

HUB 2023

# Outlook.

# Construction



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



Risk & Insurance | Employee Benefits | Retirement & Private Wealth

# What's covered...

## **Introduction**

## **What to Expect in 2023**

Profitability

Vitality

Resiliency

Technology

## **Make a Plan**

Take better care of employees

Know your risk

Formalize training

Be transparent with your broker

## **Be Prepared**

2023 Construction Industry Outlook  
and Insurance Market Rate Report

## **About HUB**

HUB Construction

Setting the Scene

# Innovation key to success in uncertain economy.

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. A shortage of skilled labor lingers as the single biggest issue facing the industry and requires new approaches to onboarding, training and benefits.

More than

**20%**

of construction workers are age 55 or older.<sup>4</sup>

## 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 squeeze profits — but not permanently.



With global economies roiling, the post-pandemic building boom could wane in 2023.<sup>1</sup> Supply chain disruptions and inflation will further pressure the construction industry's bottom line.

The cost of construction materials remains high — 17.4% higher than 2021 levels.<sup>2</sup> However, the price of lumber is easing, falling nearly 70% in the third quarter of 2022 from its peak in May 2021.<sup>3</sup>

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.

1. Construction Dive, "[Recession likely in 2023, Fitch says](#)," September 13, 2022.
2. National Roofing Contractors Association, "[Supply Chain Shortage Information](#)," August 30, 2022.
3. Timberline Magazine, "[Lumber Prices Trending Down](#)," September 1, 2022.



## Profitability

In addition, construction profits will struggle from the acute labor shortage. With one in five construction workers 55 years or older,<sup>4</sup> the shortage will likely worsen over the next decade. Finding and training new construction workers will be a priority for companies' 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 fiber and advanced concrete, as well as embrace natural and recycled materials, some of which may be in greater supply than conventional materials and are more environmentally friendly.<sup>5</sup>

This technological expansion includes a move toward digital transformation. While data analytics may improve performance and reduce some risks, using digital analytics tools also increases 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.

4. Biznow, "[The Construction Labor Shortage is Set to Intensify Over Next 6 Months.](#)" June 28, 2022.
5. Mansion Global, "[Home Builders are Turning to Natural Materials to Get Around Supply Chain Problems.](#)" March 25, 2022.

## Enhance benefits or risk being left behind.

With record-low unemployment rates, nearly all industries are grappling with how to attract and retain talent. The construction industry is short 650,000 workers to meet current demand.<sup>6</sup> 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 vision 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.

Larger firms are offering personalized benefits as part of a benefits strategy centered on delivering [quality employee experiences \(QEX\)](#). This approach increases worker satisfaction, engenders greater loyalty and creates an attractive environment where potential employees will want to work.

*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.*

Employee stock ownership plans (ESOPs) also will be more popular in 2023, enabling company owners to strengthen their capital structure while building workers' loyalty. Nearly 20% of the nation's top contractors have opted for ESOPs<sup>7</sup> — a trend that is expected to snowball in 2023 and through the decade.

6. Construction Dive, "[Construction faces over half-a-million-worker shortage](#)," Feb. 23, 2022.

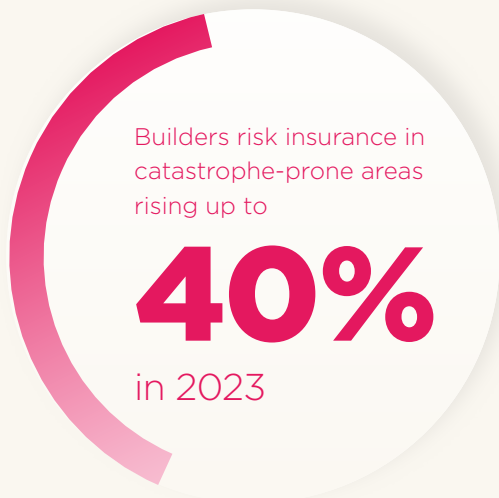
7. Forbes, "[Why Construction Companies Are Leading The 'Decade Of ESOPs' Trend](#)," February 21, 2022.



# Stabilizing insurance rates, operational improvements 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. Wildfires in the West decimated dozens of job sites.<sup>8</sup> And the 10 warmest years on record globally have all occurred since 2005,<sup>9</sup> creating conditions that endanger workers.



These factors will continue to drive up the cost of insurance, with rates for builders risk insurance in catastrophe-prone areas rising up to 40% in 2023. The construction industry also can expect to see fleet coverage rates rise 15% to 20%.

Higher interest rates and inflation in the next year will increase the risk of subcontractor default, requiring general contractors to take extra precautions when choosing firms for job sites and making sure exposures are insured.

These rate trends and the uncertain state of the global market have prompted 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 also is acknowledging how environmental improvements can be part of their 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. The Durango Herald, "[Southwest wildfire outlook grim as flames char New Mexico](#)," April 25, 2022

9. Environmental Protection Agency, "[Climate Change Indicators: Weather and Climate](#)," August 1, 2022.



## The biggest tech risk will be the failure to adopt — or adapt.

Historically, the construction industry has been slow to adopt new technology, with more than a third of firms citing limited financial resources as the primary barrier to uptake.<sup>10</sup> 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 job sites. Smart helmets and exosuits are keeping workers safe and efficient. And 3-D printing is creating components for buildings, bridges and highways — in some cases saving as much as 40% in materials costs.<sup>11</sup>

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



10. Design Build Network, "[What is holding back tech adoption in construction?](#)" July 27, 2022.

11. 3dRIFIC, "[The cost of 3D printed houses in 2021](#)," May 14, 2020.

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 well-being.



## **Know your subcontractors.**

A construction firm's insurance strategy can no longer solely focus on their own risk. Prequalify your subcontractors and ensure they share the same values of safety and risk management. Work with an expert to ensure subcontractors 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 the Construction industry.

We expect rate increases for nearly all coverages in Construction, as carriers are experiencing high losses and expenses.

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

*Editor's note: This Construction Industry Rate Outlook was compiled within weeks of the Hurricane Ian catastrophe, and the impact of subsequent claims on the broader market remains. It is likely that those claims will negatively impact the global reinsurance market for 2023, which will likely add additional upward pressure on U.S. retail insurance rates across most classes and coverage lines.*



# Construction Industry Rate Outlook – U.S.

Coverage	2023 Construction Rate Outlook	Insights
<b>Automobile</b>	<p>↑ 10% to 20% (best-in-class risks)</p>	<p>Fleets with heavy-duty vehicles will see rate increases of more than 20%; light-duty fleets feel less rate pressure. Proper onboarding, including driver safety programs, remain important to reducing exposure in the challenging labor environment. Litigation trends in many jurisdictions, increased repair costs and medical inflation continue to contribute to poor underwriting performance.</p>
<b>General Liability, Wrap-Up &amp; Project Specific</b>	<p>↔ Flat Commercial</p>	<p>The hard commercial market is showing signs of stability. Carriers will remain aggressive on commercial projects, but the residential rate environment varies significantly by state. Catastrophe-exposed states will see double digit increases. The market also remains tough for high hazard and frame construction with increased underwriting scrutiny.</p>
	<p>↑ 5% to 10% Residential (without condo or single-family homes)</p> <p>↑ 5% to 10% High Hazard (best-in-class risk)</p>	<p>Premiums will rise as a result of inflationary growth in the exposure base (payroll, receipts, etc.). To secure the best rates and mitigate claims, GCs need to evaluate credit scores as part of the subcontractor prequalification process.</p>
<b>Workers' Compensation</b>	<p>↓ -5% to flat</p>	<p>The evolution of jobsite safety over the last few decades continues to reduce claims activity. Data captured through technology and wearables is helping the industry better understand losses and implement loss prevention strategies. More carriers are using workers comp to leverage rate in other lines, with the exception of a few jurisdictions. But as businesses make quick hiring decisions due to the labor shortage, it is important to pay attention to the quality of workers and adopt best practices for onboarding and training.</p>
<b>Umbrella &amp; Excess Liability</b>	<p>↑ 5% to 20%</p>	<p>Primary coverage capacity has increased, enabling many insureds to reduce their umbrella limits and maintain equivalent coverage. Umbrella and excess liability pricing remain elevated, driven by auto liability claims, though rates vary by state due to regulatory differences.</p>
<b>Builders Risks</b>	<p>↑ 10% to 40% Small Frame Projects (with CAT exposure)</p>	<p>Carriers are increasingly requiring insureds to present risk mitigation strategies for builders risk, particularly safeguards for exposure to fire, water damage and theft. The use of technology to monitor jobsite security and mitigate risk will influence insureds' rates and their ability to obtain coverage. Underwriters will expect insureds to not only have technology installed, but to ensure it is activated and monitored.</p> <p>Contractors storing extra supplies due to supply chain challenges should discuss their purchasing strategies to ensure they are adequately insured for the materials.</p> <p>Rates for frame construction and catastrophe-exposed jobsites will remain very expensive. As the size of construction jobs increase, capacity will tighten and insureds may be unable to find adequate limits.</p>
	<p>↔ Flat to 5% Small Frame Projects (no CAT exposure)</p>	
	<p>↑ 10% to 40% Large Frame Projects (with CAT exposure)</p>	
	<p>↑ 5% to 20% Large Frame Projects (no CAT exposure)</p>	
	<p>↑ 5% to 30% Non-combustible Projects (with CAT exposure)</p>	
	<p>↔ Flat Non-combustible Projects (no CAT exposure)</p>	

# Construction Industry Rate Outlook – U.S.

Coverage	2023 Construction Rate Outlook	Insights
<b>Directors &amp; Officers</b>	↑ 5% to 15%	Expect to see rates soften. Premiums will increase due to changes in exposures.
<b>Cyber Liability</b>	↑ 20% to 40% or higher	Compared with the last two years, rates have begun to ease for clients that have not had significant exposure changes or claims and maintain the requisite cybersecurity controls. Clients with substandard controls (i.e., lack of multi-factor authentication (MFA), endpoint detection and response (EDR), and offline backups) will experience difficult renewals and a lack of market competition.
<b>Contractors Equipment</b>	↑ 5% to 30% with CAT exposure ↔ Flat not CAT exposed	Catastrophic exposure not only includes coastal states, but also exposure to fire, hail, and convective storms. Rates are relatively stable, but due to an uptick in theft-related claims, underwriters are requiring insureds to have tighter security controls in place. Insureds with catastrophic exposures (i.e., flood, fire, hail and convective storms) will see rate increases.
<b>Installation Floater</b>	↔ Flat	Rates are stable, but insureds with exposure along the coasts will see higher rates.
<b>Errors &amp; Omissions</b>	↔ Flat to 10% Architects & Engineers ↔ Flat Contractors Professional	Small business will experience relatively flat rates, but larger firms could see rising rates, dependent on their jurisdiction. With more A&E firms being added to lawsuits, carrier profitability in this segment has begun to erode. Separately, the Market for Project Specific Professional Liability (PSPL) programs continues to contract, driving up rates and limiting capacity. Firms with exposure to design liability are seeking higher limits due to lawsuits arising from building collapses.
<b>Surety &amp; Subcontractor Default Insurance</b>	↔ Flat	Premiums in this sector are driven by volume rather than risk. The market is hardening, reflected by higher SIRs (self-insured retentions), and/or tighter underwriting scrutiny on financials.

**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.

## HUB Construction

When you partner with us, you're at the center 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.

**\$1.92B**

in commercial insurance  
premium brokered by HUB

**38,973**

construction clients

**123,310**

insurance policies  
managed

**Stay up to date**

Subscribe to receive construction insights  
and event invitations throughout 2023.

Subscribe