



2017 CLM & Business Insurance Construction Conference
October 9-11, 2017
San Diego, CA

Emerging Risks in the Construction Industry

1. **The Construction Risk Index** – The role of construction has changed dramatically in recent years. Growth in the developing world, increased number of mega-projects, large scale investments in infrastructure and globalization of the industry are adding complexities to projects.

Fragmented and sometimes inadequate workforces, uncertain regulatory frameworks and political climates, and the inescapable rise of technology have resulting in a host of interconnected risk landscapes that impact each other in difficult and unpredictable ways.

To gain deeper insight into this dynamic risk environment, Willis Towers Watson asked 350 senior executives in the construction industry to rank the greatest threats to their business – both today and 10 years from today. We asked them their attitudes toward 50 specific risks from five identified megatrends. Subsequently, in-depth interviews were conducted with a cross-section of these executives to gain greater insight into the challenges they face.

Too often the Risk Management framework – from insurance purchase to claim litigation – is reactionary and based on past experiences and situations. The CRI is an attempt to move the conversation forward, to look ahead at risks that aren't here yet, to prepare risk managers and claim adjusters for the new risk landscape.

2. **Megatrends and Risks** – The CRI identified 5 global megatrends. The importance of these megatrends varies by region. The megatrends are:

- a. Geopolitical instability and regulatory change – Navigating a shifting social and political landscape is a constant challenge. Political instability and inconsistent policymaking creates uncertainty and regulatory requirements become increasingly burdensome.
 - b. Workforce management and talent optimization – Companies across the construction spectrum are facing skills shortages. The focus of management is shifting away from finding enough people to finding the right people. Building a workplace environment that retains their most important people in an increasing competitive marketplace is a priority.
 - c. Business model and strategy challenges – Traditional business “disruptors” like fluctuating foreign exchange and interest rates, the availability of capital and risk of customer default are being joined by new and emerging competitors adding to industry insecurity about whether current business models still hold.
 - d. Digitalization and new technologies – The unrelenting pace of technology has introduced a whole new dimension of risk. Contractors’ entire operations rely on critical IT infrastructure that is vulnerable to disruption. At the same time, they are facing a wave on unprecedented and unexpected liabilities emerging from new software and technologies.
 - e. Complex operating models – As projects become more global and interdependent, traditional models are becoming strained. Contractors are being forced to adapt operations to respond to lower margins and a more demanding environment.
3. **Global Perspective** – The importance of obtaining a true cross-section of the global industry was critical to the finding the value of the CRI. 24% of the respondents were from North America, 21% from Asia Pacific and 20% from Europe.

Also important was finding diversity in Job Roles. 26% of respondents were CEO’s, 26% were CFO’s, 23% were CRO’s.

In terms of company size 60% of respondents represented companies with less than 10,000 employees and 40% represented companies with more than 10,000 employees.

Finally, in terms of sectors – 23% of respondents were primarily infrastructure contractors and the remainder was split evenly among heavy civil, energy contractors, home builders, commercial builders and specialist subcontractors.

4. **Deeper Dive** – Our panel will discuss 3 of the 5 megatrends in-depth from a business perspective, a legal perspective and an insurance perspective.
- a. Geopolitical instability and regulatory change – Among the risks that will be discussed are:
 - i. Lack of government/PPP experience – Public Private Partnerships rely on true collaboration between public entities and private enterprises to succeed. Too often, such projects are limited because of an over-reliance on the public entity to set contractual terms and conditions. This ends up impeding the nimble nature of the private entity thus nullify the rationale for the PPP in the first place.
 - ii. Compliance risk – The numerous federal, state and local regulations around construction put all contractors at risk of not being compliant and subject to fines and/or penalties.
 - iii. Changes to government financing, policies and priorities – The polarizing nature of the current political landscape puts contractors at risk as projects supported by one administration may be gutted or even cancelled by an incoming administration.
 - b. Workforce management and talent optimization – Among the risks that will be discussed are:
 - i. Limited workforce diversity – For an industry where just 9% of the workforce is female and employee turnover is close to 30%, the issue of workforce diversity looms large.
 - ii. Escalating duty of care costs and responsibilities to ensure workforce security – As the workforce that is committed to the industry ages, recovery time from workplace injuries increases. Couple that with rising medical costs and the frictional costs of maintaining a healthy workforce add strain on the organization’s bottom line.
 - iii. Difficulty in attracting and retaining key talent – Current generations are not as committed to industries as past generations. They tend to dip in and out without long term commitments. Therefore, making a work environment flexible is critical to attracting talent, but once the talent is there, how can you keep them challenged.

- c. Digitalization and new technologies – Among the risks that will be discussed are:
 - i. Liabilities arising out of the use of BIM – The benefits of a BIM system – increased collaboration, on-time data, integration of roles – can also lead to increased issues around where responsibilities lie. Increasing collaboration without blurring responsibilities is a major challenge associated with BIM usage.
 - ii. Increased security threat from cyber attacks and data privacy breaches – Cyber risks are an increased risk to construction from both a business viewpoint – critical project documents are stored on shared sites – and an operations viewpoint – increased use of technology on the job. Protection from such risks and the ability to recover from a breach will be critical to continued business success. Even more basic, is a true assessment of these new and complex risks.
 - iii. Inability to capitalize on automation of processes – Technology promises increased productivity and support. However the upfront costs of automated equipment, laser guided measurements, wearable technology is high. Companies must weigh their desire to be on the leading edge with a cost/benefit analysis of what that new technology really means in terms of cost, employee training, maintenance and practical usage.
5. **The Future** – The CRI is not a “one and done” report. It is a dynamic document that Willis Towers Watson is committed to maintaining and updating. It gives our industry an enhanced awareness of the issues prevalent in the industry and it will continue to foster discussion around complexity and innovation.