

# Construction Contract Works



## State of the Market

The construction insurance market remains challenging, with continued close scrutiny of underwriting coupled with a tightening risk appetite means insureds must retain more risk themselves. As a result of the recent New Zealand weather events, the status of a site in relation to each event needs to be provided in addition to site-specific flood risk analysis and details.








Policy coverage restrictions have stabilised for the time being (three of the main contract works insurers in New Zealand having confirmed they do not have any appetite for offering LEG3/06 Defects exclusion coverage) as have premium and excess increases.

## Looking Ahead

It is expected to be more of the same, however, larger projects that require capacity from overseas insurers to complete the placement could see more punitive terms being applied. It is likely that any restriction in cover will apply to the entire placement.

As a result of the recent extreme weather events, it is our prediction that New Zealand markets will look to introduce separate and higher flood claim deductibles and on large projects, they could look to follow the international market trend of 'flood' forming part of the Natural Disaster perils definition. If this occurs then a value at risk of time of loss (VAROL) deductible would apply to flood claims as it currently does for earthquake claims.

# Contract Works Market Snapshot

Category	Outlook	Commentary
<b>Claims</b>		Large (complex) claims activity on large projects with the risk of fire (again) and now flood firmly on the radar given recent flood losses. Normal activity on all other projects – generally defects and theft.
<b>Pricing</b>		Pressure remains on premium levels and rates.
<b>Limits</b>		Trending downwards and needs to be watched and managed on very large projects to ensure there is sufficient capacity to complete placement.
<b>Deductibles</b>		Pressure on deductibles remains, particularly for larger projects where minimums will apply. Insurers (driven by offshore markets) also looking to apply increased deductibles for water damage, performance testing, and maintenance period claims. More recently, we have seen ‘flood’ being added to the definition of Natural Disaster perils.
<b>Coverage</b>		Current market conditions remain, particularly regarding little insurer appetite for LEG3/06 Defects exclusion coverage and sub-limits, and other extensions are under scrutiny. Insurer expectations around hot work procedures and permits remain and, in many cases, conditions will be added to the policy to enforce them. All insurers introduced in 2022 a Sanctions Clause, Communicable Disease Exclusion and Cyber and Data restrictions and as the exclusions are applied by re-insurers, this often makes the application of the exclusion and their format non-negotiable.
<b>Capacity</b>		Trending downwards and noting that access points into insurers are now also more centralised.
<b>Underwriting</b>		Increased scrutiny and information requirements.