Protect Projects From Higher Repair Costs and Property Damage

Written by: Michael Teng, Assistant Vice President of Regional Products and Pricing, Sentry Insurance

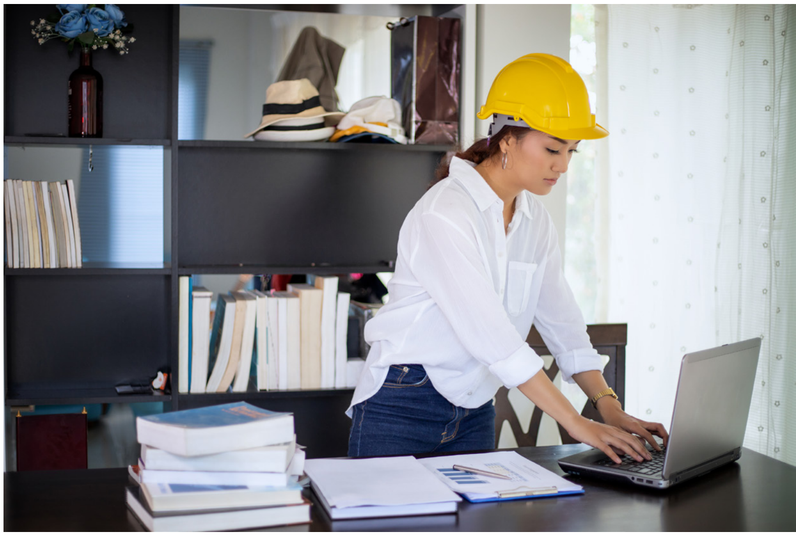
THE COST OF RISK - AND MITIGATING IT - HAS INCREASED IN CONSTRUCTION. IT'S A TREND THAT MIRRORS ECONOMIC HEADWINDS THAT ARE EXPECTED TO CONTINUE IN 2024.

Every aspect of a jobsite costs more today, from materials and labor to tools and equipment.

Take construction input costs for example. While relatively flat in 2023, they remain almost 40% higher than they were pre-pandemic. With borrowing costs still high in the face of a stubbornly strong economy, project financing will remain a challenge.

Still, contractors are expected to break more ground in 2024, fueled in part by the CHIPS Act, the Inflation Reduction Act, and the Infrastructure Investment and Jobs Act.

Despite wages growing and the labor market remaining tight, many businesses are expected to dive deeper into their backlogs. Meanwhile, the economy is expected to grow with a chance for a short and mild recession. As industry leaders gauge economic pressures, it's clear businesses must manage their costs—and financial risks in 2024. It's a year where insurance and safety should take priority. Below are economic trends to monitor, and insurance strategies to help protect this year's bottom line.



High Repair and Replacement Costs Drive Up Property Risk

Inflationary pressures continue to keep construction input prices high. There is one notable exception - soft lumber dropped 20% year-over-year and, now only 5% up since February 2020.

Even as inflation slows, property - and the price to repair it - will remain much higher than years prior.

Mirroring high input prices, the cost to repair or replace commercial equipment has risen 41% since 2019. Meanwhile, during the same time, costs to construct a new industrial building have increased more than 40%.

This means the costs to repair or replace property, equipment, and materials has risen significantly - potentially leaving construction businesses vulnerable to large financial losses. This is especially true if contractors haven't seen recent increases in their insurance policy's property, equipment, and building supplies limits.

Construction businesses are also prone to property damage given the nature of their work - and exposure to the outdoors.

There are many ways materials and equipment could be damaged or lost:

» Storms and water damage
» Fires
» Theft
» Breakdowns
» Vehicle and equipment accidents

To help avoid out-of-pocket costs for property damage, contractors should talk with their agent or insurer to confirm they have sufficient coverage limits to cover inflationary costs.

An insurer can help estimate the value to replace equipment, property, and materials, along with any necessary policy adjustments.

Review and Adjust Construction Insurance

Developers and contractors have unique risks. Their materials and equipment could be damaged, lost, or simply break down on a jobsite, enroute to one or off site. There are insurance coverages for each specific risk.

Here are four coverages to review based on today's economic pressures:

1. Installation floater coverage: This coverage is meant to insure specific, high-value property and materials that a contractor plans to install. Construction businesses often rely on this coverage to protect their property from damage or theft when it's in transit or at a work site prior to being installed.

In 2024, contractors should talk with their agent or insurer to make sure they have accurate valuations on their items prior to renewal. In some cases, higher limits might be needed to avoid gaps in coverage due to inflation.

2. Builder's risk coverage: Builders' risk insurance covers damages to property during the actual construction process. It can help protect materials, machinery, temporary structures like scaffolding, and storage containers.

Think of a storm damaging a project halfway through completion. It's a scenario that's quickly becoming a reality. 2023 finished with 25 weather events that exceeded $1 billion in cost.

Today's fixed structures cost more than just a year or two ago - and so does the cost to restore them. The advice here is similar: talk to an agent or insurer to avoid outdated property values. The cost of damage to a partially completed project is often significant. Having adequate builder's risk insurance is one of the few ways to help protect against the large monetary loss that follows.

In the near-term, inspect projects for potential fire or electrical hazards to mitigate property risks.

3. Contractor's equipment insurance: Inflation has affected more than material costs. It's also led to construction equipment prices rising by 6.9% in the last 12 months, and 28% since 2020. Contractor's equipment insurance helps protect equipment and tools at jobsites, during transit, or in storage. With higher equipment values, businesses will need updated valuations to stay adequately protected. An agent or insurer can help review options including replacement costs, or actual cash value, of equipment.

4. Inflation guard endorsement: A theme of 2024 is insuring property to value. To stay ahead of rising costs in the future, many businesses have considered adding an inflation guard provision to their policy. This provision automatically increases coverage limits at gradual intervals to keep contractors - and their property - protected amid rising costs.

Invest in Regular Equipment Maintenance and Jobsite Inspections

In addition to insurance, investing in a consistent preventative maintenance program can help mitigate unexpected costs. Having well-maintained or new equipment, if possible, can minimize a company's risk of downtime and potentially improve jobsite performance.

The same applies to regular jobsite inspections:

- Review electrical wiring and the safe storage of flammable materials.
- Test pipes for leaks before introducing water into the system.
- Inspect temporary structures for potential damage or loose materials prior to weather events.

These are strategies that may come with time and upfront costs, but they likely outweigh the cost of project delays following significant damage - costs that can far exceed preventative maintenance expenses.

Reduce Vehicle Accident Risks

Inflation has also driven up the repair and replacement costs of vehicles. Repair and maintenance services for motor vehicles are up 27% since 2020.

With traffic congestion increasing throughout the country, it's important to hire workers who also have good driving records and ensure they're properly trained to operate vehicles safely between jobsites.

To help manage vehicle insurance costs, some insurers offer a loss-sensitive option. This means policyholders can take on some of the risk for low-level claims subject to a max payout. This allows contractors to still benefit from a carrier's claims and risk-management expertise, while paying less in upfront premium. By taking this approach, construction businesses can ultimately save on the total insurance costs - but only if safety efforts lead to fewer accidents.

Have a Conversation Before the Next Renewal and Project

While high input prices, labor, and borrowing costs headline the top expenses for most contractors, don't underestimate the role of insurance.

It's the one cost - and investment - that acts like a safety net against larger financial risks that aren't included in project costs for 2024. It can also act as a much-needed buffer given today's economic risks.

The trends and tips in this article can help kickstart conversations before the next renewal. Still, every construction business has its own set of risks. That's why it's best to talk with an agent or local expert to help determine the best course of action in the year ahead.

About the Author

Michael Teng is the assistant vice president of regional products, pricing, and underwriting for Sentry Insurance.

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