

RISK INSIGHTS

5 RISKS EVERY CONSTRUCTION CONTRACTOR SHOULD KNOW ABOUT

Construction projects are complex, requiring considerable coordination of people, materials, equipment and schedules, increasing contractors' exposure to operational, financial and liability risks. While insurance can help manage the financial impact of unexpected events, it is most effective as part of a broader risk management approach that focuses on reducing key exposures before losses occur.

The article discusses five risks every construction contractor should be aware of, as well as coverage and risk management strategies.

1. WORKSITE INJURIES AND WORKER SAFETY

Worksite injuries and fatalities are among the most significant risks in construction. According to OSHA, four common causes are falls, caught-in or -between hazards, struck-by events and electrocution. Beyond the human impact, such events can increase workers' compensation claims, delay projects and result in regulatory fines. While workers' compensation insurance can provide coverage for employee medical expenses and wage replacement, repeated safety incidents may increase premiums and limit access to favorable terms. To reduce these risks, contractors should design work processes to eliminate hazards where possible and foster a strong culture of safety, including the consistent use of appropriate personal protective equipment. These efforts should be supported by robust workplace training that addresses hazards, including working at height, operating heavy equipment and working safely around vehicles and machinery.

2. THIRD-PARTY LIABILITY AND PROPERTY DAMAGE

Construction activities can cause unintended damage to people and property. For instance, digging may damage underground utilities or destabilize neighboring buildings, while site activities may injure passersby. Liability claims can arise months or even years after completion if defective work later causes injury or property damage.

To reduce third-party liability exposures, contractors should assess preconstruction sites to identify nearby properties, underground services and public access points and implement controls (e.g., barriers, signage and traffic management).

Commercial general liability (CGL) insurance can help financially protect contractors against third-party liability and bodily injury claims. Still, contractors should ensure their policy includes completed operations coverage for claims arising after work is finished. Completed operations liability can also arise from faulty work performed by a subcontractor. As such, many construction contracts include indemnity provisions that require subcontractors to assume responsibility for claims arising from their work.

3. EQUIPMENT AND TOOLS LOSS OR BREAKDOWN

Construction equipment is often moved between job sites or stored in temporary locations, leaving it vulnerable to theft,

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vandalism and other risks (e.g., fire). While commercial property insurance typically provides coverage for equipment kept at a contractor's primary business location, coverage may not apply once equipment is transported off-site. Contractors can reduce loss frequency by securing equipment when not in use and using GPS tracking or tagging for high-value machinery. Contractors' equipment coverage under an inland marine policy can help financially protect owned, leased or rented equipment while it is in transit or stored off-site.

Since unexpected equipment breakdowns can halt critical activities and delay projects, contractors should also implement routine inspections and preventive maintenance programs to proactively identify issues before mechanical failures occur.

4. SUBCONTRACTOR AND CONTRACTUAL RISK

Construction contractors can be held liable for defects in work performed by subcontractors, a significant risk given the industry's reliance on subcontracted labor. Accurate language in contracts is essential to manage this exposure. Specifically, hold-harmless or indemnification provisions can be added to construction contracts requiring subcontractors to assume responsibility for claims arising from their work. Contractors can also be named as additional insureds on a subcontractor's CGL policy, meaning that the subcontractor's policy may respond first, thereby helping to protect the contractor's own limits and loss history. Contractors should review subcontractors' certificates of insurance and verify required policy endorsements before entering into an agreement. For larger, complex projects, wrap-up insurance programs (e.g., owner-controlled or contractor-controlled) can provide centralized coverage for multiple project parties under a single policy.

5. PROJECT DELAYS AND FINANCIAL EXPOSURES

Construction schedules can be affected by numerous circumstances, including supply chain disruptions, weather, permit delays and errors. Such events can extend delivery timelines and create financial exposure for both contractors and project owners. To manage this exposure and reduce uncertainty, contracts often include liquidated damages clauses and penalty provisions that predetermine the amounts payable to project owners if completion is delayed. Project owners may also require contractors to purchase surety bonds to financially guarantee certain contractual obligations.

Contractors should proactively reduce delay and cost risks through measures such as strengthening supply chain visibility and assigning clear accountability for material oversight. From an insurance perspective, professional indemnity insurance can provide coverage for losses arising from errors in a contractor's professional services, while builders' risk insurance can provide coverage for the physical damage to or loss of buildings, materials and equipment during construction from risks such as fire, theft or vandalism.

CONCLUSION

Construction projects carry inherent risks, and no two projects are the same. To reduce exposures, contractors should regularly review their insurance programs with their brokers and implement proactive risk management measures to protect people, projects and profitability.

Contact The MJ Companies for additional risk management guidance and insurance solutions.