



Issue Date: JULY 2007, Posted On: 7/2/2007

## Standing tall in the competition for contractors

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The construction industry is a major pillar of the nation's economy. According to figures from the U.S. Department of Commerce, construction spending during April was at a seasonally adjusted annual rate of \$1.19 trillion. A great deal of insurance is needed to back such an enormous amount of activity, and numerous brokers have arisen over the years to provide it.

One is Allied North America, a national privately held broker that focuses exclusively on the construction industry. I'm senior vice president of Allied's St. Louis office, one of 17 the broker has around the country. In this article, I'll outline our approach to business.

### Developing accounts

We deal with large accounts, primarily general contractors and sizable trade contractors. Our minimum-revenue target is roughly \$25,000. Our feeling is that since it takes just as much work to obtain and service a \$5,000 account as it does a \$50,000 account, why not focus on the latter? Out of our St. Louis

office, we have perhaps just 30 accounts. But their needs keep our staff of 22 fully engaged.

Individual offices of Allied North America are not confined to specific territories. For instance, although I'm based in St. Louis, my clients have included contractors for The Meadowlands Sports Complex in East Rutherford, N.J., and the Second Avenue subway in New York. In our organization, relationships determine a producer's accounts more than geography does.

Many of those relationships are developed through involvement in industry trade groups, including the Associated General Contractors, the Construction Financial Management Association and the American Subcontractors Association. I'm a member of the AGC's National Risk Management and Surety Committee, a group of about 125 contractors, risk managers, underwriters and brokers from around the country. Every year in January, we get together for a week in Longboat Key, Florida, to review issues facing the construction industry.

Centers of influence, including CPAs who specialize in construction accounting, also help us initiate relationships with contractors. Moves within the construction industry also give us opportunities to develop new business. For instance, a risk manager at one of our accounts might join a different construction company and then give us a call: "Look, I'm at this new place, and I'm not real happy with what we have. Can we get together and talk?"

In addition to cultivating relationships, we use targeted advertising to help market ourselves. We do quite a bit of print advertising in the "Engineering News-Record" and other major national industry trade journals, as well as in various regional construction and surety publications.

Rather than bid for accounts, we prefer "process selling," where we get to know a prospect's business, determine their insurance and risk management needs, and decide whether we're a good match for them. Then, when an opportunity arises to cover a specific project or the contractor's entire practice, we make our proposal. It can take two years or longer to get to that point with a given contractor.

In targeting accounts, we consider not only their size but also the type of work they take on. Difficult, complex construction projects give us an opportunity to showcase our capabilities and differentiate ourselves from competitors. Such projects include those with environmental risks, like underground tunnels. Even high-rise residential projects can pose difficulties because of the construction defects risk. The location of contractors' projects also can present problems. In catastrophe-prone areas, like Florida or the Gulf Coast, obtaining builders risk or other forms of property insurance can be a challenge.

### A multiplicity of markets

Construction companies tend to select us for, among other reasons, our ability to access practically any kind of market. For instance, we have a strategic relationship with Jardine Lloyd Thompson, one of the largest London brokers. At the end of the day, a tough risk usually ends up in London, so we say, "Why don't you start there to begin with?"

We also have direct relationships with reinsurers—including those of the Berkshire Hathaway Reinsurance Group, Munich Re and the Bermuda markets. Often, we'll act as a "marriage broker"—putting a reinsurer in contact with the

contractor's primary carrier. The reinsurer will then dedicate specific capacity to the primary insurer to accommodate a project or practice. We've also arranged to have reinsurers provide coverage for a client's captive. We've found that our ability to tap the reinsurance markets—to present a risk directly to these decision-makers, rather than be two or three people removed from them—is a big reason for our success.

Quite a few of our clients engage in design/build work. A contractor who takes the lead in such work becomes responsible for architectural services as well as the actual construction. Owners like this approach because it creates a so-called "single point of responsibility," which can help keep their projects on schedule and within budget, while minimizing conflicts between contractors and design professionals. I've seen design/build—once reserved for the largest projects—used for senior living centers and schools with construction values as low as \$10 million or \$15 million. Design/build work creates professional liability exposures for contractors. To address it, we obtain coverage from Victor O. Schinnerer, among other markets.

In addition to market access, our strengths include the ability to analyze a contractor's coverage needs. Contractors usually allow us to look over their current insurance policies. In examining them, one of the most common problems we see these days is a broadly worded exclusion for residential work in commercial general liability policies. The definition of "residential" may be so broad that it encompasses hotels, motels and student housing. Some carriers practically say that if someone puts their head on a pillow in a completed project, it's "residential." If you're a plumbing contractor working on a college dorm and your coverage has such a residential exclusion, you've got a problem. Some CGL policies also exclude coverage for punitive damages, which can be problematic, depending on where a claim might be adjudicated.

In regard to builders risk policies, the biggest problem we see is in the determination of when coverage ceases. In a typical off-the-shelf policy, coverage ends with occupancy. But in many projects, partial occupancy can take place while a contractor is still working on parts of the structure. In such a case, the contractors can still bear the full risk of loss without having any coverage for it.

When taking accounts to the insurance markets, we help them complete all the standard applications, obtain their financial statements, secure five years' worth of historically valued loss runs, and determine what deductible levels might make economic sense in light of those loss runs. But besides gathering all this and other routine information, we prepare a narrative that gives underwriters an overview that goes beyond such facts and figures. We get into how a client approaches the construction process. The overview might address such questions as: How do they view contracts and ensure they are not taking on more contractual risk than necessary? How do they ensure that they have all necessary materials and trade labor lined up for a project? What are their procedures for resolving conflicts with project owners or architects? How sound are their internal quality-control procedures? How qualified and experienced are their supervisors and other members of the project management team?

We try to present this information clearly and succinctly. We don't just throw underwriters a bunch of data and say, "Give me a quote." Rather, we try to give them general guidelines about how the program might be structured and an indication of where pricing might be. Our approach to the market is more laser than shotgun. We contact only those markets that we know have an appetite for the business we present and the ability to handle it. Typically, we approach four or five markets; sometimes only two.

I'd describe the current market for contractors working on commercial projects as guardedly competitive. While not seeing the price reductions that other risks are, general contractors and trade contractors with routine practices are definitely paying less for coverage these days. Barring a nasty hurricane season or a 9/11-like event, I expect the market will continue to soften and become more competitive.

Home developers and pure residential contractors, on the other hand, continue to face difficult market conditions. They have to demonstrate that they have first-rate quality control procedures to ensure that exterior insulation finishing systems (EIFS) are properly installed and to combat water intrusion and mold—all the sorts of things that plaintiffs' attorneys have decided are their new "asbestos."

Whether contractors do residential or commercial work, the market requires them to have aggressive loss control procedures and post-loss investigation processes. They want contractors who will take an aggressive "lessons learned" approach. The idea is to investigate a problem, determine its cause and then widely disseminate the remedy to prevent a recurrence. Proactive loss control, in which contractors' safety directors (or insurer or third-party loss control specialists) hold "tailgate meetings" with workers on job sites, are encouraged. For example, such a meeting might review how workers are to properly tie themselves off and prevent falls before going to work several stories up. We have a division, American Safety Consultants, that operates nationwide and provides virtually any safety or loss control service our clients require on a fee-for-service basis.

Once we get the opportunity to work on an account, we assemble a service team. It might include myself and one of our senior account executives, among others. To the degree possible, we try to match the personalities of those on the team to those of the clients, while adjusting for workloads, of course. One person on our team ensures that certificates of insurance are issued promptly, a critical need for contractors. We also review clients' contracts, primarily to ensure

clients are in compliance with any insurance conditions in them. We also check indemnification and hold-harmless provisions in contracts between our clients and subcontractors, to ensure they are enforceable and properly protect our clients for subcontractors' negligence. We also have two full-time claims people in our office to assist clients. One deals only with marine-related claims and the other handles everything else. They become involved in difficult claims, particularly those that result in litigation. We also have access to a complete line of contract surety bonds and related services through our parent organization.

Working with large general contractors and trade contractors is essentially a specialty within a specialty. To be successful in it, a broker has to be as immersed in the industry as the contractors are, must have access to markets across the globe and be able to provide a comprehensive array of products and services. That, in a nutshell, is also a fairly accurate description of Allied North America.

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