

## Member Communication Experience

# Builder's Risk: Three Blind Spots Impacting Your Project's Success

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Construction projects face countless risks – from unexpected delays to storms, theft, and more. While cost considerations may make it tempting to underinsure a project during construction, doing so leaves your investment liable for damages that far exceed builder's risk insurance premiums.

Consider this: As many as 31% of firms report significant delays in projects, with causes anywhere from a contractor's mistake to supply-chain delays and even investor reconsideration. The right builder's risk policy – which protects buildings under construction – can mean the difference between a manageable setback and a financial disaster.

Not all builder's risk policies are created equal – coverage exclusions, limits, and insurer appetite vary widely. What you don't know can hurt you. Increased risks during the construction phase of a contract may create costly financial potholes if not covered by a builder's risk policy, including:

- » **Hard costs** like materials and labor, which include inflation, supply-chain charges, and more
- » **Soft costs**, including extended loan interest, permitting fees, and additional design expenses, which add up during delays
- » **Loss of rent or earnings** when a project is stalled can lead to financial losses

Be prepared for these risks and learn how to manage them by taking a closer look at three blind spots that could jeopardize your project's success.



### COVERAGE GAPS IN A SHIFTING ECONOMIC CLIMATE

Historical numbers are often used to estimate builder's risk premiums, but significant risk lies in relying on outdated assumptions or inaccurate figures when budgeting for a project.

Inflation is hitting construction costs hard. Since 2020, the industry has experienced above-average inflation rates, including 14% in 2021 and 15.7% in 2022. Supply-chain volatility also creates risks: a fire at a single supplier or a sudden delay in a critical component can send costs spiraling.

Shifting trade policies under the new administration may pile on additional unpredictability. Project materials or equipment subject to tariffs – from overseas or within North America – could lead to unexpected price hikes after your contract is set.

If your coverage isn't aligned with these evolving risks, you may absorb unexpected expenses out of pocket.

Projects are getting bigger and more expensive, and the global insurance market for megaprojects is heavily influenced by broader economic conditions. Inflation impacts more than just material costs; it leads to higher interest rates, increased capital management, and surety requirements. Companies must ensure they can meet these requirements without compromising their financial stability.

### LABOR SHORTAGES THAT LEAD TO DELAYS AND RISING COSTS

The gap between construction projects and employment shortages continues to widen, with 2024 estimates calling for an additional 439,000+ workers to meet the labor demand. While some firms have done a better job of forecasting labor needs, others face serious bottlenecks. As contract terms evolve to reflect the risks tied to workforce availability, owners could find themselves exposed to more liability than expected.

Increased regulatory scrutiny around worker eligibility and undocumented labor is expected to grow in 2025. While not an insurable risk, it's one that could create delays, fines, or work stoppages. If an incident triggers an OSHA investigation or other regulatory review, your entire workforce could come under scrutiny.

To keep projects on track in an increasingly competitive environment, investing in workforce stability – whether through contractor due diligence, stronger labor partnerships, or proactive risk management – will be essential.

### DIFFERENT POLICIES ARE NECESSARY FOR TODAY'S RISKS


The development industry has changed significantly over the last five years, and if you haven't updated your insurance strategies, you're likely not covered for current risks.

New risks like cyberattacks are increasing year over year across the industry. Threats like social engineering fraud, where hackers impersonate a trusted contact and trick employees into redirecting payments, are some of the fastest-growing risks. But some cyber policies don't automatically include it, and if they do, it's often in low amounts. A one-size-fits-all approach to risk is no longer enough.

Managing claims is also critical. Construction losses involve complex expenses, and forensic accounting specialists can be game changers in securing the right payout. Without expert guidance, you risk missing reimbursements or paying out of pocket for covered losses.

### DON'T LEAVE YOUR NEXT PROJECT'S SUCCESS TO CHANCE

When planning a build, insurance should never be treated as just another budget line item. The commercial construction risk landscape is constantly evolving and protecting your projects in 2025 and beyond will require a strong risk management approach. These key strategies can help:

- » **Engage in physical risk management:** Demonstrate proactive risk controls before procuring insurance coverage, especially in industries affected by rising crime rates and the risk of arson.
- » **Tell your risk management story:** Communicate the strength of your risk management approach to underwriters by providing details about your controls.
- » **Be diligent during claims:** Understand which costs fall under the different claim categories and why certain expenses may not be reimbursed to help eliminate potential unnecessary out-of-pocket costs. 



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### About the Author

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Dennis Tsonis is [Marsh McLennan Agency](#)'s construction practice leader and is based in Scottsdale, Arizona. Over the past 36 years Dennis has specialized in many different facets of construction risk management; including roles as a premium auditor, underwriter, underwriting manager, OCIP administrator, founding member of a construction group-captive insurance company, and a broker for construction risks of all types and sizes.

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### About the Article

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