Top Three Contractor Risks and How to Reduce Your Exposure

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YOUR GUIDE TO NAVIGATING TODAY'S CONSTRUCTION ENVIRONMENT

Notwithstanding COVID-19's onset in 2020, construction activity has been, and continues to be, robust. New home construction and multifamily increased, and with few exceptions, commercial building shows no signs of slowing down either. The public and federal construction market is also picking up steam, with the federal government making a multi-year $550 billion infrastructure investment through the Infrastructure Investment and Jobs Act.

Still, there is reason to be cautious. Because some construction projects can take months or even years to complete, the construction industry has likely not yet felt the full impact of the pandemic and its attendant economic challenges.

Contractors are adjusting to the scarcity of key construction inputs like labor and material. Companies that are effectively managing this disruption still may be experiencing impacts to their prof t margins as costs increase. Aside from project margins, lack of material and/or labor also has the potential of impacting project schedules and creating additional overhead expense.

Despite today's diff culties, the good news is that contractors have some level of control in how they manage these variables. We'll share ways contractors can adjust to the new reality and still maintain prof tability.

Construction Risk Has Never Been Greater

With the U.S. economy in f ux, it can be hard to identify the right way forward when it comes to the tight labor market, supply chain, material cost inf ation, and new and emerging contract risks. Make sure the management of these risks is the key to success — not the mark of failure.

1. LABOR SHORTAGE

There are currently two open jobs for every unemployed American, according to the U.S. Bureau of Labor Statistics. With construction activity remaining strong and the well-documented industry labor shortage, it's no surprise that contractor businesses are focused on attracting and retaining employees.

have increased. Materials can also be damaged by nature, potentially causing a major loss. Automated monitoring devices like water or theft alarms are relatively inexpensive and can be moved from site to site as needed. Be sure everything is fenced off and/or under surveillance to protect your investment.

» **Maintain the right insurance coverage.** Appropriate coverage goes hand in hand. If the project is bonded, a surety company will also want to know that the contractor has procured the contractual limits of coverage from a financially strong insurer.

3. TRANSFER OF CONTRACTUAL RISK

Risk transfer can be challenging. With all parties trying to minimize their own exposure, it can be challenging to transfer risk sufficiently—and to ensure all the risk is administered proportionately based on the stakeholder's obligations.

The construction contract's terms with the project owner can have an impact on a contractor's ability to secure surety or insurance support. Be aware of this and screen your contracts carefully. The owner, mortgagees, contractors, and subcontractors are additional named insureds under a builder's risk policy, meaning there are very limited, if any, options to transfer risk for the project to other parties. Sureties will also be looking at these risk elements and 85005200512oilit[also 2to i2.1 (eholTJETEMC /P <Lang (en-US)/MCID 18 5BDC BT10 0 0 10 27