



2019 P&C Market Outlook: Construction Sector Overview

INSIGHTS FROM USI NATIONAL PRACTICE LEADERS

Market pressures continue to squeeze profit margins for construction contractors.

With so much uncertainty around trade tariffs, interest rate increases and higher material prices, economists are questioning whether the construction industry can sustain its strong pace of growth in 2019.

The headwinds notwithstanding the construction industry had a record-breaking year in 2018 as evidenced by a 6% year-over-year increase in put-in-place construction. The growth forecast remains strong for 2019 as the industry continues to enjoy a vibrant economy with favorable outlooks for all major sectors, both private and public.

Going into 2019, immigration and labor force issues, offsite fabrication, green construction, technology advances and effective subcontractor prequalification are expected to impact construction firms' ability to manage risk effectively and efficiently.

While capacity for construction insurance remains competitive, insurers are likely to deploy capital selectively.

Highlights

- **Trade Tariffs** - The impact of trade tariffs on project costs and profits remain unclear. Many reports in the first half of the year showed price increases for materials like steel, aluminum and lumber even though the tariffs had not been imposed yet. Curiously, following the imposition of tariffs, the price increases stabilized, and contractors are now taking a wait-and-see approach.
- **Modular and Pre-fabrications** - Pressure to be more efficient with building processes and cost has renewed interest in modular and prefabricated construction. Modular construction utilizes off-site manufacturing locations to speed up sequencing, thus reducing build time. Additional benefits include quality control and increased worker safety. This construction method, however, raises several serious concerns, including:
 - How general liability insurance policies would respond to a potential claim.
 - Transit and supply chain exposures.
 - How workers should be categorized for the workers' compensation program.

- **New Technology** - such as the increased use of robotics drones, GPS and laser-guided equipment on construction sites - will continue to have a significant impact on the industry. Building Information Modeling (BIM), safety applications on tablets and smartphones, drones, and wearable technology are all advancing contractor's ability to provide faster, safer, and better-quality projects on time and on budget.

Challenges

Labor Shortage - A recent Associated of General Contractors (AGC) study conducted revealed 80% of respondents were having difficulty filling skilled labor positions. The labor shortage continues to be one of the leading trends in construction since the downturn in 2008. Even with Congress passing a bill to modernize and increase funding for careers in technical education, construction firms are struggling with recruiting and retaining talent.

Catastrophe Exposures – Wildfires, hurricanes, tornadoes, flood, snowstorms and other catastrophes have created record property losses in the United States in the last twelve months. With construction materials and equipment heavily exposed to these disasters, construction companies face increased property risks.

What Insureds Can Do

- While capacity for construction insurance remains competitive, insurers are becoming increasingly selective with capacity deployment.
- USI expects construction firms that are proactive and disciplined on their risk management philosophy and approach will receive a more favorable view from insurance carriers. Having a strong safety culture and the ability to articulate an organized and developed claims trend and strategy are critical points to highlight in market submissions.
- It is important for insureds to work with risk advisors on developing analytics around various risk financing opportunities. This will help drive better decision making and favorable outcomes. Also, as decisions are made concerning material purchasing, construction firms should work with their risk advisors to ensure property and builder's risk policies are structured properly to minimize cost and maximize coverage.