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THE CHANGING PROPERTY INSURANCE MARKET – WHAT THIS MEANS FOR THE BUILDER’S RISK IN ALASKA

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The property insurance marketplace as a whole is currently in the midst of transition. Underwriters are spending more time reviewing submissions, increasing rates, reducing capacity and putting forward more restrictive policy terms and conditions. All these factors combined have insurance professionals referring to the market as “hardening.” In particular, pricing in the builder’s risk market has increased quarter over quarter for the last nine quarters consecutively. Alaska-specific challenges create further difficulties in this marketplace.

WHY IS THE MARKET HARDENING?

Recent loss experience

- 2017 and 2018 brought a rash of major insured losses because of natural catastrophes
 - » Hurricanes Harvey, Irma, and Maria, and unprecedented wildfire losses in the western U.S.
 - » Increasingly powerful flooding, hail, and wind issues across many regions.
- 2019 and 2020 have been marred by wood frame construction project site fire losses
 - » Over \$150 million in fire losses in 2019, (over \$20 million occurred in Anchorage)
 - » Over \$240 million in fire losses in the first two months of 2020 alone.

The continued recent loss activity and natural disaster forecasting points to a market that will continue to harden.

Inadequate rating and risk vetting in recent years

- Many insurers underpriced risks and paid out more in claims, leading to unprofitable books of business for carriers.
- Soft market (decreasing rates) and a surplus of market capacity led to increased competition and decreased vetting of risks, resulting in stretched underwriting and unsustainable loss ratios.

Carriers reducing capacity and exiting the marketplace

- Lloyd’s syndicates (including Brit, Beazley, Talbot, and CNA’s London facility) exited the construction marketplace entirely, equating to a loss in capacity of \$202.5 million.
- The reduction in capacity has resulted in a surge in rates, as well as a restriction in coverage terms and conditions.

WHAT ARE THE IMPLICATIONS IN ALASKA?

Not all underwriters understand Alaska.

- Insurable exposures in Alaska has always been challenging for underwriting markets to grasp, however, non-combustible construction and civil projects are still being afforded competitive market pricing with several carriers willing to provide substantial capacity at low rates. These risks have not seen significant builder’s risk losses.
- Projects subject to government contracts remain rather desirable given the controlled access to the project site, secure storage areas, and quick access to fire suppression capabilities.

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Remote Alaska poses challenges.

- Projects in remote Alaska have always proved challenging to obtain coverage for, due to higher losses and logistical challenges of completing site loss control surveys, inspections, and claims adjustments.
- There is a long history of catastrophic claims in remote projects and extremely limited abilities to respond to events (e.g. lack of paid fire departments, water supplies, no connections to resources in some locales, etc.).

"Big city" Alaska also faces challenge.

- Projects in Anchorage, Fairbanks, and Juneau are now beginning to feel this pressure as well due to recent losses and increasing crime scores.
- Construction sites in Alaska have traditionally been less protected than Lower 48 sites and site protection services haven't been as readily available; however, this is changing and underwriting expectations will change as well.

Alaska has developed a reputation.

- Crime scores in several areas (most notably Anchorage and the Valley) have significantly deteriorated (indicated high crime). Underwriters are relying on these scores now more than ever to reduce their exposures. High crime scores indicate higher potential for loss, and are based on:
 - » Vagrancy
 - » Homeless populations
 - » Drug activity
 - » Theft and property crimes
- Due to the recent fires on jobsites in Anchorage and other building fires in Alaska, insurers have exited this market.

- » Allied World Assurance Company exited the frame construction class entirely in 2017.
- » Westchester (ACE) has greatly reduced their capacity while sharply increasing rates.
- » Highland exited the Alaskan market in February 2020.

WHAT DOES UNDERWRITING LOOK LIKE TODAY IN ALASKA?

- Prior to 2020, it was possible to have underwriters provide indications, and often quotes, without all of the necessary underwriting information.
- Now, most carriers will not review a submission without full underwriting information provided well in advance.
- When given the choice on where to deploy capacity and underwriting resources, it is easier for an underwriter to pass on a project in Alaska than it is for them to navigate the internal approval process or obtain reinsurance to quote.
- With reduced capacity, projects often need more than one insurer to bring full limits or earthquake and flood coverage to the quote.

PARKER, SMITH & FEEK HAS EXPERTISE TO SUPPORT OUR CLIENTS IN THIS MARKET

The continued recent loss activity and natural disaster forecasting points to a market that will continue to harden. What used to be a simple application form and quick quote product now requires much more comprehensive data, is highly scrutinized by underwriters, and often has stringent risk control requirements. Now, more than ever, it's critical to partner with an insurance broker that has successfully navigated through market cycles in Alaska, possesses a deep understanding of the shifting builder's risk marketplace, has specialized expertise and staff in builder's risk, and finds creative solutions to coverage.

In addition to Parker, Smith & Feek's study of the marketplace and experience, comments are derived from: 2020 US Property Insurance Market Update by Alesco (a leading Lloyds Brokerage) December 6, 2019; RT Specialty Group Assurex Global Builders Risk Market Update April 15, 2002; Dodge Data & Analytics; Willis Towers Watson's Insurance Marketplace Realities: 2020 – Construction.