



SELECTIVE INSURANCE GENERAL CONTRACTORS RISK REPORT

**2023 REPORT ON GENERAL
CONTRACTORS, RISK, AND INSURANCE**

Data, Observations, and Predictions

SELECTIVE
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INTRODUCTION

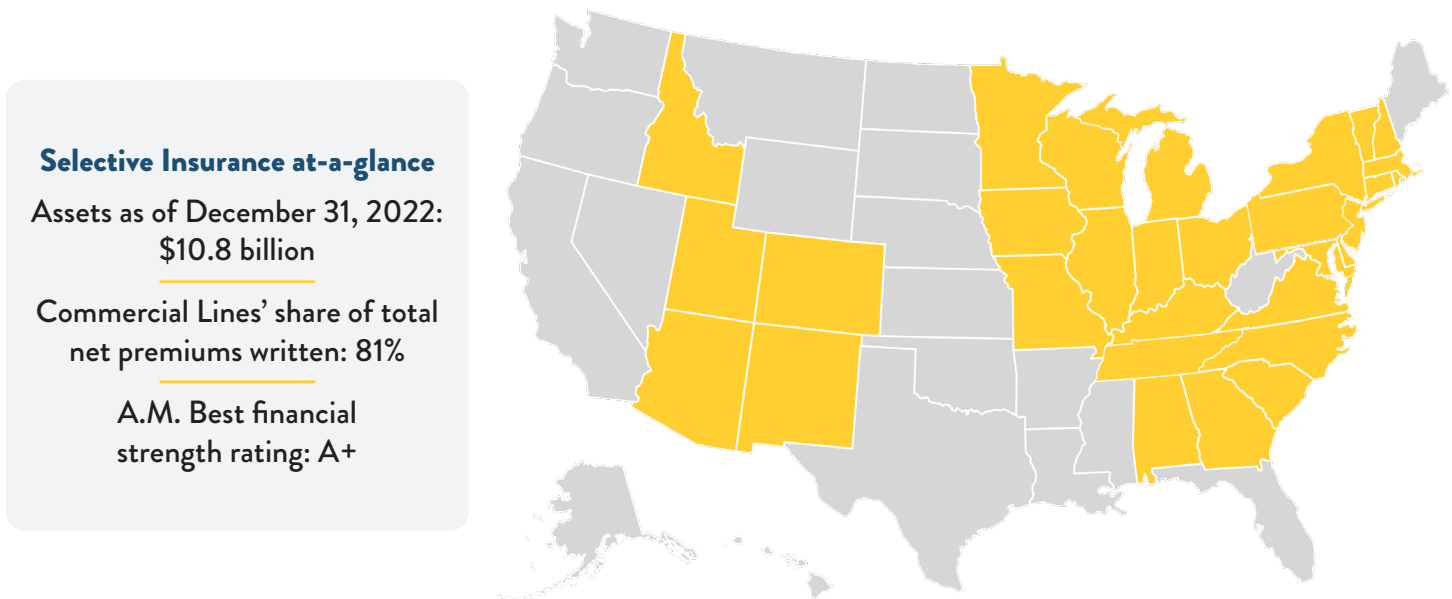
General contractors, now more than ever, face many diverse risks and challenges. Inflation, staffing shortages, worker safety, supply chain disruptions, and subcontractor performance are among them. Operational success depends to a large degree on how general contractors anticipate, identify, and manage them.

Selective Insurance understands these challenges well and is trusted by tens of thousands of general, heavy, and trade contractors. Contractors represent almost half of Selective’s 2022 commercial lines customers. To understand national and local construction industry risks, trends, and anticipated impacts, we regularly review our internal claims and underwriting information, supplemented by external data and unique qualitative insights from our regional claims, underwriting, and risk-control staff. We collaborate with our independent agency partners, using this information to develop coverage and safety-management strategies to help protect our policyholders and reduce their risks.

Our contractor customers contribute significantly to our nation’s economic health, which we support by providing our clients with alternative capital to protect and grow their businesses despite industry uncertainties. This report is one of our efforts to support general contractors.

We’re proud to present this risk report with our observations, analyses, and recommendations. We look forward to continuing to demonstrate our general contractor expertise and what it means for them to Be Uniquely Insured®.

Figure 1
Selective Insurance Commercial Lines Footprint as of May 2023

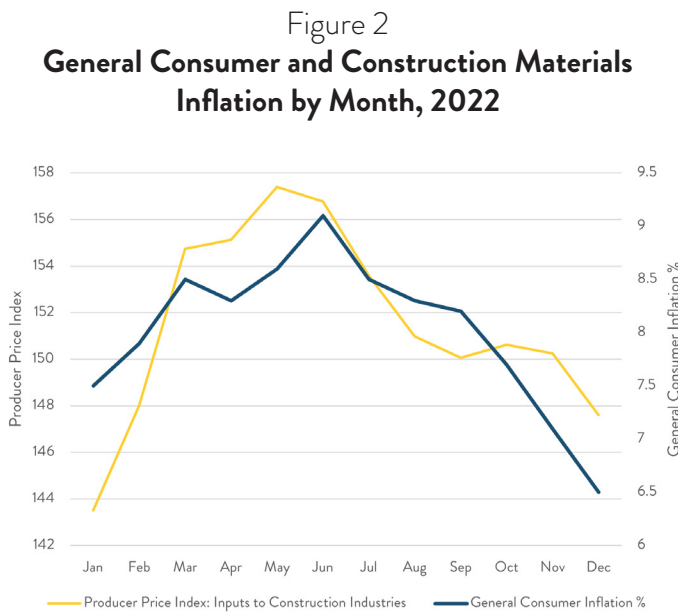


TOP ONGOING RISKS FOR GENERAL CONTRACTORS

General contractors face significant operational risks, including an inflationary environment, labor shortages, and subcontractor dependency. Changing market conditions affect the nature and scope of these risks and general contractors' management efforts.

Inflation

In June of 2022, the annual general inflation rate reached a high of 9.1% but eased to 6.5%¹ by December. Inflation in the construction industry peaked at a higher level than general inflation but has similarly eased. The producer price index of net inputs to construction industries rose to a yearly high in May 2022, as price increases for certain commodities soared well into the double and even triple digits (Figure 2).² However, inflation declined in the second half of 2022, with large price decreases in several product categories, such as lumber, steel, and aluminum.³ Industry economists expect that construction material prices will stabilize to historical levels as 2023 progresses.⁴ Prices of some commodities, like cement products and diesel fuel, are anticipated to be volatile.⁵



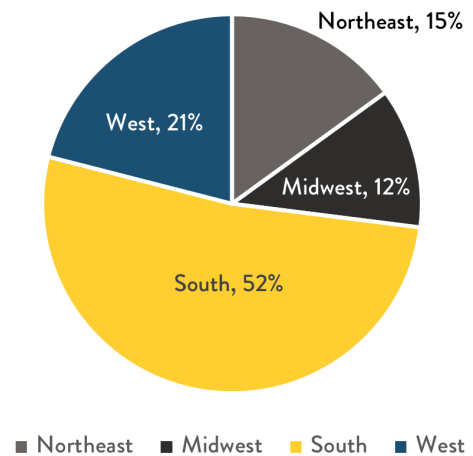
Sources: Bureau of Labor Statistics; Federal Reserve Bank of St. Louis^{6,7}

Higher material prices contributed to coverage limits growth in Selective's Builders Risk policies, which protect against damage or loss to buildings during construction or renovation. **For this reason, the number of Builders Risk policies we issued in 2022 with coverage limits of \$2.5 million and over jumped 23%.**

Our experience shows that general contractors across our footprint proved resilient to the inflationary environment. They responded to the economic risk in various ways, including focusing on the renovation market as new construction projects dried up, taking out lines of credit to pay for labor and materials, and hiring more independent contractors to reduce employee overhead costs.

The South continued to have the majority of housing starts in the country (Figure 3). Our field staff observed contractors and their clients factoring rising prices into their estimates and continuing to start new construction and renovation projects.

Figure 3
Percent of U.S. Housing Starts by Region, December 2022 Seasonally Adjusted Annual Rate



Source: U.S. Census Bureau⁸

Labor

The construction industry has had a labor shortage for several years.⁹ Across our footprint, general contractors took steps to alleviate risks from a tight workforce. To attract and retain workers, contractors offered higher salaries, signing bonuses, and payment for skill certifications if employees remained with them for specified periods. Adding another dimension to the talent shortage, the number of skilled craftspeople entering the sector has far lagged demand. The growth rate for skilled workers has slowed since 2012, and overall numbers have declined for certain trades like carpentry.¹⁰

Our experience bears this out. Faced with a shortage of skilled tradespeople, we have observed contractors hiring inexperienced workers. Besides being less efficient, placing unskilled workers in advanced positions can result in higher workers compensation claim frequency rates. Contractors who kept their employee injury rates low saved on their workers compensation premiums and maintained greater productivity.

Our field experts also observed contractors trying to offset inflationary pressures and worker scarcity by increasing technology use for traditionally manual activities. Examples include using robots for materials handling, video monitoring of job sites, and using mobile apps to perform project management and documentation tasks with fewer employees.

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Every general contractor I meet tells me that their biggest issue is finding qualified people.

Annette Kortokrax,
Segment Manager,
Large Business

”



“

A strong contractual risk transfer agreement helps ensure that claim liability falls on the subcontractor responsible for the incident.

Emily Kline,
Business Segment Manager,
Northeast Region

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Subcontractor Risk

General contractors rely on subcontractors to deliver specific skills vital to the success of a project, such as electrical, plumbing, or excavation services. By hiring subcontractors to perform operations for them, general contractors may unintentionally assume risks.

Responsibility for subcontractors' errors has long been a general contractor risk, but it is heightened when high prices, labor scarcity, and material shortages can lead subcontractors to use subpar alternate materials or employ less-experienced workers. To help protect from this exposure, Selective encourages general contractors to use contractual risk transfer agreements. These agreements are not “one size fits all,” and the general contractor or their attorney should modify them to address each project's unique risks.

To assist general contractors, we offer four different customizable risk transfer agreement templates for them to review with their lawyers.

INSIGHTS FROM CLAIMS SUBMITTED TO SELECTIVE

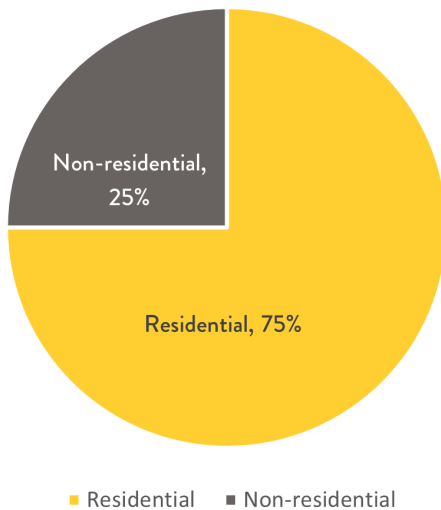
Claims from residential and non-residential general contractors evidence risk trends in several exposure categories.

Completed Operations Claims

A completed operations claim alleges that the contractor's completed work caused the damages. The Commercial General Liability insurance form's Products-Completed Operations Hazard is intended to address this exposure.

From 2020 to 2022, Selective received three times more Completed Operations claims from residential general contractors than non-residential general contractors (Figure 4).

Figure 4
Completed Operations Claims from Selective's General Contractor Clients, 2020-2022



Source: Selective Insurance

One type of completed operations claim, a construction defect claim, arises out of "any deficiency in the design or construction of a building or structure resulting from a failure to design or construct in a reasonably workmanlike manner and/or in accordance with a buyer's reasonable expectation."¹¹

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Minimizing the number of construction defect claims improves a general contractor's ability to get favorable insurance coverage and rates.

Katie Simmons,
Business Segment Manager,
Southern Region

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Our adjusters report that construction defects are more likely to occur when multiple similar dwellings, such as condominiums or residential communities, are built.

Those circumstances provide fertile ground for a construction defect allegedly to have been repeated across multiple units.

As housing start statistics show, demand for new condominiums and multi-unit building planned communities has soared throughout the country since 2020.¹² The Associated General Contractors of America reported that thousands of workers moved from non-residential to residential construction starting in 2020 to meet demand.¹³ While general contractors new to large projects may find plenty of opportunities, our experience shows that their project management skills and subcontractor quality largely determine the likelihood of construction defect claims. Supply chain disruptions and talent shortages can compound construction defect risks, impacting completed operations insurance coverage and premiums.

We have also found that the lag between building completion and defect reporting can be over six years, depending on a state's statute of repose. This means general contractors can face claims for their work long after having left the jobsite.

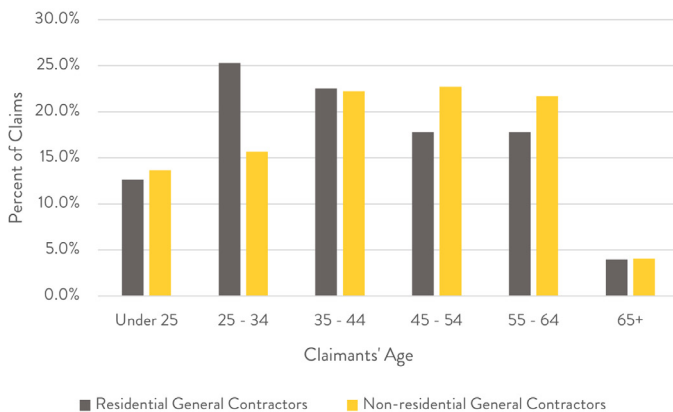
To minimize or eliminate completed operations or construction defect claims, we recommend that general contractors be vigilant and ensure the work they and their subcontractors do is high quality. An excessive number or dollar value of claims could impair a contractor's ability to obtain insurance coverage at favorable terms and pricing.

Workers Compensation Claims

Selective's workers compensation claims data for injuries in 2022 (Figure 5) shows that younger workers, under age 34, accounted for a larger share of claims from residential general contractors than any other age group. The share was also significantly higher compared to non-residential general contractor claims.

Consequently, we recommend that general contractors – especially those in residential construction – emphasize onboarding and training new and less experienced workers, who tend to fall in the younger age brackets.

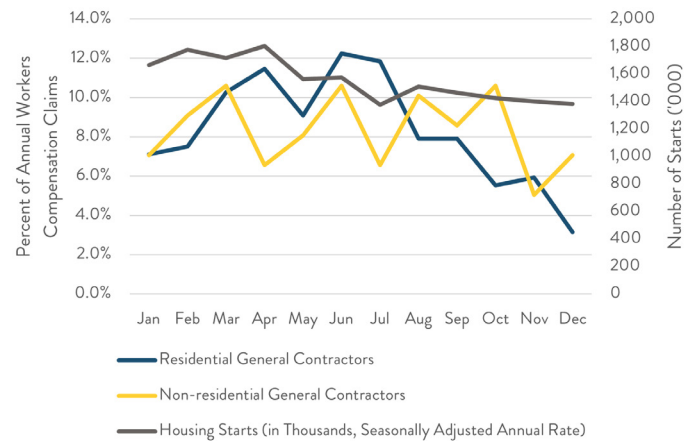
Figure 5
Workers Compensation Claims from Selective's General Contractor Clients for Accident Year 2022



Source: Selective Insurance

Our data also shows that injuries roughly track the seasonality of housing starts (Figure 6). As a result, there may be opportunities for general contractors to offer safety training to employees during slow months, which typically vary by region. Contractors should consider this downtime an opportunity to onboard employees, review safety practices, and train personnel on safety technology.

Figure 6
Selective's General Contractor Workers Compensation Claims for Accident Year 2022



Sources: Selective Insurance; Federal Reserve Bank of St. Louis¹⁴

We recommend training employees on two critical safety management practices: ladder safety and avoiding injuries from falling objects. About one in seven workers compensation claims Selective received over the last three years were for injuries in these two areas.

Slower periods in the Fall are opportune times for general contractors to train workers on worksite perils specific to winter: icy pathways; driving in construction sites after dark; and fumes and dust in enclosed spaces.

Our safety management experts recommend that general contractors understand the safety training their principal subcontractors provide their employees and ensure consistency with their training standards. In jurisdictions where general contractors can be liable for injuries to subcontractors' workers, they should work with counsel to ensure they have implemented appropriate subcontractor liability transfer provisions.

Automobile Claims

Although many general contractors' operational risks fall within a Commercial General Liability policy's scope, motor vehicle operations also present substantial risk. A review of our filed claims shows **general contractor commercial automobile claims exceeding general liability claims by three to five times, with the most severe claims related to job site travel, especially in heavy-duty vehicles, and improper vehicle use.** It's important to remember that automobile claims often result in workers compensation claims, with associated operational and insurance repercussions.

General contractors' exposure can be high, as they frequently are found liable in business automobile accident-related tort claims. With that in mind, general contractors should ensure proper vehicle maintenance and adequate driver training and instruction.

Figure 7

Selective's Top Five States/Districts for Automobile Claims Frequency from Residential General Contractors, 2017-2021

- ✓ Iowa
- ✓ South Carolina
- ✓ Massachusetts
- ✓ Washington, D.C.
- ✓ Minnesota

Source: Selective Insurance

Figure 8

Selective's Top Five States for Automobile Claims Frequency from Non-residential General Contractors, 2017-2021

- ✓ Kentucky
- ✓ New Hampshire
- ✓ Massachusetts
- ✓ South Carolina
- ✓ Minnesota

Source: Selective Insurance

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General contractors' vehicles are in constant use, increasing the risk of a loss and making it imperative for contractors to protect themselves with strong auto policies.”

Ryan Hopp,

Assistant Vice President,
Commercial Auto Line of Business Leader

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Builders Risk Policies

General contractors also face risks of property loss during construction from events like natural catastrophes, theft, explosions, and building system failures in foundations, scaffolding, and fencing. **We have recently observed an uptick in two types of builders risk claims: Fires from hot work – tasks like welding and brazing; and spontaneous combustion of oily rags and sawdust after disposal in plastic bags or trash cans.**

General contractors should protect themselves against such risks by educating workers on proper disposal procedures and confirming clean-up requirements in their subcontractor risk transfer agreements.

INDUSTRY OUTLOOK

Using our construction industry experience, our claims and underwriting data, and our interactions with general contractors and insurance agents in the field, we are pleased to forecast the following:

General Contracting

- The proportion of women working in construction was an all-time high of 14% in August 2022, and the number of women working in the construction trades will continue to increase.¹⁵
- The industry will increase efforts to recruit more minority employees. Initiatives associated with 2021's Infrastructure Investment and Jobs Act will help more women and minorities enter the construction business.
- As the solar-power market continues to strengthen, especially in the South and West, general contractors will work with electrical and green-energy contractors to incorporate more solar power into their projects.
- Single-trade contractors will increasingly expand their businesses into multiple trades or general contracting.
- As society and lifestyles evolve, nimble general contractors will adapt to changing construction needs by focusing on different building types, such as multi-family units, mixed-use developments, and office-to-condominium conversions.
- Whenever possible, general contractors will seek to grow their businesses into related fields, such as design-build and offering more one-stop, turnkey services.



Business Implications

When construction markets slow, general contractors try to minimize their operational risk by seeking new growth opportunities, such as vertical or horizontal expansion, taking on new categories of workers with new skills, or forming alliances with subcontractors.

With diversification comes new liability risks, and general contractors must work with a qualified insurance agent to help them ensure their insurance addresses these new risks.



Safety Implications

Personal protective equipment (PPE) and tools are often designed for the average male. Increased diversity in the workplace demands PPE and tools suiting the entire workforce.

Because solar tiles take longer to install than traditional roof coverings, workers spend more time at heights. To mitigate the increased risk of falls, contractors must emphasize the need for workers to remain focused and diligently use and maintain fall protection equipment.

Supply Chain

- Supply-chain disruptions will persist in 2023, impacting approaches to and timelines for procuring construction materials.^{16,17}
- General contractors will try to work around uncertainties in construction timelines by using alternative and/or recycled building materials, such as bamboo, 3D printed materials, shredded tires, reclaimed soil, recycled plastic, and used bricks.



Business Implications

Contractors must still plan for supply-chain risks, find new suppliers, or stockpile materials. Alternative materials may be more sustainable and often used in LEED (Leadership in Energy and Environmental Design) construction. For structural or aesthetic reasons, they cannot always substitute for traditional materials. Increased demand for particular alternative materials also may lead to supply bottlenecks.



Safety Implications

Stockpiling materials can make them more susceptible to theft. Control measures include coordinating delivery times, ensuring materials are placed directly into secure areas with good lighting, fencing, and security cameras, and safety from flooding. If possible, contractors should prevent stockpiled materials from being visible to job site passers-by.

If contractors use alternative materials, they should research the materials' safety performance, review safety data sheets, and train employees on installation. They should also ensure availability of required PPE and tools and teach workers their proper use.

Technology

- Contractors will increase their use of technology in every aspect of their operations, from the job site to the back office. We expect broader applications of technologies like wearables, robots, remote monitoring, building information modeling software, and virtual – and augmented-reality tools for training.
- High-end buildings will increasingly integrate smart technologies, such as Wi-Fi-enabled appliances, security systems, and robotic cleaning systems.
- More contractors will use in-vehicle technologies like telematics, dashcams, and driver-assist features to reduce their automobile risk exposure.
- As vehicles increasingly incorporate technology, associated repair costs have risen dramatically, leading to a rise in claim payouts and premiums. Complex electronics take longer to service, so vehicles will be out of commission for lengthier periods, further straining contractors' resources.



Business Implications

Technology helps general contractors mitigate several types of risk, including labor shortages, inflation, worker safety, and subcontractor performance. As workers become more accustomed to technology on the job and in their lives, we expect learning curves to improve and productivity to rise.



Safety Implications

In-vehicle technologies like telematics let contractors coach employees in real time on reducing risky driving behavior. Driver assistance systems can create an over-reliance on technology and increase the likelihood of distracted driving. Enforcing a distracted-driving policy is a foundational safety management measure.



General Construction Business

- The trend away from building single-family homes in favor of condominiums, townhomes, apartments, and planned communities will continue in cities and suburbs. We expect insurers will see more construction defect claims from these larger projects.
- Construction of large commercial buildings like industrial and data-storage warehouses and specialty structures like life science laboratories and healthcare facilities will expand.
- Heavy construction projects will surge nationwide as funding from the Infrastructure Investment and Jobs Act is released to agencies and states. Projects in areas with older infrastructure, such as the Northeast, will primarily focus on repairing and renovating existing systems. Elsewhere, such as in the South, the Act will help spur new or expanded infrastructure construction.
- The current shortage of drivers with commercial licenses will not improve soon. With more inexperienced or unqualified heavy-vehicle drivers, we expect auto claim frequencies and severities to rise, with corresponding insurance premium increases.
- There will be an increase in the fabrication of modular and pre-made buildings, where sections of a dwelling are made indoors in a climate-controlled factory and assembled onsite. This approach will enable homes to be constructed year-round in cold climates.
- New building techniques, such as 3D concrete printing, will continue to be adopted across a wider range of projects.



Business Implications

As general contractors turn more to building condominiums and mass developments, their construction-defect risks will grow. Non-residential contractors must expand their skill sets to take advantage of the boom in specialty structures like logistics centers and biolabs. However, new techniques come with risks. For example, the long-term durability of 3D-printed structures is still unknown.



Safety Implications

Building condominiums and apartments leads to a higher fire risk. These dwellings are usually constructed with wood framing and often opened for occupancy before construction is complete with fire protection systems. General contractors need to ensure fire departments preplan for the site, turn on hydrants, time the activation of sprinkler systems, manage hot work, and control project housekeeping.

Until more testing and code development occurs, contractors using new building techniques, such as 3D printing or solar roof tiles, should work with fire code enforcement officials and fire protection engineers to use the Alternative Materials & Methods provision in many building codes.

In construction, safety management is project management.

CONCLUSION

Construction is a high-risk business. In these challenging times, it is even more so. Unprecedented supply chain disruptions, record inflation, and massive labor shortages brought on by the Covid-19 pandemic and global instability have multiplied the risks that general contractors deal with daily. Continuously changing laws and regulations further increase risks for contractors.

Selective provides general contractors with solutions to mitigate risks and limit financial loss. Our data identifies trends in specific types of perils. Our field interactions with contractors and independent insurance agents enhance our understanding of these perils. Combining data analytics and human intelligence allows the innovation that lets us develop new products and services to serve the needs of general contractors.

General contractors should work with independent insurance agents who understand the construction business, as they can help protect contractors as they take on new types of projects. They should choose insurance carriers, like Selective, that focus on construction, know the industry's risks, can comprehensively assess the contractors' insurance and risk management programs, and have expert construction claims handlers. Doing this will help contractors reap the benefits of reducing risk: greater predictability, higher productivity, and more on-time, on-budget deliveries.



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The three main categories of risk that a general contractor can control are jobsite safety, risk transfer through airtight subcontractor agreements, and carrying proper insurance coverage.

Jim Albi,
Assistant Vice President,
Contractors Strategic Business Unit

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