

CONSTRUCTION INDUSTRY

# CONSTRUCTION INDUSTRY TRENDS TO WATCH - 2023

September 27, 2022

Pacific Northwest CFMA Regional Conference

Presented by:

Danette M. Beck, CPCU, ARM, CRIS  
Head of Industry Verticals and National  
Construction Practice Leader

USI Construction Practice

THE USI ONE ADVANTAGE<sup>®</sup>

[www.usi.com](http://www.usi.com)



CONFIDENTIAL AND PROPRIETARY: This presentation and the information contained herein is confidential and proprietary information of USI Insurance Services, LLC ("USI"). Recipient agrees not to copy, reproduce or distribute this document, in whole or in part, without the prior written consent of USI. Estimates are illustrative given data limitation, may not be cumulative and are subject to change based on carrier underwriting. © 2022 USI Insurance Services. All rights reserved.

# Market Outlook – Construction

## Key Market Trends

### Pricing and Labor Challenges Continue

- Skilled labor and cost volatility continue to plague construction contractors of all sectors in all markets. Supply chain disruptions are further exacerbating the issue. The infrastructure legislation may put additional pressure on labor and materials challenges for construction firms in 2023 if supply chains have not recovered

### Inflation

- Moody's Analytics reported in June that inflation rose to 8.6% on an annual basis but noted there were indicators that "global supply-side inflation pressure is peaking in some areas." The Bureau of Labor Statistics says inflation dipped to 8.5% in July after peaking at 9.1% in June.

### Construction Confidence

- According to FMI's latest market outlook, the latest Nonresidential Construction Index (NRCI) suggests difficulties heading into the third quarter of 2022, at 45.2, down from 53.8 in the quarter prior. Sentiment this quarter was particularly weakened considering a slowdown in the overall economy. The index has fallen below the growth threshold of 50 for the first time since the 2020 pandemic recession and reflects declining engineering and construction opportunities ahead.

## YoY % Change in Select Producer Price Index

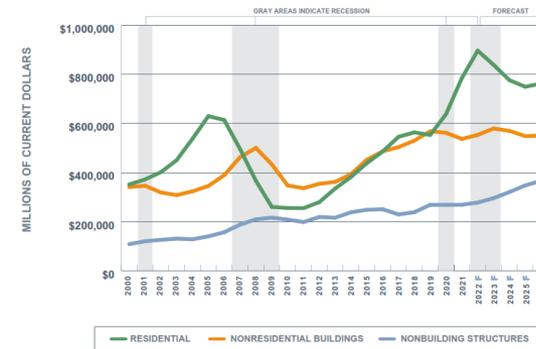
Producer Price Index, August 2022

	1-Month % Change	12-Month % Change	% Change Since Feb 2020
Inputs to Construction	-1.4%	16.7%	40.5%
Inputs to Nonresidential Construction	-1.4%	16.3%	40.8%
Plumbing Fixtures and Fittings	0.4%	10.9%	15.7%
Fabricated Structural Metal Products	0.0%	17.7%	54.8%
Iron and Steel	-5.1%	-5.7%	78.2%
Steel Mill Products	-5.7%	-4.6%	103.1%
Nonferrous Wire and Cable	0.1%	6.1%	43.3%
Softwood Lumber	-3.1%	14.8%	43.3%
Concrete Products	1.5%	14.3%	22.4%
Prepared Asphalt, Tar Roofing & Siding Products	0.2%	15.2%	35.1%
Crude Petroleum	-5.3%	38.8%	89.6%
Natural Gas	35.3%	118.0%	457.9%
Unprocessed Energy Materials	13.5%	75.0%	185.2%

\*Courtesy of Associated Builder's Contractors (ABC), PPI for August 2022

## Architectural Billing Index (ABI)

Total Construction Put in Place Estimated for the U.S.



SOURCE: FMI FORECAST Q3 2022

Third quarter forecast based on first quarter 2022 actuals and second quarter assumptions.

## Specialty Contractor Public Company Backlog Comparison

Construction Backlog Indicator

	Aug. 2022	July 2022	Aug. 2021	1-Month Net Change	12-Month Net Change
<b>Total</b>	<b>8.7</b>	<b>8.7</b>	<b>7.7</b>	<b>0.0</b>	<b>1.0</b>
<b>Industry</b>					
Commercial & Institutional	9.1	8.9	7.8	0.2	1.3
Heavy Industrial	7.4	6.6	5.4	0.8	2.0
Infrastructure	8.2	9.3	7.7	-1.1	0.5
<b>Region</b>					
Middle States	7.2	7.5	7.4	-0.3	-0.2
Northeast	8.0	8.6	7.4	-0.6	0.6
South	10.9	11.6	8.9	-0.7	2.0
West	9.1	6.9	7.4	2.2	1.7
<b>Company Size</b>					
<\$30 Million	7.8	7.4	7.4	0.4	0.4
\$30-\$50 Million	10.0	10.8	7.5	-0.8	2.5
\$50-\$100 Million	13.1	12.9	10.9	0.2	2.2
>\$100 Million	13.9	13.2	10.4	0.7	3.5

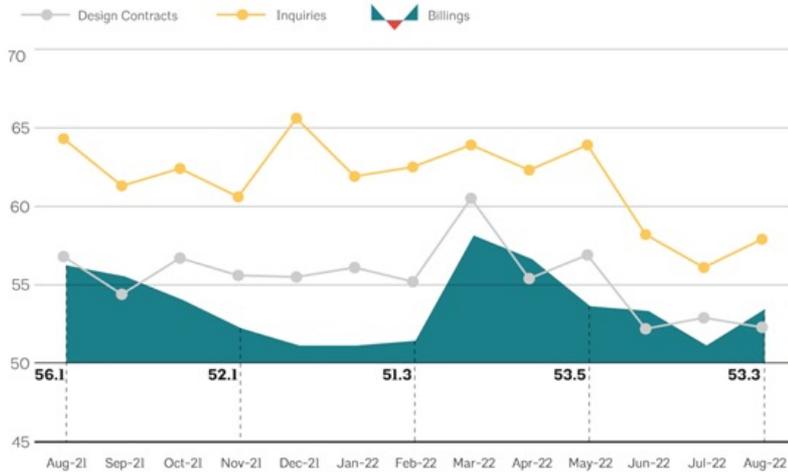
© Associated Builders and Contractors, Construction Backlog Indicator

# Market Outlook – Construction

## National

Billings continue to rise at architecture firms in August

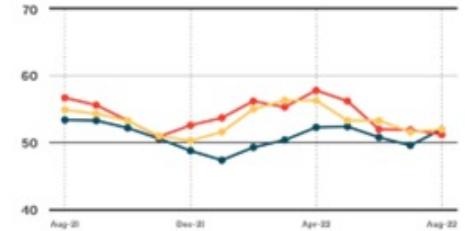
Graphs represent data from August 2021-August 2022.



## Sector

Firms of all specializations still experiencing billings growth

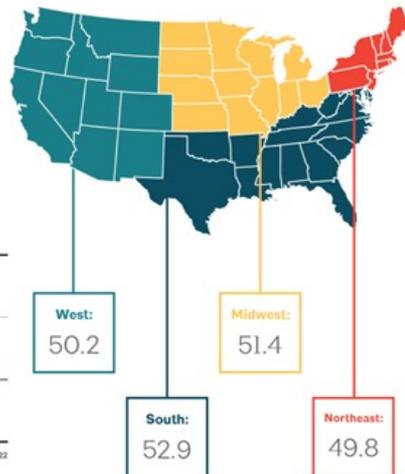
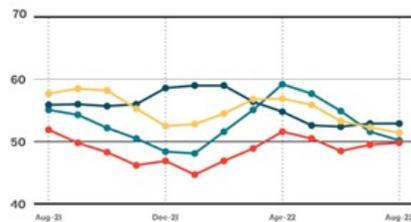
Graphs represent data from August 2021-August 2022 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



## Regional

Business conditions continue to improve in all regions of the country except the Northeast

Graphs represent data from August 2021-August 2022 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.

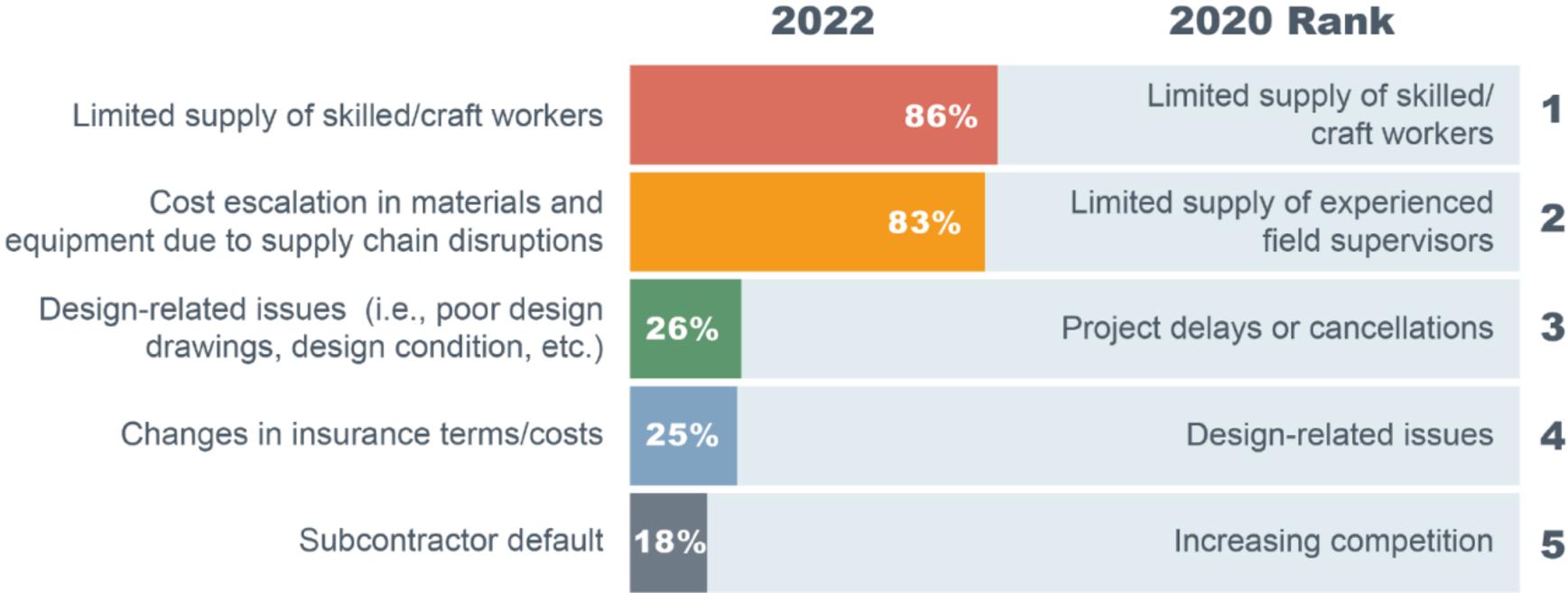


## Key Takeaways:

- Overall, business conditions remained generally strong. The ABI score for the month is up from 51.0 in July to 53.3 in August 2022
- Billings continue to rise in the West, but fewer firms reported growth in August than in past. ABI slightly over 50

# Top Construction Risk Management Risks

## Top Risks Today



[\\*AGC/FMI Risk Survey 2022](#)

## Top Risks Today

What is causing the most disruption on current projects?



**89%**  
of respondents  
experienced  
project delays

# Overall Insurance Market Trends for 2023

## Trends:

- Lack of **skilled** labor
  - Has been #1 risk issue for contractors for more than five years and counting
- More **complex** contracting structures
  - Design-Build is no longer seen as an Alternative Delivery Method
  - Owners are allocating more risk to General Contractors which in turn pushing down additional risk to subtrades
  - Vertical integration and/or taking design in-house
- Supply chain **disruption**
- Material cost volatility
- Inflation and interest rates and impact on budgets
- Project delays
- Subcontractor **financial** health and wellness
- Increase in **frequency of severity of claims**
- Notable challenges:
  - Communicable disease exclusions
  - Large auto fleet exposures/street and road
  - Wildfire exposed risks
  - Umbrella/Excess liability
- **Cyber** risks increasing and availability of insurance

# Adapting to a Volatile World



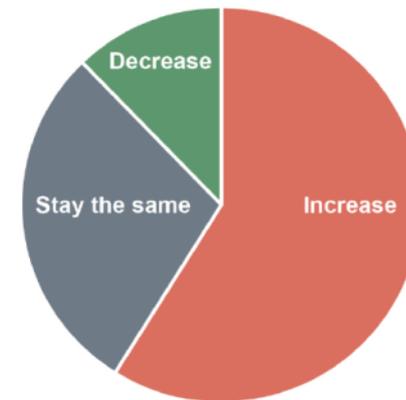
[\\*AGC/FMI Risk Survey 2022](#)

## Juggling Project Risks

### Top risk factors organizations consider when determining to pursue a project opportunity



### The average project size compared to a year ago (\$ revenue volume)



\*AGC/FMI Risk Survey 2022

# Primary Casualty Market Observations Going into 2023

## Observations:

- Abundant Carrier Capacity, but stricter underwriting guidelines on how that capacity is deployed
  - New InsureTech offerings available for adoption of tech platforms to gather data and greater project risk management
  - Exception is New York Construction which remains challenging and getting even more challenging
- Worker's Compensation was one bright spot for primary casualty, but losses are beginning to trend upward
- Auto Liability continues upward trend on losses
  - Increased use of Telematics
  - Cost to repair cars has increased
- Project Extensions
  - Reinsurance pressures causing large pricing increases
  - Extension challenges after a loss occurs
- Increase in captive (Both Single Parent and Group) interest or adoption

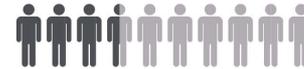
## Potential Solutions:

- Early and often: Continuous open dialogues with markets (akin to surety and banking relationships) to go through operations on a more intentional and regular basis
- Develop longer term relationships with carriers – this is not a shopper's market
- Data Driven Submissions: It's no longer only about exposures!
- Alternative program structures and ideas
  - Start with Umbrella Liability/Excess Liability and work backwards to underlying requirements

# The Skilled Labor Shortage and Impact on Construction

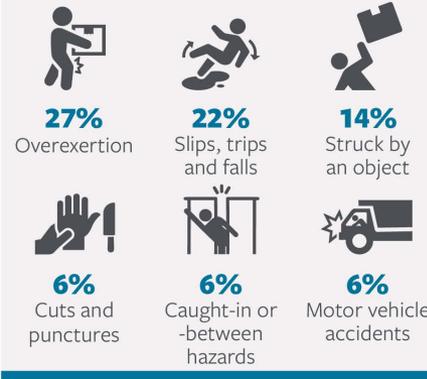


## TRAVELERS INJURY IMPACT REPORT

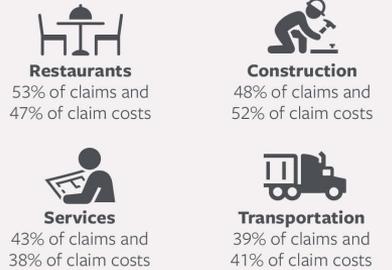


**35% of workplace injuries** occurred during a worker's first year on the job.

### The most common causes of first-year injuries were:



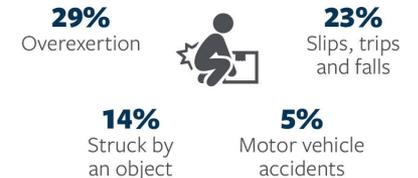
### Industries most affected by first-year injuries:



### Findings Across All Employees and Industries

The injuries analyzed kept workers across all industries out of work for **more than 17 million days**.

### The most common causes of all injuries were:

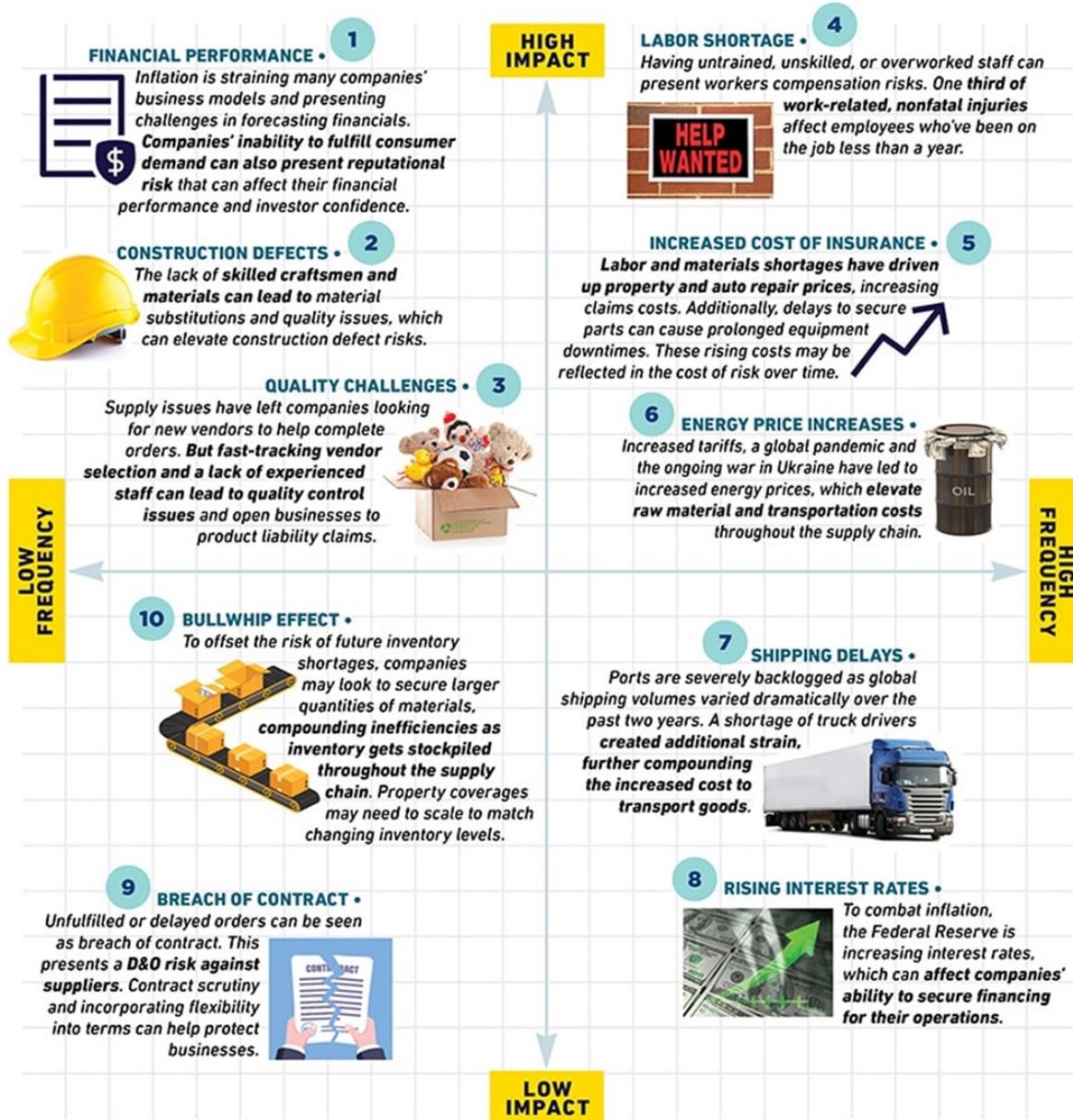


The industries with the highest average of missed workdays were **construction (98)**, **transportation (88)** and **services (69)**.

### Key Takeaways:

- Top 5 causes of injuries are costing the industry 11.3B a year.
- 48% of claims and 52% of claim costs involve construction workers employed for less than one-year
- Construction industry has average of 98 missed workdays per year

# The Supply Chain and Impact on Construction



Note: The Risk Matrix is produced by the Risk and Insurance® editorial team. Liberty Mutual Insurance is the presenting sponsor and has no responsibility for the content.

# Factors Impacting Auto Liability

**Risky behaviors.** Drivers can be distracted by anything, but here are the main culprits and results.<sup>2</sup>

How much do risky behaviors increase the likelihood of crashes?



**2X** Eating while driving



**3X** Grooming while driving



**23X** Texting while driving

More facts on cellphone use while driving.



Crashes due to cellphone use while driving:

**1.6M**

Injuries per year due to texting while driving:

**330,000**

Accidents due to texting while driving:

**25%**

Likelihood of accident from texting compared with DUI:

**6X**

**High-tech distractions.** Safety technology is helpful, but can be very distracting without specific training.

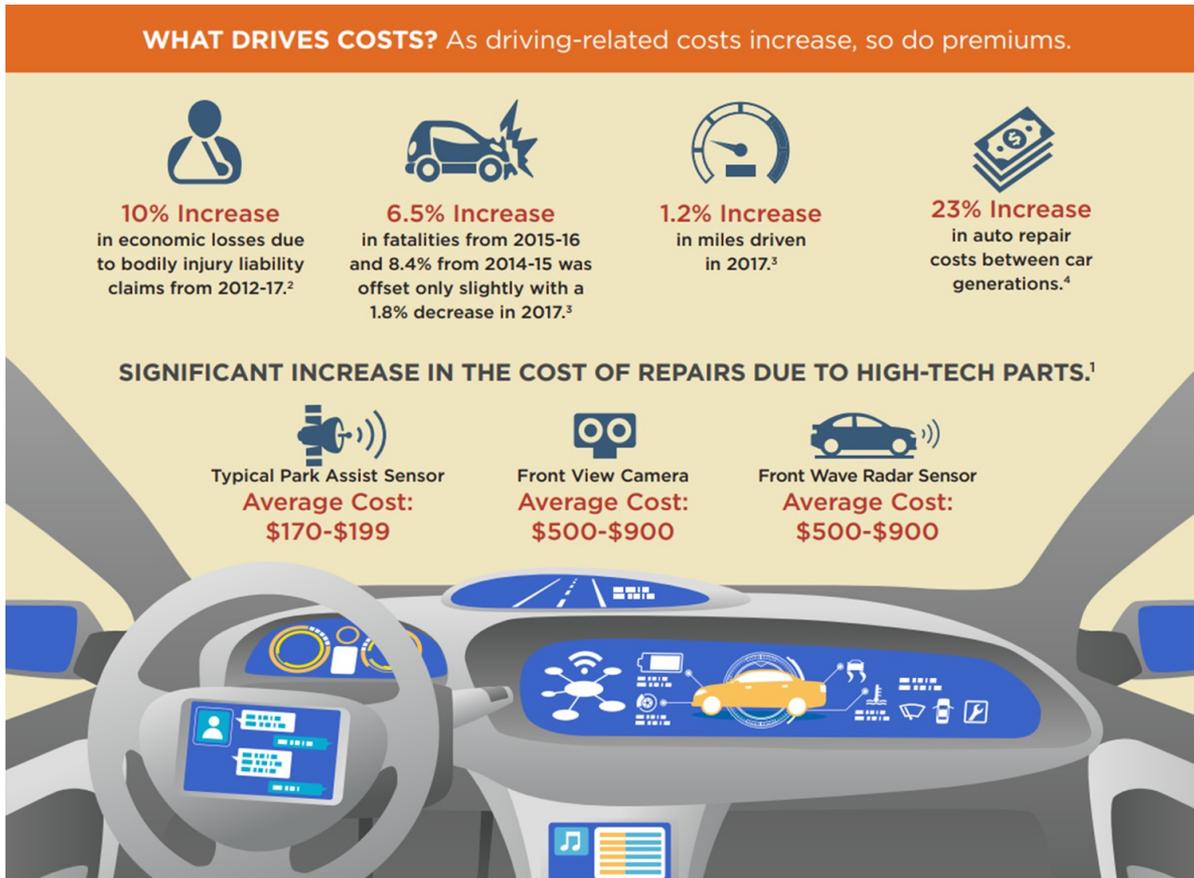


*"... there is a tremendous need to improve customer understanding of these critical safety features."*

- Daniel McGehee, University of Iowa Public Policy Center

\*Source: Hartford Construction

# Factors Impacting Auto Liability



\*Source: Hartford Construction

## Multitasking is hazardous to your health.

When you try to do two things at once, your brain is forced to shift focus.

See how the likelihood of a car accident increases while performing these common activities.

**TEXTING**

**23X<sup>1</sup>**



Turn your phone off when you get into the car to avoid temptation.

**REACHING**

**9X<sup>2</sup>**



Find a safe place to pull over and pick up a dropped item or something behind you.

**READING**

**4X<sup>2</sup>**



Choose a voice activated GPS to avoid taking your eyes off the road.

**GROOMING**

**3X<sup>2</sup>**



First arrive safely, then check your hair or makeup.

**EATING**

**2X<sup>2</sup>**



Eat *before* you get into the car so you can focus on the road.

<sup>1</sup> Driver Distraction in Commercial Vehicle Operations, FMCSA, 2009  
<sup>2</sup> <http://www.nhtsa.gov/About/NHTSA/Press+Releases/2006/100-Car+Naturalistic+Driving+Study>  
<sup>3</sup> Ergonomics in Design: The Quarterly of Human Factors Applications, October 2011

# State of the Umbrella/Excess Liability Market

## Trends:

- Reductions in Coverage – See primary casualty slide
- Reductions in capacity (i.e., from \$25M to \$15M or \$15M to \$10M, etc.)
- Increased underlying limit requirements Auto/GL limits
- Pricing stabilization after overcorrection of last 18 months. There is still pricing pressure resulting from underlying results

## Observations:

- Reduced underwriting authority
- Underwriting criteria is more stringent and in depth than before. It's no longer about providing underlying quotation and hope for the best. Hope is not a strategy!
- Extensions for project placements challenged
- Continued negative impact of Auto exposure

## Potential Solutions:

- Develop relationships and a reputation with carriers to drive positive results – OFF CYCLE
- Submission Quality is paramount – It is all about **Data!** No longer exposure base only,
- Initiate early renewal cycles and proactive project specific efforts; renewal efforts should be year-round.
- Broader risk management strategies matter (subcontractor prequalification include safety and financial health and wellness, QA/QC embedded process, project controls)

# State of the Builder's Risk Market

## Trends:

- Shrinking u/w appetites for: frame construction, solar, civil/underground, tunnels, and bridges
- CAT peril sub-limits are getting squeezed while deductibles are increasing
- Reinsurance costs are driving implied average rate indices higher
- Infectious disease exclusions imposed by almost every Builder's Risk market on renewals or new placement
- CLT/Mass Timber – evolving, mixed u/w appetite
- Supply chain disruption and material cost volatility impacting the accurateness of project budgets and project schedules.

## Observations:

- Specialty MGUs, and/or E&S markets are the only avenues for much of the “challenged” segments.
- Treaty reinsurance directly impacting u/w appetite
- Extensions on projects becoming more challenging with increased deductibles, rates and/or requirements (fire mitigation plans, water sensors, increased watchman patrol, etc.)

## Potential Solutions:

- Engage underwriter(s) early; helping them understand the design and contractor means & methods, controls and monitoring is critical in achieving competitive capacity
- Consider investment in technology to assist with project site safety/water and fire mitigation of risk
- Explore alternatives for higher risk (frame) projects including quota share solution
- Wrap Around/Difference in Conditions (DIC) coverage for inadequate insurance purchased

# State of the Contractor's Pollution and Professional Market

## **Trends:**

- Product Stability
- A&E Market showing signs of hardening
- High Risk Exposures like frame and residential under more scrutiny
- Project professional market still limited
- Communicable disease exclusions being endorsed on renewals and new placements
- Reduced Capacity Deployment

## **Observations:**

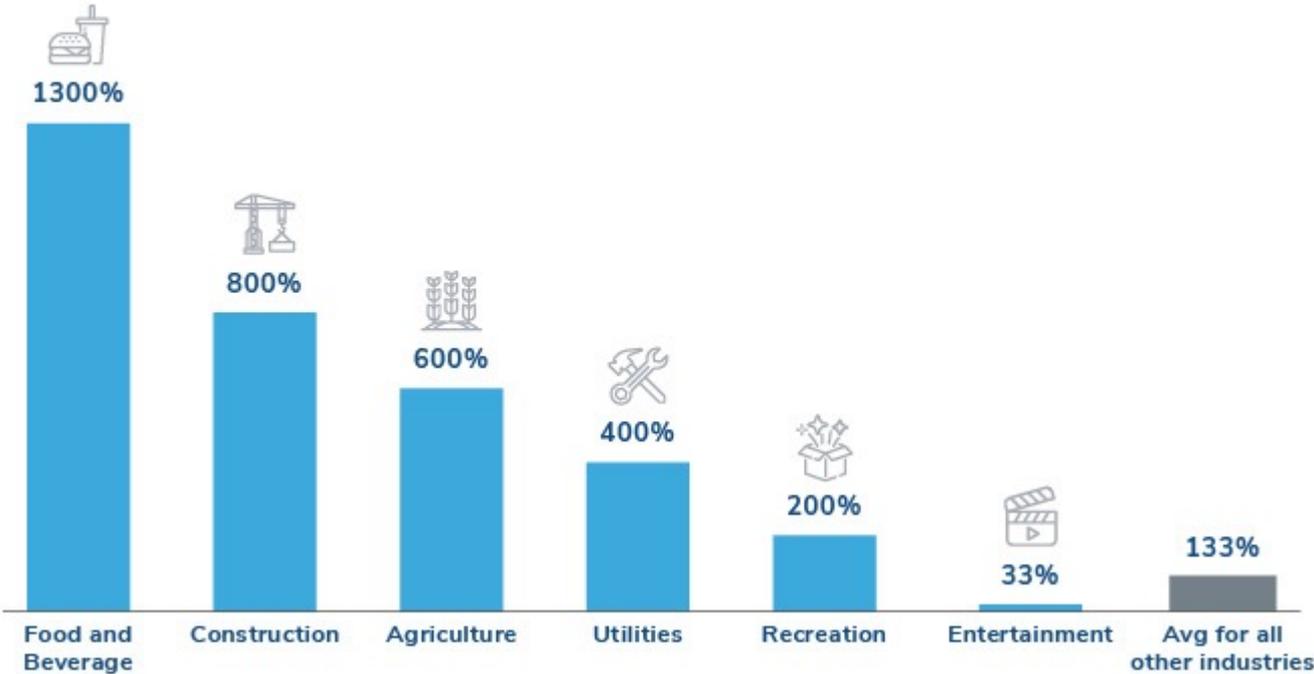
- Rate, Retention & Limit Stable
- Design Build Impact; Underwriters looking for more information on scope of work
- Residential, Wood Frame Sublimit Available

## **Potential Solutions:**

- Engage underwriter(s) early; helping them understand the design and contractor means & methods, scope of work and controls in place.
- Seek alternative program structures to maximize capacity and coverage while achieving the most efficient cost structure (moving away from large layers potentially)

# Cyber: Everyone is Impacted

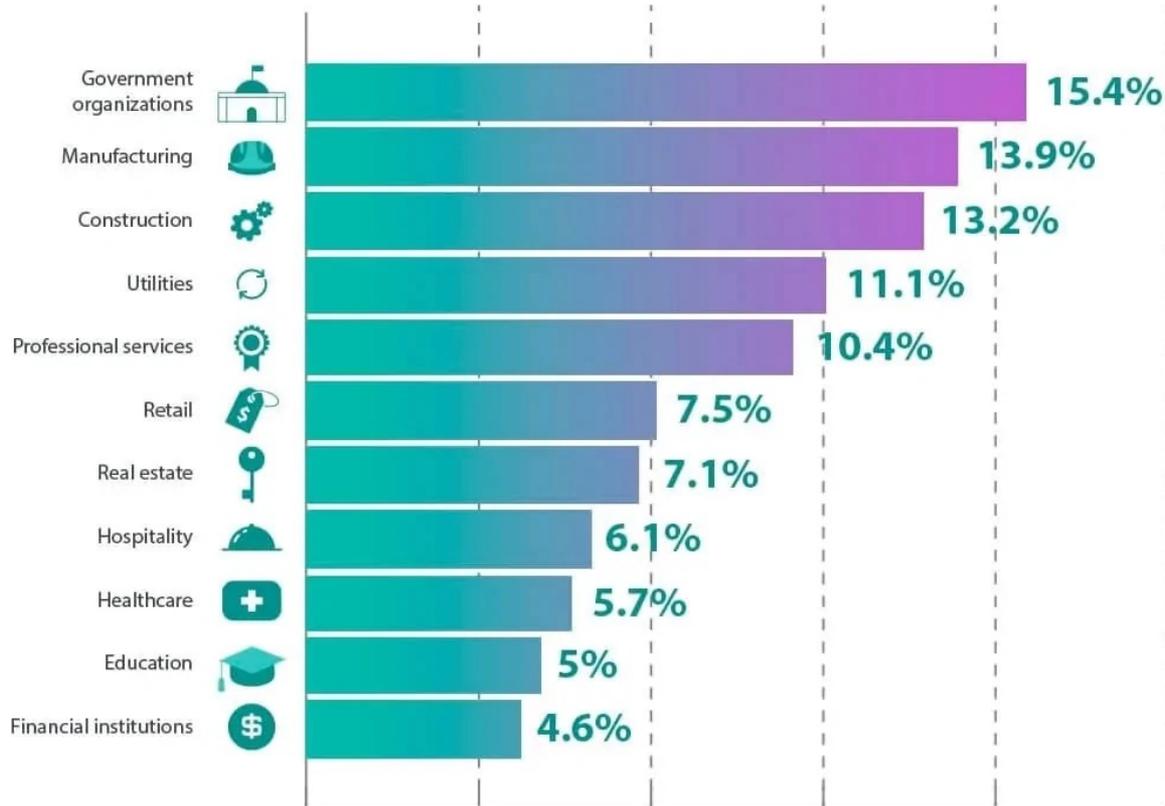
PERCENTAGE GROWTH IN 2020 DATA BREACHES COMPARED TO 2019



\*Source: <https://www.kroll.com/en/insights/publications/cyber/data-breach-outlook-2021>

# YoY Comparisons...Which Industries are Most at Risk?

## INDUSTRIES IN NORTH AMERICA REPORTING RANSOM ATTACKS IN THE LAST YEAR



Percentage of all reported incidents caused by ransomware



\*Source: <https://www.safetydetectives.com/blog/ransomware-statistics/>

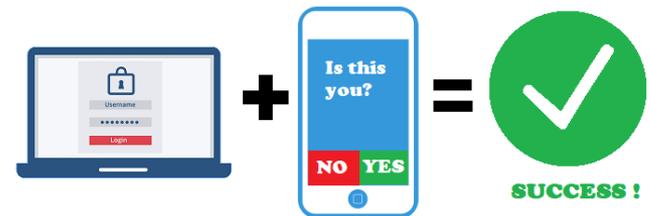
# State of the Cyber Market

## Trends:

- Technology and connected projects increasing to address labor shortage woes
  - Manage the fluidity of a workforce moving between work sites relying on laptops, tablets and smartphones (BYOD)
- Supply chain attacks on the rise
- Sharing sensitive data across multiple sites includes plans, blueprints, costs estimates, bids and employee records
  - Shift to remote work has left employees and employers more vulnerable to Cybercrime
- Business interruption is largest fear by employers
- Owners asking for more details on contractor and subcontractor cyber insurance and privacy procedures

## Observations:

- Increased excess rates
- Aggregation Exposures (supply chain, specifically)
- Premium and SIR changes
- Additional underwriting requirements
  - Cyber hygiene really does matter!
  - You may be OK, but what about your subcontractors?



## Potential Solutions:

- Cyber risk should be part of your overall enterprise risk management approach – not only an “IT Issue”
- Engage with cyber specific vendors on the front-end. Sourcing vendors after a loss
- Build a solution based on three core building blocks: Liability costs, Compliance/corrective costs, and Direct costs

## Other Market Observations

- Environmental Social Governance (ESG)
- Employment Practice Liability and Other Executive Risks post the **#MeToo** movement
- Mental Health and Suicide among Contractors
- Commercial Contractors Expanding into Residential
- New Product Developments
  - Parametric and Pandemic Insurance Solutions
  - Project Loss Insurance as an alternative to Subcontractor Default Insurance (SDI)



**Q&A**

**Thank you!**