Outlook.

Construction

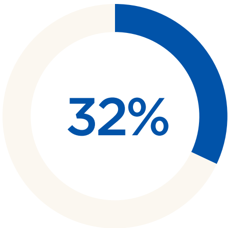
Create a framework for success through the construction of a strong risk management program.

HUB

Risk & Insurance | Employee Benefits | Retirement & Private Wealth

What to Expect in 2024

After several tough years of supply chain disruptions, higher business costs, job delays and budget uncertainty, the construction industry is booming. However, several persistent issues could hinder growth: worker shortages, labour costs, rising inflation and jobsite safety. Strong employee benefits and risk management programs will be the framework for building a successful 2024.



Only 32% of Canadian construction firms are currently taking action to foster a culture of risk awareness, preparedness and mitigation.

HUB International 2024 Outlook Executive Survey.

Profitability

Economy, employees and a changing environment could hammer profits.

Growth in manufacturing, transportation and government investments will continue to drive construction despite a decreased demand for new residential builds.[1] Construction sector output is expected to decline 3.4% by the end of 2023, with residential construction dropping the most significantly by about 15%. However, commodity prices are stabilizing, copper prices have dropped 5.5% and the government's commitment to building the country into an industrial hub point to positive signs ahead.[2]

But high interest rates, elevated inflation and worker shortages are causing project stoppages and cancellations, squeezing profits.

In addition, severe weather events have caused construction delays and insurability problems, particularly in locations with exposure to hurricanes, wildfires, convective storms and earthquakes. Canada experienced more than 20 weather-related disasters in the first nine months of 2023 — surpassing last year's record of 15 — leading to CAD$2 billion in losses already this year.[3]

The interest rate environment and tighter credit conditions are likely to result in private construction activity slowing in 2024, while inflation and volatile pricing for key materials will make it especially difficult to accurately bid longer-term projects and could depress profits.[4] This economic environment has dampened consumer demand for new single-family homes, causing some homebuilders to pivot from traditional "for-sale" builds and enter the "build-to-rent" market.

Three in five Canadian construction respondents to the HUB International 2024 Outlook Executive Survey cite economic issues and unpredictability as challenges to profitability in 2024.[5] To remain profitable in this difficult and shifting climate, construction firms will need to focus on proper valuations — not just for projects but for equipment — and ensure their insurance coverage is adequate.

Construction firms that prioritize risk management and take steps to place themselves as a best-in-class risk will be best positioned to weather the challenges ahead.

1. Research and Markets, Canada Construction Market Size … 2023-2027, September 2023.
2. On-Site, "Positive outlook for Canada's construction industry," August 29, 2023.
3. Canadian Underwriter, "Where 2023 Cat losses stand after summer storms," September 20, 2023.
4. Engineered Systems, "Construction Sector Reflects Economic Uncertainty," May 30, 2023.
5. HUB's 2024 Outlook Executive Survey polled 900 C-Suite and VP-level executives on the issues facing them on profitability, employee vitality and organizational resilience.

Enhance worker recruitment and retention with personalized benefits.

Attracting skilled construction workers remains the top challenge for the industry. Older construction workers are retiring or scaling back their work — about 20% of Canada's construction workers are expected to retire in the next decade.[6] And fewer young people are interested in taking up construction as a career.

Even presuming construction spending slows in 2024, the industry will still need to hire nearly 300,000 new workers next year to meet demand.[7]

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The dearth of workers — and the loss of institutional knowledge from construction workers leaving the profession — has made maintaining the health and safety of labourers even more imperative. While most construction companies prioritize safety, the construction industry continues to report more workplace injuries than any other sector. And the problem isn't going away: Falls constituted nearly a quarter of all workplace injuries between 2010 and 2021. [8]

Under the watchful eye of the Canadian Centre for Occupational Safety and Health (CCOHS), construction firms will still need to maintain a positive safety reputation to attract workers. Forward-thinking firms are identifying and addressing safety concerns before work on a site begins and creating their own training programs to prevent accidents.

Case study:

One HUB construction client set up its own in-house university to train new workers. This strategy not only created a pipeline of skilled workers, but it also allowed the firm to instill a culture of safety in the new workforce, reducing accidents and workers' compensation claims.

The competition for skilled labour is forcing construction companies to offer benefits and financial incentives to differentiate themselves. Health benefits are becoming more common in the industry and many construction firms are also offering robust employee assistance programs, mental health benefits, retirement plans and financial wellness programs.

Although offering alternative insurance and personalized benefits options to employees can improve recruitment and retention, only about one-third of Canadian construction respondents to HUB's survey currently offer such benefits.

However, construction firms that develop a benefits strategy based on personalization will create a **quality employee experience (QEX)** that enhances engagement, boosts recruitment and retention and improves overall employee wellbeing. Starting small, such as polling workers on the benefits they want and need, and then gradually introducing benefits solutions will still have a meaningful impact on the workforce.

6. CBC News, "Construction labour crunch leaves Canada in need of boosting ranks of home builders," July 14, 2023.
7. Toronto Sun, "Job vacancy rate in construction could hit record high," September 8, 2023.
8. WorkSafe Saskatchewan, "2023-2028 Fatalities and Serious Injuries Strategy," accessed October 30, 2023.

Resiliency

Reduce the risk of costly construction claims with strong risk management.

The COVID-19 pandemic taught the construction industry valuable lessons, from how to respond to business disruptions to improved balance sheet management. However, it's impossible to remove all the risk in construction, with threats to resiliency looming from many different directions.

Extreme weather delays impact

45%

of construction projects worldwide each year.

Contentious costs, change in scope and workmanship deficiencies account for a significant number of construction claims each year.[9] Extreme weather delays impact 45% of construction projects worldwide each year, costing the industry billions in additional expenses and lost revenues.[10] And with inflation driving up the price of materials, cost overruns will likely proliferate in 2024.

With supply chains still in disarray from the pandemic, construction companies also must take steps to secure products much earlier. One HUB client bidding on a project purchased US$1 million of HVAC units in advance of a project and faced the challenge of not only storing them but insuring them until they could be installed.

Despite these threats to resiliency, most construction insurance lines are seeing downward rate pressure, and overall rates are holding steady with average increases of 1% to 5%. However, rising inflation will result in valuation adjustments and gross receipt changes that could drive up premium rates in the future. Construction firms involved in large value projects may see elevated rates for course of construction insurance because of the number of insurers required to secure adequate coverage.

As the construction industry copes with the changing economic climate and insurance marketplace, more companies are viewing risk strategically to hedge against threats to their resilience. For example, a construction company with a well-capitalized captive could take a loan from the captive to alleviate a temporary cash flow issue.

Firms that identify and address problems before they occur and can leverage their insurance program as a source of contingent capital will improve their long-term resilience and results. An experienced broker can help construction firms evaluate their insurance for adequate limits and gaps and provide the necessary risk management resources to support the company's strategic goals.

9. Consulting.ca, "Canada better than average in avoiding construction claims and disputes," October 16, 2023.

10. Forbes, "New Tech Helps Construction Battle Extreme Weather and Labor Disruptions," March 17, 2022.

Emerging Technology

New technologies can help maximize safety and productivity — but risk remains.

From how projects are designed to improving jobsite safety and efficiency, technology will continue to play a significant — and growing — role in the construction industry.

Many firms are investing in data analytics, artificial intelligence, the internet of things (IoT) and telematics to increase safety and improve efficiency. But the industry's increased use of technology has made it more vulnerable to cyberattacks that could disrupt business operations and bring building to a halt.

The cyber insurance market has moderated, with rates expected to rise less than 10% in 2024. Although new entrants to the cyber market have created significant competition and tamped down prices, increasing claims and ransomware activity could push up rates.

Many construction firms continue to underestimate their cybersecurity exposures and forgo adequate coverage. Nearly 85% of Canadian construction respondents to the HUB survey cited cybersecurity risks as a potential threat to their company's profitability in 2024, but only 68% were prepared for the risk.

One obstacle to acquiring enough cyber insurance is the underwriting process itself. A new HUB client, a large contractor, had several US$500,000 cyber claims in the past and wanted to secure US$5 million in coverage. But before a carrier would agree to insure that limit, the contractor had to prove it was taking adequate steps to reduce its cyber risk through multifactor authentication, cybersecurity training and protocols, and a solid backup strategy.

A specialized construction broker can help construction firms assess emerging risks and cyber protection and provide resources to mitigate those exposures.

Make a plan

HUB construction insurance, risk management and employee benefits specialists will work with you to develop a tailored strategy that will protect the bottom line, support your workforce and build resiliency for 2024. Here are some initial considerations:

Develop a comprehensive risk plan.

Making risk management the centrepiece of your organization's culture can help you identify exposures and devise the right response in case of an incident. Make sure your broker understands how to strategically approach risk and identify gaps in your insurance program.

Create a personalized benefits strategy.

Construction companies are competing for a dwindling pool of experienced labour. Personalized benefits based on HUB's Workforce Persona Analysis and data analytics can help companies distinguish themselves from the competition. Creating a **quality employee experience (QEX)** will boost engagement, improve recruitment and retention and promote worker wellbeing.

Continue to focus on workplace safety.

Safety is already the focal point of your operation, but with more retirees and new workers stepping onto jobsites for the first time, injury risks increase. Review your safety program and procedures at least annually and seek help from a risk professional to address any issues.

Be transparent with your broker.

Consistent communication with your broker will help you identify and mitigate issues in advance of your next renewal and position your organization in the best light. Review exposures and insurance needs at least 90 days prior to policy renewal to allow your broker to find the optimal mix of coverage for your organization's needs.

Canada Commercial Rate Outlook

HUB International interviews brokers and risk services consultants and analyzes survey data to bring you our proprietary rate report each quarter. Read the HUB 2024 Commercial Lines Rate Outlook to know what to expect in advance of your next renewal.

Coverage	2024 Canadian Commercial Rate Outlook	Insights
Commercial Automobile (5 or fewer vehicles)	↑ +5% to 10%	Some inflationary claims cost pressures remain. Given the higher frequency of claims and greater repair costs, rate filings are increasing in most provinces.
Commercial Automobile (6 or more vehicles)	↑ +1% to 5%	Underwriting performance remains profitable, but the cost of some claims has risen due to inflation. Supply chain delays have stretched timelines to resolve claims.
Liability	↑ +5% to 10%	Improved performance in general liability has helped insurers offset poor performance on property lines. Carrier appetite has broadened as insurers look to underwrite more liability to diversify their book.
Excess Liability	↑ +5% to 10%	Excess casualty remains fairly stable with some variability depending on exposure and attachment point. Given increases on primary coverage, some excess layers are increasing accordingly. Some classes of business with favorable loss history might see rate reductions.
Commercial Property	↑ +5% to 25% (varies by geography)	Commercial property rates will continue to increase, and in some locales, they could rise substantially as a result of increased reinsurance costs. Capacity will be challenging in CAT-prone zones. Increased claim frequency and severity, supply chain delays and unprecedented catastrophic activity — including wildfires across the country and a 1,000-year flood event in Nova Scotia — will also affect rate. As the cost to rebuild has increased, focus remains on insurance-to-value, which will affect overall premiums.
Residential/ Habitational Property	↑ +5% to 10%	Rising reinsurance rates, construction costs, and supply backlogs are pushing up rates and elongating claims timelines. Additional attention on insurance-to-value will also affect overall premiums given the increased reconstruction costs.
Catastrophic Perils	↑ +11% to 20%	Increases will be much higher in CAT-prone areas. Unprecedented wildfires across the country and the catastrophic flood in Nova Scotia were indicative of the increased severity and frequency of perils.

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Environmental	Flat	Rates for Pollution Legal Liability (PLL) and Contractors' Pollution Liability (CPL) coverage are projected to remain flat. However, there is increasingly restrictive coverage for PLL coverage of emerging contaminants. Insureds should carefully review any new restrictions or exclusions in policies before renewals. Pollution policies combined with general liability are likely to see rate increases due to the GL exposure.
Directors & Officers: Private	↓ (-5%) to ↑ +5%	Insureds with no major changes can expect to see no rate increases at renewal or even slight decreases. Those with claims or significant exposure changes will see a modest premium increase. Note that financially challenged accounts will have a difficult time finding D&O insurance.
Directors & Officers: Public	↓ (-15%) to Flat	Capacity has increased for D&O coverage at publicly held companies, leading to rate decreases on both primary and excess layers, with excess layers seeing the greatest reductions. Organizations that trade on U.S. exchanges or have gone public in the past two years will see the greatest reductions.
Cyber Liability	↓ (-10%) to ↑ +10%	The cyber insurance market has shown signs of stabilizing through the third quarter of 2023. Some public sectors such as higher education, healthcare and municipalities still are problematic for underwriters, while some technology companies face additional scrutiny due to recent attacks on software and managed service providers. Insurers are focusing on information security controls when assessing risks and making pricing decisions.
Inland Marine	↑ + 5% to 10%	Frequency and severity of claims remain an issue, while supply chain issues and continued catastrophic events are leading to rate increases, similar to challenges faced for property coverage.
Marine	↑ + 5% to 10%	The commercial marine insurance market is hardening, leading to rate increases. As clients approach fourth-quarter renewals, insureds need to accurately assess risks, understand changing coverage terms, and consider alternative options. Active risk management remains crucial to keeping premium hikes to a minimum.

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Agribusiness	↑ +11% to 20%	Limited capacity will present challenges in agribusiness. Rates will continue to rise for insuring buildings and equipment. In addition, inflation will make it difficult for agribusinesses to secure adequate limits, particularly for enterprises with an adverse claims history. Premiums for food and beverage operations continue to rise. Risks remain difficult to place due to the increasing severity of losses worldwide. In farming, claims from forest fires have reduced capacity. However, liability rates remain stable, with underwriters offering ample capacity.
Cannabis	+5% to 10%	Expanding export opportunities and the loosening of global regulations have increased liability insurance options, with more competition entering the market. Property remains static with 5% rate increases continuing. However, rising inflation is elevating the reconstruction value of buildings by a minimum of 5%. With many buildings already underinsured, property insurance costs will further rise as building valuations increase. However, new entrants are expected in the property market, increasing capacity. D&O remains stable, but economic strain and highly leveraged balance sheets will prompt underwriters to closely scrutinize accounts.
Construction	↑ +1% to 5%	Rates are holding steady for most of the industry, though best-in-class risks may see slight rate reductions. Premiums are growing as a result of valuation adjustments due to inflation and gross receipts changes. Large value course of construction is seeing some upward rate pressure on higher value frame projects due to the number of carriers required to place those risks.

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Education	↑ +10% to 12%	On property coverage, rates are expected to rise 5% with inflationary increases of property values up 7%. Institutions that have not right-sized their property valuations will continue to see double-digit increases in attempts to close the gap on under-valuations. After several years of large rate increases, cyber rates are expected to stabilize, particularly for institutions that have improved their cybersecurity. Commercial general liability rates are expected to rise 5%, except for abuse coverage, which continues to be challenging. Underwriters are linking rates for abuse and molestation coverage to the risk management and mitigation policies, procedures and training protocols of policyholders. D&O rates will rise 5% on average, but institutions facing renewal after a three-year guaranteed rate could see much larger increases.
Entertainment	↑ +5%	Property and liability rates in the event space are expected to increase 5% to 10% in 2024. In film, policyholders with claim-free accounts may see flat renewal rates. D&O in the entertainment sector will likely increase 5% with cyber up about 15% on average. Abuse and molestation insurance remains challenging, with rates rising 25% or more due to reduced capacity.

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Coverage	2023 Rate Outlook	Insights
Financial Institutions	↓ Flat to rate reductions	For the most part, financial institutions will see an accommodating insurance market. Rates are likely to be flat for private company D&O insurance; for public companies, rates for D&O coverage will be flat in 2024 after premiums declined in 2023. General partnership liability coverage will decrease as much as 10%, as there are only a handful of carriers in this segment in Canada. Cybercrime insurance rates are flat for primary layers, especially for smaller companies. For excess layers, however, rates are falling 20% to 30%, or even more. Premiums for reps and warranties (R&W) insurance will experience no or moderate increases in 2024, due to an expected rebound in M&A. However, rates fell significantly in 2023, as increased competition for a smaller number of deals led to discounting.
Healthcare	↓ Rate reductions	For medical malpractice insurance, there has been an expansion of capacity and significant competition for new business; insurers are agreeing to steep discounts as a result. Those seeking healthcare D&O insurance will also see significant rate reductions, especially in high-risk markets. There are difficulties in property insurance in healthcare. Some underwriters may offer discounts through bundling property and liability coverage.
Hospitality	↑ +5% to 10%	Rates are improving for both property and liability across the country. However, hospitality businesses with property exposures to natural catastrophes such as wildfires may see greater rate increases due to the frequency and severity of these events in many provinces within the past year. Properties in the Maritimes may also see increased rates due to potential hurricane exposure.

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Coverage	2023 Rate Outlook	Insights
Nonprofit	↑ +7% to 20%	The insurance landscape is becoming more challenging. Small and medium enterprises in the nonprofit sector will see rate increases, particularly in D&O, cyber and abuse and molestation coverage. With limited capacity, insurers are enforcing more stringent underwriting guidelines, extending the time necessary to successfully secure a quote.
Real Estate	↓ (-5%) to ↑ +10%	Real estate insurance will see a mixed rate environment in 2024. Properties in high-catastrophe (CAT) risk zones will see little or no rate relief in 2024 and are likely to experience premium hikes. Rate reductions may be available for best-in-class properties with clean loss histories. However, the higher cost of rebuilding, along with greater property valuations, are likely to offset premium decreases.
Sports	↑ +5%	Depending on the age and construction of buildings, property in the sports industry is expected to rise 5% or more. Abuse and molestation coverage will continue to be challenging. Unlike the days when it was included in general liability pricing, abuse coverage will continue to be underwritten separately; the sports industry can expect to see limits reduced for such coverage in 2024.
Transportation	↓ Rate reductions for fleets +5% to 10% for IRCA	Increased competition in the transportation market has led to market softening across Canada, but poor underwriting results posted by one large insurer in the space could impact rates in the future. Additional capacity through Lloyd's is also making excess liability more available. Fleets: Historically, only best-in-class trucking companies enjoyed better terms and conditions, but the market conditions are now allowing second- and even third-tier companies tap into those benefits. IRCA: Renewals can expect to see 5% to 10% rate increases.

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HUB Construction

When you partner with HUB, you're at the centre of a vast network of experts who will help you improve your profitability, enhance the vitality of your workforce and remain resilient into the future. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB construction advisor. We're here to help.

$2.1B

in commercial insurance premium brokered by HUB

39,000

construction clients

124,000

insurance policies managed

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