

## Trends in Insurance

**The tough economic climate in the construction market has many construction firms rethinking risk profiles, recalculating insurance coverage and reviewing their partners more thoroughly.**

The troubled economy is the common thread that runs through all insurance requirements today, according to Paul Becker, construction practice leader at Willis, North America. "There are huge pressures on costs and keeping all expenses down, so that companies can sustain themselves until work comes back again," he says. "Some clients aren't buying as much insurance as they did in the past, meaning the limits of liability they can buy in certain lines of coverage like general liability, professional liability and pollution liability."

Becker says that in lean economic times, companies are looking to better align limits with their current assets. "People question whether they need the same amount of insurance as when revenue was higher."

Meanwhile, carriers are reviewing claims with increased scrutiny, Becker says. "The construction business is down, but our claims department is as busy as ever," he says.

### Insuring against Subcontractor Default

In such an environment, many contractors are keeping closer watch on subcontractors and other partners to better manage risk. With many specialty contractors scrambling for work and profit margins getting squeezed in a competitive market, construction firms are concerned about the financial stability of their subcontractors.

Bill Noonan, vice president of risk management at Structure Tone,

says those concerns are echoed by sureties. "Surety companies for subcontractors are telling us that [2012] is critical for subcontractor prequalification and making sure that you have the right subs on the right job," he says. "Subcontractors have tried to make it through the last few years, and we're not through the worst."

In light of this, the insurance industry has expanded its offerings for subcontractor default insurance. Zurich was the first major carrier to provide subcontractor default insurance. In September 2011, XL Insurance began offering Construct-Assure, a type of subcontractor default coverage to protect general contractors from financial losses that may result when their subcontractors fail to perform contracted services.

To protect against default, many contractors are demanding greater transparency from subcontractors. Christopher Beck, vice president of risk management at Turner Construction, says Turner now offers subcontractor default insurance for about 10 years but is not relying on that as a safeguard. Turner is heavily focused on financial and portfolio reviews of its subcontractors, looking closely at their past, current and future jobs.

"People are taking on more risk to put work on their balance sheets," he says. "We're asking our subcontractors for quarterly balance sheet reviews now, whereas previously, it had been a yearly process," he adds. "We want to see the current forecast balance sheet [on new projects] at the time of award."

Douglas Rieder, president of Sterling Risk Advisors, says that sureties are concerned about the growing trend among subcontractors to travel into new areas to pursue work. "It's fraught with increased risk," he says. "There are a lot of unknowns when you travel, such as regulatory issues, licensing, taxes and legal issues. Sureties really fret about this in times like these."

### Subcontractors Guard against False Workers' Compensation Claims

At the subcontractor level, companies are keeping a close watch on employees, reports Rieder. When the economy is down, Rieder says, companies are instinctively more vigilant about questionable workers' compensation claims.

"If employees don't see another job on the horizon and they sense that layoffs are coming, [contractors] worry that employees will suddenly have a claim," he says. "We see people looking to protect themselves."

Among other techniques to reduce claims, Rieder says, some companies require signed "end of week" statements from employees. When employees collect their paychecks on a Friday, they could be asked to sign a document stating that they were not injured that week and didn't witness an unreported accident. "It helps deter reporting injuries that happen over the weekend [when employees are off the clock] as work-related injuries on Monday," he says. ■