



# Insurance and the Construction Industry

## Things Contractors Should Know

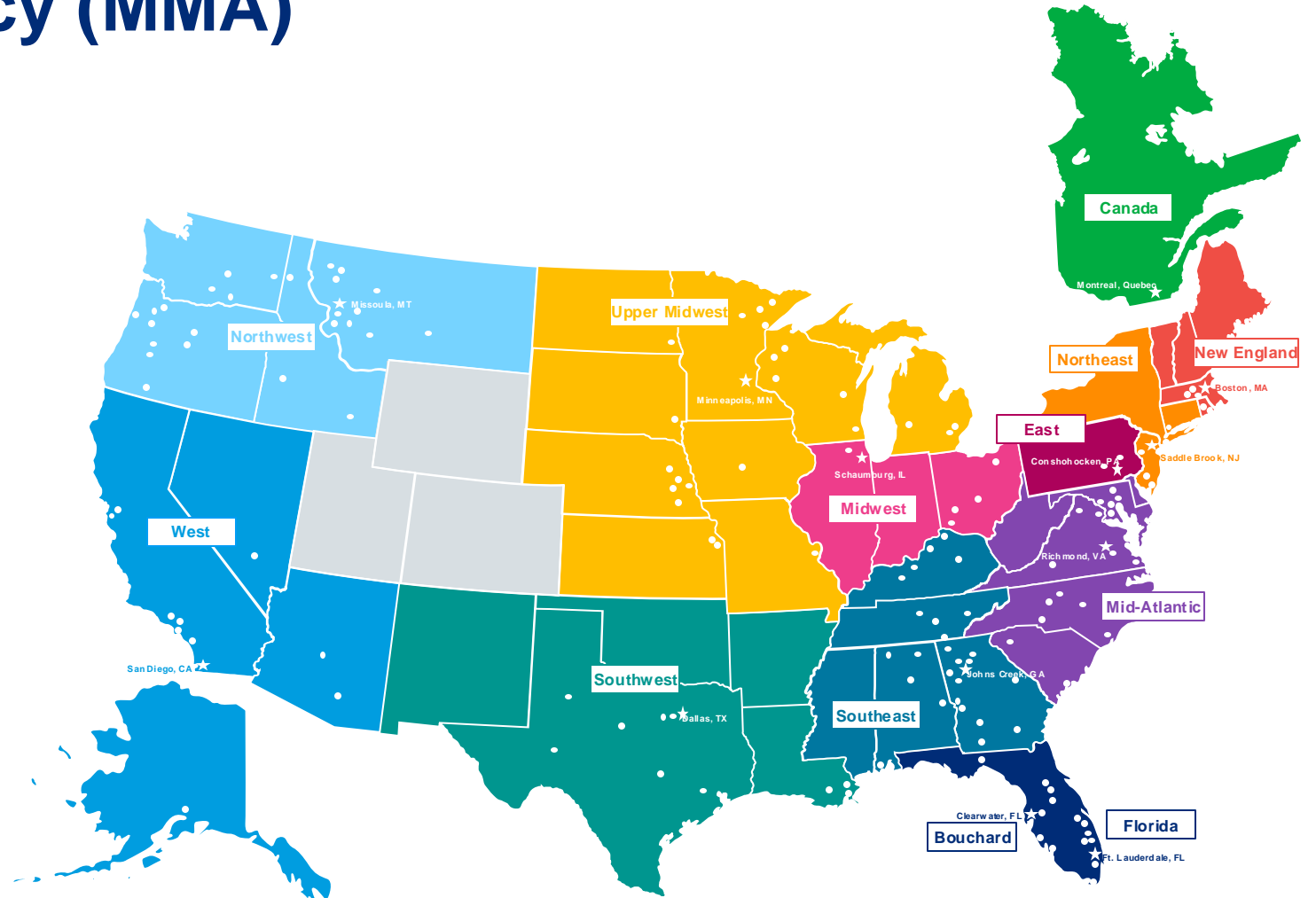
Michael G. Alberico | Senior Vice President, Construction Practice Leader

August 7, 2024

**Your future is limitless.<sup>SM</sup>**

# Marsh McLennan Agency (MMA)

- Division of Marsh McLennan Companies (World's Largest Insurance Brokerage \$23.2B)
- 170+ Locations Nationally
- 10,000+ Associates across 12 Regions (Nationally)
- Midwest Region
  - IL, IN, OH
  - 1,000+ associates
  - ***Construction is our largest practice***



# Fostering an Award-Winning Culture

By the Numbers



Our company is consistently voted as a best place to work in the nation

We invest heavily and are actively involved in bettering our communities



Diversity, equity and inclusion are baked into our company culture

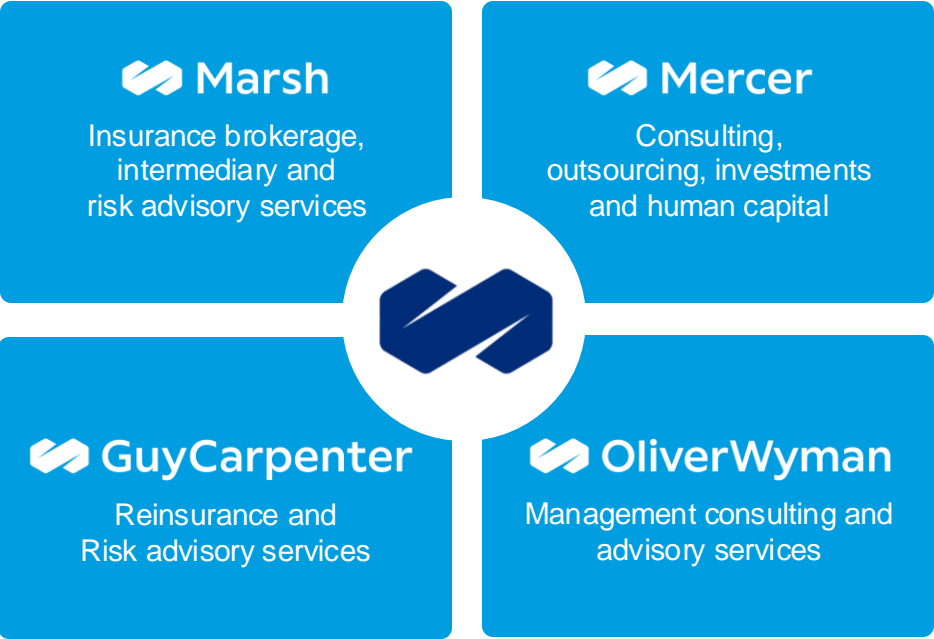
**BEST AND  
BRIGHTEST**  
COMPANIES  
TO WORK FOR  
**IN THE NATION  
WINNER 2023**



**BEST  
EMPLOYERS  
IN OHIO**  
2023 CRAIN'S CLEVELAND BUSINESS



# The Strength of Marsh McLennan Companies



 **MarshMcLennan**



# Midwest Construction Team Overview

**80+**

Insurance professionals  
dedicated to  
construction clients

**6**

Safety Advocates  
dedicated to  
Construction

**60+**

Years serving the  
construction  
industry

**40+**

Workers' compensation  
carriers

**\$350M**

In premiums

**650+**

Clients nationwide

**6+**

OSHA trainings  
& in-house safety  
team

**100%**

Of team has CRIS  
designation

# Risk management approach

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MMA Midwest has a dedicated risk management department. Through this division we have integrated multiple services into one cohesive unit.







**Facts, thoughts & what's  
driving claim costs**

# Insurance Industry

## Economic Impact

- 2023 employment – 2.975M
  - Second largest employer in IL
- Property & Casualty Premiums - \$857 billion
- Property & Casualty Surplus - \$1 trillion
- Starbucks pays more for employee health insurance than it pays for coffee
- First known insurance contract was signed in 1347
- Cannot have a healthy economy without a healthy insurance industry
  - September 11 attacks
  - Hurricane Katrina
  - Hurricane Ian
- For every dollar paid for insurance, \$.65 goes to pay claims = carrier break-even



# The Insurance Dollar

Cost drivers (claims) are what drive your costs

- All carriers “develop” past claims to calculate a future projection of losses
- Actuarial calculation required by insurance regulators and part of an insurance company’s statutory accounting
- Once loss projection is developed, this is called pure premium
  - Carriers add G&A expense to develop total premium, G&A is usually 32-35%

# The Insurance Dollar

What about carriers' investment earnings? Stock market is rising...

- Insurance companies are heavily regulated
- Insurers have been operating in a relatively zero investment return since Great Financial Crisis
- Rising interest rates since 2022 have had little or no immediate impact

# The Insurance Market

## Hard vs. Soft

### HARD VS. SOFT MARKET CHARACTERISTICS

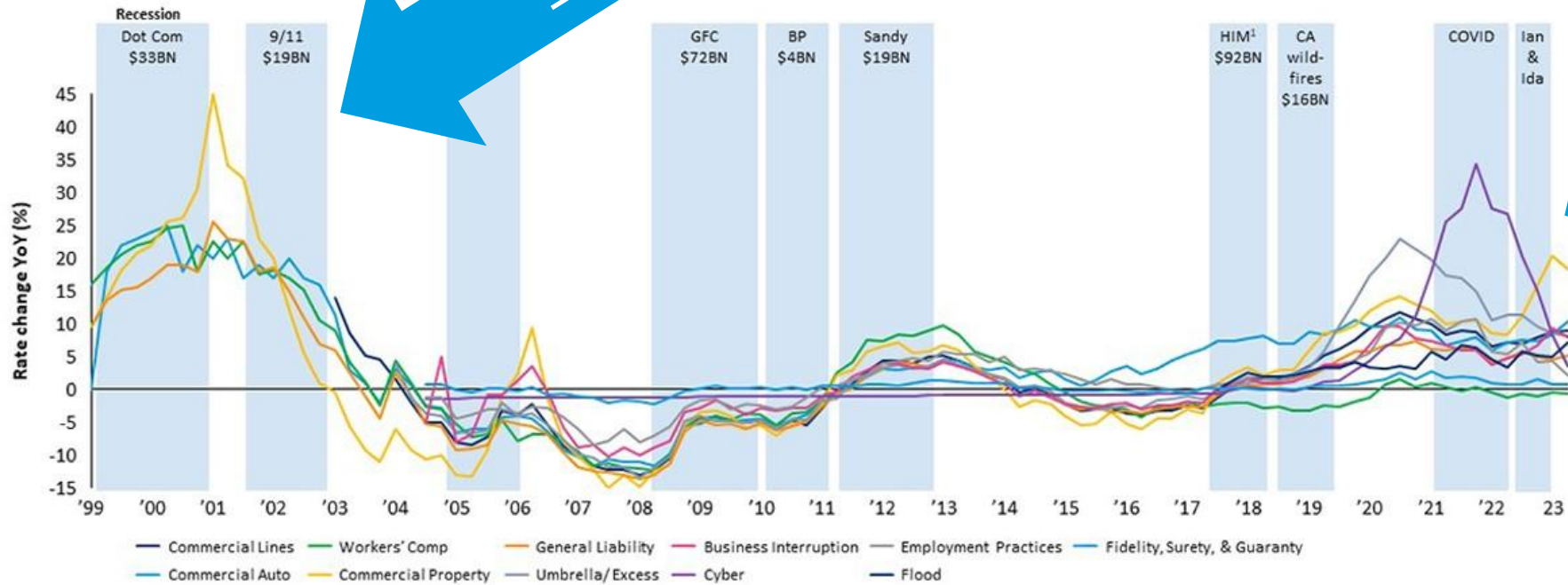


# The Insurance Market Cycle

On its side, it looks like a snake?

**U.S. P&C Rate Changes by Line**

YoY rate change; Q1 1999 – EOY 2022



1. Hurricanes Harvey / Irma / Maria | Notes: Rate changes quoted are on a "same store" basis and do not account for mix shifts  
Source: CIAB Commercial Market Survey, Oliver Wyman analysis

© Oliver Wyman

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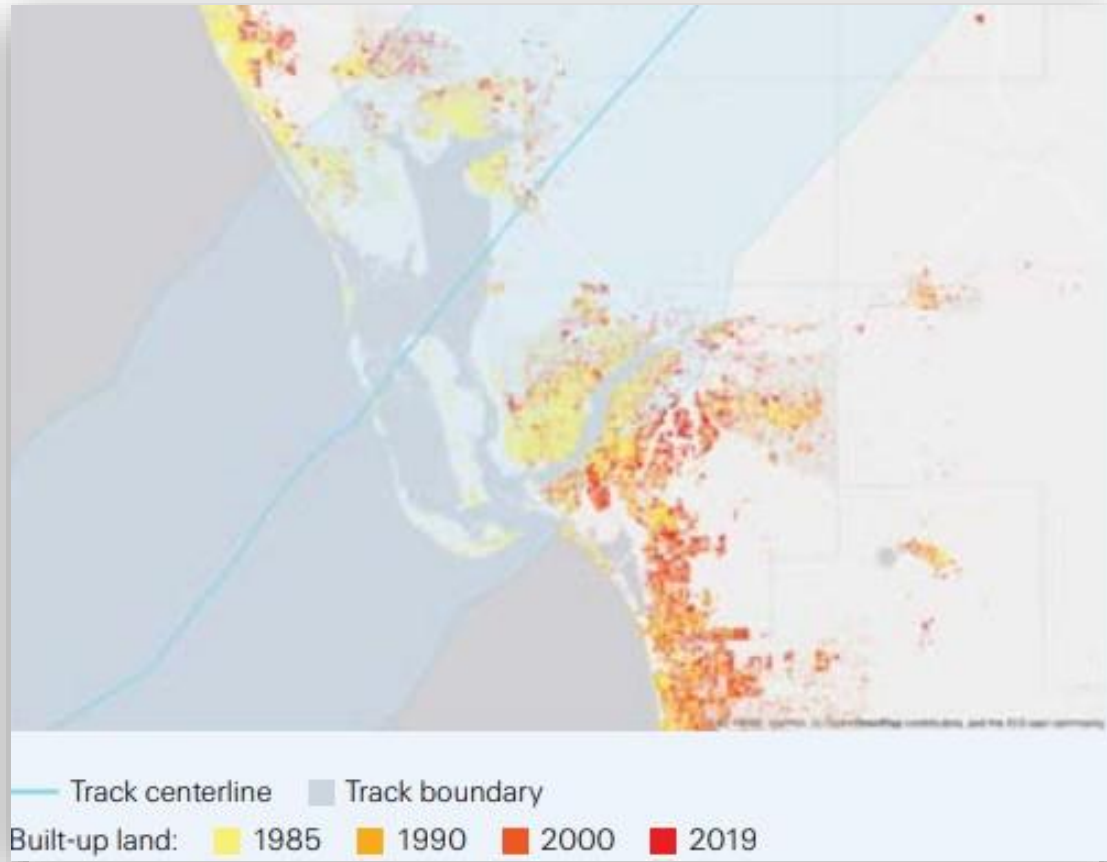
# Challenges Facing the Insurance Industry

## What's impacting claims

- Inflation
- Policyholders' labor shortages
- Insurance to Value (ITV)
- Supply chain issues
- *Weather related risks*
- *Social Inflation*
- Jurisdictional Issues
- Reptilian Theory
- Health Issues of Workers – Co-morbidities
- Reinsurance

# Weather Related Loss Drivers

## Population and Asset Growth



Since 1970:

- 65% - US population growth
- 217% - Florida population growth
- 620% - Hurricane lan landfall area population growth

Source: German Aerospace Center, National Hurricane Center, US Census Bureau, Swiss Re Institute

# Reinsurance

## What is it and how it impacts you

- Reinsurance is an agreement whereby an insurer transfers all or part of a risk to another insurer
- At the 1-1-23 reinsurance renewal (most carriers' treaties renew 1-1), the focus was property
  - Exacerbated by Hurricane Ian, which is now approaching \$80B in insured losses (over \$110B in economic losses)
- Through 2023, reinsurance started to turn the cover on profitability
- Casualty lines have been poor performing for years
  - Auto has seen 48 straight quarters of double-digit rate increases yet it's still unprofitable



# Reinsurance

## Current State of Affairs

- Average annual CAT losses of above \$110 billion since 2017, more than double previous 5 years
- 74% of all global losses come from the US
- 2023 was first year convective storm losses in US exceeded \$50 billion
- 24 separate \$1 billion weather related events

# Social Inflation

## What it is, what's causing it

- Social inflation refers to ways in which insurers' claims costs rise over and above general economic inflation
- People are angrier and more prone and tolerant of litigation
  - Gallup Poll – 38% of people are angry
- Society trusts businesses less
  - 48% of Americans say they have a negative view of business
- The new plaintiff attorneys
  - Effectively unionized
  - PE/litigation funding
  - Reptilian Theory
  - ***New insurance products reduce the risk of going to trial***

# Social Inflation, continued

## What it is, what's causing it

- Legislation and state court decisions
  - Lack of federal tort reform
  - Where tort reform exists, finding loopholes
  - Prejudgment interest and attorney fee shifting laws
- Media outlets and social media are having dramatic impact on public opinion
  - Many Americans indicate they get their news from Facebook and similar sources
  - Social media outlets are all algorithm based, not fact based

# Social Inflation

## The results

- US litigation rate has risen for ninth consecutive year in 2021
- Business automobile
  - Claim costs have increased by \$20 billion over 10 years
  - Losses grew just 1% annually from 2009-14, but grew 10.9% annually from 2015-19
  - Awards and settlements routinely top \$10 million; multiple in excess of \$100 million
- Nuclear verdicts – generally defined as those over \$10 million
  - Verdicts of \$20 million and over rose by 300% in 2019 versus averages from 2001-10
  - Johnson & Johnson \$8 billion verdict in 2019

# Contact Us.



## Website

[MarshMMA.com](http://MarshMMA.com)



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888.429.0999

# Your future is limitless.<sup>SM</sup>

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