

## The Top 5 Challenges Contractors Will Face in 2019

As we hurtle out of the holiday season and into February, now seems like a good time to look at what else 2019 will hold, and consider some of the risk management and insurance challenges that contractors are likely to face in 2019. The following are five such challenges, in no particular order.

### 1. Tariffs & Trade Wars

Recently imposed tariffs are having a significant impact on the construction industry. The rising cost of materials, specifically, steel and aluminum, is driving increased costs. Stack this on top of increases in the cost of lumber, and material costs become one of the most significant issues contractors had to tackle both upstream and downstream in 2018. Unfortunately, this challenge will continue well into 2019, and projects facing budget difficulties may have to be pushed off into the unknown future. While managing your material costs, you will also need to be diligent in ensuring that your subcontractors aren't at risk for default as they struggle to manage their own rising costs of materials.

### 2. Excess Liability Capacity & Pricing

In 2019, excess liability carriers are experiencing greater claims frequency, rising claims costs and higher loss ratios. To limit their exposure and offset their losses, excess liability carriers, in some states, are starting to implement a requirement that the primary auto liability policy carry a liability limit of \$2 million—up from the traditional, standard primary limit of \$1 million.

Another issue being faced is the lowered capacity of excess liability insurance carriers. Many of the same carriers that insure general contractors and subcontractors for excess liability are the same carriers that are insuring the wrap-up policies on large projects. It is not uncommon that a carrier providing a \$50 million owner-controlled insurance program/contractor-controlled insurance program policy could also be carrying a \$25 million excess policy for the contractor's off-site exposure. As a result, carriers may be running low on capacity and some are beginning to reduce the coverage limits they are willing to offer. This means that where a contractor may have

traditionally placed a \$10 million limit with one carrier, they may now find themselves having to layer their program with multiple carriers to secure the same \$10 million limit, which adds time, complexity, and difficulty to program structure and management.

### 3. Labor Shortage

As we have all heard by now, there is a labor shortage in the marketplace. With the unemployment rate continuing at an all-time low, labor and staffing will remain an increasing challenge for all parties involved in 2019. In an effort to meet project staffing demands, contractors have had to bring in labor from other regions, reaching beyond their traditional staffing channels.

In addition, employers have had to deal with associated issues of a strained labor force. Specifically, when it comes to workers' compensation, while the ultimate loss ratio may be trending up only slightly, the indirect "soft costs," resulting from on-the-job injuries, will continue to plague the industry. And now, the issue of cannabis is front and center. Workers' compensation carriers will be facing the dilemmas of whether the use of medical marijuana is an alternative to opioids and if there is an acceptable method of legally prescribing it.

Finally, it is commonly known that the construction industry employs a large number of immigrant workers. Facing an already significant labor shortage, the current focus on immigration laws poses a unique unknown for contractors, even more so than for many other industries.

### 4. Auto Insurance Market

Insurance carriers have been facing a rise in both frequency and severity of auto losses year over year, making commercial auto one of the worst performing property casualty lines. As a result, underwriters have continued increasing rates and premiums to offset tighter margins, reevaluating and often restricting their underwriting.

Fewer carriers are now willing to write auto policies on a monoline basis, and accounts with a distressed loss history are having to seek options in the surplus lines market. Enhancing and strengthening fleet safety programs is critical to managing auto insurance premiums going forward.

## 5. Cyber Security

It's not uncommon for a contractor to believe they have little or no exposure when it comes to cyber threats or liability. While some of the larger and more publicized breaches have involved major companies and financial institutions, every company (and individual for that matter) is exposed to cybers security risk.

In fact, the construction industry has unique vulnerabilities that don't typically exist in other target industries. At any given time, your systems may contain sensitive structural and security details and designs for a variety of structures. In addition, if you move a large number of employees through your organization, you are housing a potentially significant amount of sensitive personal data.

The frequency of phishing, social engineering, and cyber/extortion continues to rise, and contractors should be having discussions about how to protect against and prevent such attacks that extend beyond simply purchasing a cyber liability policy.

When the risk management process is properly employed and insurance coverage is placed correctly, contractors can partner with a carrier to create safer incident response policies and communication protocols, as well as third-party vendor management practices.

Understanding the exposures to risk you face; identifying and analyzing options for mitigating, controlling and managing those risks; and partnering with professionals who can properly advise upon and deliver comprehensive, cost-effective products, services and solutions are a must today, next year and beyond.