



# CANADIAN DESIGN-BUILD INSTITUTE

## Practice Bulletin #5

### August 2002

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## Insurance Tips in a “Hard” Market

### A Brief History

The insurance market has been considered “soft” for over twelve years. That is to say that premium rates have been steadily declining, up until late 1999 – early 2000. Insurers were willing to risk losing money from their core business underwriting (premiums: losses), in favour of healthy returns from investment activity. Unfortunately return on investments started to decline and as the industry was already losing from an underwriting perspective, its operating income started to falter as its two main revenue streams became uncertain.

In late 1999 and 2000 we started to see a trend towards smarter underwriting due largely to this new investment instability and eroding results. The trend was steady, but not severe.

Then came September 11 (9/11), the largest insured losses in the entire history of the insurance industry. The previous largest recorded catastrophe was Hurricane Andrew at US\$20 billion, mainly affecting household and automobile insurance. 9/11 is still being assessed, but will be between US\$40 billion and US\$70 billion, which mostly affected commercial insurance.

This was the proverbial “straw that broke the camel’s back”, resulting in an unprecedented surge in insurance prices across the entire industry, leaving us suddenly in a hard insurance market. The last similar market was in the mid 1980s; rather than affecting all types of insurance it affected the liability insurance industry predominantly.

A “hard” insurance market brings about the following additional issues you, the buyer, must consider:

- 1) Insurer’s financial stability;
- 2) Insurance capacity;
- 3) Coverage availability for coverages such as:
  - a) Terrorism
  - b) Mould
  - c) Pollution/Environmental Impairment Liability
  - d) Cyber Risks
  - e) Flood, Earthquake
  - f) Specialty coverages such as Force Majeure Insurance or Liquidated Damages
- 4) Insurer’s ability to comply with lender’s insurance requirements; and
- 5) Condition of Surety Markets post Enron.

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### **Overcoming the “Hard” market**

It is recommended that if you have treated your insurance requirements as a “bottom of the pile” necessity, you move it higher. Believing this market will not affect you is unrealistic. Here are some useful suggestions to help you prepare, every time you have a need for insurance coverage:

- Be pro-active and involved in the insurance process. Make sure one of your staff is working closely with your Broker, developing an understanding of the requirements of the “new” market.
- Additionally, make sure your Broker is also being pro-active and keeping you informed of what to expect.
- Hire a Broker that is knowledgeable in your field, not only insurance. The Broker should demonstrate an understanding of your industry, its issues and processes. This Broker is more likely going to have greater success delivering a better message about your business to Insurers.
- Involve your Broker early, whether it is a project or your insurance renewal. By early, we mean several months (4-5 if possible) ahead of when the insurance coverage will be required.
- Ensure your Broker assembles a professional, detailed, quality submission on your behalf, for consideration by Insurers. Make sure you have a copy before it is sent and it meets with your approval.
- Be prepared to share more information than ever before. The more detail you can provide the better your terms will likely be.
- Build a relationship with Insurers. Face to face meetings invariably produce positive results in almost any relationship.
- Most importantly, let your Broker get involved in your business. The more they understand it, the better a job they will do representing your needs to the marketplace.

The foregoing will not guarantee success in obtaining rate reductions or even “as is” rates in a hard market, however it should help you keep increases under control.

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