

RISK & RESILIENCE IN CONSTRUCTION

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The Canadian construction industry is experiencing a structural shift. Projects are getting bigger, timelines longer, stakeholders more numerous, and delivery models more sophisticated. From a surety's standpoint, this increase in construction project complexity is not just an operational trend; it is fundamentally reshaping contractors' risk profiles, demands on their balance sheets, and ultimately their bottom line.

Across Canada, major infrastructure, institutional, and mixed-use development projects are expanding in size and complexity. Whether tied to public transit, healthcare, industrial sites, or residential builds, these projects have seen contract values escalate dramatically. Many modern projects are large enough to represent several years' worth of a contractor's typical revenue.

With scale comes significant concentration risk. When one contract accounts for a significant portion of annual billings, the exposures tied to that job can materially impact the company's entire balance sheet. Cost overruns, delays or disputes on a major project can quickly erode working capital, causing strain to bank and bonding facilities. This shift is forcing underwriters to scrutinize backlog composition, work-in-progress schedules and single-job concentration more closely than ever.

Sureties evaluate not just technical expertise but financial and management capabilities that need to grow commensurately with job size and complexity. Contractors who aggressively pursue large projects without strengthening their financial foundations or partnering with capable trades may find themselves stretched thin, operationally and financially, and potentially unable to meet their contractual obligations.

Many modern construction projects are veering away from the traditional hard bid tender. Alternative delivery models, including design-build, at-risk construction management, integrated project delivery, and the currently popular alliance model, are becoming increasingly common. While these structures promote collaboration and efficiency, they also shift and expand risk allocations.

Contractors are often assuming greater design responsibility, performance guarantees, and long-term warranty obligations than is typical. Furthermore, contractual language has grown more sophisticated and onerous. Liquidated damages provisions expanded warranty periods, strict scheduling milestones, and heightened performance metrics are frequently embedded into agreements. In a volatile construction environment, these provisions increase the likelihood that otherwise manageable project challenges will escalate into significant financial consequences.

Over the past several years, contractors have contended with unprecedented supply chain disruptions. Global material shortages, transportation bottlenecks, labour constraints, and geopolitical instability have contributed to pricing volatility and scheduling uncertainty. Even as some markets stabilize, the underlying fragility of supply networks remains a concern. Long lead times for critical components, mechanical systems, electrical equipment, and specialty materials can jeopardize project timelines. Escalating material prices also create risk when contracts lack adequate price adjustment clauses. Fixed price contracts signed in one market environment can become financially burdensome when input costs rise significantly. Contractors who absorb these increases may see margins evaporate.

This volatility heightens the need to evaluate contingency planning, procurement strategies, and escalation provisions within contracts. Strong financial forecasting and conservative margin assumptions are important indicators of resilience.

In Canada, statutory holdback already delays a portion of payment; however, in reality, many projects are experiencing extended holdback timelines due to disputes, administrative delays, or layered contractual structures. For contractors, longer holdback periods tie up working capital. On large projects, the cumulative value of retained funds can be substantial. When multiple projects operate concurrently under similar structures, the impact on liquidity compounds. Cash flow strain is one of the most significant pressures we observe from a construction-focused brokerage. While income statements may reflect profitability, insufficient liquidity can impair a contractor's ability to fund payroll, purchase materials, or pursue the next opportunity. This tension directly affects bonding capacity, as sureties place heavy emphasis on working capital and cash flow adequacy. In addition, subcontractors face similar pressures, increasing the risk of downstream defaults. When a key subtrade encounters financial distress, the general contractor may inherit both schedule disruption and financial exposures. Having an established subtrade risk management plan can help mitigate the unseen challenges a critical trade contractor may be facing. Subtrade performance bonds are a great product to help keep your project on track.

From our perspective, one of the most important conversations with contractors today revolves around balance sheet strength.

As projects become larger and more complex, financial resilience becomes a competitive advantage. Strong retained earnings, prudent debt usage, diversified backlog, and disciplined bidding practices enhance surety relationships, allowing for greater bond support. Conversely, aggressive growth without adequate capitalization can restrict access to bonding support.

Insurance programs must be structured carefully to address blended professional and construction exposures. As contractual language becomes more complex and additional obligations are shifted, working with a dedicated construction broker who can assist with detailed contract reviews and ensure alignment between contractual obligations and insurance coverages becomes an essential service rather than optional value-add.

Risk management is no longer confined to purchasing insurance. It encompasses contract negotiation, project selection discipline, robust and timely financial reporting, internal controls, and proactive claims management. Our company's role has expanded beyond transactional placement to strategic risk advisors. Early engagement allows for identification of insurability issues, coverage gaps, and bonding implications on large and intricate construction projects. We are helping clients navigate an environment where operational decisions, financial structure, and contractual risk allocation are deeply intertwined.

In this era of heightened complexity, thoughtful risk strategy is not merely protective; it is foundational to sustainable profitability and long-term success, so surround yourself with individuals fluent in risk mitigation.

CRAIG SPENCE

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Craig brings over 15 years of experience in the surety industry, with a career spanning both underwriting leadership and advanced brokerage work. His underwriting background includes serving as Managing Director, Western Canada, where he oversaw complex risk portfolios and regional strategy. On the brokerage side, Craig has built a reputation for technical depth, financial insight, and a collaborative approach to client problem-solving.

As a CPA, he leverages strong financial expertise to navigate the analytical demands of surety, from evaluating contractor financials to structuring sophisticated bonding programs.

