2023 AGC/FMI Risk Survey

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2023 Surety Bonding and Construction Risk Management Conference

#AGCRisk2023
risk.agc.org

Study – Quick Facts

- Results are based on responses from members in AGC’s Surety Bonding and Construction Risk Management Forum
- Data was collected in December 2022.

- Contractor types represented:
  - GC (63%)
  - CM (21%)
  - Specialty Trade (11%)
  - Other (6%)

- 50% of participants have revenues of $1 billion or more.

KEY THEMES

- Top risks today and tomorrow
- A brewing storm
- Risk mitigation strategies

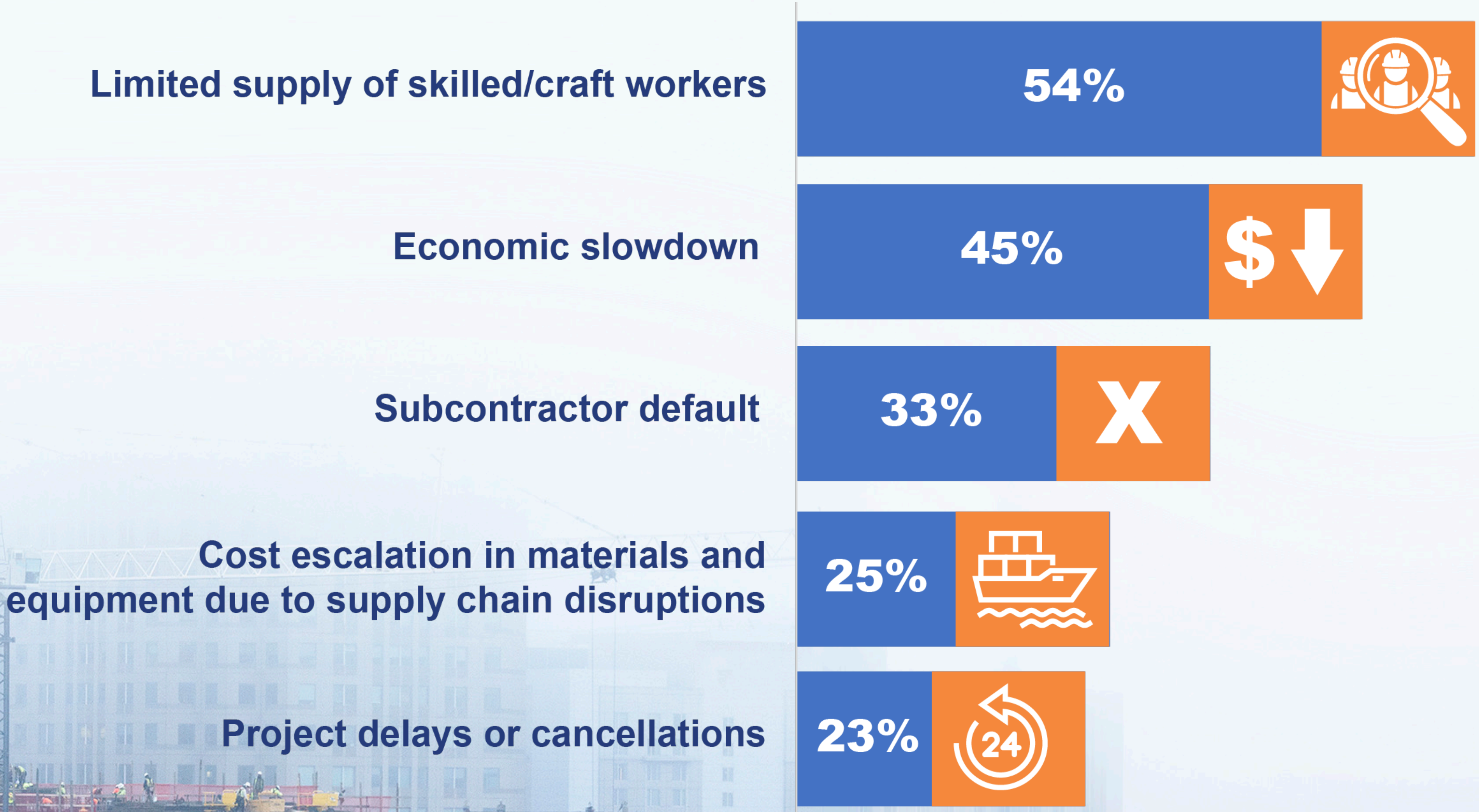
TOP RISKS TODAY AND TOMORROW

“The best way to predict your future is to create it.”
— Abraham Lincoln

Top Risks Today

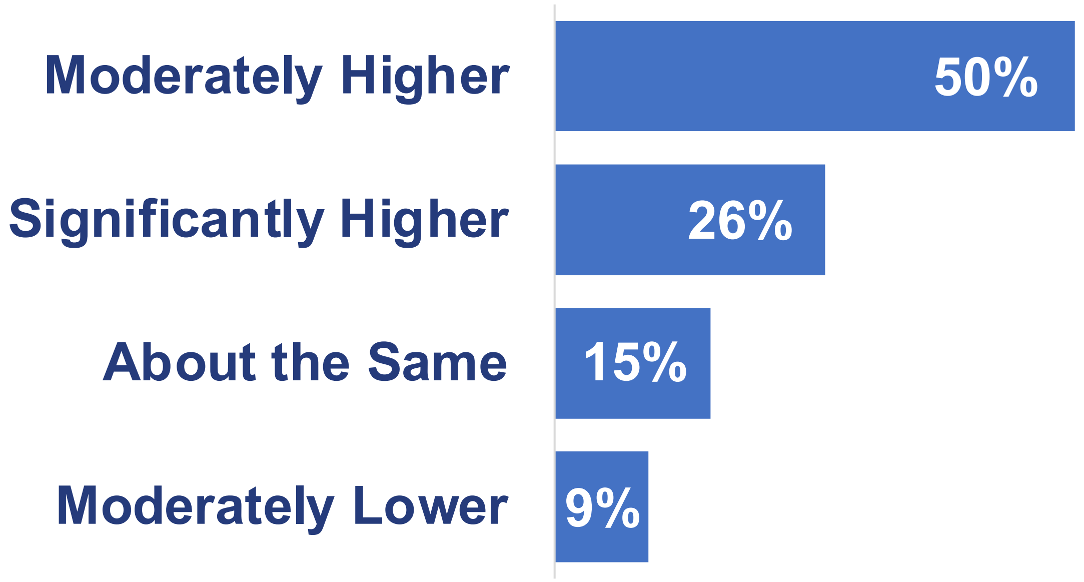
Rank	2022	2023
1	**Lack** of skilled/craft workers	**Price increases** (materials&equipment)
2	**Price increases** (materials&equipment)	**Lack** of skilled/craft workers
3	**Design**-related issues	**Lack** of field supervisors
4	**Changes** in insurance terms/costs	**Design**-related issues
5	**Subcontractor** defaults	**Changes** in contract language

Top Risks Tomorrow



Backlogs Still Look Strong But …

Respondents report backlogs are:



Almost 70% state their labor force is low relative to backlog needs.

Talent Shortages Persist

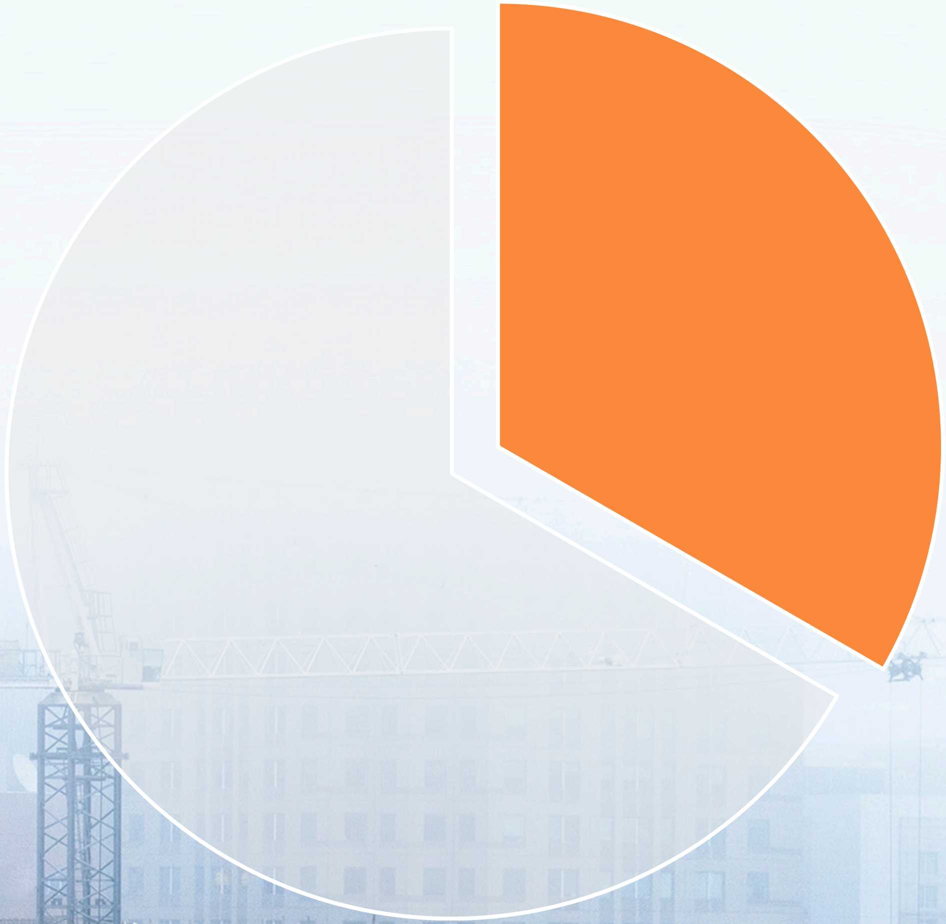
More than **50%**

of respondents reported a high- to severe impact on their companies due to talent shortages.

Source: 2023 FMI Talent Study

A BREWING STORM

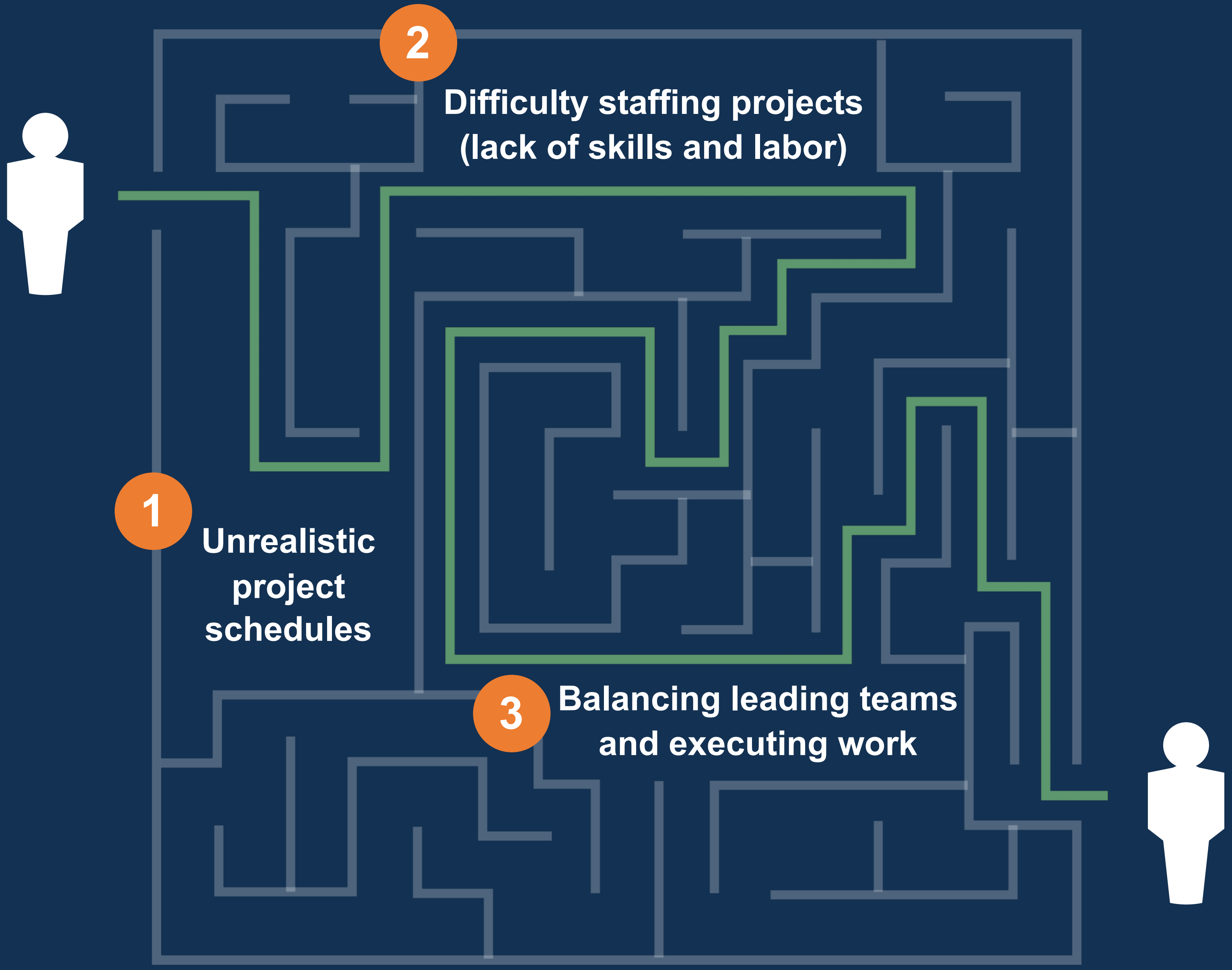
A Dangerous Risk Constellation …



33%

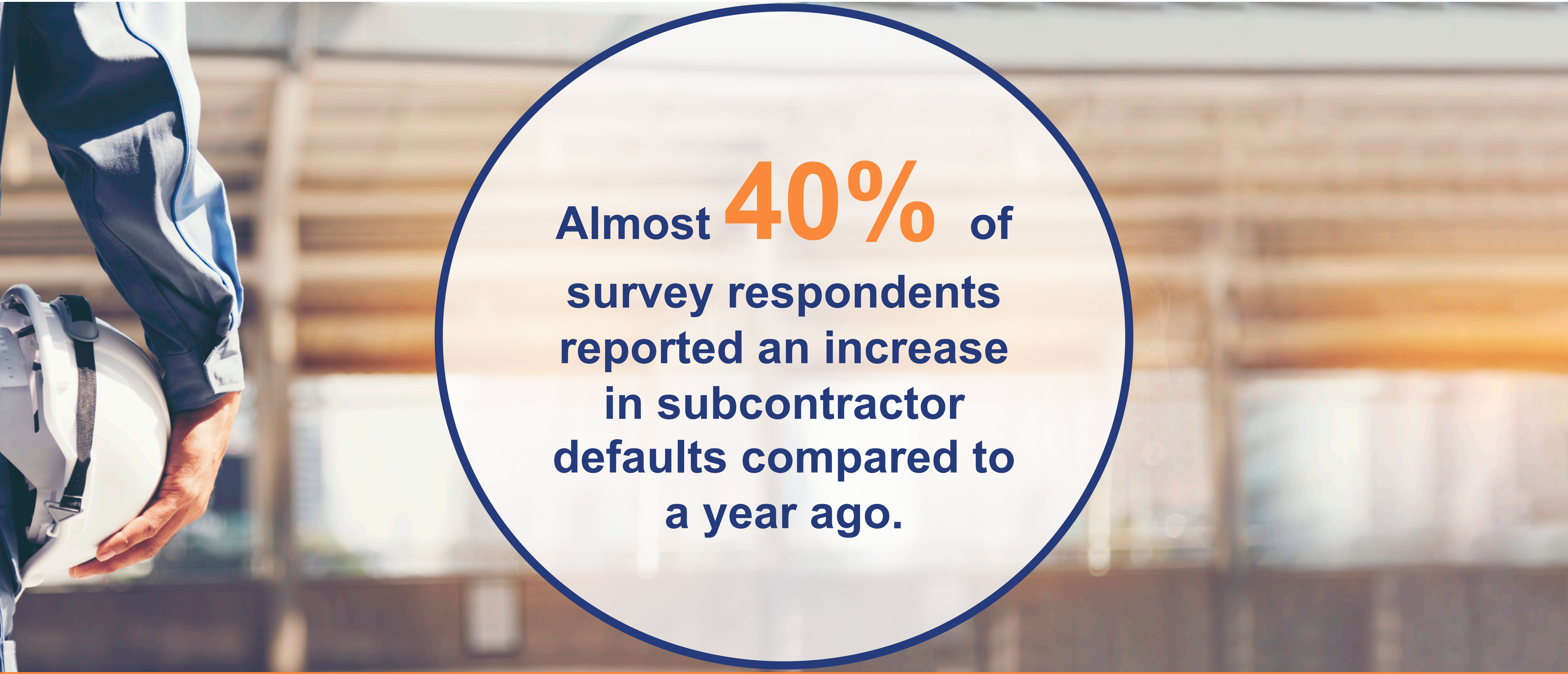
of respondents stated that as many as half of their field leaders have joined within the last two years.

Top 3 Challenges for Field Leaders



Source: 2023 FMI Talent Study

Keep Your Partners Close …



Almost 40% of survey respondents reported an increase in subcontractor defaults compared to a year ago.

Top Reasons for Project Delays or Cancellations

52%
ECONOMIC UNCERTAINTY

46%
COST OF CONSTRUCTION

42%
COST OF CAPITAL

More than **90%** of respondents reported cancelled or delayed projects in the last six months.

Five Root Causes of Contractor Failure

Poor Strategic Leadership

Excessive Ego

Too Much Change

Loss of Discipline

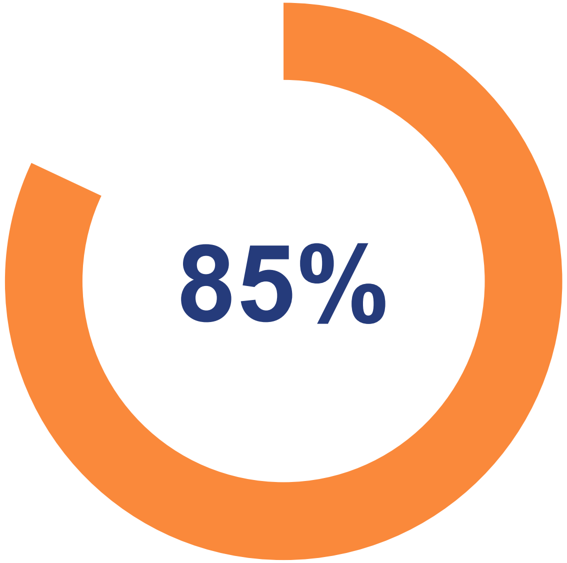
Inadequate Capitalization

Source: FMI Research

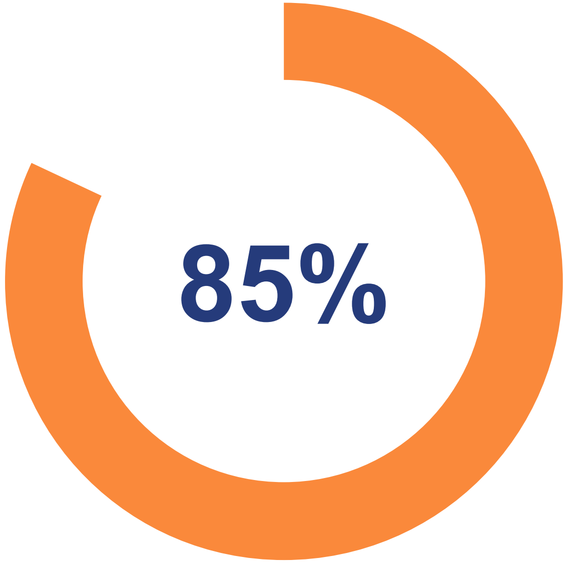
RISK MITIGATION STRATEGIES

Playing Offense and Defense

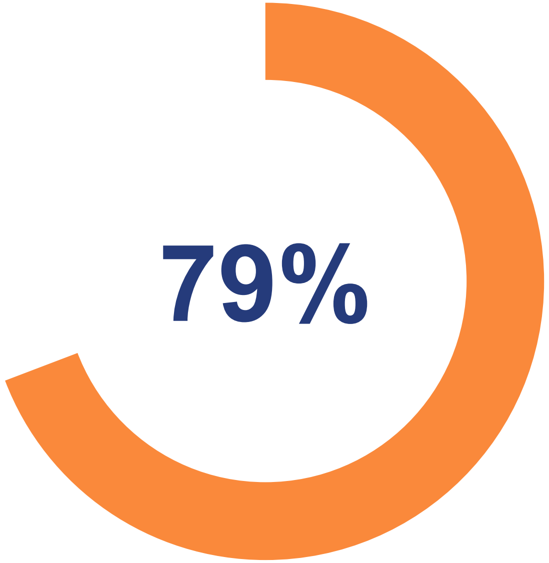
Contract language and pricing clauses are top risk mitigation measures.



Add contingencies in contract language



Lock in pricing



Add price-adjustment clauses

Playing Offense and Defense

What changes (if any) have you made to your subcontractor prequalification approach?

Increased depth of financial and staffing reviews

42%

Increased frequency of financial and staffing reviews

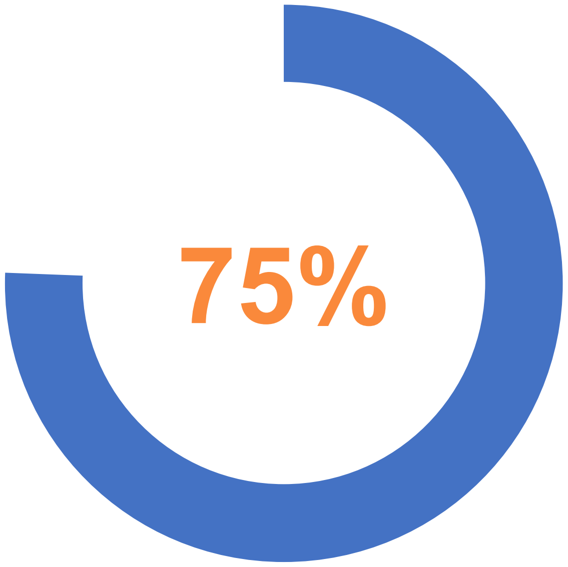
36%

Looked for new subcontractors

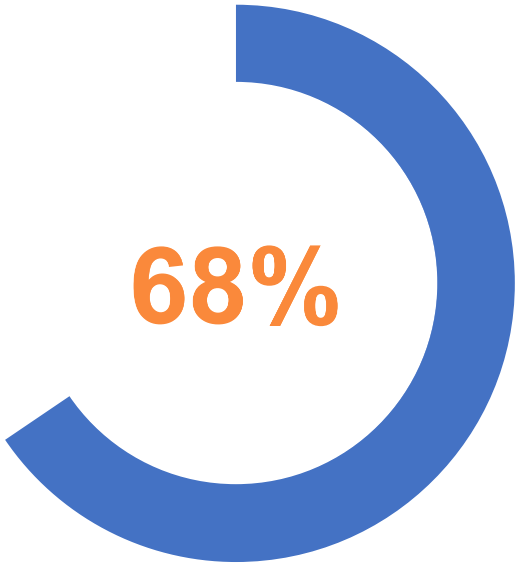
28%

Playing Offense and Defense

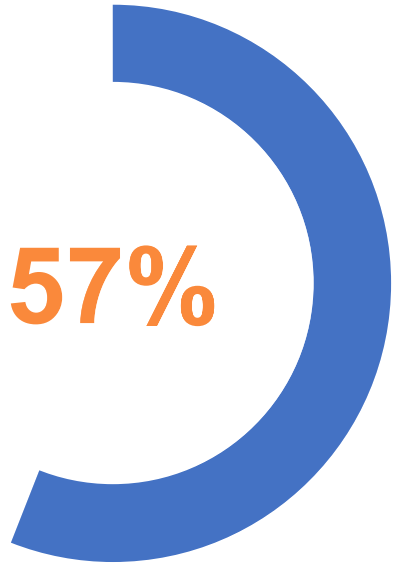
What risk management tools are you implementing most commonly today?



Subcontractor default insurance (SDI)



Conducting formal project risk assessments



Captive insurance company

Playing Offense and Defense

Top reasons for bringing design in-house

Rank	2019	2023
1	**Improve communication** with design firms	**Improve communication** with design firms
2	**Facilitate communication** with outside firms	Increase **supervision** of design firms
3	Increase **supervision** of design firms	Perform **in-house** design
4	Perform **in-house** design	**Facilitate communication** with outside firms
5	Develop **formal expectation** for design work	Develop **formal expectation** for design work

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