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Risk & Reward: Update for Underwriters on the Current State of the Construction Industry

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Agenda

- ◊ Introduction
- ◊ Current Economic Factors
- ◊ Regulatory Changes
- ◊ Future Claims Trends – and avoiding risk
- ◊ Insurance Impacts
- ◊ Questions

Current Economic Factors

Recent Insolvency Trends

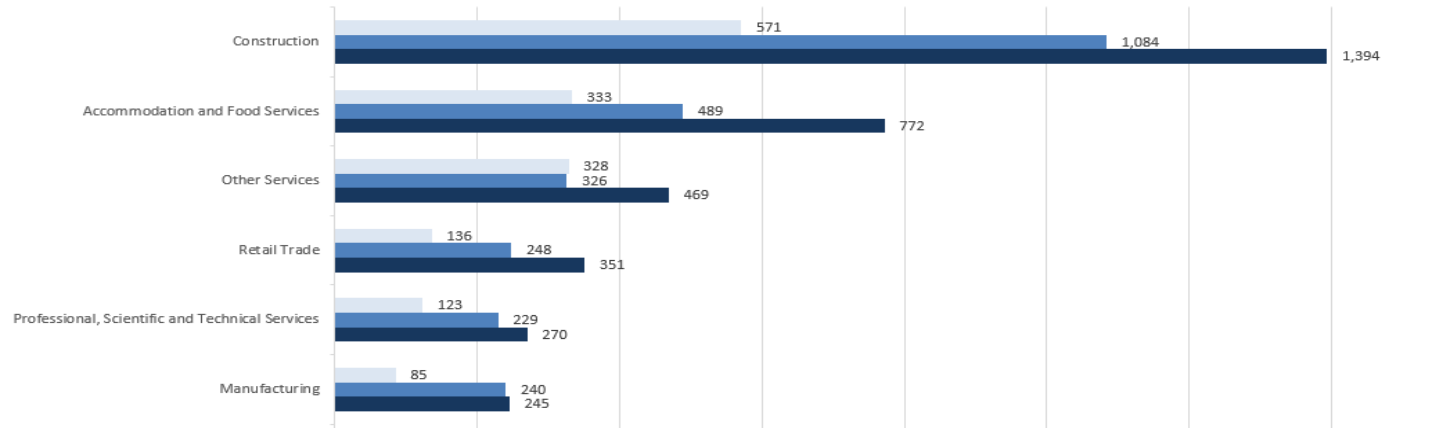
- Insolvencies recorded in 2022-23 at very high levels
- As at 23 January ASIC reports 1,394 appointments of administrator etc since 1 July
- This time last year 1,084 – however the year on year increase is 28% compared to 90% this time last year

Australian insolvency statistics

Released: 23 January 2024
© Australian Securities & Investments Commission

More recent figures are provisional, refer to
INFORMATION SHEET 80: How to interpret ASIC insolvency statistics.
The most recent month is published to 7 January 2024.

Chart 1.2: The first time a company enters external administration or has a controller appointed—Industry type, FINANCIAL YEAR TO DATE



Current Economic Factors

Infrastructure Expenditure

- Federal Infrastructure Investment Program Strategic Review
 - May 2023 Federal Government review of \$120 billion infrastructure pipeline policy from previous government
 - Basis of review was number of projects and costs blow outs on projects
 - November 2023 - 50 “high risk” projects (worth \$11 billion) on hold. 17 in NSW including:
 - M7 (existing) – M12 (under construction) interchange – link to new western Sydney airport
 - Great Western Highway upgrade
 - Sydney – Newcastle rail link
- However infrastructure spending is still at very high levels

Current Economic Factors

Infrastructure Expenditure

2023-24 infrastructure funding levels ranked by share of budget expenditure

1 st VIC	
Share	20%
Total	\$78.5b
Change	-\$6.8b

5 th ACT	
Share	13.6%
Total	\$5.1b
Change	+\$667m

2 nd NSW	
Share	16.6%
Total	\$85.6b
Change	-\$2.8b

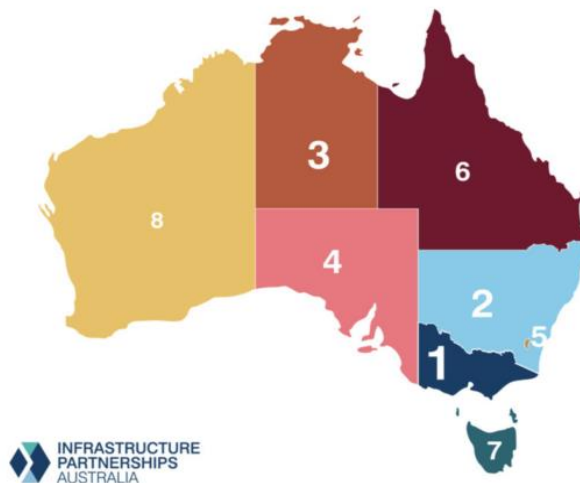
6 th QLD	
Share	12.9%
Total	\$45.3b
Change	+\$7.7b

3 rd NT	
Share	15.4%
Total	\$4.6b
Change	+\$412m

7 th TAS	
Share	11.6%
Total	\$4.3b
Change	-\$582m

4 th SA	
Share	14.8%
Total	\$17.7b
Change	+\$2.4b

8 th WA	
Share	9.6%
Total	\$15.6b
Change	+\$648m



Federal Government*	
Share	2.13%
Total	\$62.8b
Change	+\$1.5b

KEY Rank/Jurisdiction

- Share of budget expenditure on infrastructure funding
- Total infrastructure funding (over forward estimates)
- Change to infrastructure funding program

Current Economic Factors

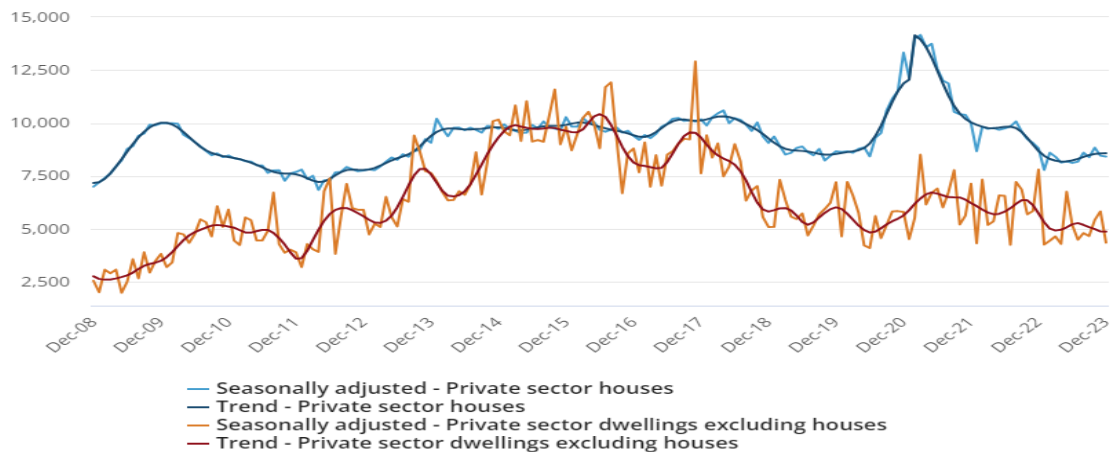
Inflationary Impacts

- Definite easing in costs of construction – growth in costs returning to pre-Covid trends.
- Cordell Construction Cost Index – 0.8% increase 3 months to December 2023. Pre-Covid 10 year average was 1%
- Q3 2022 4.7%
- Q3 2023 0.5%
- Annual growth rate for 2023 calendar year was 2.9%

Current Economic Factors

Building Approvals

- Private Sector Houses
 - December 2020 11,867
 - December 2021 10,030
 - December 2022 8,804
 - December 2023 8,574



Current Economic Factors

Other Considerations

- **International migration**
 - 510,000 in 2022-23 (pre-Covid migrant intake was around 235,000 per year)
 - Federal Government anticipates 375,000 2023-24
 - Likely to have impact on housing supply – increase in building approvals
- **Interstate migration**
 - Expected that 220,000 Australians will move to South East Queensland in the next 5 years
- **Brisbane Olympics**
 - \$7 billion direct spend on Games infrastructure – more spending to be announced

Regulatory Changes

New South Wales

- NSW is at the forefront of “cleaning up” the building standards by introducing new pieces of construction legislation
- These changes amend several pieces of building legislation including: the Design and Building Practitioners Act 2020 (NSW), Home Building Act 1989 (NSW), and Building Products (Safety) Act 2017 (NSW)



Regulatory Changes

New South Wales

Design and Building Practitioners Act 2020 (NSW)	Home Building Act 1989 (NSW)	Building Products (Safety) Act 2017 (NSW)
<ul style="list-style-type: none">• Regulated designs are required for the development of Class 2, 3 or 9c buildings• Suspension powers	<ul style="list-style-type: none">• Change in the definition of a 'major defect'• More frequent inspections on construction sites	<ul style="list-style-type: none">• Chain of responsibility for building products – including those who use a product in a design• Duty to notify of a non-compliance or safety risk in relation to the intended use of a building product• Greater onus on professionals for compliance

Regulatory Changes

Western Australia

- Building Better Reform Package
- What will be implemented?
 - A staged implementation of mandatory inspections of commercial and residential buildings at critical stages of construction.
 - Tiered registrations of builders, which allows them to only undertake the construction of buildings at their knowledge and expertise level. New builders cannot build a large-scale residential apartment block

Regulatory Changes

Victoria

- Building Legislation Amendment Act 2023
- State Building Surveyor
- Building Monitor
- Expands the categories of a Building Practitioner



How will the regulatory changes impact professionals?

- Inspections, rectification orders, and stop work orders
- Chains of responsibility
- Professionals must ensure that they are registered under the relevant Acts



Future claims trends

Construction claims trends

Boom in property disputes as big projects go awry

By DAVID ROSS 04:41 PM FEBRUARY 11, 2024



Litigation funders are keen to get a slice of Australia's growing property disputes market as tougher times tip more developers, contractors, and builders into the court. Picture: Ian Currie.

- Defects in new vs existing residential developments.
- Improved quality of construction but continued focus on claims as companies maximise tight margins.
- Role of increased regulation and NSW Building Commissioner.
- Appetite for litigation funder involvement.
- Claims arising from insolvencies.

Future claims trends

Infrastructure claims trends

Workforce shortage threatens hundreds of billions of dollars in infrastructure investment

By political reporter Matthew Doran

Posted Tue 12 Dec 2023 at 12:02am, updated Tue 12 Dec 2023 at 9:33am



Worker shortages are threatening investment, according to Infrastructure Australia. (Supplied: Transport for NSW)

- Cause of skill shortages.
- Impact of skill shortages.
 - Cost overruns.
 - Lack of coordination claims.
 - Worker to worker claims.
 - WHS claims.
- Infrastructure tunnelling claims examples.

Future claims trends

Technology and sustainability



- Drones, wearables and robotics.
- Internet of Things (IoT) and Smart Construction.
- Cyber claims.
- Sustainable and Green Construction Practices.
- Sustainable Buildings SEPP in NSW.

Future claims trends

Avoiding risk

- Obtaining advice up front about contractual obligations.
- Proper documentation of agreements, and works.
- Understanding role and exposure of counterparties.
- Understanding technical skillsets of staff.
- Responsive insurance policies.
- Good record keeping practices.
- Onboarding and safety training for staff.



Insurance Impacts

Decennial Liability Insurance

- Low consumer confidence
- Voluntary alternative
- Strata bond, 3% 1 July 2024
- Maturing market?



*Photo: Google, downloaded from the an article by the Guardian

Insurance Impacts

Capacity and Risk Management

- Signs of softening, with increased capacity
- Trend to continue
- Risk management
- Rise of ESG



*Photo: Sustainability Magazine

Thank you. Any questions



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