



# HOW TO BE A GOOD UNDERWRITING RISK

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# Pre-COVID Market Trends



**Market correction began in late 2018/early 2019 with the most notable market hardening seen in the 6 months leading up to the COVID-19 pandemic.**

- **Commercial Auto**
- **Excess Casualty**
- **Primary Casualty (GL)**
- **Management Liability (EPL and D&O)**
- **Builder's Risk**
- **Professional Liability**



# Hard Market



## What is a “Hard Market”?

- Increased premiums
- Diminished underwriting appetite and capacity
- Restricted coverage
- Less competition among insurance carriers for new business



# Contributing Factors



## Catastrophic Losses

- Floods, hurricanes, wildfires and similar disasters are increasingly common and devastating.
- Years of costly disasters like these have compounded losses for insurers, driving up the cost of coverage overall.

## Claims Costs

- Claims are increasing in both frequency and severity year over year.
- Settlement verdicts for bodily injury claims are steadily rising.
- Social Inflation

## Investment Returns

- Nearly every insurance carrier uses the funds it receives from premiums to invest in other markets.
- Reduced insurance rates have negatively impacted profitability for insurance carriers

## Reinsurance

- Reinsurance provides coverage for insurance companies for risks they can't or don't wish to fully retain.
- Reinsurance is becoming more expensive and more difficult to obtain.

## Underwriting Standards

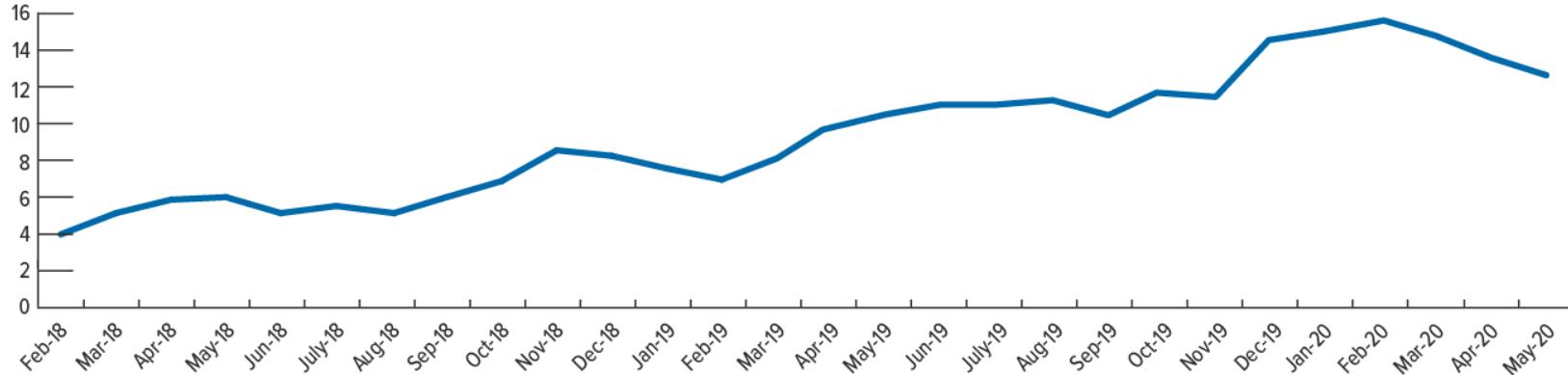
- Insurers are struggling to overcome underwriting losses.

# Pricing Trends



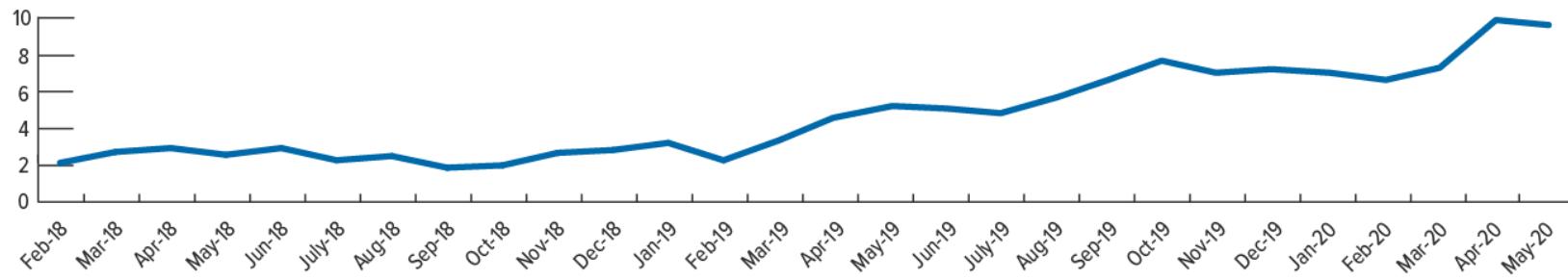
## RENEWAL PRICING TRENDS—CASUALTY RENEWALS, ROLLING QUARTERLY

Source: AmWINS casualty lines account data



## RENEWAL PRICING TRENDS—PROFESSIONAL LINES RENEWALS, ROLLING QUARTERLY

Source: AmWINS professional lines account data





## Initial Response

- Policy extensions
- Updating exposures
- Extensions on renewals
- Payment flexibility
- Suspension & Resumption of Operations endorsements
- Communicable Disease Exclusions

## Extended Impact

- Legislative changes
- Uncertainty
- Changing exposures
- Reevaluating policy language & interpretation
- Added underwriting scrutiny
- Ambiguity of contract interpretation
- Additional litigation
- Lack of capacity
- Added underwriting scrutiny





California claims administrative costs are multiples higher than other medical benefit systems such as Medicare and the average for private group health insurance.

## **Cost to Deliver \$1 of Benefits**

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Medicare	\$0.02
Private Group Health Insurance	\$0.18
National Workers Compensation Average	\$0.24
<b>California Workers Compensation</b>	<b>\$0.52</b>

# COVID-19 & Workers Compensation



**Governor Newsom signed executive order N-62-20 on May 6<sup>th</sup> creating a rebuttable presumption that COVID-19 is a compensable occupational disease for employees who contract the illness at work**

- A sick employee could be eligible for the presumptive coverage if he/she tested positive or was diagnosed with COVID-19 within 14 days of reporting to work at the direction of their employer.
- The order does require ill employees to use and exhaust all sick time and other benefits before they can receive workers compensation under the presumption.





SB-1159 makes clear that parts of the Governor's order will remain untouched, and establishes **two timeframes** for application of the new sections.

New Labor Code 3212.86 shall apply to **all cases** occurring within 14 days after the last date of work of "any employee with a COVID-19 related illness," provided that day falls within the period of March 19, 2020 to July 5, 2020.

This new section also makes a distinction between employees diagnosed on or after May 6, 2020 and those testing positive before May 6, 2020 for application of temporary disability benefits.

SB-1159 makes a legal distinction between a presumption that is "rebuttable" and one that is "disputable."



**The second timeframe involved in the framework of the bill applies to employees who are diagnosed or obtain a positive test from July 6, 2020 onward. This is codified in new sections 3212.87 and 3212.88.**

## Eligible Employees

**New section 3212.87 establishes a specific set of guidelines for handling of claims related to health workers, peace officers, and firefighters among other frontline workers**

**Section 3212.88 applies to all other employees not specifically enumerated in the preceding section and establishes a very specific new set of claims handling guidelines unlike any we have encountered before.**

- First and foremost, the section applies to employers which have five or more employees only.
- Second, the timeframe for investigation of employees under this section has been extended to 45 days.
- Third, and most importantly, the bill lays out a specific step by step process for claims handling and passage of information between the employer and the claims administrator regarding COVID-19 claims.
- Once an employer knows *or reasonably should have known* that an employee has tested positive for COVID-19, within three days, the employer must alert the claims administrator, but may not provide specifically identifying information about the employee in question, *unless* that employee asserts the infection is work related.
- The employer must then give the claims administrator the highest number of employees who reported to work during the 45 days preceding the last day the infected employee worked. This, which is the critical element of the bill, is all in service of determining if an "outbreak" has occurred at the place of employment.

# COVID-19 & Workers Compensation



The insurance commissioner approved changes to the California Workers' Compensation Uniform Statistical Reporting Plan—1995 (USRP) and the California Workers' Compensation Experience Rating Plan—1995 (ERP) recommended by the WCIRB Governing Committee in anticipation of the impacts COVID-19 will have on the individual policy holder. These changes help the individual employer's Experience Modification Rating by limiting the impact of presumptive COVID-19 claims approved by Newsom.

Those changes were:

1. Exclude COVID-19 Claims from Experience Rating
2. Exclude Payments to Employees Who Continue to Be Paid While Not Working from premium calculations
3. Allow Assignment of Classification 8810 for Temporary Change in Employee Duties

# Preparing for your next Insurance Renewal



## 1) Partnering with the **RIGHT** Broker

- Work with a broker that understands what you do
- Maintain regular communication (quarterly reviews at minimum)
- Is your broker well-resourced to absorb the additional time that renewals will take
- Who handles your renewal... Broker, Account Executive, CSR?
- Does your broker have enough industry concentration to leverage the insurance market

- Coverage
- Rate
- Stability
- Carrier equity
- Alternative Risk Financing



# Preparing for your next Insurance Renewal



## 2) Preparing Underwriting “Editorials” VS “Blogs”

- Take the time to accurately project AND explain all of your exposures
- What we don't know WILL hurt you
- Collaborate with your broker to establish coverage expectations
- Share contracts you have signed with your larger clients
- Prove that you have a risk management strategy. Are you lucky, or is your experience the result of an effective plan?
- Prepare narratives around ALL losses
- Explain Subcontractor Qualification Process
- How do you attract and retain employees
- Discuss your involvement in industry associations



**HOW & WHY are you special?**

# Preparing for your next Insurance Renewal



## 3) Know Your Insurer or Prospective Insurer

- Not all insurer offices or underwriters operate the same
- It is important to work with the right underwriter and the right insurer at the right time
- Take every opportunity to meet your insurance carrier representatives
- Find out who handles claims & audits. TPA or Carrier?
- Discover what services does the carrier provides AND establish expectations in utilization
- Know your carrier's finances and history/experience in your industry



# Preparing for your next Insurance Renewal



## 4) Start Early

- The best time to begin preparing for your next insurance renewal is the day after you finish your current renewal
- Underwriters are feeling the time-crunch with increased business flow and the many mid-term changes taking place across existing accounts
- Having preliminary discussions with your broker during the year about market conditions and evolving trends will help to prepare presentation of your business at the time of renewal
- Understanding current market trends early provides time to evaluate alternative risk financing methods and will allow for analysis of performance based insurance products

# 5 Year Plan



**What will make the biggest impact on your future insurance premiums?**

Effective Risk Management Strategy

Loss Experience & Understanding Underwriting Philosophy

Captives, Alternative Risk Financing, Higher Deductibles

Project Delivery Methods

Accurate Exposures, Adequate Limits, Appropriate Coverage

Maintaining a WIP

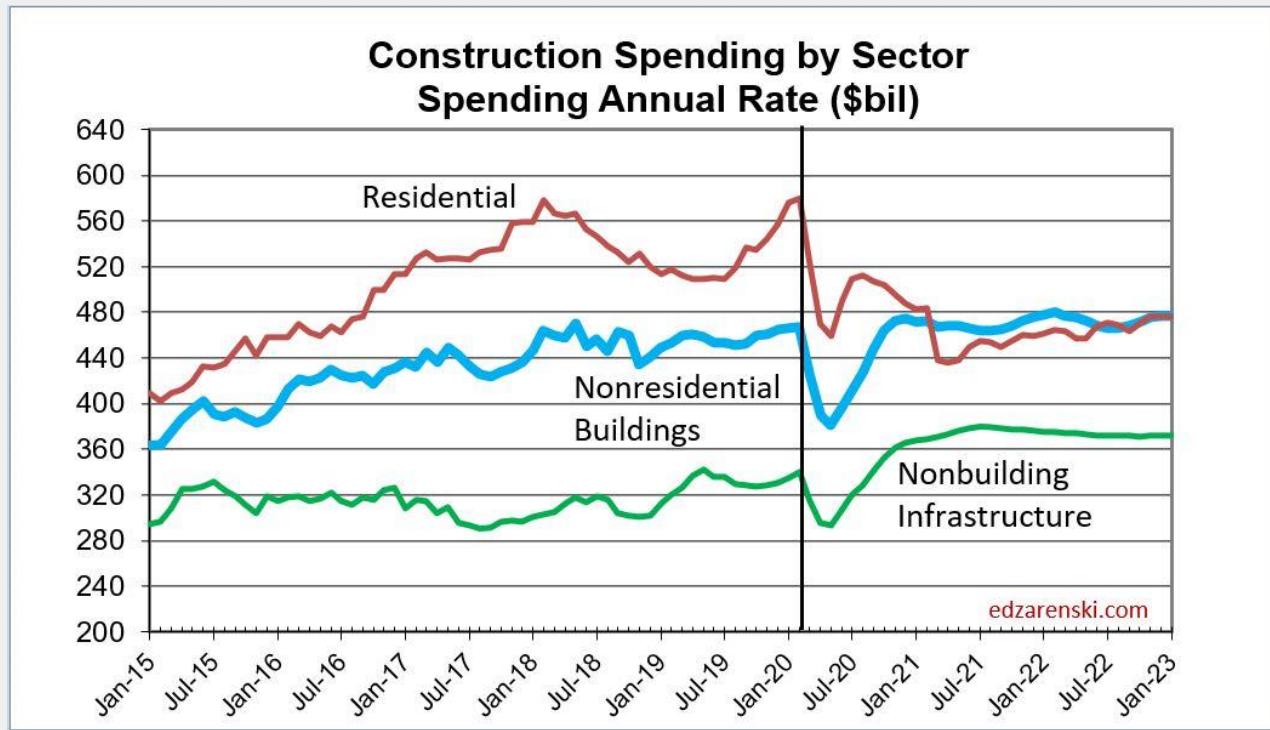
Perpetuation Planning

Contractual Risk Transfer & Subcontractor Qualifications

Financial Stability



# Construction Spending



- **Residential** - 11% drop in 2020 followed by 18% in 2021
- **Nonresidential Building** - 8% drop in 2020 followed by 2% in 2021
- **Non-Building Infrastructure** – 5% drop in 2020 followed by <1% in 2021

# What we saw during the Great Recession



- **Subcontractors who typically did not bond their projects were being asked to bond back their work.**
- **Public agencies began combining scopes of work, driving up contract values.**
- **Companies that were working in the private/commercial sectors came to the public works market place making bid list more competitive and driving down profits.**
- **Lenders and private owners started requiring more projects to be bonded.**
- **Banks began to pull back on their lending, specifically in construction.**



# What to Expect from your GC's, Surety, and Bank



## GC's

- Bonding back subcontractors more frequently
- Stronger contract language passed down to subs
- Stringent review of subcontractors financial statements

## Surety

- Frequent financial reporting
- Continued review of work in progress
- Understanding of PPP loan forgiveness
- Status of Bank Line of Credit renewals

## Banks

- Frequent financial reporting
- Strict review of borrowing covenants
- Diversification of receivables



# What is Working Capital



Whether you are trying to qualify for a surety bond, borrow money from a bank, or just run your business, it is key to have quality Company Financial Statements. More important than being able to generate a financial statement, is being able to understand them.

**Working Capital** - is a measure of both a company's efficiency and its short-term financial health. Working capital is calculated as:

**Working Capital = Current Assets - Current Liabilities**

**Working Capital Ratio** - Indicates whether there is enough short turn assets to cover its short term debt.

**(Current Assets/Current Liabilities)**

Below 1 indicates negative Working Capital, anything over 2 means that the company is not investing excess assets. Most believe that a ratio between 1.2 and 2.0 is sufficient.

# Keys to Working Capital



## Keys to Working Capital

- **Current Assets**

1. Cash
2. Accounts Receivable/Retention
3. Underbillings

- **Current Liabilities**

1. Line of Credit
2. Current Portion of Long-Term Debt
3. Accounts Payable
4. Overbillings



# Working Capital Focal Points



- **Cash Cash Cash !**
- **Receivables vs. Payables and Current Bank Debt**
  - Do you have quality receivables to pay all your payables and bank debt.
- **Retention vs. Profit of Project**
  - Ex. If you have 5% retention and your profit is only 7%, then you only have 2% to cashflow your company until the retention is collected.
- **Late Stage Underbillings**
  - Underbillings when a project is almost complete can raise questions on the ability to collect them.
- **Bank Line Of Credit Usage**
  - Subs tend to be in and out of their lines more often GC's typically should not utilize their line
  - Evaluate the cost of bank debt by looking at your Interest Expense

# Other Financial Focal Points



- **Profit vs. Overhead**

- If profit margins are going down are adjustments being made to overhead.

- **Backlog Delays vs. Overhead**

- As annual revenue goes down are overhead adjustments being made.

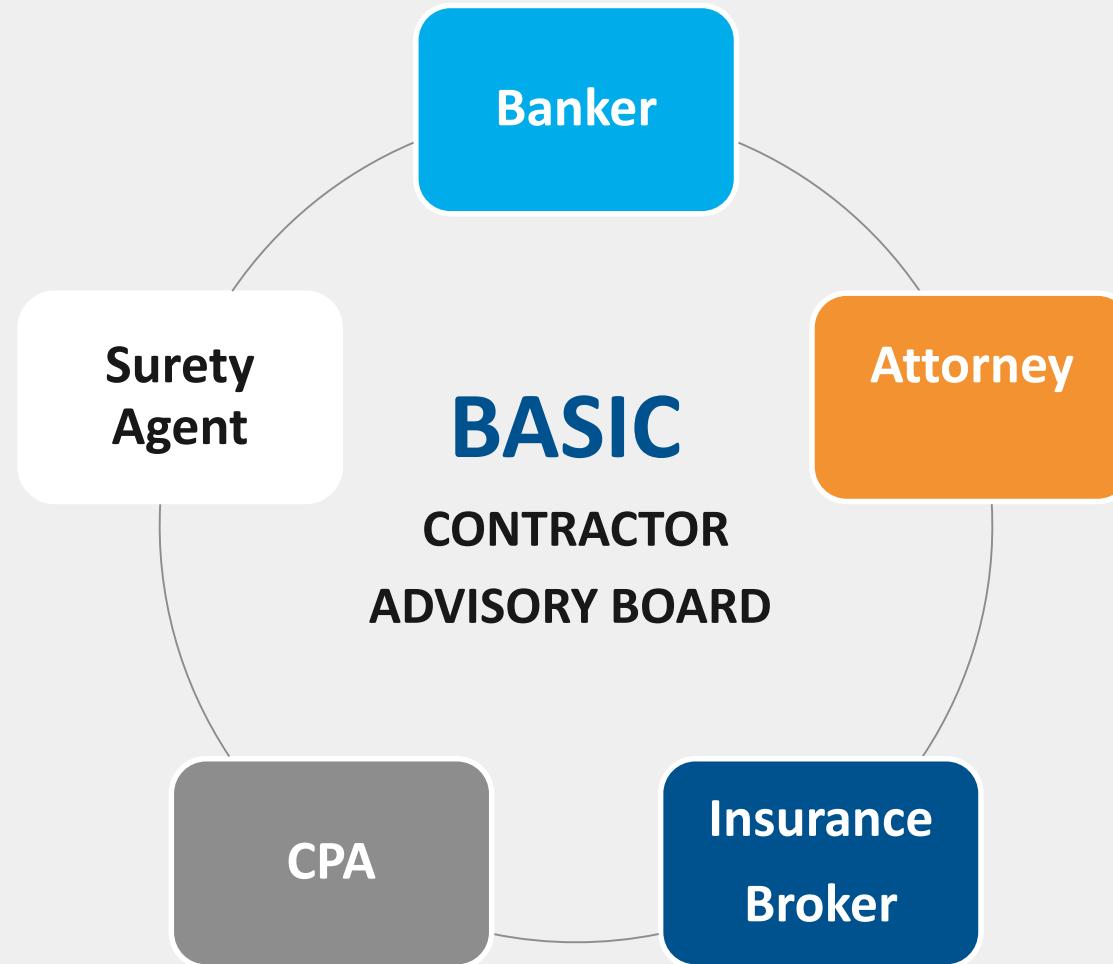
- **Work in Progress (Backlog) vs. Cashflow**

- Understanding current and future backlog as it relates to cashflow.

- **Life after PPP or life without PPP**

- What does cashflow and capital look like down the road.
- Positioning to bring in future capital if needed.

# BASIC Contractor Advisory Board





## THANK YOU

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