

Assessing Risk for a Changing (and Challenging) Industry



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Liability insurance underwriting for home builders has historically been an exercise in frustration, instability, and inconsistency both for builders and for the insurance industry. The latter wants hard, timely, and comprehensive data to assess risk, while builders live a life of latent defects, unpredictable warranty service calls, and changing market conditions that affect quality. Bridging that disconnect is what drives Katie Beck, head of Home Builders at Berkshire Hathaway Specialty Insurance, in Shakopee, Minn., who sat down with Jenny Simon, director of marketing communications at IBACOS, a housing quality consultancy in Pittsburgh, on behalf of *Pro Builder*, to discuss how builders, brokers, and underwriters can collaborate to achieve more reliable results.

PRO BUILDER: *Why is underwriting home builders so difficult for insurers?*

KATIE BECK: This has long been a tough business for our industry in terms of losses and program structure because there isn't a ton of data we can get our hands on, much less get our arms around, to evaluate risk in the way we traditionally evaluate other industries. And the data we do get is old. Losses, particularly those associated with construction defects, take up to 10 years to be reported and even longer to reveal the final cost outcome.

With that, the quantitative data that exists is extremely volatile due to the housing boom through the early 2000s, followed by the steep decline in production in the late 2000s and into the 2010s. That makes it difficult for us to truly understand the home builder's world.

PB: *How can builders best present themselves to insurers?*

KB: If you're simply handing over loss runs and closing figures to your broker or underwriter, they're probably just turning over rates based on general assumptions and broad data. To get them to do more for you, work with them to understand your "story"—the culture of your company, your internal processes, and your demonstrated

commitment to quality. Builders also need to understand that the presentation they prepare for an insurer should vary from what they prepare for an investor. What sounds exciting to an investor—new products, a new target buyer, and new designs—may scare or concern an underwriter.

PB: *How do you best leverage builder data?*

KB: Builders and insurers need to shift their focus to look at what the data and the numbers actually mean. Underwriters should overlay statistics with qualitative information, such as trends within the builder's warranty data, whether concerns are being addressed, and how the customer experience has changed over time. Changes to construction products or practices are also important, as are shifts in a builder's corporate culture or market, and whether they have invested in systems that improve their quality and processes. All of that has an impact on risk assessment.

PB: *If I'm a builder with some significant losses, how should I handle that with my broker or underwriter?*

KB: Builders shouldn't be scared of their losses. Instead, they need to use them as an opportunity to showcase what they learned from those experiences and how

their company and processes changed and improved because of them.

Every large loss should have a lesson learned. The dichotomy of this is that an account could have no losses, but that doesn't mean they are good; it could just mean they're lucky. Alternatively, some of the best builders in the industry have had some very hairy losses, but they've learned from them and have become even better.

PB: *What's needed to bring more stability and consistency to home builder insurance underwriting?*

KB: The more insurers there are that understand the home building industry, the more stable insurance for the space will become. Often many carriers jump in and offer broad coverage without truly understanding it, only to subsequently drop the line of coverage, which creates a culture and reputation of instability in our industry for this space. But those that understand it and dig into a builder's story far beyond the numbers can provide stable, consistent coverage, especially for builders that really care about quality. I am committed to helping builders bridge that gap.

For the complete interview with Katie Beck, see probuilder.com/interview-beck