

HUB 2023

Outlook.

Construction



Agility and creativity key to managing shortages and building profits for the future.



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Setting the Scene

Uncertain economy requires innovation to succeed.

Tight profit margins, worker shortages, supply chain delays and higher materials costs are key risks for 2023. A well-developed risk management and insurance strategy is crucial to remaining profitable and resilient, but a shortage of skilled labour remains the single biggest issue facing the industry and requires new approaches to onboarding, training and benefits.

The B.C. construction industry is predicting a shortage of

25,000

workers by 2028.¹

1. City News, "[B.C. construction industry faces dire job forecast by 2028](#)," May 7, 2022.

What to Expect in 2023

Increasing materials costs, a lack of qualified workers and supply chain delays will challenge the construction industry. Continued unpredictability will make managing costs and schedules difficult and will likely result in slimmer profit margins in the coming year. But there is opportunity for the construction industry to strengthen profitability, improve staffing and become more resilient with strong risk management and insurance strategies.



An uncertain economy will put profits in a bind — provisionally.

With global economies roiling, the building boom could wane in 2023.² And the biggest threat comes not from supply chain disruptions, labour or materials costs, but from increasing inflation.

The cost of residential construction remains high — up 5.6% in early 2022. Prices for plastic and rubber broke records, with a 19% year-over-year growth in the first quarter of 2022.³ However, the price of lumber is easing, falling nearly 70% in the third quarter of 2022 from its peak in May 2021.⁴

Ongoing materials shortages of everything from roofing membranes to electrical equipment continue to hamper construction and profits. To offset these shortages and reduce uncertainty, construction firms are pre-ordering materials, but this approach ties up capital, requires storage and adds another layer of risk exposure and insurance costs.



In addition, acute labour shortages will dampen construction profits. With so many Baby Boomers looking to retire in the next few years, the shortage will likely get worse over the next decade. Finding and training new construction workers will be a priority for company profits.

The industry also will continue to embrace new materials and technologies. From modular builds to 3-D printed buildings, organizations will continue to make use of innovations like mass timber, carbon fibre and advanced concrete and embrace natural and recycled materials, some of which may be in greater supply than conventional materials and are more environmentally friendly.⁵

2. Daily Commercial News, "[Megaprojects could sustain Canadian construction sector through upcoming headwinds: economists.](#)" July 20, 2022.
3. Statistics Canada, "[Building construction prices indexes, first quarter 2022.](#)" May 5, 2022.
4. Timberline Magazine, "[Lumber Prices Trending Down.](#)" September 1, 2022.
5. Mansion Global, "[Home Builders are Turning to Natural Materials to Get Around Supply Chain Problems.](#)" March 25, 2022.

Profitability

This technological expansion includes a move toward digital transformation, with companies increasingly integrating technologies to optimize operations, including risk management. While the industry may improve performance and reduce risks using data analytics, these digital risks increase cyber vulnerability. Insurance rates for cyber are expected to remain elevated at 20% to 40% higher than 2022; however, insurance rates have begun to stabilize for most other lines of coverage.

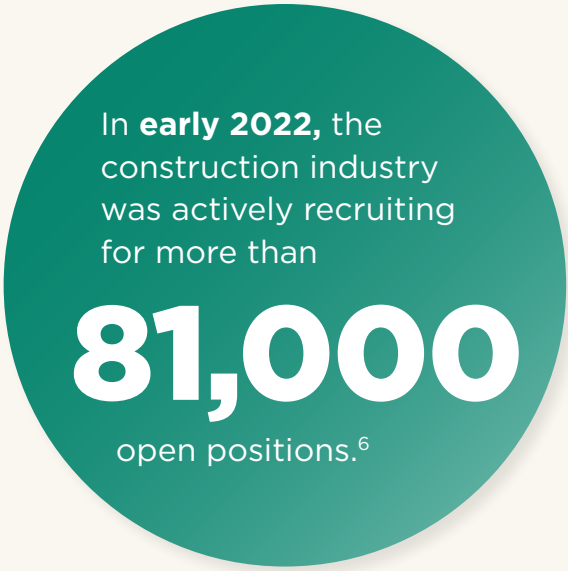


Enhance benefits and consider apprentices.

With record-low unemployment rates, nearly all industries are grappling with how to attract and retain talent. In early 2022, the construction industry was actively recruiting for more than 81,000 open positions.⁶ With few companies offering robust benefits and high rates of workplace-related injuries, finding qualified workers is an even greater challenge. Construction firms that cement their reputation as a safe workplace and get creative with their benefits will attract and retain better qualified workers than their peers.

For most non-union and small- to medium-sized shops, benefits are rarely available. But companies pursuing qualified construction workers will need to offer and/or improve current benefits to successfully recruit and retain qualified workers. Construction firms with a non-unionized workforce are offering dental and paramedical benefits, and some are considering paid leave — including vacation and sick days. And to stay competitive, companies will want to consider offering employer-sponsored retirement plans, including auto-enrollment and an employer contribution match to boost participation.

The government also is stepping in to help the industry's dearth of qualified workers, announcing that it would commit nearly \$250 million toward the federal Apprenticeship Service program. This allows construction firms with fewer than 500 employees to receive financial support for hiring first-year Red Seal apprentices as they train to become skilled journeypersons.



6. Financial Post, "[Labour shortages leading to cancelled projects in 'superheated' construction sector](#)," July 7, 2022.
7. On-Site Magazine, "[Canadians enter skilled trades](#)," August 18, 2022



Stabilizing insurance rates will strengthen resiliency.

After more than two years of sharply rising rates and capacity issues, the construction insurance marketplace is stabilizing. But the industry faces greater risks than ever.

Severe storms and flooding, particularly along coastlines, have caused catastrophic property losses. Hurricane Fiona brought devastation to the Maritimes,⁸ and the record-breaking heatwave across the West in 2021 created conditions that endangered workers.⁹

Despite these weather events, overall insurance rates remain relatively stable for the industry. Casualty rates are rising for certain industrial classifications, such as road builders, but builders' risk may soften slightly on frame projects. However, carriers have added more risk mitigation requirements at jobsites, such as water shutoffs, video surveillance and additional security provisions.



Higher interest rates and inflation in the next year may increase the risk of subcontractor default. Wise general contractors will take extra precautions when choosing firms for jobsites and make sure exposures are insured.

The uncertain state of the global market also may prompt the construction industry to focus more attention on mitigating exposures, such as improving worker training to reduce auto accidents and onsite injuries and investing in technologies to reduce the risks of flood and fire on sites.

The industry is also acknowledging how environmental improvements can be part of its building resiliency strategy. For example, alternative materials, such as manufactured wood and concrete alternatives, will alleviate some of the supply chain and pricing concerns while advancing sustainability.

8. Insurance Business Canada, "[Insurance industry steps up to help Canadians affected by Hurricane Fiona](#)," September 28, 2022.

9. CTV News, "[Western Canada's 2021 heat waves among most extreme on record, study shows](#)," May 4, 2022.



Create a blueprint for tech adoption.

Historically, the construction industry has been slow to adopt new technology, with only 7% of construction firms adopting software solutions.¹⁰ However, firms will need to adapt to a new environment in which technology is transforming construction.

Some companies have embraced automation, wearables and additive manufacturing. Robots are completing repetitive jobs such as wall building.

Drones are surveilling and securing jobsites. Smart helmets and exosuits are keeping workers safe and efficient. And 3-D printing is creating components for bridges, highways and buildings. In one housing project in Ontario, experts predict using 3-D technology to construct homes will cut construction time in half and cost as much as 70% less than traditional frame houses.¹¹

While these technological advances can improve productivity and reduce accidents and injuries, they also make the construction industry more vulnerable to cybercrime, particularly breaches involving web applications.¹² An effective technology plan and protocols that include regular training and multi-factor authentication — at a minimum — will be key to protecting construction firms and finding cyber insurance to cover the exposure.



10. Brookfield Institute, "[Laying Foundations: Technological Maturity in Canada's Construction Sector](#)," March 2022.
11. Storeys, "[Canada's First 3D-Printed Homes an Exciting Start for the New Tech](#)," June 14, 2022.
12. Construction Executive, "[The Ongoing Risk of Phishing in the Construction Industry](#)," October 12, 2021.



Make a plan

HUB construction insurance specialists will work with you to develop a tailored strategy that will protect the bottom line, support your workforce and build resiliency for 2023. Here are some initial considerations:



✓ **Tailor benefits for your workforce.**

Attract qualified workers with benefits that they need most. Workers who receive healthcare, sick days and paid time off will be more likely to stay the course, knowing that the company supports their health, safety and wellbeing.

✓ **Know your risk.**

A construction firm's insurance strategy can no longer predominately focus on its own risk. Pre-qualify your contractors and ensure they share the same values of safety and risk management. Work with an expert to ensure contractors carry all the necessary insurance.

✓ **Formalize training.**

Workplace accidents remain a significant concern, but proper training that emphasizes the company's commitment to protecting the workforce will reduce incidents and improve retention. Make safety a tenet of the organization, and ensure workers understand expectations and commit to maintaining a safe work environment.

✓ **Be transparent with your broker.**

Let your broker know what changes you've made to the business, so there are no surprises at renewal. Review your insurance needs at least 90 days prior to policy renewal, so your broker can identify the best options.



Be Prepared

HUB International analyzes proprietary national survey data and interviews commercial insurance brokers and risk services consultants to create an annual rate outlook for Canada.

On the next page is our outlook on insurance rates in Canada for 2023. Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.



Rate Outlook — Canada

Coverage	2023 Canadian Rate Outlook	Insights
Automobile	↑ 5%	<p>Automobile rates in Canada will slightly increase. Fleets may expect to see more aggressive pricing by new entrants to the marketplace.</p> <p>Quebec policyholders may see more favourable rates and better terms.</p> <p>Rates for policyholders in provinces with public auto will remain mostly flat.</p>
Liability	↑ 5% to 10%	<p>Policyholders could see increases of up to 10% in general liability depending on class and loss experience. Companies with good loss experience may see rate reductions.</p> <p>An increasingly competitive medical malpractice marketplace has driven down rates. Policyholders are likely to see flat rates or small drops.</p>
STRATA/Condo	↑ 5% to 10%	<p>Property valuations are rising 7% to 10%, and although insurance rates remain relatively flat, the increasing valuations may lead to rate hikes of 5% or more to account for rising claims costs.</p> <p>Capacity has historically been limited, but more competition is entering the marketplace. However, this may be short lived with the market for catastrophe reinsurance hardening.</p> <p>Quebec policyholders will see rate increases of 5% to 10% as capacity remains limited.</p>
Umbrella & Excess Liability	↑ 5% or higher	<p>Rates will increase 5% or more depending on class and loss experience. Best-in-class policyholders will see flat renewals or slight rate upticks based on increased exposure.</p>
Property	↑ 10% or higher	<p>Best-in-class insureds will have more modest increases, with escalating competition for new business commercial property (Class A & B).</p> <p>Quebec insureds will see 5% increases but can expect better terms.</p> <p>Insurers are focused on insurance to value with rising inflation; clients will experience higher premiums due to an increase in building values.</p>
Directors & Officers	↑ 5% to 10%	<p>Rates will depend on the strength of an insured's financials and industry outlook. Clients that restructure placement may be able to secure premium reductions.</p> <p>Quebec insureds will see rates of 15% or higher due to legal defense cost payouts.</p> <p>D&O coverage will be challenging for healthcare and particularly long-term care. Insureds in those sectors can expect rate increases of 10% to 20%.</p>
Cyber Liability	↑ 10% or higher	<p>Rates will increase from 10% to 200% based on cyber controls, loss history and industry.</p> <p>Healthcare will see rate increases for cyber coverage of 200% to 300% as carriers reduce capacity.</p>
Environmental	↑ 5% to 10%	<p>Capacity restrictions for certain risks and increasing claim severity remain a challenge.</p>
Inland Marine	↑ 5% to 10%	<p>Rising accident frequency and severity will prompt continued rate increases in this sector.</p>

Industry Perspective Rate Outlook — Canada

Industry	2023 Rate Outlook	Insights
Agribusiness	↑ 5% to 10%	Regional mutual insurers are the primary providers in agribusiness. Livestock will see rates rise 10% to 15% at renewal due to decreased capacity and market appetite.
Cannabis	↑ Flat to 5%	<p>For the past four years, rates in this emerging market have been high primarily due to lack of capacity, but in 2023 further rate increases will be minimal.</p> <p>D&O and cyber will remain challenging, with limited capacity due to few carriers writing business in this industry. Although competition in the D&O market is increasing, expect rate increases of 10%, depending on the insured's financial health.</p> <p>Property and liability rates will rise 5% to 10% due to rising construction costs.</p>
Construction	↑ 5% to 10%	<p>Supply chain delays, labour shortages and rising inflation will continue to drive construction costs up for both commercial and residential projects. Rates will rise about 5% depending on risk, largely due to higher property valuations affecting premiums.</p> <p>The lack of skilled workers is likely to result in higher liability rates.</p>
Entertainment	↑ 5%	<p>The industry is facing reduced coverage, increased deductibles and limited coverage options, with rates rising 5% to 10% in 2023. However, rates are beginning to stabilize.</p> <p>In auto (touring), higher levels of claim frequency and severity have resulted in decreased carrier appetite.</p> <p>Larger venues may struggle to find sufficient coverage.</p>
Financial Institutions	↑ 5% to 10%	<p>Rates for general partnership liability coverage will increase 5% to 10%. Portfolio company private D&O renewals will likely have flat to 10% rate increases, although insureds that agree to increase retentions may see rate decreases. Financial institutions with significant long-term debt may see increases at renewals of 20% or higher.</p> <p>Cyber rates will continue their ascent and insureds can expect premium increases of 20% to 40%, although some institutions could see rates rise as much as 300%.</p>
Healthcare	↑ 10% to 20%	<p>Until we see the impact of increasing interest rates, inflation will drive up the cost of premiums. The trend toward adding components of private healthcare will continue to change the healthcare landscape in Ontario, and other provinces may follow.</p> <p>A softening market in senior care will keep property rates flat for that sector. However, inflation will continue to drive up building valuations, increasing costs.</p>
Hospitality	↑ 10% to 20%	<p>Rising building valuations — up 10% compared with the prior year — may continue.</p> <p>Protected property risks will see rates rise 5% while challenged properties can expect rate increases of 10% or greater. The double-digit rate increases in liability in recent years have waned, mostly due to increased risk management protocols by insureds.</p> <p>Capacity for liquor liability continues to be challenging.</p>

Industry Perspective Rate Outlook — Canada

Industry	2023 Rate Outlook	Insights
Nonprofit	↑ 10% to 20%	Supply chain delays, reduced government funding, labour shortages and a potential recession will challenge nonprofit organizations. The availability of liquor liability coverage for hosting private and public events remains limited. Rates for umbrella and cyber coverage are likely to increase in excess of 30%.
	↑ 5% to 10%	All insureds will face increased underwriting scrutiny on insurance to value. Premium costs are increasing due to rising construction costs and supply chain delays. With fewer carriers competing for business, some insureds will need to evaluate their total insurance budget and limits purchased. Best-in-class properties with sound business continuity plans will move to the top of the underwriting pile.
Real Estate	↑ Flat to +10%	Residential and Multifamily: Best-in-class residential realty will find increased capacity in the market and may obtain rate reductions, but underwriters remain disciplined in this industry. Overall premiums are up as insurance to value and reconstruction costs have increased.
	↓ Flat to -5% Best-in-class	Commercial real estate: More insurers have entered this space, and best-in-class-properties can expect rate reductions. Older properties, catastrophe-exposed properties and insureds with poor loss experience can expect high levels of underwriter scrutiny. Deductibles for flood and earthquake exposures will rise to limit carrier exposure. In Manitoba and Saskatchewan, rates for framed realty will rise 10% to 15%, with inflation potentially pushing premiums higher.
Sports	↑ 10% to 20%	Capacity remains limited in the industry. With few new entrants to the marketplace, rates will continue to rise.
Transportation	↑ 5% to 10%	The market is more stable than in the past few years, and best-in-class insureds will see better terms and conditions. However, insurer interest in the trucking segment remains limited across the provinces. Umbrella coverage will remain challenging, particularly for transportation companies with exposure in the U.S. Auto dealerships will continue to struggle for coverage, with rates rising 15% or more in 2023.

NOTE: *Rate* is typically defined as the amount of money necessary to cover losses, expenses and provide an insurance company with a profit for a unit of exposure. *Exposure* refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.

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When you partner with us, you're at the centre of a vast network of experts who will help you reach your goals. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB construction insurance specialist.

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