



Marsh McLennan  
Agency

# Construction Risks Report

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# Where is the construction market today?

Construction continues to grow, with overall nonresidential, including civil, currently growing at 6%, on pace with 2023 growth according to FMI's 3rd quarter outlook. There are weak spots and challenges. Rising interest rates, inflation, and credit market restrictions are delaying starts as private owners re-evaluate new developments. Previously hot markets, like multifamily, lodging and commercial, are showing signs of overbuilding. Everyone seems to be waiting for interest rates to move and to see what happens in the fall election cycle.

What are the hottest areas in the market? Data, battery/electric vehicles, infrastructure, energy, water, health care, and higher education remain strong. The [Infrastructure Investment and Jobs Act \(IIJA\)](#) authorized \$1.2 trillion of transportation and infrastructure spending in 2021. By the end of 2023, nearly [\\$400 billion across 40,000 projects](#) had been announced.

While the construction sector seems to be past the logistical challenges created by the COVID-19 pandemic, high inflation rates still drive up the cost of materials, labor, and equipment, eroding profit margins and squeezing budgets, making it increasingly challenging for contractors.

Against this backdrop of uncertainty, risk management and risk transfer solutions can empower contractors to safeguard their bottom line and position themselves for growth.

\*Source: <https://fmicorp.com/insights/construction-outlook/2024-north-american-engineering-and-construction-overview-third-quarter>

# Five risks impacting construction in 2024

Understanding the risks currently permeating the industry is essential for navigating and mitigating potential challenges that can impact project success and business stability. In this report we look at these five risks:

**1**  
The rise  
of the mega  
construction  
project

**2**  
Backlog  
management

**3**  
Ongoing  
labor shortage

**4**  
Burnout and  
worker wellness

**5**  
Environmental  
regulations

# **The rise of the mega construction project**







# With immense size comes complexity and risk.

Driven by rapid urbanization, economic stimulus, and innovations in construction technology, megaprojects have become a significant feature of the construction landscape. Noteworthy spending comes from IIJA activity, which helped produce [two strong years of construction megaprojects](#).

31

construction  
projects valued  
at \$1B or more  
by IIJA in 2022

41

construction  
projects valued  
at \$1B or more  
by IIJA in 2023

This recent boost in job creation is stimulating competition and more contract negotiations among general contractors and subcontractors. It influences contract terms, pricing, and project timelines and potentially strains resources and capabilities.

On top of typical project and safety management concerns, these projects have become “mega” partly due to the significant financial risks their owners and developers face, related regulatory and environmental compliance issues, and logistical challenges around supply chain and human resource management. The potential for cost overruns, delays, and contractual disputes is high.

**Additionally, inflation cannot be ignored. Since 2020, the construction industry has experienced [above-average inflation rates](#), including 14% and 15.7% in 2021 and 2022, respectively, for residential buildings and 8% and 12% for nonresidential.**

Compare this to the 30-year average 3.7% inflation rate for residential and nonresidential buildings prior to 2021.

Inflation impacts more than just material costs; it leads to higher interest rates and capital management and surety requirements. Companies must ensure they can handle these larger financial requirements without compromising their financial stability.

What role should insurance play in mitigating these risks?

Common coverages applicable to these large-scale projects include:

	Builder's risk		Workers' compensation
	Professional, general, and environmental liability		Cyber insurance
	Supply chain insurance		Surety bonds

Brokers should explore policies that provide recovery for delays and damages due to catastrophic weather conditions, subcontractor default, and other specific perils to the project. These policies are generally secured in London and carry higher premiums and retentions than typical insurance.

Securing adequate and appropriate coverage requires a detailed understanding of the project's specific risks and challenges, as well as ongoing risk assessment and management throughout the project lifecycle.

Additionally, the global insurance market for megaprojects is heavily influenced by broader economic conditions, such as the impact of inflation rates on the cost and availability of specific coverages.



## Risk mitigation strategies for megaprojects

The sheer size and scope of megaprojects inherently involve high levels of financial, operational, and regulatory risk—and no two contractor-to-project relationships are exactly alike. How your business operates impacts the risk just as much as the details and logistics of the project. Working with an experienced broker to evaluate the business risk and anticipate potential vulnerabilities is the best way to develop robust and tailored risk mitigation strategies.

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### Contractor with contract and supply chain risk



**The challenge:** A subcontractor on a \$2.5 billion project delivered \$40 million worth of equipment from global suppliers. Motivated by the complexity and scope of this project, the contractor enlisted Marsh McLennan Agency to perform a comprehensive risk assessment and provide strategic guidance on addressing potential vulnerabilities.

Lack of clarity in the subcontractor's contractual agreements, particularly regarding liability and risk allocation, posed a substantial challenge. The absence of contingency plans in the event of supplier failures or delays exacerbated this issue. While the project had an owner-controlled insurance program (OCIP), uncertainties lingered surrounding coverage gaps and deductibles within the policy.



**The solution:** In navigating the complexities of contract liability and supply chain risks, proactive risk management and strategic planning saved the day. The contractor incorporated more than one provider to address supply chain vulnerabilities in their procurement process. They achieved greater clarity in contractual agreements by practicing strong contract hygiene and clearly delineating responsibilities and risk allocation mechanisms. Recognizing the limitations of the OCIP, they proactively secured excess difference-in-conditions coverage to address potential gaps in protection. These contingency plans and robust insurance coverages provided a safety net, mitigating the impact of unforeseen events.



### How megaprojects are complicating subcontractor default insurance

The higher subcontractor risk associated with megaprojects has significantly increased the value of “super subs” with proven track records, as well as the number of contractors applying for subcontractor default insurance (SDI). However, not all super subs may fit into the SDI program due to their size. As megaprojects become more common, middle market contractors are increasingly taking on larger default risks from subcontractors, emphasizing the importance of thorough risk assessment and management strategies for all parties. General contractors and construction managers are faced with deciding to risk their SDI program with larger packages or utilize subcontractors backed by surety bonds as another mechanism for risk mitigation.



## Paving a path forward: A heavy civil contractor needed a project plan



**The challenge:** A heavy civil construction contractor with expertise in highways and airport infrastructure faced a major challenge when they won a \$100 million project far larger than their usual contracts. The project required significant resource allocation, financial and operational preparedness, logistical coordination, and risk management. Not only did they need to convince stakeholders of their capacity to handle the increased workload within the limited timeframe, but they also had to conduct a thorough go-no-go analysis to ensure the project's overall feasibility. They turned to Marsh McLennan Agency to help build out their project plan.



**The solution:** The key to moving this project forward was twofold: securing financial backing and support and leveraging the contractor's history of similar (yet smaller) projects to build confidence in their expertise. The contractor maintained up-to-date financial and operational records to demonstrate their stability and readiness and hired additional personnel to fill in capacity gaps. Recognizing the inevitability of unforeseen challenges, they developed comprehensive contingency plans for risk management. This prepared them for potential setbacks and helped them secure the go-ahead on the project.

Megaproject contracts often involve numerous clauses, detailed specifications, and complex legal language. Any ambiguity or lack of clarity can lead to misunderstandings about the responsibilities and deliverables expected from each party. The scope of work can also become a moving target, leading to increased costs, extended timelines, and negative relationships between contractors.

When misunderstandings escalate to [legal battles](#), time and money are easily lost. High standards of **contract hygiene** eliminate ambiguities, establish clear protocols, and encourage proactive adherence to the contract's terms and conditions, which helps avoid these costly escalations.





Best practices for strong contract hygiene:

General contractors	Subcontractors
Ensure all contracts are written and reviewed by a knowledgeable <b>construction attorney</b> . This ensures that the legal specifics relevant to construction risks and regulations are properly addressed.	
Engage <b>insurance brokers specializing in construction</b> to provide tailored recommendations based on your operations and project risks. This reduces the risk of coverage gaps and enhances the overall security of the contract.	
Thoroughly <b>pre-qualify subcontractors</b> to ensure they are capable and adequately resourced to fulfill the contractual obligations regarding finances, safety records, equipment, manpower, and expertise.	Verify a <b>clearly defined scope of work</b> , including detailed descriptions of tasks, responsibilities, deliverables, and timelines. This clarity helps maintain project focus and accountability.
Include <b>clear dispute resolution mechanisms</b> in the contract, such as mediation and arbitration clauses, to facilitate fair and efficient resolutions.	
Foster <b>strong relationships with subcontractors</b> through clear expectations, fair treatment, and open communication. Provide support and resources as needed to help them succeed.	Provide <b>regular progress reports</b> to the general contractor on work completed, upcoming tasks, potential issues, and resource utilization.
Conduct an <b>annual review of your insurance programs</b> at renewal to assess any need developments and ensure continued compliance and adequacy of coverage.	
If your subcontractors change insurance carriers or agencies, <b>consult with a broker about the equivalencies</b> of the new policies. Not all contractor policies are created equal.	If you change insurance carriers mid-project, ensure the new policy provides <b>equivalent or better coverage</b> than the previous one.
Include an <b>exit ramp</b> to provide a structured way to terminate the contract if certain conditions are not met.	

# Backlog management





# Making sure project setbacks don't set you back.

Backlog management and project scheduling are crucial to the success of the contractor's operations. As many as [77% of project owners](#) report later completion than initially planned. Supply management (21.4%), workforce management (20.8%), project management (17.6%), and management of climatic conditions (9.3%) are the most common delay factors causing significant financial strain and operational headaches. Recent inflation and rising interest rates have added financing burdens to this list.



## Here's how it plays out:





## Managing the balance between securing new contracts and fulfilling existing obligations

Navigating backlog management requires a nimble approach. Your broker can play a pivotal role in this process, helping you avoid the pitfalls of excessive overhead and operational rigidity. They also hold a mirror up to your processes for deep evaluation.

The goal is to make your business more agile. This agility is achieved by maintaining lean operations, avoiding the trap of accumulating unnecessary overhead, and being prepared to adjust strategies as new opportunities arise. Here are three key areas where the right partner can assist with backlog management strategies:

**1 Aligning with surety companies.** A contractor with a [strong surety relationship](#) can confidently bid on and pursue larger projects, knowing they have the support of their surety partner. The right broker can help you establish and maintain these critical relationships by improving your financial practices, demonstrating a solid track record of project completion, and presenting robust project plans. This alignment ensures you can secure the necessary bonds and guarantees to support large-scale projects, thereby expanding your business capabilities and growing the organization.

**2 Capacity modeling.** Creating a detailed representation of a contractor's operations, projects, and resources can help predict future outcomes and optimize decision-making. Modeling can be used to predict outcomes with fixed inputs (deterministic models), assess probability by incorporating uncertainty (stochastic models), and find the best possible solution from a set of options (optimization models).

**3 Contingency planning.** Construction projects are rarely linear; therefore, contingency planning is essential to harness new opportunities and adapt as they arise. If a new, lucrative project becomes available, a well-prepared contractor can mobilize resources quickly. The right broker will help develop robust contingency plans that allow you to respond swiftly to changes and opportunities without disrupting ongoing projects. This readiness enhances your ability to capitalize on new business opportunities while maintaining the quality and timeliness of your current commitments.



### You don't just want a yes-man.

When selecting a broker, prioritize their willingness to be transparent with you. If you're taking on a slew of new projects that far surpass your usual workload, you need a partner who will ask the challenging questions:

- How will you manage the increased workload?
- Do you have the necessary resources and manpower?

Only when everything is out on the table can you devise strategies for how to manage the risks.

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## WIP it into shape: A case of backlog management



**The challenge:** A growing general contractor faced multiple delayed starts on several large projects, despite having signed contracts for them. These projects were technically part of the contractor's backlog, and their surety was counting this future work against their aggregate surety capacity. Consequently, the contractor encountered a capacity issue with its surety when attempting to pursue additional work to fill the gap caused by these delays. They turned to Marsh McLennan Agency to better understand and communicate their backlog flow and future scheduling.



**The solution:** A projected work in progress (WIP) schedule was developed to clearly visualize the backlog at future dates, based on the anticipated start dates for the delayed projects. This schedule allowed the surety to accurately assess the actual backlog of work underway at future dates, giving them the confidence to offer additional surety support. It also empowered the contractor to identify and pursue new projects to fill in the gaps in their future workload.

## Mastering growth: A strategic planning leads to growth



**The challenge:** A seasoned general contracting firm, having completed \$200 million in projects in 2023, faced over double the amount of work in the new year. While the prospect of such significant growth was promising, it also presented a unique challenge: how to effectively manage this influx of projects without compromising quality or timelines. They turned to Marsh McLennan Agency to roadmap how they could successfully deliver on their commitments.



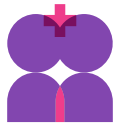
**The solution:** Recognizing the necessity for strategic foresight and proactive planning, the construction firm deployed a team to preemptively identify potential hurdles in taking on this extra work and devised comprehensive strategies to address them. This process included actively engaging with clients, understanding their requirements, and anticipating future challenges. The firm's executive team was not only able to feel more secure in their plans but build confidence among their clients that they were prepared to provide tailored solutions for their projects. This positioned the construction business as a trusted partner capable of handling even the most demanding projects.

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# Ongoing labor shortage

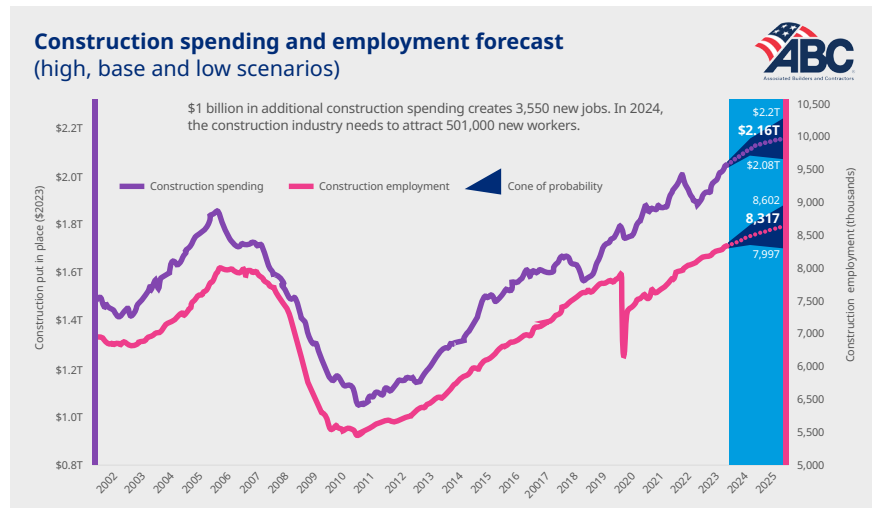






# Who is going to complete the growing backlog?

While the demand for construction projects may be surging, the pool of skilled laborers available to bring these visions to life is drying up. A [plethora of factors](#) contribute to this shortage, from restrictive immigration policies to an aging workforce. With construction spending on the rise post-pandemic, the gap between construction spending and employment has only widened, with [2024 estimates](#) calling for an additional 500,000+ workers on top of normal hiring to meet the demand for labor.



Source: <https://www.abc.org/News-Media/News-Releases/abc-2024-construction-workforce-shortage-tops-half-a-million>

**To address this challenge, contractors must explore innovative solutions. Outsourcing to specialized subcontractors can be one such strategic move.**

By leveraging the expertise of subcontractors who specialize in specific trades or tasks, contractors can ensure that projects stay on schedule and maintain high quality—even when faced with a limited pool of available labor. Subcontractors, in turn, can capitalize on this increased demand for their services by positioning themselves as a vital lifeline to fill skill gaps.

More opportunity also comes from Generation Z who, unlike the generation before it, is widely turning to the skilled trades due to trends of rising pay and new technologies. Enrollment in vocational training programs and vocational-focused community colleges is surging, and [student populations studying construction trades have risen 23%](#) since 2018. Competitive companies are capitalizing on this trend by partnering with local labor suppliers and trade schools to bolster their workforce.

## Stand out with employee benefits

While pay may be the [number one factor for laborers](#) when looking for a job, they also want advancement opportunities, a flexible work schedule, mental health support, a 401(k) retirement plan, and health insurance contributions. These requisites don't just factor into attracting top talent but go a long way in [building and retaining loyalty](#).

Building comprehensive benefits packages that appeal to the four generations of today's workforce—Baby Boomers (currently retiring), Gen X, Millennials, and Gen Z—can be challenging due to each generation's diverse needs, preferences, and priorities. Businesses that find the right mix will stand out. Read our latest report, "[Employee Health & Benefits Trends: The Evolving Workforce](#)."

## Empowering your employees with financial resources

Large, established companies may offer robust 401(k) plans, but smaller entities can enhance their benefits packages by prioritizing fiduciary oversight and employee engagement while planning for the future. Here are three enhancements to consider:

**1** **Fiduciary oversight and outsourcing:** Fiduciary oversight ensures that the management of retirement funds is carried out with the utmost integrity and in the best interest of the employees. By implementing rigorous oversight mechanisms, such as regular reviews of investment options and fees, smaller companies can assure their employees that their hard-earned savings are being managed responsibly. Consider partnering with third-party administrators who specialize in fiduciary management to streamline compliance and alleviate administrative burdens.

**2** **Automatic enrollment:** Automatic enrollment, coupled with automatic annual increases, encourages employees to save more over time while retaining the flexibility to opt out if needed. Companies can also offer suitable investment vehicles, such as target-date funds, which automatically adjust asset allocation based on an employee's projected retirement date. This simplifies investment decisions and ensures appropriate risk exposure based on age and retirement horizon.

**3** **Employee education and engagement:** Financial wellness extends beyond a paycheck. Equip your employees with the ability to navigate complex financial landscapes, plan for the future, and achieve personal goals by fostering a culture of financial literacy and accountability.

Read our latest report, "[Innovations and Challenges in Finance](#)" to harness the power of financial resources for your construction organization.

# **Burnout and worker wellness**





# Project health starts with workforce health.



The construction industry has one of the [highest suicide rates](#) of any industry. Construction communities across the country are increasingly feeling the impact of workforce burnout on mental health as its current tempo and growing labor shortage contribute to growing workforce fatigue. Stories shared in news outlets, like that of a young oil field [construction worker in Colorado](#) succumbing to depression, are not uncommon, and [tenured construction workers admit](#) to losing multiple colleagues to suicide.

While the causes of suicide are complex, it is widely understood that work environments can impact stress and mental health. The stigma surrounding mental health issues, especially within male populations, means these problems often go unspoken and untreated.

This strain is felt beyond the construction site as well, with office workers and project managers equally burdened, dealing with the logistics of understaffed crews, scheduling, and maintaining project timelines on exceedingly complex projects. This stress is only exacerbated for those operating without comprehensive benefits and resources.



## Products and resources to support mental health

Creating a supportive culture around mental health requires strategic consideration of the resources your teams need. Enhancing the visibility of these products and resources is just as important as offering them. Components of a strong mental health program include:



### Employee resource toolkits

A [mental health toolkit](#) is a comprehensive package designed to equip employees with essential tools and information to manage their mental health effectively. The kit could include stress management techniques and information on identifying and addressing anxiety and depression.



### Employee assistance programs

**Employee assistance programs** are cost-effective ways for employers to provide mental health support. These programs typically include three to five sessions with a mental health professional at no cost to the employee. Many organizations will need to provide education around this benefit to encourage use. Enhanced employee assistance programs offer more comprehensive support, including virtual counseling and additional online resources.



### Safe spaces

**Safe spaces**, such as morning huddles, provide employees with opportunities to discuss their well-being in a nonjudgmental environment. These spaces can also help normalize conversations around mental health and foster a culture of openness and support.



### Telehealth services

**Telehealth services** offer a convenient alternative to traditional in-person therapy sessions. Identifying and integrating telehealth for mental health providers into your program can make the necessary support more accessible.



### Training and educational courses

**Training and educational courses**, like a Mental Health First Aid class, focus on teaching employees how to provide immediate assistance to a struggling colleague, and create a supportive and empathetic work environment. There are also specialized courses available on topics such as breaking the stigma of mental health and the connection between mental and physical health.

You may have plenty of data about your health benefits, disability, employee leave, and workers' compensation, but this fragmented view won't show you the full picture of your organization. Positively impact your employee's health, well-being, and productivity while proactively managing your company's risk with [Worker's Health 360](#).

# **Environmental risk and compliance**





# Increased scrutiny and regulations are reshaping industry practices.



Stricter policies are being implemented globally to address environmental concerns, particularly the use of hazardous substances such as per- and polyfluoroalkyl substances (PFAS). PFAS chemicals are used widely in construction due to their resistance to water, oil, and heat—but expanding regulations are significantly impacting how these substances can be used, managed, and disposed of, adding complexity and cost to projects.

In May 2024, the Environmental Protection Agency issued a [final rule to include seven additional PFAS](#) on the list of chemicals subject to Toxics Release Inventory reporting. Companies dealing with these PFAS must now comply with additional regulatory requirements. The consequences of non-compliance are penalties and increased scrutiny from regulatory bodies.

More [U.S. states are expected to propose and enforce broader restrictions](#) on PFAS. In some states, such as California, Michigan, and Minnesota, PFAS will be prohibited in new and renovated building materials starting in 2025 under the Toxic Substances Control Act.

This hits contractors from all sides as they are responsible for testing and disposing of contaminated materials (especially when recycled from other sites), and securing replacement materials, which are often expensive, unavailable, or insufficient. While some resources and [guides for identifying PFAS in products](#) are available, nuances exist. This includes the use of recycled materials.



## Top three PFAS risks

Real estate and energy businesses face significant PFAS risks. While some risks are known, others remain less obvious, but are still subject to environmental regulation. Here are three common PFAS risks:

**Legacy infrastructure.** Legacy real estate and infrastructure (circa 1970s and earlier) are more likely to contain PFAS materials. This includes roofing materials and any others that require waterproofing, paint, oil or fire resistance. This must be addressed in development budgets, as testing, disposing of excess materials, and treating contaminated grounds can escalate construction costs by as much as 30%. Regulatory thresholds are stringent, requiring careful management even in minute quantities.

**Manufacturing/supply chain.** Federal and state regulations, such as the Toxic Substances Control Act and state-specific bans, restrict PFAS in new and renovated buildings. By 2025, states like California, Minnesota, and New Jersey will prohibit PFAS, necessitating alternative materials, which are often hard to find. While there are over 9,000 PFAS chemicals, regulations currently cover only about 100 of them. In addition, some manufacturers use slightly altered compounds. Stricter regulations on the horizon will impact materials like water-resistant windows and roofing.

**Materials disposal and reuse.** Large general contractors must manage recycled materials, like asphalt, under strict environmental regulations. Recycled asphalt, for example, often brought from site to site for reuse by the general contractor, contains PFAS and must comply with the Clean Water Act to control stormwater runoff. Materials like this, when stored improperly, can contaminate local waterways. Compliance with federal and state requirements is essential to avoid significant environmental impacts.

## Getting ahead of environmental risk

Navigating complex environmental regulations and managing pollution risk is a critical aspect of modern business operations. It's best accomplished through immediate compliance, strategic risk transfer options, and long-term environmental management.





### Site pollution vs. contractor pollution coverage

[Specific environmental and pollution insurance policies](#) help safeguard businesses with environmental risk. When applicable, integrating both site pollution and contractor pollution policies ensures comprehensive protection by covering both fixed locations and varying job sites. Insurance providers can customize policies to address specific operational risks and ensure the necessary protections, but here’s a simplified breakdown:

	Site pollution policy	Contractor pollution policy
Scope of coverage	Coverage for pollution conditions on, at, under, or migrating from a specific site you own or operate. It typically includes contamination of soil, groundwater, and surface water.	Coverage for pollution conditions that arise from contracting activities at third-party job sites, including protection against accidental spills, emissions, and releases of hazardous substances. It also covers the transportation of pollutants to and from job sites.
Covered locations	Specific to the locations listed in the policy. Each site must be detailed in the coverage to ensure protection.	This policy applies to multiple third-party sites where the business performs contracting activities.
Claims and costs	Can cover cleanup costs, legal defense fees, and third-party bodily injury and property damage claims resulting from pollution conditions.	Can cover cleanup costs, legal defense fees, and third-party bodily injury and property damage claims resulting from pollution incidents caused by the company’s operations.



### Watch out for PFAS exclusions

The growing risk of tightening PFAS regulations and rising litigation has many insurance companies incorporating PFAS exclusions in their insurance policies. A PFAS exclusion would mean that any claim related to PFAS contamination would not be covered by the policy. Working with your broker, you can protect yourself against these exclusions by:

- **Reviewing your policies:**  
Understand the scope and limitations of your coverage, especially any PFAS exclusions.
- **Engaging risk management:**  
Implement strategies to prevent PFAS contamination and mitigate potential liabilities.
- **Seeking alternative coverage:**  
Consider specialized environmental liability insurance that may offer PFAS coverage, though these options might come with higher costs and specific conditions.

## Environmental risk management best practices

While insurance helps protect your business if an accident occurs, it should never be your sole long-term risk management strategy. Environmental risk management best practices aimed at preventing pollution and contamination incidents can help businesses maintain a strong reputation in the industry. Here is a list of best practices to get your business started:



### Perform a site assessment

Conduct these evaluations under attorney-client privilege to maintain confidentiality. This allows you to prepare and mitigate risks without immediate disclosure to regulators. For ongoing projects, it's vital to understand the extent of PFAS emissions. Regularly evaluate water and air discharge permits to identify PFAS levels, ensuring compliance with environmental standards.



### Implement effective stormwater management

This includes monitoring and controlling stormwater runoff to prevent contaminating water sources with pollutants such as PFAS, using filtration systems and implementing erosion control measures.



### Regularly assess and manage air emissions

This involves monitoring emissions from various sources within your operations, such as industrial processes, equipment, and vehicles.



### Proper storage

Properly store materials that contain or are treated with PFAS to avoid contamination. Additionally, train employees to safely handle and store materials containing PFAS to reduce the likelihood of incidents.



### Continuously test wastewater

This ongoing assessment ensures that potential contamination is detected early, allowing for prompt corrective action to prevent harm to the environment and surrounding communities.



# Diversifying your options

A diversified approach to risk transfer spreads risk across multiple strategies and enhances a company's overall resilience. Different risk financing options cater to varying risk profiles, financial capacities, and strategic objectives. Integrating a variety of options can allow your business to tailor its risk management solutions to specific needs.

The right broker, especially one who specializes in the construction industry and understands your risk portfolio, can help address your business's needs and ensure it is well-covered.

They can secure not only your primary coverage but also identify additional considerations for risk transfer, including:

- Builder's risk insurance
- Large deductible program
- Owner-controlled insurance program (OCIP)
- Contractor-controlled insurance program (CCIP)
- Subcontractor default insurance (SDI)



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### **Builder's risk insurance**

[Builder's risk insurance](#) is a specialized property insurance that covers damage to a structure while under construction, encompassing soft costs such as expenses incurred (i.e., loan interest payments) or lost income due to project delays. It is separate from other types of insurance that contractors or subcontractors may carry, such as general liability, workers' compensation, or commercial property insurance. While these policies may provide some coverage for property damage or liability claims, they may not offer a full suite of protections needed for a construction project.

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### **Large deductible program**

Large deductible programs offer another avenue for risk financing for organizations willing to assume a portion of the risk through a higher deductible to enjoy better cash flow. These programs are particularly suited to sizable and profitable organizations that can absorb potential losses.

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### **Owner-controlled insurance program (OCIP)**

In an OCIP, the project owner or developer procures a comprehensive suite of insurance policies that typically includes general liability, excess liability, and sometimes workers' compensation coverage for all parties involved. Typical characteristics of these programs include uniform coverage terms, lower premiums, and reduced liability exposure for contractors and subcontractors.

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### **Contractor-controlled insurance program (CCIP)**

In a contractor-controlled insurance program, the contractor, rather than the project owner, purchases insurance coverage for the project and all parties involved. These programs have similar characteristics and benefits as OCIPs, including streamlined insurance procurement, enhanced risk management, and potential cost savings.

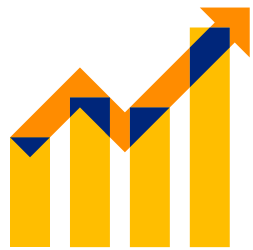
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### **Subcontractor default insurance (SDI)**

SDI protects general contractors and project owners from financial losses and delays resulting from subcontractor default on their contractual obligations. This insurance is particularly valuable for large-scale construction projects where the risk and impact of subcontractor default, such as commercial buildings and infrastructure developments, can be significant. In such projects, the failure of a key subcontractor responsible for critical systems like electrical wiring or HVAC installation can lead to substantial financial losses, project delays, and significant disruption to the overall timeline. SDI would cover the costs of completing the defaulted work or correcting defective work.

## Captives as an alternative risk transfer solution

When facing higher premiums, a lack of capacity, increased deductibles, and more stringent terms and conditions, [captive solutions](#) offer businesses an opportunity to “own” their risk. A captive is an “insured owned” insurance company where the organization assumes all or some portions of its own risks.



**Captive insurance is growing in popularity, with property-related [captive premiums](#) growing by 13% from 2021 to 2023, and they are projected to continue growing globally.**

Captives are ideal for construction businesses with good loss ratios and those actively engaged in risk management best practices. Group captives allow businesses to share the risk with like-minded businesses in their same risk class. In a single-parent captive, the business assumes all its own risks.

Organizations that qualify for a captive often see reduced costs, improved investment strategies that can be customized to the company’s short- and long-term needs, and the ability to invest surplus capital into better employee benefits, product innovations, and more.

## Construction risk management best practices checklist

The world of construction risk is growing more complex as the industry and economy evolve. Here are high-priority best practices to help you navigate your risk on each project.

- ✓ **Use a construction-specific broker.** Instead of a general insurance broker, opt for one with industry knowledge who knows the language and policy nuances and will have strong relationships with construction-specific carriers.
- ✓ **Consult a construction-specific attorney for all legal advice.** A construction-specific attorney can advise on contracts, compliance, building codes, and regulations specific to the industry.
- ✓ **Specify the insurance requirements of subcontractors within the contract.** Use precise language in both the contract and insurance policy to avoid coverage gaps and future conflicts. “Or equivalent” is an example of vague language and can be a slippery slope to navigate.
- ✓ **Align your contracts and insurance policies.** Your insurance policies should match the coverage requirements of each contract, and contracts should include all required insurance terms and conditions.
- ✓ **Secure insurance before the job starts.** Insurance carriers aren’t going to add things after a project has begun and risks start to materialize.
- ✓ **Don’t rely solely on upstream insurance.** For example, developers shouldn’t rely solely on the owner’s coverage, and subcontractor requirements may be even broader. Take ownership of your risk protection when necessary. Remember, project risk is like a chain where each link pushes risk down to the next. Make sure you’re covered for the risk that will be pushed your way.

# Construction, empowered.

Our dedicated construction specialists have experience with companies of all types, including general contractors, specialty contractors, architecture and engineering firms, material suppliers, equipment lessors, and more. We empower you with the guidance, analytics, and insights to realize your biggest ambitions.



[Reach out](#) to a specialist today to learn more about mitigating your construction business risk.

## About Marsh McLennan Agency

Marsh McLennan Agency (MMA) provides business insurance, employee health & benefits, retirement, and private client insurance solutions to organizations and individuals seeking limitless possibilities. With 11,000 colleagues and 200+ offices across North America, MMA combines the personalized service model of a local consultant with the global resources of the world's leading professional services firm, Marsh McLennan (NYSE: MMC).

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