



2018 Market Outlook: Construction

Construction Industry will Continue Strong Growth Amid Cost-Related Headwinds

The construction industry experienced a record-breaking 2017 with annual revenue of close to \$2 trillion dollars. This year, the industry is expected to remain strong, continuing the steady pace of growth since 2011. Labor constraints, commodities and material pricing are likely to continue to restrain cost and profit margins.

Below is a quick summary of other major issues that are expected to impact the construction industry this year.

Key Points

- Headwinds threaten cost and profits
- New form rollout in 2018
- Labor shortage crisis

Massive Changes to Standard Construction Agreements

The American Institute of Architects amended the standard construction form in 2017 for owner-architects, owner-contractors and general condition agreements. This form, a six-page document that serves as a baseline for many contracts, was adopted in mid-2017, but it will be part of many contracts in 2018. Unlike the old agreement, which contained much ambiguity regarding responsibilities and insurance requirements, the new version offers clarity on who has what responsibilities, forms required, and limits for liability and property, among other items.

As these forms come into play, construction firms should work with their risk consultants to understand the changes, review contracts to ensure they are properly amended, and secure appropriate risk transfer solutions.

Labor Shortage

Labor shortages continue to plague the construction industry, having shown very little recovery since the 2008 financial downturn. As a result many construction companies continue to struggle with performance requirements and contractual obligations.

Risk consultants are working with construction clients nationwide on a number of inventive solutions, including claims review, proper implementation of loss control measures and real-time analysis to understand the financial impact of employee behavior, and to identify areas where costs can be reduced to allow payment of higher wages.

Broad workers' compensation programs are also being developed to help companies address injuries that may result from understaffing.

Key Points

- OSHA focused on construction accidents
- Housing market to remain in flux
- Companies face increased cyber threats
- Auto rates on the rise

OSHA Prosecutions

Criminal referrals by the Occupational Safety and Health Administration (OSHA) are on the rise. As the agency continues to strengthen safety protocols, it has become more punitive when accidents occur by issuing fines against companies and pursuing criminal actions. These trends are expected to accelerate in 2018.

OSHA is keeping an eye on preventable construction accidents. An example of this is trenching, one of the most dangerous jobs in construction, with fatal accidents more than doubling over last year. OSHA, which recently released a video via Twitter about trenching hazards, believes these incidents are preventable if contractors comply with the agency's safety standards and employee training on proper operating procedures.

To avoid running afoul of OSHA, construction firms need to work closely with risk consultants to improve loss control measures.

Housing Market Uncertainty

New construction in the housing market will likely remain in flux in 2018. Housing starts could be negatively impacted by tax reform because of the reduced value of mortgage interest and property tax deduction.

Construction companies will need better analysis and planning of property exposures prior to construction. With the help of risk specialists, companies should properly review projects and soft costs. USI's Builders' Risk program can provide broader coverage to help make projects more affordable.

Technology

Increased reliance on technology for construction projects has opened the door to more cyberattacks against construction companies. These cyberattacks can impact the effective use of equipment, safety of equipment and personnel, and security of confidential plans, and vendor payable systems, among other risks.

A complete risk assessment and policy review is critical for construction firms. Companies need to work with risk specialists who can help them perform these sophisticated pre-loss activities and secure broad cyber and privacy policies such as USI PrivaSafe.

Automobile Insurance Rate Increases

Auto rates are increasing anywhere from 5% to 15% in most markets. This is increasing cost for construction companies of all types and sizes.

To mitigate auto insurance cost, companies need to adopt proactive loss control measures, including stringent driver screenings. Risk consultants can assist with claims advocacy and reviewing cost efficiency of either self-insuring physical damage exposure or moving to a marine form for larger fleets.

Construction Defect

Construction Defect claims in residential projects are no longer a “California-only” issue. There is a higher frequency of construction defect claims around the country, impacting firms of all sizes.

Subcontractors and trade contractors should work closely with risk consultants to plug potential coverage gaps with a Blanket Installation Floater. For developers, obtaining the right Builders’ Risk program is essential.

What Insureds Can Do

It is recommended that clients be as proactive as possible so they can clearly articulate to carriers how their specific risk differs from other companies in the same industry. Pre-loss safety and loss control and post-loss claims handling strategies should be revisited and spelled out in market submissions. Clients and their brokers may also need to conduct their own analytics to best assess the risk/reward of their retention levels.

For more information on how USI can help protect your business, contact a USI consultant.



Click to read the [2018 USI Insurance Market Outlook](#) report, which details expectations for 19 coverage areas including new expert insights on specific industry vertical markets.

Key Points

- Construction defect claims up in many states
- USI's 2018 Market Outlook