Construction Risk Outlook: Short-term and Intermediate Risks and Strategies for Addressing Them

AGC’s 2021 Construction Risk Management Two-Part Program
2021 First-Half Outlook: Key Construction Risks

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risk.agc.org
Key Research Themes

1. Top Risks and Concerns
2. Future-Proofing Your Organization
3. Technology-Focused Strategy and Cybersecurity

Source: Dec. 2020 AGC/FMI Risk Survey
Study – Quick Facts

Results are based on responses from members in AGC’s Surety Bonding and Construction Risk Management Forum. Data was collected in Dec. 2020.

Contractor types represented:
• GC (72%)
• CM (20%)
• Specialty Trade (14%)

56% of participants have revenues of $500 million or more.

Source: Dec. 2020 AGC/FMI Risk Survey
Top Risks and Concerns
Managing Risks

 Identify the top-five risks you are encountering today.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rank</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited supply of skilled/craft workers</td>
<td>1</td>
<td>48%</td>
</tr>
<tr>
<td>Changes in insurance terms/costs</td>
<td>2</td>
<td>37%</td>
</tr>
<tr>
<td>Project delays or cancellations</td>
<td>3</td>
<td>34%</td>
</tr>
<tr>
<td>Design-related issues (i.e., poor design drawings, design condition, etc.)</td>
<td>4</td>
<td>33%</td>
</tr>
<tr>
<td>Increasing competition</td>
<td>5</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Dec. 2020 AGC/FMI Risk Survey
Managing Risks

Please rate how effectively your organization manages those top risks (scale of 1 to 10)

AVG. 7.1
### Managing Risks

Looking to 2025, what **five risks** do you expect to increase the most?

<table>
<thead>
<tr>
<th>Risk</th>
<th>2025 Percentage</th>
<th>2019 Percentage</th>
<th>2025 Rank</th>
<th>2019 Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited supply of skilled/craft workers</td>
<td>67%</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Changes in insurance terms/costs</td>
<td>37%</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Design-related issues (i.e., poor design drawings, design condition, etc.)</td>
<td>26%</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Regulatory/legislative changes</td>
<td>25%</td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>22%</td>
<td></td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Dec. 2020 AGC/FMI Risk Survey
Organizational Plans for Addressing Risks

Does your organization have a formal plan in place for addressing the risks associated with the current economic downturn?

- **2019**
  - NO: 36%
  - YES: 64%

- **2020**
  - NO: 30%
  - YES: 70%

What is your level of confidence that your plan will effectively help you adjust to the current and future business environment?

- **Highest Level of Confidence**
  - 10: 6%
  - 9: 18%
  - 8: 25%
  - 7: 29%
  - 6: 16%
  - 5: 4%
  - 4: 2%
  - 3: 0%
  - 2: 0%
  - 1: 0%

- **AVG. 7.5**

- **Lowest Level of Confidence**
  - 1: 0%

Source: Dec. 2020 AGC/FMI Risk Survey
Top 5 New Project Risks Due to COVID-19

What new risks are you facing on your projects as a result of the COVID-19 pandemic?

- Employee health and well-being: 70%
- Decrease in productivity: 52%
- Ability to recover additional costs and time associated with the pandemic: 47%
- Schedule (i.e., delays): 42%
- Local, state and federal government interventions (e.g., shutdowns, etc.): 36%

Source: Dec. 2020 AGC/FMI Risk Survey
Top 5 Concerns for 2021

Top 5 concerns for 2021 ranked from least to greatest

- Maintaining revenue: 23%
- Maintaining profitability: 27%
- Competitive pressure on margins/fees: 36%
- Scheduled starts of awarded work (i.e., risk of "work slipping"): 41%
- Winning work and building a solid backlog: 51%

Source: Dec. 2020 AGC/FMI Risk Survey
Insurance Market

What is your view on the current insurance marketplace?

- It’s harder to get insurance compared with last year: 70%
- It’s consistent year-over-year: 28%
- It’s easier to get insurance this year: 1%

What challenges do you expect related to the insurance market in the next two years? (Top 5)

- Large rate increase: 78%
- Reductions in excess capacity/limits: 67%
- More restrictive coverage terms and conditions: 61%
- Increased deductibles: 42%
- Rising claims frequency: 32%

Source: Dec. 2020 AGC/FMI Risk Survey
The U.S. Political and Economic Landscape

After the 2020 election, what are your top-three political or regulatory concerns for 2021?

- **Tax Policy**: 62%
- **Federal Infrastructure Funding**: 54%
- **Government Spending & Debt**: 52%
- **Coronavirus Response**: 45%
- **On-going Stimulus Support**: 36%

What do you expect stimulus and government-led support to look like in 2021 for the U.S. economy?

- **More than 2020, direction shifts to other areas of the economy (e.g., public, infrastructure, etc.)**: 23%
- **More than 2020, direction does not change (continues to favor consumers and businesses)**: 19%
- **About the same as 2020, direction shifts to other areas of the economy**: 16%
- **About the same as 2020, direction does not change**: 14%
- **Less than 2020, direction shifts to other areas of the economy**: 13%

Source: Dec. 2020 AGC/FMI Risk Survey
Future-Proofing Your Organization
You’re either a driver of change or driven to change. We always choose the former.

— Thomas Scarangello, Executive Chairman Thorntom Tomasetti
Subcontractor Prequalification

How have you adjusted your approach to subcontractor prequalification since COVID-19?

No Changes

- Increased emphasis on financial review: 78%
- Request current backlog amounts: 34%
- Required more frequent renewals: 32%
- Increased emphasis on manpower/labor: 32%
- "Requalified" subcontractors after project shutdown/postponement: 27%
- Understanding of COVID-prevention policies: 24%
- Moved to per-project enrollment evaluation: 15%

Made Changes

- 42%
Organizational Achievement

Rate how well your organization is achieving the following:

We are tightening up our preconstruction, estimating and pricing practices to be more competitive, while ensuring we can still be profitable.

We are focused on the fundamental drivers of profitability in our business, and intentionally working to improve in these areas.

We are tightening up our operations to prepare for increased competition and pressure on margins.

We are focused on supporting our field resources to optimize project performance.

**AVG: 7.37**

**AVG: 7.47**

**AVG: 6.93**

**AVG: 7.03**

Source: Dec. 2020 AGC/FMI Risk Survey
Organizational Achievement

Rate how well your organization is achieving the following:

We are assessing and tracking risks more frequently.

AVG: 6.94

We are closely monitoring the work quality and financial stability of subcontractors and suppliers.

AVG: 6.81

Source: Dec. 2020 AGC/FMI Risk Survey
Technology-Focused Strategy and Cybersecurity
Which of the following scenarios best describes your leadership team’s approach to technology-related strategic planning?

- The leadership team meets to discuss strategies to leverage technology, but not regularly (43%)
- The leadership team meets deliberately on a regular basis for technology strategic planning (40%)
- The company does not have a strategic planning process in place for leveraging technology in the business (11%)
- The leadership team is in the process of conducting the first technology strategy (6%)

Source: Dec. 2020 AGC/FMI Risk Survey
Strategy for Future Technology Initiatives

Which of the following scenarios best describes your company’s status in establishing a technology strategy to provide direction for future tech initiatives?

- The company has a current technology roadmap that has been published throughout the company. (36%)
- The company is in the process of creating a technology roadmap. (31%)
- The company does not have a technology roadmap to direct tech initiatives for the next 2-3 years. (23%)
- We have a technology roadmap but it is out of date. (10%)

Source: Dec. 2020 AGC/FMI Risk Survey
Strategy for Future Technology Initiatives

Which of the following statements best describes your company’s utilization of cybersecurity monitoring and protocols to manage defenses and mitigation vulnerabilities?

- The company has cybersecurity monitoring and protocols in place to manage defenses and mitigate vulnerabilities: 83%
- We have cybersecurity monitoring and protocols in place, but they are inadequate: 12%
- The company is in the process of establishing and monitoring protocols: 6%
- The company does not have cybersecurity monitoring or protocols in place: 0%

Source: Dec. 2020 AGC/FMI Risk Survey
Which of the following best describes your company’s deployment of cybersecurity training?

- The company regularly provides cybersecurity training: 49%
- The company provides cybersecurity training, but not to all employees: 30%
- The company does not provided cybersecurity training: 14%
- The company is in the process of providing cybersecurity training: 6%