

Outlook.

Construction

Building a strong risk management program
will give the construction industry
a framework for success.

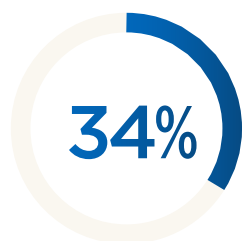


Risk & Insurance | Employee Benefits | Retirement & Private Wealth



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, labor costs, rising inflation and jobsite safety. Strong employee benefits and risk management programs will be the framework for building a successful 2024.



Of construction firms are currently taking action to foster a culture of risk awareness, preparedness and mitigation.

HUB International 2024 Outlook Executive Survey

Weather, workers and Wall Street could endanger profits.

Increased demand for new buildings and infrastructure has led to an influx in investment in the construction industry. Construction spending from August 2022 through August 2023 reached \$1.9 trillion, and nearly every construction segment saw growth throughout the year.¹ The easing of supply chain disruptions has helped feed development.

However, 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. The U.S. experienced a record 23 weather-related disasters in the first eight months of 2023, with damages for each expected to total more than \$1 billion,² and storms are expected to grow more frequent and violent in the future.³

High interest rates and tighter credit 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.

Two-thirds of construction respondents to the HUB International 2024 Outlook Executive Survey cite economic challenges and unpredictability as a challenge 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 station themselves as a best-in-class risk will be best positioned to weather the challenges ahead.

1. Associated General Contractors of America (AGC), “[Construction Spending Grows 0.5 Percent In August To A \\$1.98 Trillion Annual Rate.](#)” October 2, 2023.
2. Weather.com, “[2023 Shattered Record Number Of US Billion-Dollar Disasters. With Four Months To Go.](#)” September 12, 2023.
3. MIT Technology Review, “[Here’s what we know about hurricanes and climate change.](#)” August 30, 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.

Support the safety and wellbeing of workers through planning and personalized benefits.

Attracting skilled construction workers remains the top challenge for the industry: Nearly 90% of firms struggle to fill open jobs, both craft and salaried positions.⁶ Older construction workers are retiring or scaling back their work 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 more than 342,000 new workers next year to meet demand.⁷

The dearth of workers — and the loss of institutional knowledge from construction workers leaving the profession — has made maintaining the health and safety of laborers even more imperative. While most construction companies prioritize safety, the construction industry continues to report more workplace injuries than any other industry. And the problem appears to be growing worse: The number of deaths from slips, trips and falls in construction rose nearly 6% in 2021 (the most recent data available) compared with the prior year.⁸

With the Occupational Safety and Health Administration (OSHA) expanding its oversight and construction firms needing 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 also allowed the firm to instill a culture of safety in the new workforce, reducing accidents and workers' compensation claims.

The competition for skilled labor 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.

The construction industry will need to hire more than

342,000

new workers next year to meet demand.



Although offering alternative insurance and personalized benefits options to employees can improve recruiting and retention, only about one-third of 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 recruiting 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. Associated General Contractors of America, "[2023 Workforce Survey Results](#)," September 6, 2023.
7. Associated Builders and Contractors, "[Construction Workforce Shortage Tops Half a Million in 2023, Says ABC](#)," February 3, 2023.
8. U.S. Bureau of Labor Statistics, "[Construction deaths due to falls, slips and trips increased 5.9 percent in 2021](#)," May 1, 2023.

Strong risk management will be essential to eliminate costly construction claims that threaten firms' resiliency.

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.

Defective products and faulty workmanship or maintenance account for about 18% of construction and engineering losses 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 \$1 million HVAC units in advance of a project and faced the challenge of not only storing them but insuring them until they could be installed.

These threats are driving up insurance rates for some lines of coverage. General liability rates for construction projects in high-hazard locales will rise 5% to 15% in 2024, and builder's risk insurance for large-frame projects in catastrophe zones will increase as much as 30%. However, rates for workers' compensation, directors and officers (D&O) insurance and environmental coverage will remain flat or decline.

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. Allianz, "[Building on new risk: Construction in the age of greening](#)," November 2022.

10. Forbes, "[New Tech Helps Construction Battle Extreme Weather and Labor Disruptions](#)," March 17, 2022.

As tech becomes further integrated into the business, understanding exposures will maximize productivity and safety.



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. Only 64% of construction respondents to the HUB survey said cybersecurity is a high priority, and less than half cited cybersecurity risks as a potential threat to their company's profitability in 2024.

One obstacle to acquiring enough cyber insurance is the underwriting process itself.

CASE STUDY: A new HUB client, a large contractor, had several \$500,000 cyber claims in the past and wanted to secure \$5 million in coverage. But before a carrier would agree to insure to that limit, the contractor had to prove it was taking adequate steps to reduce its cyber risk through multifactor authentication, cyber security 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 centerpiece 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 labor. Personalized benefits based on HUB 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 workspace 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.

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Construction Industry Rate Guide — U.S.

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 Report to know what to expect in advance of your next renewal.

Coverage	2024 Construction Rate Outlook	Insights
Commercial Auto	+5% to 20%	Increasing claims frequency and severity continue to drive up commercial auto rates in most markets. Rising inflation and the increasing technical complexity of vehicles are making repairs more expensive.
General Liability, Package, Wrap-Up & Project Specific	Commercial Non-CAT Flat to +10%	Insurance in some construction classes is showing signs of stability. Carriers are pricing more aggressively on commercial projects, although rates are varying significantly by state. Recent legislative changes in Florida and Texas should bring some relief, but the full impact will not be realized for several years.
	Residential (without single-family homes) +5% to 15%	Residential construction and high-hazard risks will remain challenging. Policyholders can anticipate elevated baseline premiums due to increasing project costs and intense underwriting scrutiny.
	Residential (including condo or single-family) +10% to 20%	Growth in the number and size of projects have increased financial pressure on both GCs and subcontractors, enhancing the risk of contractor performance and default issues, making robust contractor prequalification crucial.
	High Hazard +5% to 15%	
Workers' Compensation	-5% to Flat	The evolution of jobsite safety over the last few decades has significantly reduced claims. The industry will continue to evolve as data captured through technology and wearables informs loss activity and improves loss prevention strategies. While rates are currently stable, chronic labor shortages may drive claims activity upwards over the next few years.
Umbrella & Excess Liability	+5% to 15%	High-hazard construction classes — including residential and contractors with large, heavy-duty fleets — may continue to see rate increases. However, rates are showing signs of moderating as new insurers enter the market.

Builder's Risk

Small Frame
Projects with CAT
exposure
+15% to 30%

Small Frame
Projects Non-CAT
+5 to 10%

Large Frame
Projects with CAT
exposure
+15% to 30%

Large Frame
Projects Non-CAT
+10 to 20%

CLT (Mass Timber)
engineered wood
products
+5% to 15%

Non-Frame with
CAT exposure
+5% to 20%

Non-Frame
Non-CAT
Flat to +5%

Underwriters are increasingly requiring the use of technology to mitigate jobsite risks, such as water leak detection and fire protection systems, video surveillance and security alarms.

Rates will increase for projects with CAT-exposures, such as named windstorms, wildfire and hail, due to more costly and frequent loss events in the reinsurance market.

The continued growth in frame construction is shrinking capacity, making it more difficult for construction firms to find adequate coverage for frame projects. Qualified developers and contractors that can demonstrate strict compliance with critical site security and surveillance requirements will be first in line for coverage.

**Contractors
Equipment**

CAT exposure
+5% to 20%

Non-CAT
Flat to +5%

Rates remain stable but underwriters are requiring tight security controls due to an increase in thefts. CAT-exposed sites can expect rate increases.

**Installation
Floater**

CAT exposure
+5% to 20%

Non-CAT
Flat to +5%

Rates will remain stable with the exception of CAT-exposed projects, which will continue to see rate increases.

Environmental

Flat

Pollution legal liability (PLL) and environmental rates for most contractor classes remain stable. Rates for site-specific PLL will rise due to limited capacity.

Coverage	2024 Construction Rate Outlook	Insights
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D&O: Private

-10% to +10%

The D&O market for private companies continues to improve after years of difficult market conditions. With more competition in the D&O space, carriers are offering higher limits and have reduced restrictive classes.

D&O: Public

-20% to +5%

D&O for public companies also continues to improve with increased competition in the market. Insureds with favorable claims history may see rate reductions at renewal; those with adverse claims history may see slight rate increases.

Cyber

Flat to +10%

Cyber rates have flattened after several years of sharp increases. However, ransomware activity and cybercrime are on the rise, which could lead to rate increases later in 2024.

Professional Liability

Architects and Engineers (A&E):
Flat to +10%

Contractors
Flat to +5%

The professional liability (PL) and traditional A&E market has stabilized this year, but with claims rising due to the increasing scope and complexity of projects, insureds can expect to see rate pressure in 2024.

Rates for contractors professional liability (CPL) and combined PL/CPL programs remains stable, with carriers aggressively competing for better performing risks.

Rates for project-specific professional liability (PSPL) remain elevated due to limited capacity and projects expanding in technical complexity and scope.

Surety & Subcontractor Default Insurance (SDI)

Flat to +5%

Surety losses continue to climb in certain sub-classes, resulting in tighter underwriting and increased scrutiny of financials.

Policyholders can expect to see higher self-insured retentions and limited program capacity in SDI due to elevated loss activity.

NOTE: *Rate* is typically defined as the amount of money necessary to cover losses and 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 HUB, you're at the center 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

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39,000

construction clients

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insurance policies
managed

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