CONSTRUCTION

CONSTRUCTION MARKET UPDATE

H2 2025

Gallagher SPECIALTY

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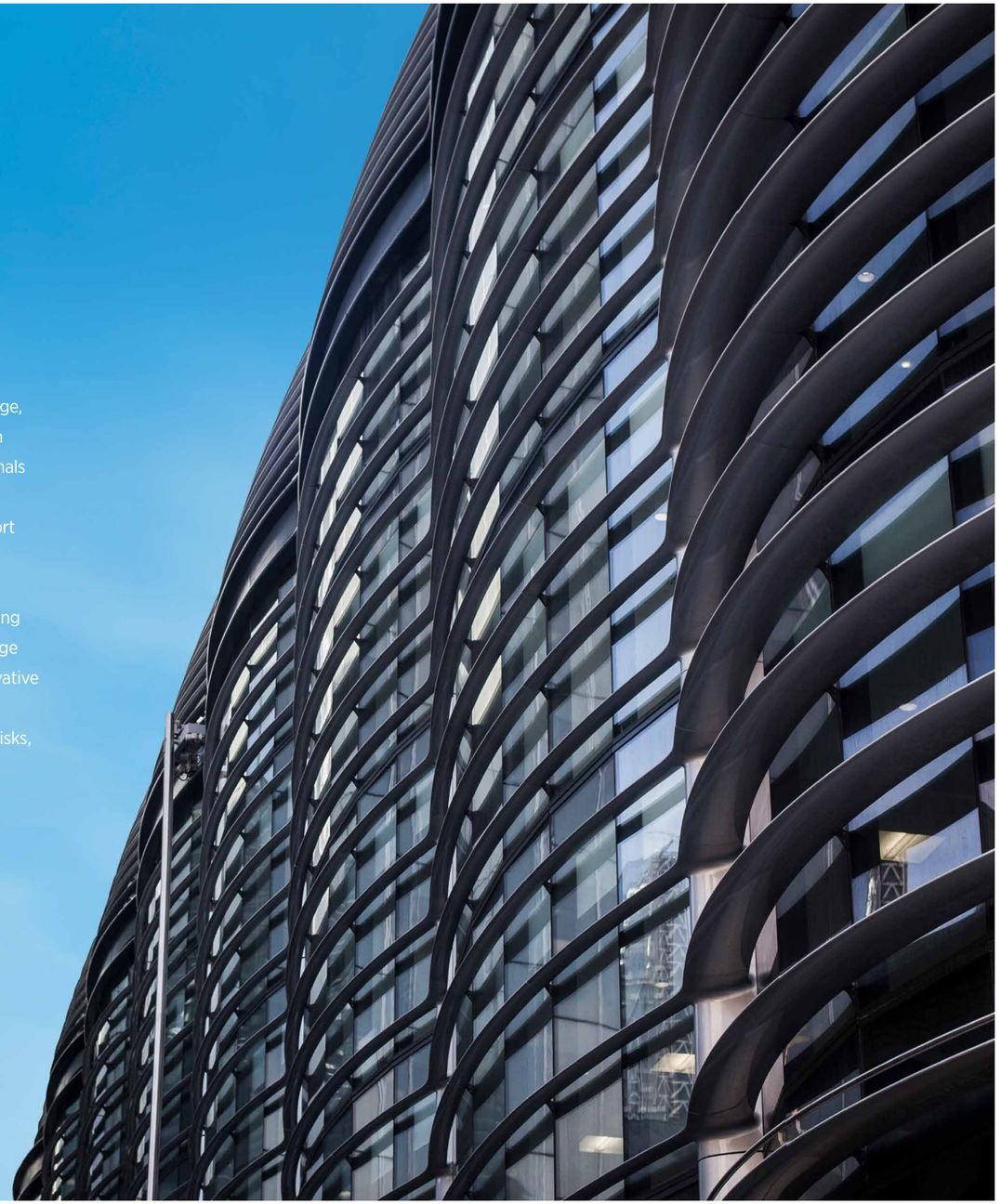

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MARKET **CONDITIONS**

As we continue into the second half of 2025, the construction market continues with a trend of softening, with the general approach of insurers on a broadened appetite and increased capacity deployment. Many insurers have continued to deliver positive results throughout 2025, and many have enhanced growth targets throughout the remainder of the year and into 2026.

To date there has been a focus on maintaining underwriting discipline in respect of coverage as pricing continues to soften. With the 2025 US hurricane season still to reach a conclusion and wider global NatCat events largely absorbed within insurers' modelled expectations, it is likely that this softening will continue at a sustainable level for many markets that are still achieving pricing above their technical rating requirements. Many of the larger international project-focused insurers continue to reap the benefits of the previous hard market terms and conditions on existing placements, with project periods being extended and construction values continuing to be adjusted upward, generating enhanced legacy income.

Recognised lead insurer capacity still remains limited compared to other classes. Several new follow markets have entered the construction sector, but to date this has had limited impact in expediting the market softening, as capacity continues to align to clients' needs, currently without significant oversupply.

Established carriers continue to deploy more of their existing capacity to maintain market share, and several markets continue to consider alternative distribution channels, notably via a Lloyd's or MGA platform. The emergence of fast- or auto-follow programmes has also continued to develop, albeit at a slower pace than other sectors and is largely driven by wider cross-class central arrangements. There is the potential that if these aspects begin to gather greater momentum in the construction sector, this could accelerate market softening and the potential 'oversupply' of capacity.

COVERAGE

Coverage remains consistent, and there is little deviation from an established base position on both insurers and broker broadform wordings. As always, coverage enhancements can be achieved for desirable clients or projects if presented in the right manner. NatCat and secondary perils/severe convective storms (SCS), along with water damage and projects involving timber/CLT and modular construction, remain the areas of focus for construction markets, where there remains loss frequency. As technical information and data in these sectors become more available to the market and insureds are able to demonstrate robust risk management procedures, there are signs of a more flexible approach on terms and capacity deployment for these risks.

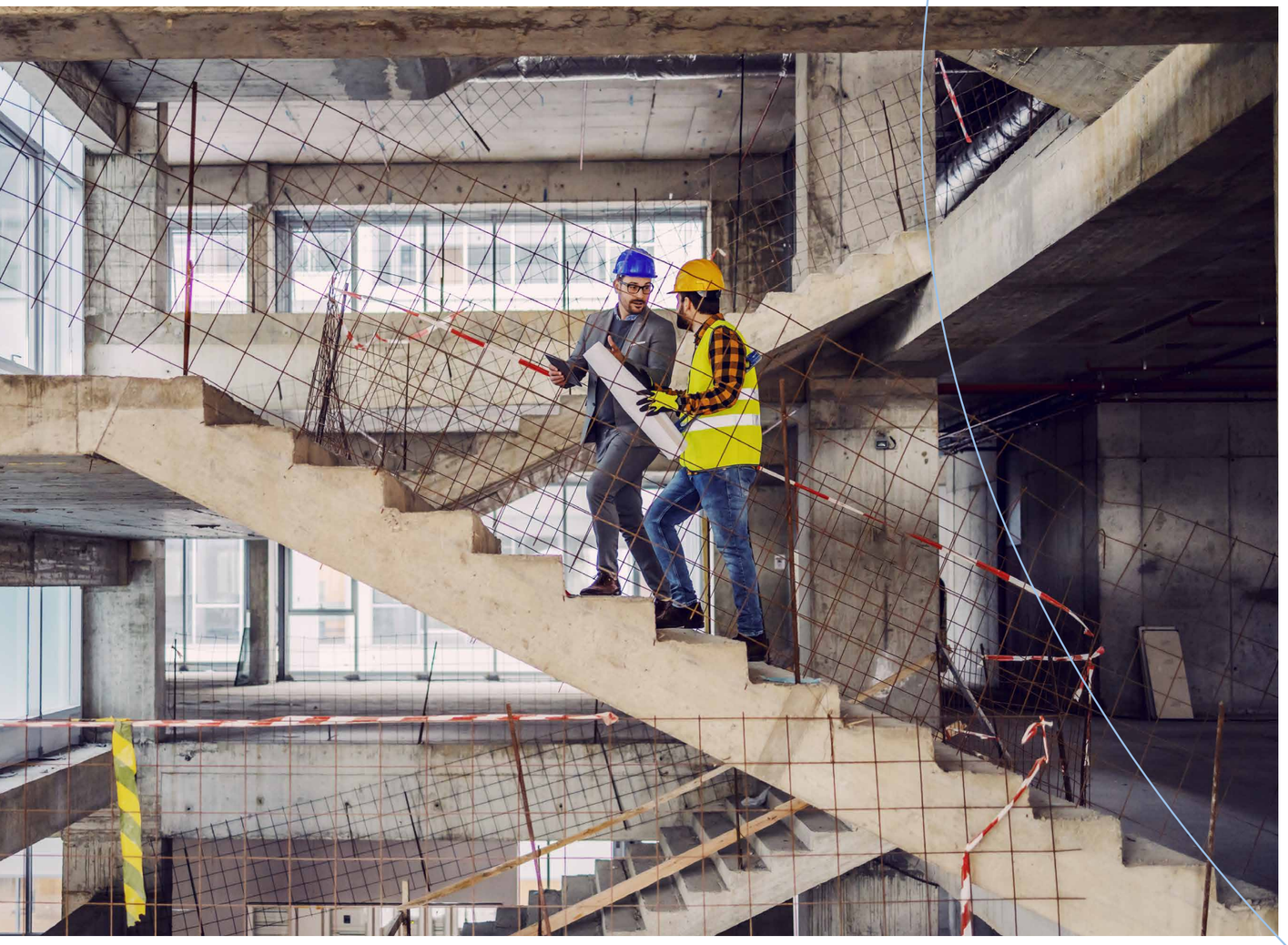
RATING

Rating has again remained on a slight consistent downward trend over the last six months, although this has been accelerated in some aspects of the construction sector. Maintaining existing renewal business is a core objective of many markets due to the potential for larger project-specific business flow. With some annual contractor clients looking to re-tender their business, pressure on markets to retain these clients has seen some UK accounts seeing average cost savings in the region of 20%. Markets are also keen to deploy more of their existing capacity to strengthen their market position, ultimately creating significant oversubscription on some placements for core target business sectors.

The most tangible savings have been seen on those clients willing to employ the right mix of risk retention and willingness to undertake increased risk management activities, along with presenting a significant pipeline of future business. There continues to be less deviation in rating from markets offering follow support, negating the need to harmonise follow terms and conditions to finalise placement. Ultimately, improving the timescales from initial lead quotation to completion of the placement.

NatCat (Earthquake/Windstorm) pricing (critical for many international placements) has remained static as the US Gulf Coast windstorm season, which was predicted to be one of the most active on record, is still to reach its conclusion. To date, loss activity has been well below modelled expectations, and the final outcome will be a significant determining factor of future terms and capacity deployment for these risks. Capacity deployment to date for critical NatCat risks remains on the cautious side, although a benign 2025 will likely generate increased market appetite for these risks into 2026.

The focus for insurers continues to be secondary perils (hail, flood, tornado and SCS), which have been the main cause of significant losses in previously perceived relatively benign territories. Although generally, in the last quarter, there have been limited significant large-scale losses affecting the construction sector.



MARKET CONCERNS

The speed of softening to date has been at a significantly slower pace than in other sectors of the market, which has been welcomed by the construction market. The main concern will be if this significantly expedites during the remainder of the year and into 2026, potentially driven by significant new capacity entering the construction sector. There is a possibility that, due to the speed at which general P&C sector is softened and the construction sector is comparatively on a slower trend, non-established markets seek to diversify their portfolio and enter the construction market. There remain geopolitical concerns regarding tensions in the Middle East and the Russia/Ukraine war, all of which have the potential to influence supply chain dynamics and project viability and influence the increasing cost of construction projects. This has led to insurers exercising caution for projects influenced by these regions.

The effects of climate change are also making severe weather events away from the well-understood (and modelled) locations more difficult to predict, which by nature are becoming more sporadic and intense. This is likely to be the biggest influence on the profitability of an insurer's total cross-class portfolio. Given the diverse geographical distribution of major construction activities, combined with the way construction values accumulate over the policy period, the impact of such events on a global construction portfolio is likely to be mitigated. This is particularly relevant for portfolios in London and European markets, which are typically structured in this manner.

SUMMARY

The construction market has now seen several months of price softening, but underwriter returns to date remain positive. Coverage remains largely consistent with a disciplined technical underwriting approach, considering lessons learnt from the previous soft market. It is expected that this will remain consistent throughout the remainder of the year. There is, of course, the potential that this could be accelerated if some of the key lead markets take a more aggressive approach on terms and capacity deployment to deliver on year-end budget requirements. It's expected that any further tangible development on the construction market will develop into 2026 as some of the newer capacity which entered in 2025 becomes more established with their intentions.

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CASUALTY MARKET CONDITIONS

UK MARKET OVERVIEW

The UK construction liability market remains broadly stable, though underwriting caution persists. Insurers are pursuing ambitious growth targets, which is fuelling competition for new business. However, many continue to hold firm on minimum premium thresholds as they focus on margin improvement.

Pricing is steady overall, with competitive pressure most evident in the mid-market. For larger or more complex risks, reduced lead lines are common, requiring broader market participation and longer placement timelines.

Appetite remains selective, particularly for high-rise developments. Fire and water damage exposures are under close scrutiny, and cladding-related risks frequently attract exclusions or outright declinatures.

Construction accounted for 16.3% of UK insolvencies in Q2 2025, disproportionately affecting specialist subcontractors. Rising material costs (cement and steel) and wage inflation are compressing margins, which are currently at 6.3%. As a result, insureds are increasingly price-sensitive and less loyal, seeking savings from their insurance programmes to protect profitability.

Insurers are actively competing for mid-tier risks, leading to more flexible underwriting and modest rate reductions where risk quality is strong. Several insurers are deploying additional capacity to meet growth targets, particularly on annual policies and smaller project placements. This is helping to maintain buyer-friendly terms.

Incumbent insurers are prioritising client retention through broader coverage, reinstated limits and incentives such as low claims discounts.

For high-value or technically complex projects, competition is less intense. Shrinking lead lines and multi-carrier placements reflect a more cautious stance on elevated exposures.

INTERNATIONAL MARKET OVERVIEW

For the international market, construction liability insurance is also entering a softening phase, with improved capacity and more favourable terms across most regions. New entrants are increasing competition, particularly in general liability. Rates and appetite vary significantly by geography. In Europe, stable conditions prevail, supported by insurer appetite and driven by infrastructure investment, including renewable energy and data centre projects.

In litigious jurisdictions, liability pricing is heavily influenced by local court trends and historical loss data. Plaintiff-friendly regions are seeing more conservative underwriting.

The Australian market has seen increased capacity and competition, which is driving better pricing and broader coverage, especially for contractors with strong risk management. Insurers remain cautious towards contractors with adverse claims histories. Water damage, particularly from plumbing and fire services trades, is a key concern, along with worker-to-worker claims.

> **Pricing and capacity for excess liability are stabilising, but high-value or complex projects still attract scrutiny.**

Similarly, the Middle East market remains steady, underpinned by ongoing infrastructure investment and large-scale development. Insurers are generally receptive to construction liability risks, especially where strong governance and local partnerships exist. Intense competition from DIFC-based insurers is placing downward pressure on London pricing, accelerating a 'race to the bottom' dynamic.

SUMMARY

In terms of coverage, liability policies worldwide now routinely exclude bodily injury and property damage linked to PFAS and silica exposures. These exclusions are becoming standard across construction, manufacturing and retail sectors. Insureds should be prepared to collect information in this regard prior to renewal.

In short, pricing and capacity for excess liability are stabilising, but high-value or complex projects still attract scrutiny. Healthy competition is keeping the market stable and somewhat favourable for buyers, especially in the mid-market. However, for larger or more complex risks, underwriting discipline still rules. There may be value in exploring remarketing options or leveraging analytics to optimise terms. In the UK, the outlook remains subdued, with slow-moving project pipelines and limited clarity on government policy contributing to contractor pessimism, which contributes to the pressure on rates.

LET'S **TALK**

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