

Tight Insurance Market Could Cripple Unprepared Companies

BY LEEANN MATON

With declining business revenues and government bailouts of major firms such as AIG and The Hartford the pressure is on for insurers — pressure that could impact contractors in turn.

“The market will harden,” said Rudy Drost, an account executive for Allied North America who has worked in the insurance industry for more than 30 years.

“Typically the insurance market is cyclical and it mirrors the general economy,” said Drost, adding that some analysts have been warning of a tightening insurance market for the past 18 months. Exactly when this tightening could occur, however, remains unknown.

A recent article in the Spring 2009 edition of Construction Today magazine agrees that a “hardening” is on the horizon. The article cites underwriting and investment losses by insurers as the cause of the coming changes. Broad coverage terms and conditions that are otherwise routinely available are likely to be scaled back or become “prohibitively expensive,” the article predicts, adding that restrictions on liability insurance, increasing deductibles, and other coverage limitations are also likely to take place.

“It’s hard to paint the environment with one big brush — there are some companies who will see little to no change, and there will be companies having problems safety-wise who will have a hard time,” he said, noting that companies with higher EMRs may be especially hard-hit.

However, Chicago-area insurers say their clients are not currently seeing any dramatic changes or restrictions in coverage at this point.

“There’s still plenty of capacity,” said Hylant Group President Tom O’Connell, who says he hasn’t seen a dramatic “hardening” occur yet and that the market is currently still competitive. However, he said that a difficult economy is making some

clients rethink their insurance approach.

“I think we’ve had some clients that have gone to guaranteed costs because business has shrunk,” he said.

And business will continue to shrink, according to a June 22 article in Crain’s Chicago Business. Chicago-area construction starts are expected to reach only \$11 billion for the year, a 39% decline from 2008 levels. The commercial sector in particular is forecast to drop a whopping 73% from last year.

“Knowing that 2009 is not going to look that great, or 2010 probably, some clients are looking forward a year [or a] year and a half to look to where they’re going to be,” O’Connell said. “They’re very realistic about what their business is going to be.”

Drost expects that when the market tightens, contractors will need to subject their insurance strategies to even greater scrutiny than normal.

“Know who you’re buying the product from,” Drost also advised. “Have someone who understands your business representing you as a broker and be very vigilant about your company’s economic health.”

With the condition of the economy, financials are also going to play an

increasingly bigger role in the underwriter’s decision.

Even in spite of the dark forecast, both Drost and O’Connell said that opportunities will continue to exist for savvy contractors poised to make the most of the tough times.

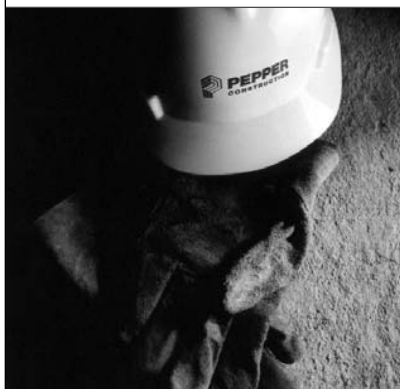
“There’s a lot of insurance companies hunting around for fewer contractors,” O’Connell said, which could mean big savings for contractors who scour the marketplace for competitive quotes. He advised companies to send multiple brokers or agents out to split the market and compete to find the best deal. His best advice, he said, is to “be aggressive in that [and] be aggressive in dealing with claims.”

As Drost put it, “the market can harden but if a contractor is positioned well — meaning that they’ve maintained a good safety record and they’re able to maintain financial viability — that will mitigate any uptick in basic rates.”

The bottom line? “It’s not rocket science,” Drost said. “It’s a lot of basic blocking and tackling and minding the tenets of good business practices. If you’re a good company you’ll be able to get insurance competitively priced whether it’s a hard market or a soft market.”

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