

# Markel Construction

Understanding the risks of the construction sector to drive growth in challenging times



# Construction Sector Proposition Research

The construction sector is largely comprised of SME businesses.

ONS data shows that in 2020 there were over 340,000 construction sector businesses in the UK. In May 2022, the ONS reported growth in output volume for the seventh consecutive month.

The majority of construction businesses fall into the SME category with 1-24 employees.

The largest categories for these businesses include:

- ✓ House builders (47,500)
- ✓ Civil engineering (25,000)
- ✓ Electrical services (45,500)
- ✓ Plumbing and air conditioning (38,500)
- ✓ Joinery related (26,000)
- ✓ With the remaining spread across a range of specialist trades

We interviewed 20 SME businesses in 60 minute zoom interviews.

Job title	Insurer	Method of purchase	Construction services provided	Turnover	Number of employees	Region
Director	Direct Line	Broker/Agent	Construction	500–1m	1–5	West Midlands
Director	Zurich, RSA & Aviva	Broker/Agent	Construction	1m–5m	1–5	Gtr London
Owner/Director	Direct Line	Comparison Website	Construction	500–1m	5–10	North West
Managing Director	Zurich	Broker/Agent	Construction	1m–5m	5–10	Gtr London
Director	Chubb European Group	Broker/Agent	Scaffolding	1m–5m	11–30	North West
Director	AIG	Broker/Agent	Fitters	1m–5m	1–5	West Midlands
Director	AXA	Direct with Insurer	Construction	1m–5m	11–30	West Midlands
Managing Director	AXA	Direct with Insurer	Construction	More than 5m	11–30	Essex
Partner	Ernest R Shaw	Broker/Agent	Construction	1m–5m	1–5	South West
Director	Zurich	Broker/Agent	Commercial Construction	More than 5m	11–30	South West
Owner/Director	Aviva	Broker/Agent	Housebuilding	More than 5m	11–30	North West
HR Director	Aviva	Direct with Insurer	Refurbishments/ plumbing/heating	More than 5m	11–30	Gtr London
Director	Direct Line	Direct with Insurer	Heating/plumbing	500–1m	1–4	South West
Owner/Director	Direct Line	Comparison Website	Construction	1m–5m	1–5	North West
Director	Covea	Broker/Agent	Groundworks	1m–5m	11–30	South West
Business Owner	Aviva	Direct with Insurer	Electrical	500–1m	1–5	Gtr London
Admin	Allianz	Broker/Agent	Construction	More than 5m	More than 30	South West
Director	HSBC	Direct with Insurer	Plumbing/heating	1m–5m	11–30	West Midlands
Director	Niceic	Broker	Electrical	1m–5m	5–10	South West
Owner/Director	Lloyds Bank	Directly to Lloyds	Construction	1m–5m	5–11	South East

We conducted interviews with 20 brokers from around the UK of various size and speciality.

Role at brokerage	Broker Type	Region
Account Director	Small independent	South East
Commercial Account Executive	Network Broker	Midlands
Director	Appointed Representative	Scotland
Associate Director	Small independent	East
Branch Manager	Small independent	Midlands
Broking Director	Small independent	Midlands
Director	Large independent	South West
Group Broking Director	Large independent	North East
Director	Large independent	South East
Account Executive	Network Broker	Midlands
Managing Director	Small independent	North East
Director	Small independent	North West
Broking Manager	Large independent	South West
Associate Director	Small independent	N/A
Broking Manager	Large independent broker	Midlands
Broking Manager	Large national broker	Midlands
Partner	Large independent broker	North West
Technical Director	Large Insurance Brokers	North West
Regional Managing Director	Large national broker	South West
Group Risk Officer	Large independent	South West

Interviews were conducted by Microsoft Teams, duration up to 60 minutes in June and July 2022.

## Understanding Construction

- Construction is widely understood as contractors/ trades, with some describing construction as the 'worker' trades rather than the professional side of building (e.g. engineers, architects).
- A number of areas overlap with construction – such as property development/real estate, fleet and professional services.

Construction =  
Contractors/Trades



### Private client/HNW

(e.g. high value building projects)



### Fleet

(e.g. vans)



### Property development/ Real Estate



### Professional services

(e.g. in-house surveyor, designer)



### Design and Construct

# Construction has experienced growth, but is entering less certain times.

Construction industry remains a growth industry in the medium/short term, some report a 'covid bubble' where the sector experienced growth whilst other sectors hit hard times. The growth has continued in 2022 when this research was conducted.

- Large scale commercial building projects taking part across the UK – mentioned by contractors and by brokers alike. Work ripples down to the SME sector.
- SME building contractors also talk about the turnover growth they have experienced in the last few years – but growth in turnover is artificially inflated by cost of materials, which can also impact on GWP.
- SME businesses do express some caution about the future, particularly those working with domestic clients. Cost of living may start to have an impact and clients and concern about passing on higher prices due to rising costs of wages and materials.



The sector has experienced growth over the past few years, but the economic conditions do raise questions about future stability, particularly for SME businesses and there have been some high profile liquidations in the industry.

## Challenges are consistently felt across the sector.



## Rising cost of materials and fuel impacts on ability to quote, secure profit and impacts on cashflow across the sector.

- Shortage of materials due to impact of Brexit, War in Ukraine, COVID-19 which can cause project delays and even cancellations.
- Employment shortage need to retain good workers with rising wages and competition for staff.
- Tough regulatory environment post Grenfell (particularly in 'Design and Construct' field).
- Environmental priorities – changing environmental requirements, experimental greener building methods and need for insurers to understand non-standard methods (Brokers more likely to raise this issue).
- Increase in insurance premiums when rated on turnover/wages which can be tough for clients and for brokers alike (brokers working to keep clients).

## Quotes from construction businesses:

"We're seeing contractors quoting for work and then it could be two or three months before they get the order, and two or three months down the line they can't then do the job for what they quoted it for. So, that's probably the biggest challenge. We are starting to see some administrations within the construction sector for those reasons, because they can't honour the contracts that they put in place originally."

BROKER

Whilst some (e.g. rising costs) are harder to mitigate, there are opportunities for support around employment and retention of staff.

"The construction industry held itself up. They're now, I would say, kind of struggling with increasing material costs, increasing fuel costs and whatnot because they've all got fleets, they've all got materials that they've got to pass onto clients and then obviously from a wages and turnover point of view, their employees are wanting more because of the cost of living, like everyone. Their material costs are going up, which basically affects their public liability premiums because it's (mw 05.10) rate directly on turnover."

BROKER

"There is a lack of new people coming through, and they just don't want to do manual labour. It makes it hard to find reliable workers."

END CLIENT, £1M TURNOVER

"Insurers don't like some modern methods of construction such as timber framed buildings, we lost a client recently because the premiums were just too much."

BROKER

"The industry's always changing, the white papers are always changing, the regulations are always changing."

END CLIENT, £1-5M



# Construction is more price sensitive than some sectors.

Construction do business by tender, with a price and negotiation mindset dominating, **‘tendering is in their DNA’**

- This tender mindset applies to everything from shopping for materials to buying insurance – brokers comment construction more price sensitive than most other markets.
- Construction clients regularly review the market, often calling a number of brokers each year.
- At the lower end of the market insurance is seen as a commodity rather than a valuable service.
- Relationships (with suppliers, and brokers) can be very important in construction, with high levels of loyalty expressed – but these take time to develop, and it can take several years to build trust.

“You’ve got to remember when you’re pitching into a construction client, tendering is part of their everything. They tender the wood, they tender their electric, they tender the bricks. They tender their van hires. They tender absolutely everything. Most years as a broker, you will find yourself either having to do a market exercise or your client would be doing your market exercise just to test your thinking. Until you’ve bedded them in (and bedding them in could be three years with a construction client), four years before they’ll stop doing it. It takes a lot of time to get them on side.”

BROKER

“I think that they often don’t understand that they’ll go to 5 different brokers, and we all get the same prices from different insurers. They don’t understand how it works. But they are price sensitive.”

BROKER

# Turnover/size of premium is main way in which the market is segmented.

Less than £1m	£1m–£5m	£5m–20m	£20m+	£50m+ →
Highest price sensitivity			Lower price sensitivity	
Micro/OMB GWP: up to 2k	Small business GWP: 2–5/7.5k	Lower mid-market GWP: 7.5k–35k	Higher mid-market GWP: 35–100k	Large/corporate GWP: 100k+

### Tier 1

- Owner of business buys insurance
- Most likely to buy direct and online
- Per capita policy often needed
- Business model more straightforward
- Commoditised product
- Time poor/no frills approach
- No account exec if using a broker
- Dealt with by SME team
- High price sensitivity market
- **‘Necessary evil’ – just get required cover for contracts and regulations**

### Tier 2

- Bought by owner/director but some have finance function
- Turnover/employee rating more common
- Business model is more complex, contracts varied in size and risk
- More likely to use a broker and see value of broker
- “When premiums are over £5kwe generally do a site visit and fact find”
- Review add-ons, product extensions and additional benefits
- **BUT: price still key driver and price proximity is needed**

### Tier 3

- CFO or other dedicated person to deal with procurement and insurance –more informed
- Less price focused overall, although it is still a major consideration
- Some have range of business services on-hand or in-house (e.g. Legal teams, Health and Safety expertise)
- Have a requirement for specialist insurance products

“(Larger SME) you’ll be dealing with a professional FD, that they don’t go out to the market as much. It’s not so they do, they’re still cost centric.” (Broker)



# What markets brokers will approach also varies by type of trade and level of risk.

Brokers will tend to have markets in mind for all trades – even those that are more difficult to place.

- **Highly competitive market** for ‘vanilla trades’ general builders, house builders and finishing trades are very competitive and composites as well as specialist insurers will write them.
- **However, a hardened market** for roofing, scaffolding, cladding and some heavier trades including groundworks and wet trades.
- **More niche trades or higher risk** – need to go to specialist markets – Markel Construction is placed in this category of specialist risks
- **More propensity for membership of trade schemes** with specialist insurance markets, and questionnaires for quotes can be very lengthy.
- **Brokers would like more insurers to be involved in ‘riskier trades’** if the conditions are right and criteria met.

At the more general end of construction there is high competition and little differentiation – price and relationships are key.

# Trends within the construction sector

## End clients:

- Health and safety requirements – changing regulations, keeping up to date and ensuring compliance – particularly in the context of Grenfell
- Worker retention/support – not top of mind for all, but mid-market companies looking for ways to support/enhance employee wellbeing
- Diversification, some have diversified during COVID-19 which impacts on insurance requirements and cover, require advice

## Brokers:

- Increased difficulty in placing PI with composite insurers/cost of PI
- Non-standard construction methods – new/efficient/environmental methods are not fully understood by insurers (e.g. increase in timber frame building)
- Increase in requirement for owner- controlled insurance policies, particularly in higher mid-market
- Environmental considerations – cascading down from larger businesses

“I’d say there are three tiers of construction. You’ve got down the bottom the sort of stuff that most insurers will write. So, general house builders, commercial builders, people putting bricks and mortar together. Most insurers will write that, all day, every day. Shop refurbishment, that sort of thing. And that remains, there’s strong appetite for that and you shouldn’t have trouble getting quotes for that sort of thing. You’ve then got the tier above that, which is where you’ve got some niche types of the construction business. So, fire prevention being a good example of that, where it’s not so much that they’re particularly distressed, it’s the fact that they require specific underwriting experience and knowledge to do them. Then the third tier is where they tend to be quite claims-heavy. So, scaffolding, roofing, leadwork, underground work, demolition.”

BROKER

“Lots of people will come out to play on the straightforward trades.”

BROKER

“It’s a massive challenge for us because the insurance industry doesn’t fully understand the construction methods that are being proposed. So, we are involving some of the most senior risk managers, risk directors at insurers to try and help place those risks, but there’s no question it’s a challenge.”

BROKER



## Broker Insight.

- Construction market has hardened in recent years, with D&C, some specific trades, meaning that some MGAs and insurers have withdrawn from the market
- Overall, brokers can struggle (beyond MGAs and Lloyds) to place heavier trades – demolition, scaffolding, roofing and limits on heat/height/depth
- PI is an area where composites often don't write as part of a package
- Lots of options for writing general building / finishing trades that don't carry heavy risk – large appetite in the market from range of insurers which means it is very competitive for certain construction trades, with composites dominating
- Most identify that the construction sector is keen on price and tends to do business by negotiation/bargaining – so they appreciate propositions that are transparent and are priced competitively
- Insurers service was often slow during the pandemic, 'hiding behind email'
- E-trading is not used by all in this market, but there is an interest particularly for those who service small/lower mid market

## Broker experience and expertise in construction.

Range of broker profiles were included in this research; some were specialist in construction/property. Others were generalist commercial brokers with a construction portfolio as part of their book.

- Brokers were generally open to all trades within the construction sector and were split in terms of their appetite by business size.
- Some have a designated authority with an insurer to write construction business e.g. for Aviva, HCC TM were mentioned.
- Some construction specialists were concentrating on higher volume/smaller businesses. Others only had appetite for mid/higher end of the sector and focused on lower volumes but higher income per policy placed and higher level of service.
- Those generalists tended to have an appetite for a wider range of construction portfolio.
- Specialist brokers, particularly those who worked on smaller/mid level had the closest relationships with Markel overall. Some brokers had very limited dealing with Markel to date.



"My typical construction client would probably be a company turning over between half a million and 3 million and it would be any type of construction, heating ventilation, air conditioning, electrical, fire alarm, small building contractors, signage manufacturers and installers, control panel installation. 500 grand to 3 million is my core."

BROKER

"It's very specific prospecting, and probably the main driver of that prospecting in the first instance, is the size of that client. So, we would traditionally look at a client and say, 'Can we earn a £10,000 fee?' from that client, and if yes, it's one that we would then prospect."

BROKER

"We've always concentrated on the 0 to £30,000 premium area, and found that that's our area of expertise because it will be the Manual Director who's trying to juggle buying materials and dealing with the insurance once a year."

BROKER



## Time poor and stressful environment for many in construction.

- Many businesses have grown in recent times, but not everyone is comfortable growing and see risks – e.g. cash flow and staff
- Driven by tendering and contract requirements, so need flexibility and responsiveness from providers such as insurance provider and financial services
- Some businesses diversified during the pandemic, so needed to ensure that they meet all regulatory and health and safety requirements
- Time poor businesses owners tend to outsource services including to their accountant, HR consultant (often a consultant, could be attached to accountant or solicitor). Some are also using a debt management service, particularly if they are a B2B service.
- Some are looking for services to help with employee recruitment and retention e.g. perks for employees, wellbeing services, gym memberships and support helplines. However, some more traditional construction companies are less progressive.



“I worry it is too big, has got out of hand, this is not out background, we are tradesmen and now we are working in lots of different areas. I would like to scale it back, have more control, we have to rely on people I might not normally.”

£5–10M CONSTRUCTION

“It is stressful at times, we get a penalty if we run over due dates, I do sometimes take my work home with me and my missus takes a lot on. Everything is rush rush rush now, 100 miles an hour.”

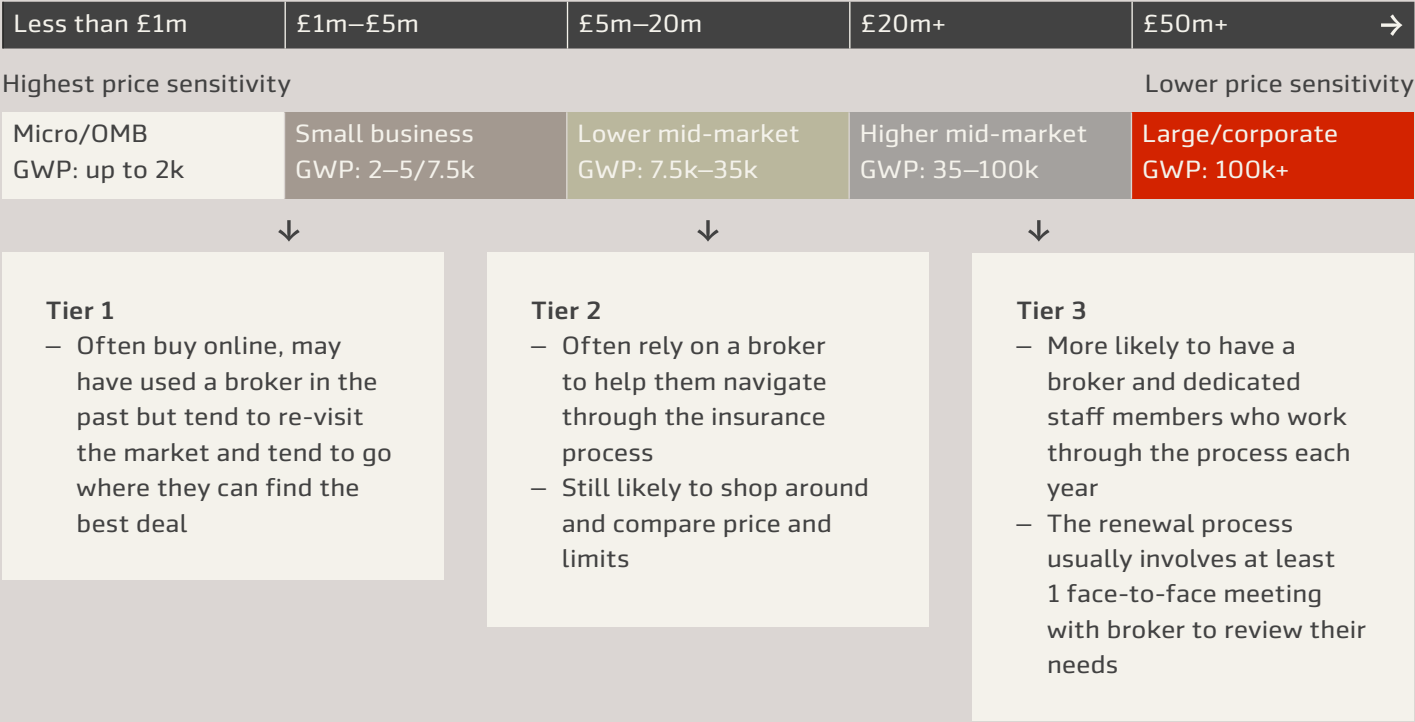
UP TO £1M BUILDING CONTRACTOR

## Meeting Construction Business Needs

There is some reluctance to seek external business support, but there are some gaps where business services could provide support.

Needs	Any gaps	Requirement
<b>Tax and finance</b>	<ul style="list-style-type: none"> <li>– Most expect needs to be met by accountant – including tax advice. IR35 is not top of mind for smaller SME but is a consideration for higher mid- market.</li> <li>– Getting payment from suppliers can also be a pain point, some use debt collection services.</li> </ul>	Most finance and tax services would fall to accountant. However, <b>Debt Recovery</b> is of interest, particularly in current financial climate and post-covid where payment chasing is common. Cover for <b>Business Interruption</b> or <b>Loss of Order</b> also of interest.
<b>Employment and retention/ HR support</b>	<ul style="list-style-type: none"> <li>– Staff recruitment, retention and support is a key pain point, shortage of workers and increased competition for skilled workers.</li> <li>– Ad-hoc support for contracts, grievances, disciplinary (some using advice from trade organisations like FSB).</li> <li>– Package for workers – such as training, perks, mental health support offered by some employers to increase loyalty.</li> </ul>	Insurance company is not top of mind to provide this support. However, interest in tools to help manage employment issues legally and effectively. Communicating <b>legal services</b> clearly, minimal legal jargon focusing on benefits – recruitment and dismissals.
<b>Health and Safety</b>	<ul style="list-style-type: none"> <li>– Changing regulations mean it can be difficult to keep up with H&amp;S requirements. Business growth or diversification also presents challenges.</li> </ul>	Keeping documentation up to date, easy access to Health and Safety advice and documentation.
<b>Tendering process</b>	<ul style="list-style-type: none"> <li>– All contractors are tendering for business, it can be time consuming – particularly for complex tenders for middle-market contractors.</li> </ul>	Need <b>flexibility</b> of insurance cover, to add when they need it (e.g. hired plant). Need clear documents including contracts and insurance documents to be accessible for tendering. <b>Collateral warranty</b> review beneficial for mid-market.

# Purchase pathway, depends on the size and type of business.



## Most construction clients are using online tools and want a digital service.

Most construction clients are operating online – for quoting, trading and contracts. They want paperwork provided online and some prefer an app for ease.

Many are using accounting software such as Xero, QuickBooks or Sage to help them manger their business.

- Premiums ranged from £1k to 60k with most around £3–10k
- Insurance is important as construction can involve risk, but for many it is a means to an end, to meet tendering requirements.
- At the small end very transactional relationship

- with insurance “I think more about my brand of socks than insurance provider”
- But many of the businesses did use a broker – including some <5m and many of those with 5–10m+ turnover size due to time pressures and complexity of risks
  - Relationship with broker does develop over time, but construction trades are naturally driven to review the market – so many go to multiple brokers or compare the broker as well as direct prices.
  - Up to 5m turnover, general builders and trades can go direct which is appealing.

“Everything, as I say, is online for everybody nowadays, even the way I quote now, I use a quoting system that can get drawings and quotes over to customers, where they can just, literally, DocuSign it, which is-, so things move rapidly, all the time. It’s staying current, and that’s the thing I admired about that.”

1–5m, Midlands, construction

# Brokers are essential to sell in additional services and benefits.

More than half were using a broker and some of those who were not had used a broker in the past and carried on directly with the insurer that the broker had recommended.

- ✓ Broker added reassurance, and for mid-market was used as a means of ensuring the right cover, particularly for complex and heavier trades.
- ✓ Some (particularly smaller) tended to review the market, contacting several different brokers for quotes rather than relying on broker to review the market on their behalf – getting a good price dominates.
- ✓ There is quite a heavy reliance on broker to make recommendations above the required liabilities.

# Value add services.

Legal services are the most appealing to construction clients:

- ✓ Some have legal expenses already and are interested to know at else the legal services will offer, as most SME's do not have expertise in-house.
- ✓ Legal helpline, employment law advice, access to templates could all add value – these are services which could be positioned to tackle pain points around recruitment and retention of staff and regulatory compliance.
- ✓ Additional services for employees could be an added features, including counselling support, mental health services or perks – these are areas that help construction clients compete for staff
- ✓ Contract Warranty Review is also a key feature for mid-market

“The broker is not the cheapest option but I can't change him as I don't know all the insurance jargon.”

CONSTRUCTION £1–5M

“I rely on my broker to really pull it all together ... and our safety team give the broker all the details of what we need so they can advise us.”

£1–5M, SCAFFOLDING

Many construction clients don't feel confident with insurance, so they are looking for broker support based on understanding their business. This is particularly important when offering additional cover and services – end clients are reliant on broker to make recommendations.



# Legal services and contractual warranty are the most valuable to construction, but they need to be used!

	Legal Services	Contractual Warranty Review	Finance Services	Others (including Cyber)
<b>Need</b>	Dealing with legal and regulatory issues – particularly contracts and employment are pain points across all levels.	Contractual warranty services are important for construction trades	Tax services are a harder sell as most will operate through their accountant / finance teams	Construction clients are using technology, but some are traditionally focused
<b>Audience</b>	All levels, particularly mid-market for managing risks, preventing claims, Health and Safety compliance.	All levels, but particularly mid- market and those using sub- contractors and professional services	Most levels would use accountant for services including tax investigation	Brokers identify that a higher mid-level are interested in cyber
<b>Proposition</b>	<p>Access to legal expertise for contractual and employment matters including disciplinary and grievance.</p> <p>Legal advice line as entry with Law Hub and Employment Advice as additional features.</p> <p>Employee wellbeing also an area of interest.</p>	Could be part of a mid-level proposition or a cross sell	<p>Available to add on but not part of core proposition.</p> <p>Debt recovery could be a stand- alone feature.</p> <p>IR35 for larger SME businesses. Cancelled contracts/business interruption also areas of interest.</p>	<p>Opportunity to cross sell Cyber as a separate product rather than light version as part of package.</p> <p>Cover for environmental issues also an area of interest for future.</p>

# MARKEL

All information accurate at the time of production August 2023.

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