

# XPT Specialty - Q3 2022 State of the Insurance Market



eXpert Partner Team

*Industries of Focus:  
Commercial Transportation  
& Construction*

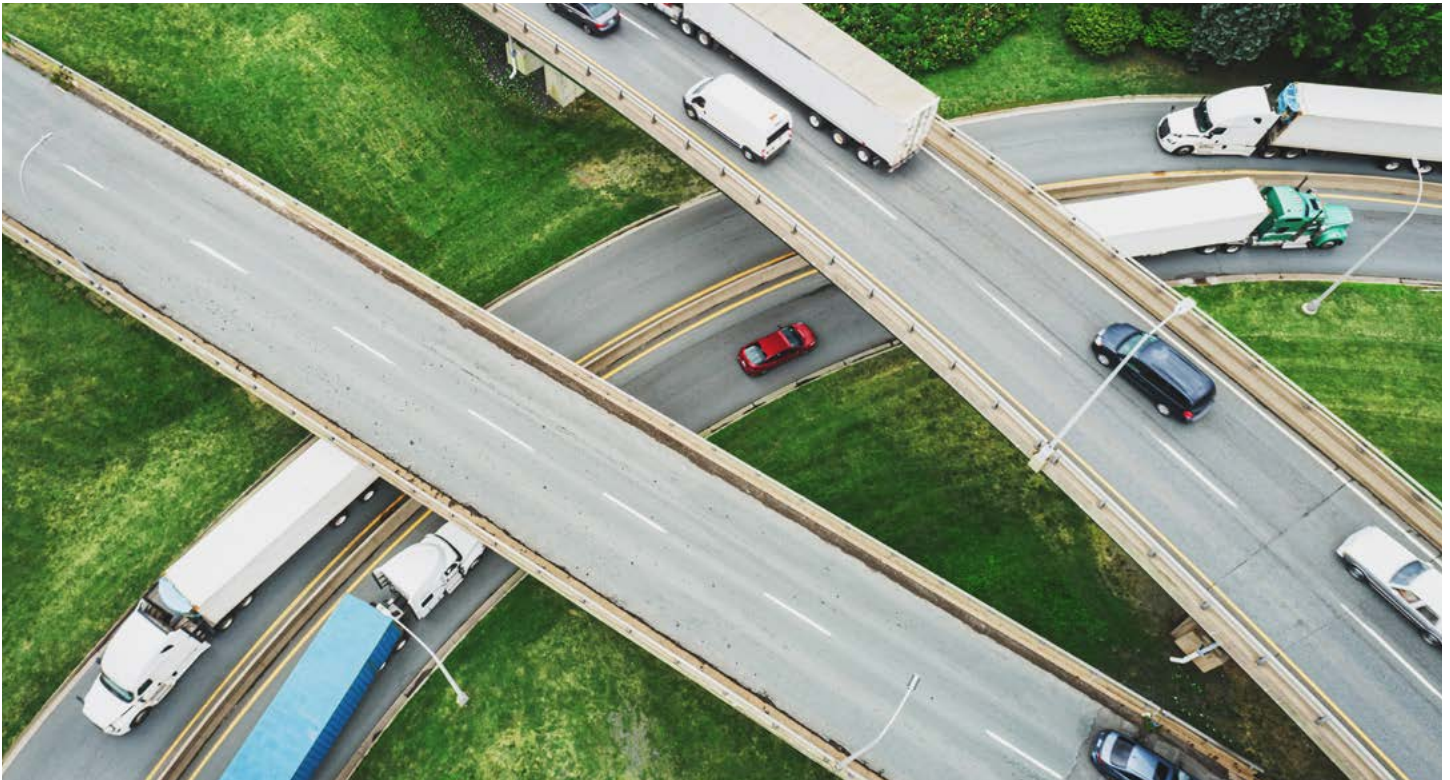


MARKET  
REPORT

**The hard insurance market we are experiencing — characterized by aggressively high premiums, fewer coverage options, tighter underwriting and reduced carrier capacity — is likely to continue through the end of the year.** This is having a profound impact on retail insurance brokers as they navigate their way through the threat of a brewing recession and inflation rates that are their highest in more than 40 years.

At XPT Specialty, the best way for us to serve you, our retail partners, is to examine current market conditions that can impact your business. This is our first market update in what will be a series of industry-focused reports. We look forward to providing ongoing expertise from the specialists who are living it – day in and day out.

In this state-of-the-market report, we deliver professional insight into key trends that are affecting the commercial transportation and construction industries, along with challenges regarding capacity, pricing, claims and cyber liability.



## INDUSTRY FOCUS: COMMERCIAL TRANSPORTATION

### *General Market Trends*

Over the past five to eight years, the transportation insurance industry has experienced a hard market climate and continues to do so. This can be attributed to several factors stemming from COVID-19 and supply chain challenges, as well as changes in the Federal Motor Carrier

Safety Administration's (FMCSA) Compliance Safety and Accountability Regulations 2010 (CSA 2010).

The increase in litigation claims has become extremely problematic. "I would have to say that litigation and large payouts are by far the biggest issues that the



## The FMCSA Compliance Safety and Accountability Regulations includes:

- ✓ A new measurement system
- ✓ A broader array of interventions with motor carriers
- ✓ A new approach to Safety Fitness Determination (SFD)

transportation industry is trying to solve today,” said Ben Booker, VP of National Transportation for XPT Specialty. “Huge payouts have motor carriers recognizing that in order to remain profitable, they need to have more skin in the game. Unfortunately, this has resulted in increased rates, a shift in appetites and higher deductibles.”

As the industry grapples with less capacity and higher rates, transparency between a wholesaler and retail broker is paramount. “The last thing a broker wants to hear the day before a renewal is that they are looking at a 25% to 50% rate increase,” said Landon Parnell, Group Executive VP for XPT Specialty. “At the end of the day, bad news is bad news. However, the sooner we can communicate these market changes and challenges to our clients, the better chance they have of weathering the storm.”

### Capacity and Pricing

“Typically, on an average risk, we are seeing a minimum premium of \$10,000 per truck. This increase in pricing has made it difficult for trucking companies to find brokers who can help them navigate the market from a profitability perspective,” said Booker. To secure the necessary coverage at an affordable premium, companies will need to get creative with their traditional insurance program, which means increasing deductibles and taking on more risk by adjusting policy limits.

Currently, we are seeing excess capacity in the physical damage and motor truck cargo space growing, along with auto liability. Unfortunately, with so many new carriers entering the transportation market and creating new products and programs, the more established carriers are being severely undercut. Today there are a lot more insurers creating products than ever before, and it remains to be seen just how long these newer carriers will be able to sustain this type of business model.

Technology is another driver behind some of the decision-making processes that three or four years ago didn't exist. Today, the vast amounts of data being made available

to carriers has revealed risk exposures that weren't previously visible. This continues to be a contributing factor in tighter carrier capacity and higher rates.

The final word on capacity and pricing is that the industry currently has no predictability. “Today, a trucking company has no idea whether a given carrier will charge it \$25,000 a unit or \$5,000 a unit for the same exact risk,” said Parnell. “We recognize that isn't an ideal situation, and that's why it is so critical for retail brokers to work with a wholesaler that understands what a business is up against.”

### Claims

The multitude of rules and regulations that accompany CSA 2010 has not only led to an unprecedented number of litigation claims, but also to an increase of nuclear verdicts (verdicts that exceed \$10 million). Key drivers behind the uptick in litigation awards can be attributed to savvy legal strategies from plaintiffs' attorneys who appear to be one step ahead of CSA 2010's compliance regulations.

*An influx of new carriers in the non-fleet space has provided smaller accounts with greater flexibility and pricing, as well as more program availability. However, for larger fleet risks, brokers are looking at a completely different capacity and pricing environment as long-term carriers are faced with more disciplinary decision-making considerations to make an underwriting profit.*

“To better adjudicate these types of claims, adjusters are broadening their investigating processes to the fullest extent,” said Erika Specia-Anderson, Co-Founder and CEO at EMA Risk Services, a claims processing partner with XPT. “Considering all the arguments available to the insured and the defense, adjusters are reviewing every detail to ensure that all available defenses are argued, and the burden of proof has been met to ensure damage awards are appropriate.”

*The industry is experiencing a disproportionate response to claims, exceeding what is considered reasonable damage awards.*

Claims related to the ongoing labor shortage aren't anything new in the transportation industry. In fact, companies have always faced driver-related challenges. However, we are seeing technology assist carriers and companies in putting solutions in place that are making it easier to manage, train, educate and hire qualified drivers. As a result, companies are finding themselves in a better position for preventing and mitigating driver-related risks.

### Cyber Liability

Premiums for cyber liability insurance in the transportation industry have increased dramatically. These increases, in addition to growing capacity issues, are resulting in fewer businesses opting for cyber liability coverage (despite the growing need).

We hope to see this situation turn around soon, allowing both large and small transportation companies to secure this vital coverage.

### Transportation Conclusion

At XPT, we recognize the challenges facing the transportation industry. It's why we make the time to analyze and understand current market conditions and work closely with our retail broker partners, helping them secure the coverage they need to better serve commercial policyholders.

“What separates XPT from other wholesalers is that we approach every account with the individuality that it requires,” said Parnell. “We recognize that the state of this market requires having a different conversation with each and every account, because it simply isn't a one-size-fits-all environment.”





## INDUSTRY FOCUS: CONSTRUCTION

### General Market Trends

The commercial construction industry has experienced two consecutive years of decreased spending, primarily due to COVID-19. Today, however, we are seeing the nonresidential side of the industry gain momentum, with a predicted 7% to 10% growth rate that could extend well into 2023. On the residential construction side, growth has remained steady over the past 24 months, and all indications show this trend will continue.

A major challenge in the construction industry is the skilled labor shortage. A number of individuals are retiring, and companies are finding it difficult to fill those jobs with younger workers who have the required experience or are willing to be trained. In addition, jobs in the construction industry are often viewed by the public as low-paying positions that involve only hard labor.

### Capacity and Pricing

While pricing and capacity for general liability appear to be stable, property and inland marine are experiencing capacity and pricing challenges that a year ago didn't exist.

"Currently, we are seeing increased requirements that are being forced onto insureds by banks and other sources to carry higher inland marine and blanket coverage," said Lynn Bertram, Senior Broker/Underwriter, XPT Specialty.

Ongoing supply chain issues have also impacted the builders' risk market, as delays in materials are preventing projects from being completed in a timely manner. As a result, finding a market for a midterm builders' risk policy has become increasingly problematic as well as expensive, as carriers prefer not to stay on a project longer than planned.

### Claims

A byproduct of the skilled labor shortage has been the increase in claims. Today, having fewer workers on a job means that one person must do the work that would typically require two or more people. "When you have people who are working harder and putting in longer hours to meet a project deadline, mistakes are going to be made," said Kaufman. "This has led to an increase in workers' compensation claims as well as construction defect claims."

*"As a whole, the industry needs to do a better job of marketing to younger generations – presenting positions in construction as opportunities to learn new skills," said Mark Kaufman, Regional Executive VP at XPT Specialty. "Until we get to that point, filling positions with good people will be a problem."*

Inflation and an unsteady economy have also become key factors in the increase of construction-related claims. For example, as carriers are forced to increase rates, it has become difficult for subcontractors being brought onto a project to secure an affordable policy. “We are finding that some of the smaller artisan contractors just aren’t carrying the coverage or limits they should,” said Bertram. “General contractors are at risk of a lawsuit when the subcontractors they hire aren’t properly insured or, in some cases, have no insurance at all due to a lapse in coverage.”

Supply chain issues are also impacting claims, preventing repairs from being made in a timely manner because the delivery of building materials is delayed. This affects general contractors’ ability to repair fleet vehicles as quickly as needed. “In an economy where contractors are trying to keep their businesses operating at a profit, supply chain challenges are preventing vehicles from getting back to the job site and, in turn, causing a delay in claims payments and repairs,” said Kaufman.

Inflation, supply chain issues, and an unsteady economy are key factors in the rise of construction-related claims.

### Cyber Liability

Larger construction companies — with their valuable intellectual property, building specifications, personally identifiable employee information, and multiple devices on job sites — are prime targets for hackers. However, smaller contractors are also exposed to cybersecurity risks. “We have experienced incidents where hackers gained access to a smaller contractor’s company information through their customer’s network that had

been compromised,” said Bertram. “In truth, any construction operation that uses laptops or other electronics to conduct business has a cybersecurity exposure, as devices can be easily misplaced or stolen out of vehicles.”

Despite the growing need for cyber liability insurance, smaller construction businesses continue to be more resistant to securing coverage, primarily due to being more premium-sensitive than larger companies. The good news is more carriers have created online platforms that are making it easy for contractors to add cyber liability coverage to their general liability (GL) when renewing or obtaining a quote. “If anything, just presenting an option of adding cyber liability onto a GL policy raises awareness regarding the potential risk and provides an opportunity for the retailer to have a conversation with their policyholder,” said Bertram.

### Construction Conclusion

As hard market conditions continue, underwriters are having to take more time and be more selective in the quoting and new business application process. For this reason, it is critical for brokers to supply as much upfront information about a submission as possible. “So many systems need to be in place to determine if a risk is worth writing, and once that has been completed, there is the challenge of finding coverage in a shrinking market,” said Kaufman.

As more opportunities for new projects become available, the greater a contractor’s exposure becomes. And while more business is a good thing, it can be difficult for retailers to accept the fact that insurance is simply going to cost their clients more. At XPT Specialty, we help our retailers better understand shifting market conditions through transparency and communication. This allows them to have a more informed conversation with their insureds so they can determine the right coverage at the right price.



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As the previous President of LP Risk, Landon Parnell achieved great success developing technical knowledge with underwriters and market relationships with brokers, while making service the main priority. LP Risk joined XPT in 2020, and as Group Executive Vice President, Landon has strengthened XPT's knowledge of the transportation industry while growing other industries including environmental, construction, manufacturing, ocean marine, hospitality and oil & energy.



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Ben Booker is Vice President of XPT's National Transportation Practice Group, with more than 10 years of transportation industry experience. As a leader in Transportation, Ben has grown a team focused on collaboration and improved product offerings through knowledge and exclusive programs. Ben and XPT's transportation division offer products and services designed to navigate unexpected hazards, mitigate and transfer risk, and reduce costs and expenses.



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Mark Kaufman began his insurance career over 38 years ago and now serves as XPT's Regional Executive Vice President. Over the past few years, Mark has been at the helm of XPT's industry-leading organic growth throughout southern California. Mark has successfully grown the broker/underwriter team, allowing for a collaborative environment to deliver more products, expertise, opportunities and superior service to our retail and carrier partners through one Expert Partner Team.



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Lynn Bertram is a Senior Broker/Underwriter in the Commercial Lines Department with over 18 years of experience. Lynn has extensive knowledge in Commercial Property & Casualty, including contractor, earthquake, habitational and product risks. Lynn can handle your late, Friday afternoon "need to bind yesterday" submissions! She loves writing difficult submissions that have a tight turnaround time.

## XPT SPECIALTY

### *As dedicated to your success as you are*

Every broker at XPT has the deep industry expertise needed to find the best coverage for your clients – from construction to transportation and more. Working together as a team, our specialists have the combined skills to help you find solutions to problems when other wholesalers can't. We do this by working closely with you, our retail partners, to better understand the specific needs of each insured and risk — including tough, hard-to-place accounts.

To us, having access to insurance products isn't enough; it is how you deploy them that really counts. From the moment you reach out for a quote to the day we close the deal — and while binding, securing coverage and managing the insured through the service life cycle — we'll be at your side, working hard to prevent disruptions before they happen. This process allows us to get you the best quotes quicker and find solutions to your challenges sooner, so you can provide differentiating service to your own clients.

At every step, the expert teams at XPT are here to help you navigate the complexity of the market and provide you with ongoing support. From brokerage to underwriting, you can be confident that our specialists will work as hard as required to find your clients the very best coverage at the best possible price.

For additional information, visit [xptspecialty.com](http://xptspecialty.com) or email [info@xptpartnersllc.com](mailto:info@xptpartnersllc.com).

**Contact your broker or underwriter today**  
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