sector work, he adds, but so are profit margins.

Stimulus-based work is just beginning to surface.” The nation’s infrastructure really needs updating,” Sullivan says. “A lot is in the works.” Health care and education projects are stronger, he adds, “but entertainment complexes and hotels are having a difficult time.”

Working contractor opportunities

Grandmaison identifies three key insurance-related contractor needs. “Beyond the nuts and bolts of preparing a bid, contract wording is very important for a contractor taking on liability,” he says. “Second, safety and quality control are prime concerns.

“And as we continue to operate in a challenging economy, it’s all the more important that contractors get

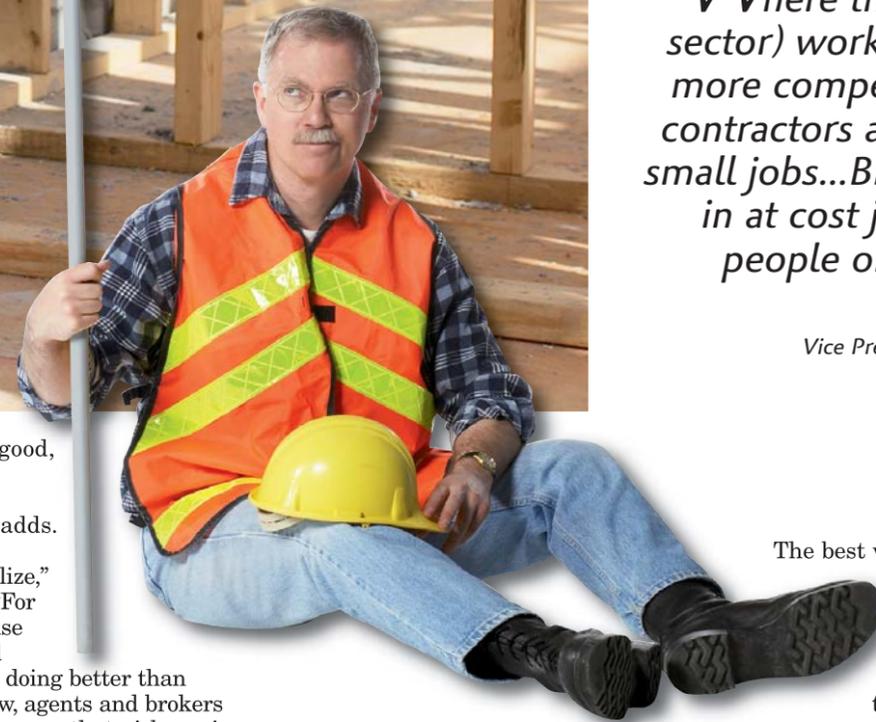
the benefit of good, solid claims handling,” Grandmaison adds.

“Successful advisors specialize,” Sullivan says. “For instance, because street and road contractors are doing better than others right now, agents and brokers may want to focus on that niche, gain expertise and partner with a carrier that really knows how to serve them.”

Cappellett advises, “Understand the complexities. Become subject matter experts. When you know what you’re speaking about and can help people anytime they have a need, they’ll come to you.”

“Look for unique exposures that maybe didn’t exist before,” suggests Ryan Schwartz, Zurich Insurance Services vice president, corporate affairs. “For instance, the vacant spec house that didn’t sell needs to be properly covered.”

Be certain that coverages track current activity, too. “In difficult times,



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The best way to control insurance cost is claims reduction, Cappellett notes. “Claims will hit your experience modification, and once that goes up, it costs more money.”

Benson says contractors’ bottom-line focus creates a need for agent diligence. “Agents need to stay up on audits to make sure the rating basis is calculated correctly,” he says. “That’s even more important than a year ago.” It’s better, he says, than trying to reduce coverage or price. “One uncovered claim could bankrupt an insured,” Benson notes.

Cunningham encourages a focus on retention, an admittedly tough task. “Premiums are down, but progressive-thinking producers realize renewals are key to long-term growth,” he says, “and they’re working to retain good business.”

general contractors may pick up trades they used to do—carpentry, plumbing, electrical,” Benson explains. “Make sure classifications are right. You might have the builders risk policy on the whole house, but if they’ve become a trade contractor, you may need an installation floater in place.”

“If your customer is a general contractor, provide some due diligence on his part and confirm the project owner has the resources to pay,” adds Cappellett. “That should minimize the credit risk. Flipping that around, if your customer is a trade contractor, check the GC’s reputation and creditworthiness.”

To reach prospects, Benson suggests that agents and brokers connect with associations of contractors or builders. “Stable, long-term contractors tend to be involved in these,” he says. Construction permit activity record providers represent another source of leads, Benson adds.

Infrastructure and government projects represent good opportunities, he notes. “We just wrote a \$20 million addition to a state university,” Benson says. “It was a relatively small agency that got access to write the account. So it’s not just for big brokers.”

Responding to market challenges

To counter revenue drops, Cunningham’s firm has added a “trucking and wheels” line to its core general liability and inland marine business. “Even though our ratable revenues are down, we get almost all of it back by adding another product that brings with it some discounts,” he notes.

NationsBuilders also recognizes equipment maintenance and upgrades. “Upgrades and maintenance have a positive impact, so we’ve created a grading mechanism and audit process that can lower insurance costs, if insureds validate they’re doing the right stuff,” notes Cunningham.

To address contractor cash-flow issues, The Hartford offers larger insureds the option of tying premiums to monthly payroll, through monthly payroll reporting, Sullivan explains. “Contractors would prefer not to have a huge audit addition at year-end, so they give us annual projections, we calculate a deposit premium, they report actual payroll monthly and we reconcile to those. It marries up cash flow to exposures.”

Cunningham’s firm offers what’s called a “risk management support

system.” It includes CD-ROMs, workbooks, safety process suggestions and more, from which brokers can learn and take to customers. The product can be broker-labeled, even though the company holds the copyright. “Brokers like the idea,” Cunningham explains, “because it helps keep the wolf away from the door of their existing book. Plus, when followed, it helps with underwriting results.”

Other resources exist, too. “Agents can learn risk management practices through the ‘OSHA 10’ class our loss control department offers,” Sullivan says. Another seminar trains job-site superintendents on executing safety programs.

To help address other risks, The Hartford maintains an American Industrial Hygiene Association-accredited industrial hygiene lab. “For instance, welders have issues with heavy metal fumes,” he explains. “Our industrial hygienists actually go out, conduct tests, bring back samples and generate reports.”

Zurich Insurance Services makes available a job site safety program. “Our agents give the insured decals and large weatherproof signs announcing a \$10,000 reward for turning in someone stealing from the job site,” Benson explains. “It reinforces the value of the program.” By cutting even small losses, he notes, agents can help clients maintain thin profit margins.

Lexington provides access to a Boston-area law firm specializing in construction contracts. “We don’t offer legal counsel ourselves,” Grandmaison notes. “But the contractor or owner can use the firm for advice on contracts they’d be signing.

“We also have a small army of loss control and safety engineers who work nationwide with our insureds—contractors and owner/developers,” he adds. “In the nonadmitted world, not many

markets offer such tailored loss control and safety services.”

Cappellett says that while some carriers are pulling back on services, “We’re actually providing more. Our loss control staff provides in-depth, job-specific risk management services. More important, once recommendations are made, we make sure our contractors are given the tools necessary to ensure recommendations are addressed appropriately.”

Grandmaison adds, “You need to back up product with good solid claims handling.” Cappellett’s firm just assumed claims administration for a carrier partner. “We put each of our adjusters through IRMI certification,” he notes, “because it is critical they are adept in dealing with the complexities of claims handling for the construction industry.”

Preparing for better days

Cunningham sees the industry positioning for a mid- to late-2010 resurgence of commerce—albeit modest. To be prepared, Grandmaison advises, “When people take their eye off the ball and simply buy on price, not service, down the line they see losses and regret having not paid attention to the big picture.”

Benson urges agents and brokers to care for customers now. “Even if you’re making lower commissions now, things will improve,” he says, “and customers will remember.”

Adds Cappellett, “Contractors seek out experts. If you’re known for doing something well, word spreads. And the best referral is word of mouth.” ■

The author

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