

Phase II Concept #5: Data Reporting Requirements September 19, 2006

I. Issue:

Currently there is no readily available source for construction contractors liability insurance data. A separate report would allow DCBS to evaluate the contractor insurance market.

II. Current Regulation:

Insurers are not required to report contractor specific information. Instead, this information is reported under other liability for all business in the state including manufacturers, landlords, merchants and other service industries.

The current model of having the Insurance Division request information on an as needed basis has not given all insurers adequate notice to identify system reporting requirements to complete data requests. The data calls often have limited participation with significant portions of the contractor market not being reported.

III. Alternatives:

Option 5: Require insurers, including non-admitted carriers, to report construction contractor liability data separately as described below.

The elements to consider are as follows:

Primary Data Elements – These first two items are the most basic data elements needed to monitor the contractor market and identify any areas, which are seeing improvement or difficulty.

1. Policy count by classification – this is a basic data element insurers should be able to report for their contractor classes. The purpose is to help determine which insurers are gaining or losing market share.
2. Written premium by classification – The purpose of the written premium data is to determine the market impact of known actions by insurers such the introduction of a new program or specific limitations or coverage exclusions.

Additional data elements – Although their usefulness may be more limited than the previous elements, the next two items can aid in determining the affect of best practices and monitoring the contractor market.

3. Paid Losses. The paid losses could be requested on an accident year basis for the contractor classes of business.

4. Case reserves. The case reserve information is available from the same reporting systems as paid losses. Case reserves add significant additional information about the expected magnitude of reported claims. This is particularly true for recently discovered construction defect claims, which often have case reserve amounts established for several years before final payment is made.

Additional data reporting considerations – Reported claim count can add additional information about the number of type of claims occurring with contractors. The segmentation of claims by coverage or claim type can also add insight into the claim characteristics and costs drivers. There can also be many limitations with contractor claim count data and claim data segmentation by coverage and claim type.

5. Reported claim count. This data element would need to be clarified with regard to events affecting multiple contractors. Reporting each affected contractor as a claim is preferred as this has the benefit of providing a more thorough assessment of which contractors or contractor classes are affected by multiple party litigation.

6. Data Segmentation – The paid loss and case reserve information could be reported for premises operations, construction defect losses and products completed operations for non-construction defect losses. The main cost driver for contractors liability insurance is construction claims, which are reported under the products/completed coverage.

7. General – The extra reporting requirements on an ongoing basis may add special programming costs for insurers and could increase costs for contractor liability insurance. It is not certain if the data reported will be credible, or of sufficient volume, to make relevant conclusions about the effect of the solutions for the contractor liability insurance market.

IV. Enforcement

The Insurance Division of DCBS would collect the insurer reports. The enforcement would come under either the rulemaking or statutory authority granted the Division.

V. Steps to implement

A statutory change would be required to implement regular data reporting for construction contractors.