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# State of Insurance in Construction 2021



The inaugural “State of Insurance in Construction” report provides insights into the construction industry insurance marketplace for 2021-2022. The market conditions across this report may vary across geographies. We put this report together with insurance insights from the top insurance carriers in the United States to drive sound risk management decisions in construction.

## Introduction

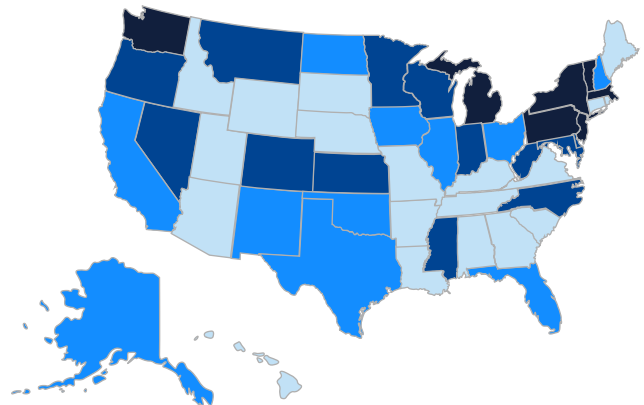
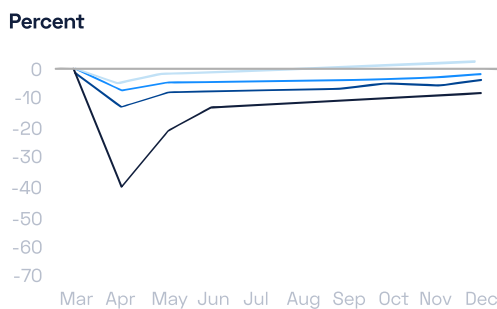
The economic downturn caused by COVID-19 caused many construction companies to forecast lower construction volumes (sales), reduced headcount (payroll), reduced fleet and equipment sizes. These factors have not necessarily translated to lower exposures of risk for insurance carriers. Instead, a combination of COVID 19 and Climate Change has had an upward pressure on insurance premiums that could affect you.

## COVID-19 hurt Construction Employment

No industry emerged unscathed from the COVID-19 crisis. More than **975,000 construction workers lost their jobs in April 2020** alone. As local governments across the country mandated new safety protocols, supply chains were interrupted, project sites were closed, and contracts were terminated or put on hold indefinitely.

### Job Losses - Construction

Employment Gap by State Group, March-December 2020



## COVID-19 benefitted other industries

In contrast, there were notable job gains in healthcare, grocery, and home delivery businesses. The ability to work from home in the professional services sector helped maintain employment stability.

### Covid-19 and Employment



#### Leisure, Hospital, and Travel

Many **shut down** by government mandate or saw **traffic drop to near zero**



#### Professional Services

**Telecommuting** may help to **maintain current employment** with a reduced risk of COVID - 19 exposure



#### Healthcare for Urgent Needs

**Demand surged** for urgent **medical service and supplies**



#### Durable and Discretionary Goods

**Cancelled or deferred orders** have impacted a wide range of products



#### Groceries and Direct Delivery

**Demand and online sales skyrocketed**, resulting in temporary **new hires**



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**AIS**  
VIRTUAL

## COVID-19 is Driving Insurance Premiums Up

COVID-19 brought with it a massive uptick in unemployment for 2020, and with so many employers reducing hours or out of work altogether, insurance companies made adjustments to accommodate the exposure to COVID 19 risk.

## The average Covid-19 claim was \$6,000

For Accident Year 2020, there were 45,000 insurance claims reported with some type of loss related to COVID-19. The total losses incurred amounted to \$260M of which \$195M (75%) was caused by lost time due to COVID19. The average insurance claim for a sick employee was \$6,000.

## What Our Data Tells Us About COVID-19 Losses

**\$ 260M** in losses



**45,000** claims



**75%** of claims are lost-time



**\$ 6,000** average severity

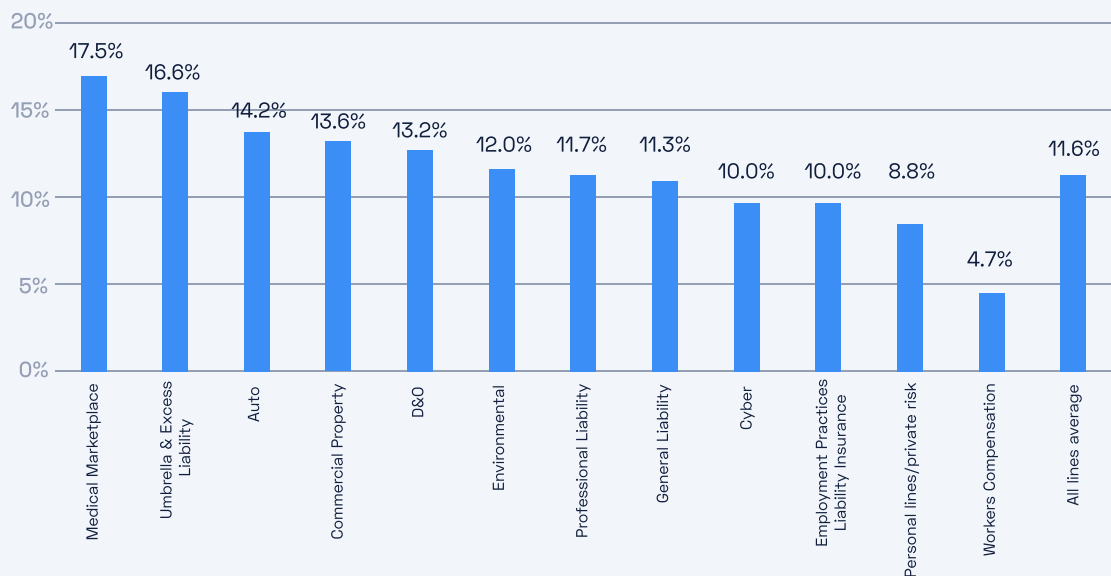


Sources : NCCI's Financial Caall data through 12/31/2020  
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## Your insurance premiums are going up

Insurance carrier **Willis Towers Watson** predicts insurance premium increases ranging from 5% - 20% for general liability, with automobile liability going up by 5%-15%.

### 2021 Average Projected Pricing Change By Line of Business



## Automobile Liability (5-15% Increase)

Commercial automobile insurance remains an insurance product with continuous premium increases over the years. Expect to see premium rate increases ranging from 5-15% attributed to an increase in third-party litigation finance that is encouraging automobile-related lawsuits resulting in verdicts in the millions of dollars. High-value verdicts arise from traumatic brain injuries, negligent driving, and distracted driving.

## Hired and non-owned auto is not always included

For project-specific insurance, all contractors on-site are generally responsible for providing automobile liability insurance. While this coverage can usually be provided by the contractor's insurance policy, coverage for hired and non-owned automobiles is increasingly not included, or contractors are finding out that limits do not meet requirements. If you have project-specific insurance it is highly recommended to add the hired and non-owned coverage to the project-specific insurance requirements.

## A small win in workers compensation insurance

One small win is that worker's compensation premiums are predicted to remain flat. This product remains profitable for insurance companies. This insurance product is lucrative for insurance carriers who are experiencing a combined ratio of 85%.

## P&C Industry Net Combined Ratio

Private Carriers

Line of Business	2018 (%)	2019p (%)	Difference 2018
Personal Auto	98	99	
Homeowners	104	99	
Other Liability (incl. Product Liability)	101	106	
Workers Compensation	83	85	2
Commercial Auto	108	109	
Commercial Multiple Peril	107	105	
Fire & Allied Lines (incl. EQ)	109	98	
All Other Lines	92	92	
<b>Total P&amp;C Industry</b>	<b>99</b>	<b>99</b>	<b>0</b>

Preliminary

Source : NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers

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The combined ratio is a measure of profitability used by an insurance company to gauge how well it is performing in its daily operations. A combined ratio below 100% indicates that the company is making an underwriting profit, while a ratio above 100% means that it is paying out more money in insurance claims that it is receiving from insurance premiums.

# Additional Factors Affecting the Insurance Marketplace for Construction

## Climate Change Has Happened

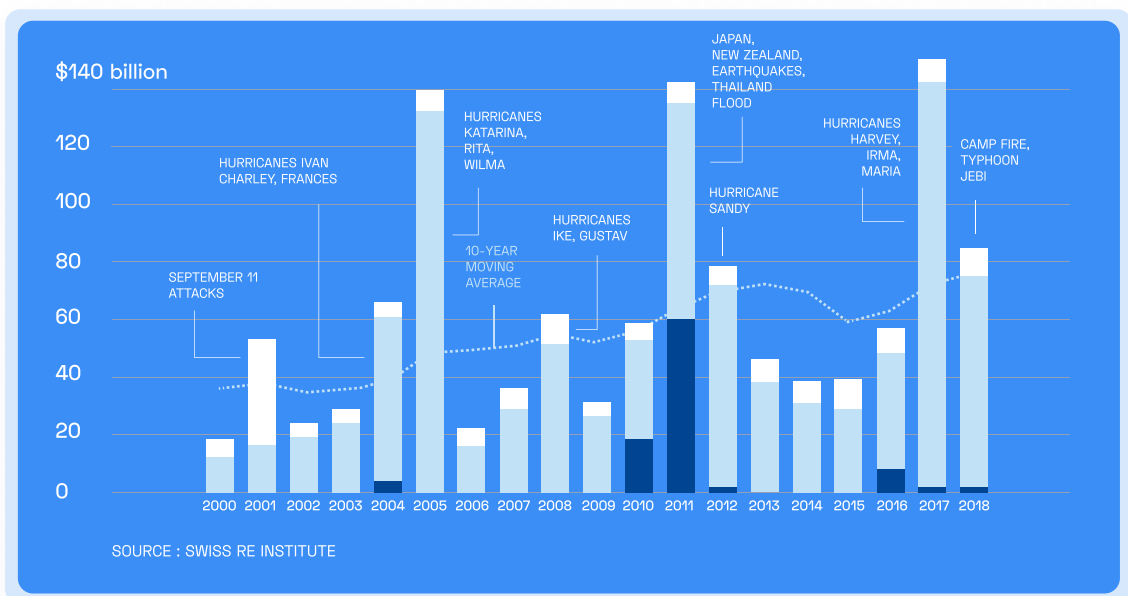
The effects of climate change are here. The escalating frequency of natural disasters and the severity of extreme weather-related events—from wildfires to floods—across the world are causing massive losses for insurance companies and business insurance premiums to increase.

## Rising Seas and Cost

Hurricanes and other weather related events linked to climate change have helped fuel an increase in insurable losses from natural disasters.

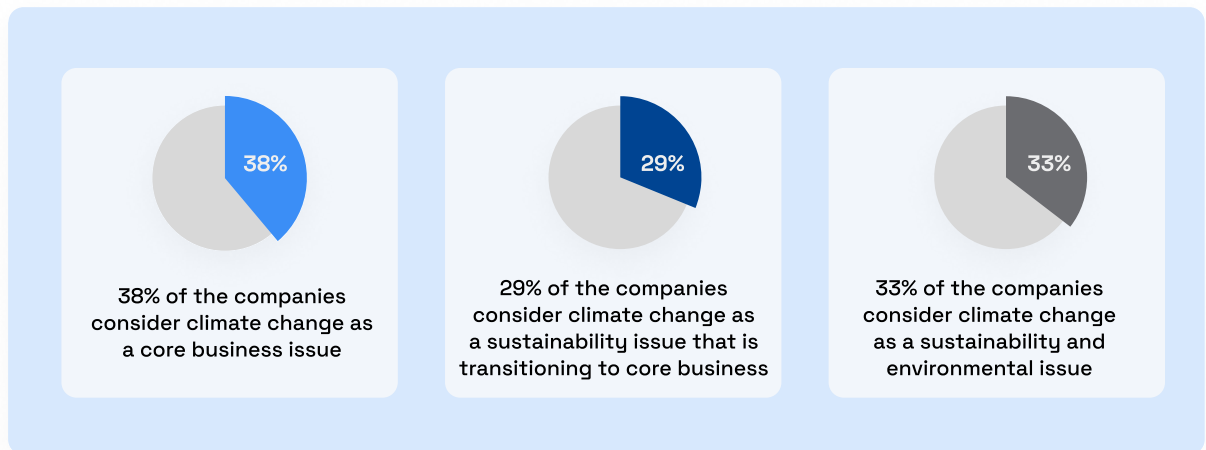
### Insured Catastrophe Losses (2018 dollars)

■ Earthquake/Tsunami   ■ Weather-Related Disasters   □ Man-Made Disasters



According to [Deloitte](#), a majority of insurance regulators have indicated that climate change is likely to have an extremely high impact on insurance coverage and underwriting. Carriers are implementing a revised risk model for new construction projects that will [stress-test total exposure against projected climate hazards](#).

**Figure 3 : Climate change is considered a sustainable issue by the boards and C-level executives of the participating insurance companies**



## Skilled Labor Shortages

In an industry already short on skilled workers before the pandemic, construction businesses will need to hire 430,000 workers this year and 1 million more over the next two years in order to keep up, according to Associated Builders and Contractors.



Hourly pay does not seem to be the issue given that the construction industry pays an average of \$32.86 per hour for a construction worker as compared to \$18.23 per hour in hospitality. Instead, the shortage seems to be driven by an aging construction workforce and a low demand for shop classes which are making it difficult for construction companies to recruit younger talent.

## Get serious about cyber insurance

The construction industry is not immune to cyberattacks. Small businesses in the United States are the most targeted with a cyberattack occurring every 39 seconds and 84% of these companies do not have IT security. All it takes is one compromised contractor in your supply chain to get exposed.

### Cyber Insurance

You may think that cyber insurance is just a gimmick to sell more insurance, but the fact is many industries now require specific cyber insurance coverages in their contracts. Additional cyber insurance myths include:



**"I can't afford another \$1,000 for cyber insurance."**

Can you afford not to have cyber insurance? The average breach can cost **\$1 million in remediation costs**.



**"I am not in a high tech business."**

You don't have to be. Do you have customer data of any type? Do you have intellectual property? Do you have employees? Companies represented in this research **lost an average of more than 9,350 individual records** as a result of the data breach, nearly double over the previous year.



**"Hackers focus on large companies."**

Over **61% of businesses with fewer than 1,000 employees** have suffered a cyber attack within the last 12 months and over **54%** have had data breaches involving their employee or customer data.



**"I don't do business on the internet."**

Perhaps not, but if you store any customer or employee data on a computer and you use the internet, you are still at risk. **52% of companies experienced a ransomware attack** and more than half of those affected have had more than two ransomware incidents in the past 12 months.



**"I don't have any valuable data."**

All data is valuable to a hacker. **54% of respondents had a breach involving sensitive information** about customers, prospects or employees.



**"I have anti-virus software."**

That's great! but it may not be enough. Only **39% of respondents** say the technologies currently used by their organization can detect and block most cyber attacks.

It's not a matter of if your business will be a victim, but when.

2017 State of Cybersecurity on Small & Medium-Sized Businesses (SMB). September 2017. Ponemon Institute LLC

## Large construction has been hacked too

**Turner Construction** had a data breach when an employee sent W2 information to a fraudulent email address.

# Turner

The hackers had spoofed the email address, and the data stolen were names, addresses, social security numbers, and bank details.

All employees who worked for the company were affected by the data breach.

<https://www.bizjournals.com/columbus/news/2016/04/12/turner-construction-suffers-data-breach-affecting.html>





**Whiting-Turner** Contracting was a victim of a data breach.

The company was notified by an outside vendor that prepared W-2 and 1095 tax forms for the company's employees about suspicious activity on that vendor's systems.

Around the same time, employees of Whiting-Turner were reporting fraudulent tax filings being made in their names.

In addition to employee information, personal information on children and beneficiaries of employees who received healthcare insurance coverage through Whiting-Turner was compromised.

### **It's a matter of when...**

Most security experts agree that it's a matter of when, not if, your company is targeted by hackers. Even the most sophisticated networks can be breached so it is also important to have a response plan in place in the event of a cyber incident. Your company should also invest in cyber insurance since traditional insurance coverage such as commercial general liability (CGL) policy will not cover cyber and technology liability.

### **Moving Forward: Key Insurance Considerations for Construction in 2021**

The factors covered above, along with the impacts of COVID-19, will result in sweeping changes to coverage plans, as well as higher premiums. To be prepared, construction companies should consider the following proactive steps when selecting insurance.

1. Evaluate whether you have adequate insurance charges embedded in your project bids and contracts.
2. Use technology platforms to compare and manage your insurance for the best possible coverage.
3. Begin the insurance renewal process at least 60 days before policy expiration to avoid gaps in coverage.
4. Outline an accurate project schedule to assess the total hours needed and determine whether an extension of existing coverage is required.
5. Get serious about cyber insurance to protect your data, supply chain, materials, and employees.

Premium increases are inevitable, but with the right tools, can be managed effectively. Contractors should do their research beforehand to determine what can be considered adequate coverage for a given project. Using the right technology solutions for selecting insurance will ensure that the project, the company, and its people are properly protected.

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[https://oag.ca.gov/system/files/Whiting%20Turner%20Contracting%20NOTICE%20only%20CA%20Regulator%20Notice%20Exhibits\\_0\\_1.pdf](https://oag.ca.gov/system/files/Whiting%20Turner%20Contracting%20NOTICE%20only%20CA%20Regulator%20Notice%20Exhibits_0_1.pdf)

## Choose the Right Technology to Manage Insurance

Risk comes in many forms and is often difficult to quantify. To transfer this risk, construction companies are required to carry insurance. However, assessing risk from third parties like subcontractors can be an even bigger challenge for the company.

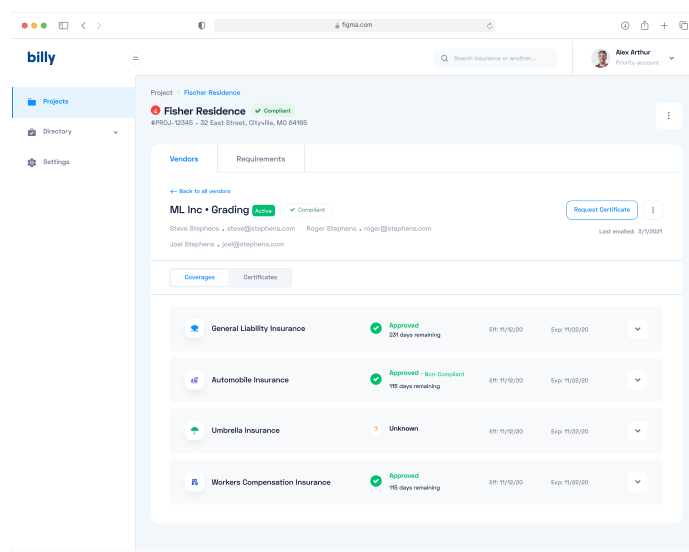
Verifying insurance is the best way to mitigate that risk – but it is not easy. In fact, it's manual, complicated, and frustrating, with too many moving parts.

However, the consequences of not knowing the insurance status of third parties you work with are enormous, leading to unnecessary damages if a subcontractor or their supplier is involved in an accident on your project.

By focusing on a few key principles, there is the potential to significantly increase your compliance rate and reduce your company's risk and exposure:

1. **Automate COI collection:** Collect COIs without back-and-forth calls and emails to expedite the verification process. Automate the managing of contacts, responses, follow-ups, and exceptions.
2. **Trust but verify:** Determine if subcontractors have adequate coverage against project requirements. Quality COI tracking and insurance management can verify the total coverage to identify deficiencies and determine if the subcontractor or supplier meets the insurance requirements.
3. **Right-size insurance requirements:** Third-party requirements that are too specific or strict can lead to an inefficient exception process. Focusing on overall business objectives and eliminating obstacles will improve performance in this area.
4. **Tech-enabled partnerships:** The inclusion of tech-enabled insurance partners in the insurance ecosystem is helpful in streamlining the verification process and providing accurate coverage status. Not only does the company gain an efficiency tool that streamlines risk, but it also gains a network of insurance experts.

The insurance landscape has been in constant flux since the COVID-19 crisis began, and with that flux come ever-evolving premium structures. For contractors looking to ensure maximum profitability but also optimal coverage for projects, equipping themselves with automated technology and tools for selecting the right insurance can save valuable time and resources.



## About Grant Robbins



**Grant Robbins** is a general contractor and construction tech entrepreneur with extensive construction industry experience and a record of building some of the most iconic infrastructures in southern California. He is the co-founder of Billy, an insurance and risk management solution for the construction industry that helps contractors manage insurance verification. Recognizing that most construction businesses manage insurance in excel sheets and paper, Grant launched Billy to make business insurance easier and more accessible to business owners in the construction industry.

## About Billy

**billy**

Billy is a leading provider of insurance and risk management software. Thousands of policies are run on Billy's platform. Billy helps construction companies manage third-party liability by connecting key stakeholders (construction and insurance) on a single platform that is built specifically for the construction industry—for the owner, the general contractor, the subcontractor, and the supplier.

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Contractors of all sizes rely on billy to help them manage third insurance and protect their business and brand from risk transfer. With **Billy**, contractors collect and analyze insurance and compliance documents.

**Billy** is a VC-backed tech startup, headquartered in **New York, NY**. Learn more at [billyforinsurance.com](https://billyforinsurance.com)