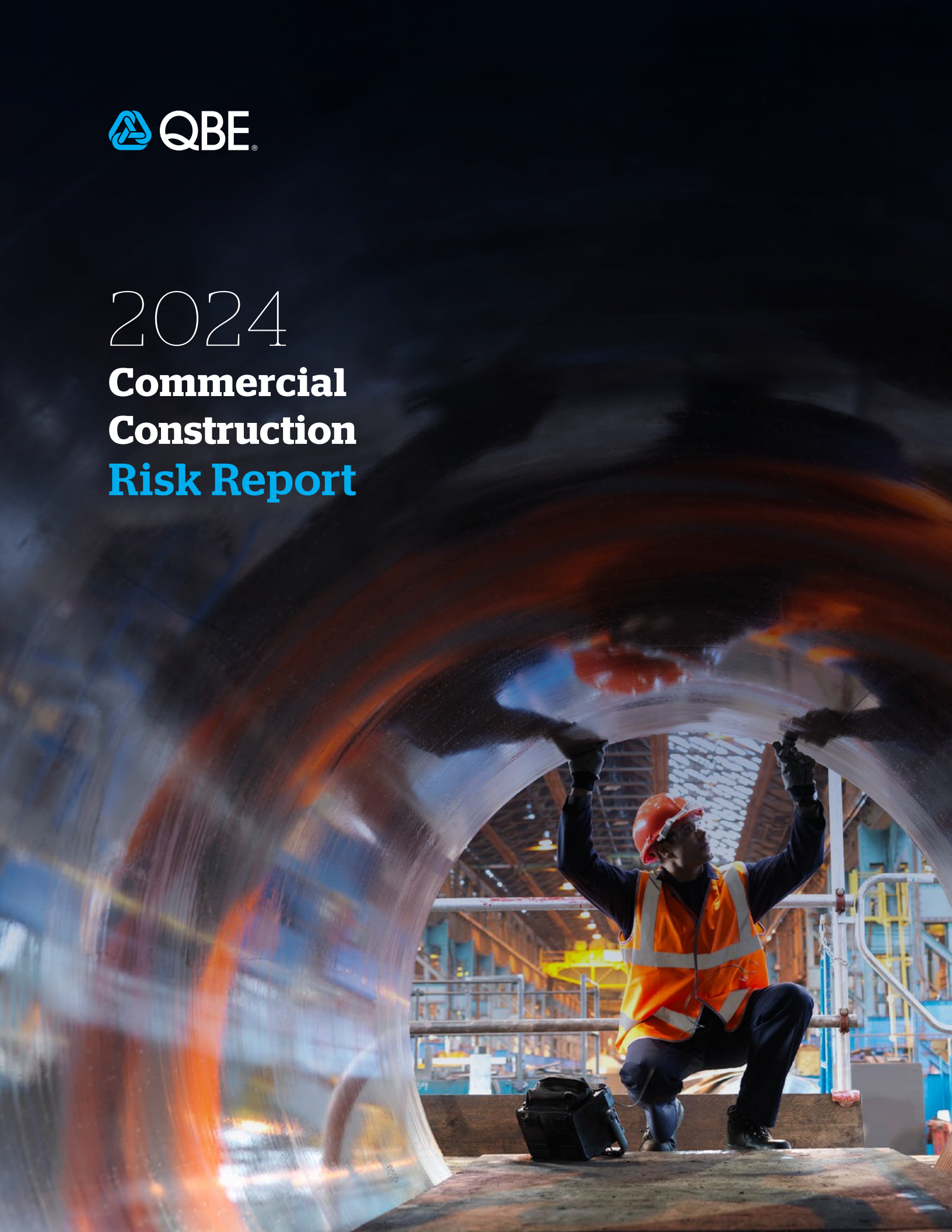




2024 Commercial Construction Risk Report





Introduction

The construction industry is an integral part of the U.S. economy, significantly contributing to economic growth and development. The industry employs more than 8 million people, and as of March 2024, the estimated annual rate for total construction spending was nearly \$2.1 trillion¹. This critical role is challenged by a multitude of unique and ever-evolving risks, including a skilled labor shortage, cybersecurity threats, supply chain disruption, increasing material costs, the potential for worker injuries and new exposures that come with the integration of new technologies.

To deepen our understanding of the issues, we surveyed 500 U.S. commercial general contractors and construction managers to uncover the key risks that threaten project timelines, budgets and safety. This effort reflects our commitment to identifying these formidable challenges, examining their nuances and providing actionable insights.

At QBE, we are dedicated to empowering our customers with the confidence to build a more resilient future. By exploring the intricacies of the commercial construction industry, we aim to equip commercial general contractors and construction managers with the knowledge to identify, evaluate and mitigate risks.





Key takeaways

- ✔ Top risks keeping respondents up at night are also the risks they are least prepared for, including cybersecurity, cost overruns, high interest rates, labor shortage/lack of skilled labor and economic downturn.
- ✔ High interest rates and owner contract disputes are top factors leading to cost overruns.
- ✔ Nearly half the respondents intend to improve their safety plans over the next 12 months.
- ✔ While risk management training is provided to employees, the quality and frequency of training needs to improve.
- ✔ Electrical, HVAC and heavy construction are most impacted by a lack of skilled labor.
- ✔ New technology is being implemented to improve quality of work, safety, collaboration and efficiency.





Risk and preparedness

Given the inherent high-risk nature of construction, it is not surprising that commercial general contractors and construction managers are concerned about their ability to mitigate a variety of challenging risks.

The survey revealed cybersecurity as the top risk, followed closely by concerns over cost overruns, high interest rates, labor shortage/lack of skilled labor and an economic downturn.² Cyber threats are clearly a growing concern, emphasizing the need for construction companies to integrate cybersecurity best practices into risk management plans. The persistent lack of skilled labor also remains a significant risk, which, left unmanaged, can adversely affect operations, inflate costs and compromise quality and safety.

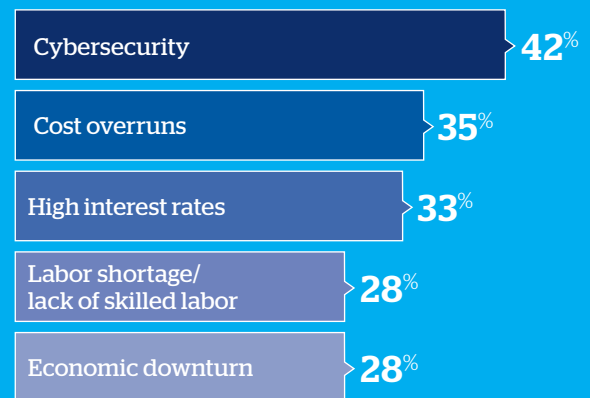
Managing costs is critical to the success of a construction project. This challenge is magnified in times of inflation coupled with concerns about an economic downturn. Survey respondents identified high interest rates (40%) and owner contract disputes (40%) as primary factors leading to cost overruns.

Interestingly, the risks that most concern survey respondents are the same ones they feel least prepared to handle, with cybersecurity again topping the list. This suggests a gap between the awareness of potential threats and the readiness to manage their impact.

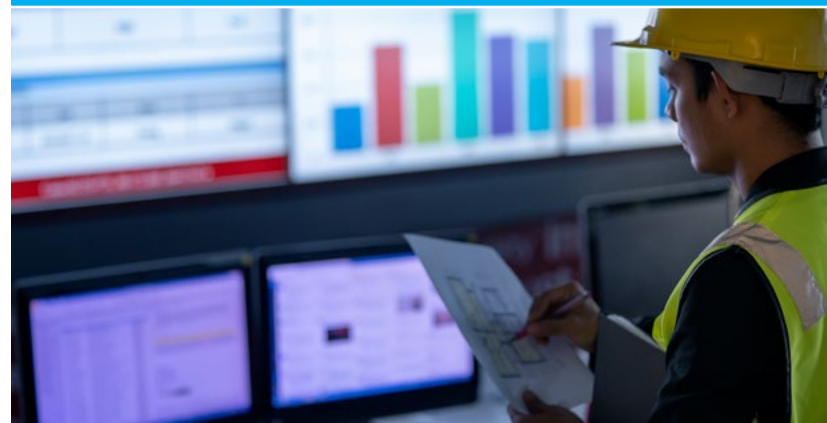
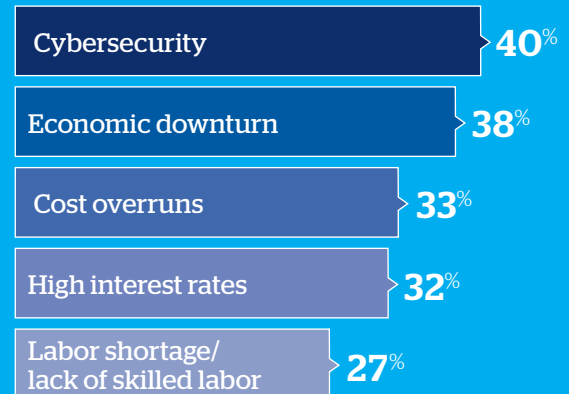
This issue is particularly true for mid-sized construction companies, which often operate with less financial capacity than their larger counterparts. Such companies may not have the resources to address certain exposures or the financial reserves to absorb the disruption and significant losses caused by some risks.

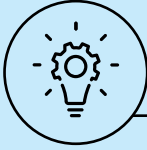
Cyber, financial and labor are the top and least prepared for risks

The risks that respondents are most worried about are:



The risks they are least prepared for are the same:





Now hiring: Skilled labor

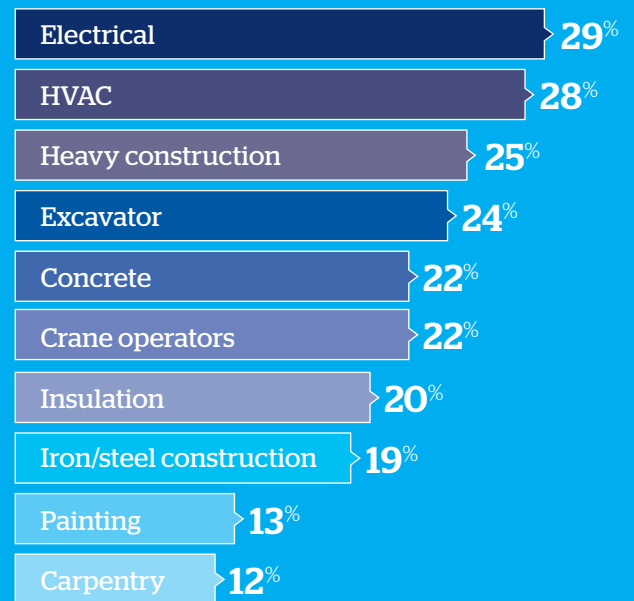
A major, ongoing challenge facing the construction industry is a shortage of workers, especially skilled labor. As of March 2024, the Bureau of Labor Statistics (BLS) reported 274,000 job openings in construction³, highlighting a significant gap between supply and demand. This shortage can impact a project in many ways including quality of work and safety.

A key factor exacerbating this issue is the industry's aging workforce. With one in five workers aged 55 or older, a considerable portion of highly skilled and experienced workers is nearing retirement.⁴ At the same time, attracting workers to the industry remains a challenge, despite increased public and private efforts to attract a new generation of workers. To address this competitive job market and combat the labor shortfall, companies are increasing compensation packages, benefits and career development opportunities.

While skilled tradespeople are needed across the board, 29% of survey respondents identified the electrical trade as being the most impacted by this skilled worker deficit. According to the BLS, the employment of electricians is projected to grow faster than the average for all occupations between 2022 and 2032, with, on average, about 73,500 openings each year.⁵

The labor shortage also creates significant safety risks. New workers may lack the knowledge, experience and training to recognize the hazards that exist on a jobsite. It is crucial that companies conduct a thorough screening of potential employees to ensure they have an appropriate level of experience and training to perform needed tasks efficiently and safely.

Trades most impacted by lack of skilled workers





Innovation: With opportunity comes risk

The construction industry has long relied on decades-old means and methods. In recent years, however, new technologies have been implemented across almost every aspect of the business. While innovation creates opportunities, it also introduces risks.

Like all industries, the construction industry is experiencing a variety of cyber threats. A ransomware attack, for example, encrypts files and locks a company out of its computer system until a ransom is paid. Simply clicking on a malicious link in an email can have operational, financial and reputational impacts, potentially halting business operations until the situation is resolved. Construction is also a collaborative process in which numerous companies come together and share sensitive project information. This environment creates additional vulnerabilities and opportunities for cyberattacks, especially as these companies may have varying levels of training regarding cybersecurity best practices.

Cyber threat actors are targeting the construction industry and preventative steps must be taken to mitigate

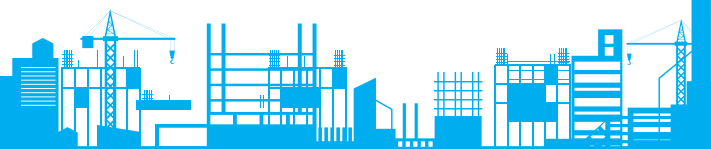
these threats. Educating and training employees on cyber hygiene is the first step in building a human firewall of defense. Companies should work closely with their IT support to implement robust cybersecurity controls to protect sensitive information.

While there are risks, investing in new technology offers numerous benefits. When asked for their primary motivations in adopting new technologies, survey respondents ranked the top reasons as quality of work, safety and improved collaboration and efficiency.

The industry has begun to adopt new technologies: telematics remotely tracks equipment and fleet usage, as well as monitors driver location and behavior; drones provide an aerial view of the jobsite to monitor progress, track materials and identify hazards; and wearable technology is used to monitor workers' heart rates, detect when an accident occurs and alert workers of potential hazards.

Which of these wearable technologies would be most valuable for your business?

Smartwatches	38%
Power gloves	38%
Smart/AR glasses	38%
Smart boots	37%
Smart hard hats/helmets	36%
Smart vests	34%
Biometric sensors	32%
Exoskeletons	28%



Top reasons why new technology is adopted is to improve


46%
Quality of work


46%
Safety


44%
Collaboration and efficiency



Risk management: Room for improvement

Navigating the complex risk landscape of the construction industry is inherently challenging.

Implementing strategies to attract and retain workers, managing cost overruns and establishing relationships with alternative suppliers for supply chain stability are critical. Plans to manage these risks are essential to keep project completion schedules on time and within budget.

Ensuring workers return home safely each day must be a top priority, given construction is one of the most dangerous occupations in the U.S. According to BLS, in 2021, nearly one in five workplace fatalities occurred in construction.⁶ To improve worker safety, nearly half of survey respondents plan to enhance their safety plans and programs within the next 12 months, with 46% intending to increase safety training frequency.

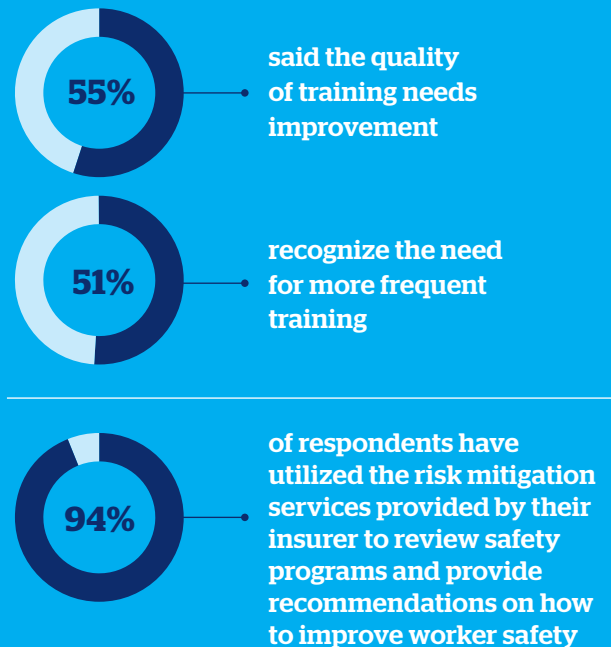
Having a risk management structure and process in place to identify, assess and mitigate potential risks will help ensure safe and successful projects. According to our survey, 34% of respondents indicated that the general contractor or construction manager oversees risk management, whereas 20% reported having a dedicated risk manager at their company. One way to make certain the process is optimized for success is through training. Although respondents acknowledged some risk management training is provided, the majority said the training needs to be more frequent and of a higher quality.

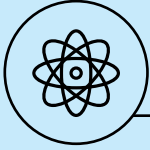
Given the complexity of construction projects and the number of entities and workers involved, a more robust risk management program plays an important role in ensuring safe and successful builds.

Actions to improve worker safety in the next 12 months



Risk management training





Mitigating the risks

Commercial general contractors and construction managers can mitigate risks by taking proactive measures to protect their business and their people. Here are some suggestions to address specific risks cited by many of our survey respondents:

Labor shortage continues

Ensuring workers have the right experience and skills keeps everyone safe

As the labor shortage continues, the potential for liability exposures increases. Some companies may be faced with hiring inexperienced labor. Hiring workers who lack the appropriate work experience can lead to an increase in injuries, quality issues and equipment damage. Strong hiring practices are essential to ensure employees and subcontractors have the necessary credentials. This includes a comprehensive orientation of the work environment, a safety plan review, on-the-job training and regular check-ins to monitor progress. The top priority is maintaining a safe work environment and ensuring workers return safely to their families each night.

As cyber threats evolve, so must your cyber defenses

Implementing cybersecurity best practices with a human firewall is critical

While cybersecurity threats are a growing concern across all industries, the construction industry is being actively targeted. The collaborative nature of construction projects exposes multiple vulnerabilities. Companies can limit their cyber risk exposures by cultivating an informed workforce that adheres to cybersecurity best practices. Employees need to know how to recognize potential cyber threats and how to report them. Companies should work closely with their IT support to identify vulnerabilities and regularly update software and operating systems. Building a sound risk mitigation strategy and plan is the first step. Collaborating with technology, insurance and legal partners for support and guidance is also important.

Navigating changing economic and financial conditions

Proactive financial planning can help build a financially resilient future

Rising interest rates increase borrowing costs for companies, affecting project expenses, timelines and profitability. Given rising material and labor costs, predicting future project costs is more difficult. To account for these financial uncertainties, companies should closely review budgets, get ahead of cost overruns on current projects, add contingencies into contracts on future projects and consult with financial experts to assure profitable and successful projects.



Survey methodology

The QBE Survey was conducted by [Wakefield Research](#) among 500 U.S. commercial general contractors and construction managers at companies with a minimum annual revenue of \$20M USD, between March 11th and March 24th, 2024, using an email invitation and an online survey. Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 4.4 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

¹<https://www.bls.gov/iag/tgs/iag23.htm#workforce>
<https://www.census.gov/construction/c30/current/index.html>

²What are the top risks to your business that keep you up at night? Choosing from a list of options which included the following: change orders, changing regulations, cost overruns, cybersecurity, economic downturn, high interest rates, labor costs, labor shortage/lack of skilled labor, material costs, supply chain disruptions, quality defects, safety, subcontractor costs, subcontractor default and other.

³<https://www.bls.gov/news.release/jolts.htm>

⁴<https://www.bls.gov/spotlight/2022/the-construction-industry-labor-force-2003-to-2020/home.htm>

⁵<https://www.bls.gov/oooh/construction-and-extraction/electricians.htm>

⁶<https://www.bls.gov/opub/ted/2023/construction-deaths-due-to-falls-slips-and-trips-increased-5-9-percent-in-2021.htm>

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QBE North America's Construction Practice

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