MARKET OUTLOOK

INTRODUCTION

FINDING OPPORTUNITY AMID CHALLENGES

American Global is pleased to present our 2025 Market Outlook, offering key insights into the current insurance and surety landscape. In this report, we examine the challenges facing the construction industry today, highlight major market trends, and provide rate forecasts for critical lines of business.

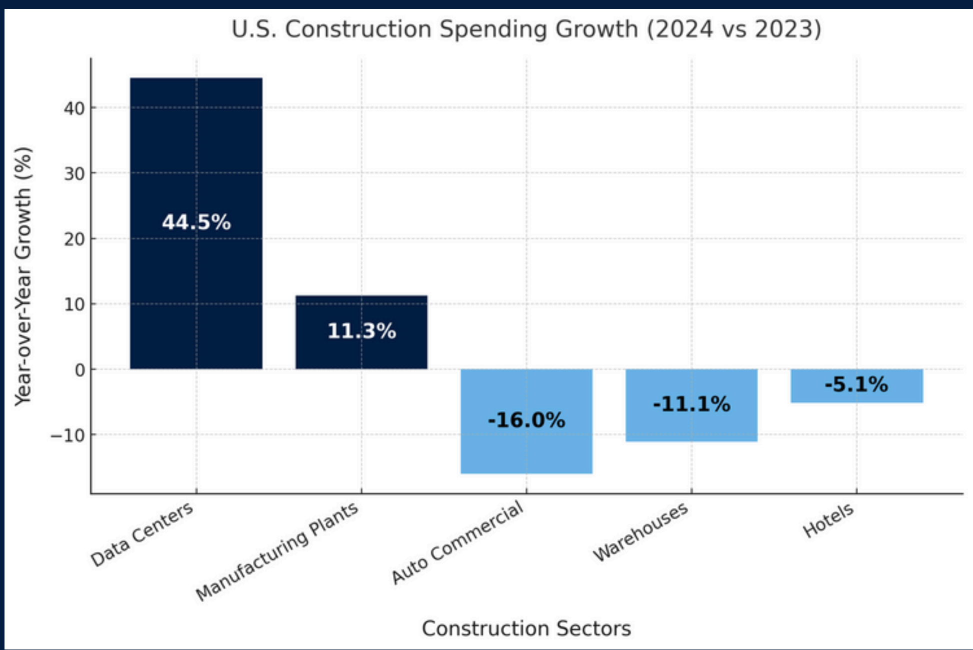
By staying ahead of current trends, American Global can continuously evaluate and proactively adjust client programs as necessary, to mitigate risk and optimize protection. While our team remains focused on uncovering opportunities in ever evolving market conditions, we believe a strong understanding of these factors is also essential for our clients, enabling them to make more informed decisions. We hope you find this report helpful as we work together to ensure your success.

2024 RECAP:
GROWTH DESPITE ADVERSITY

Despite some notable challenges, including record high inflation and higher-than-recent interest rates, the U.S. economy once again experienced a healthy year-over-year growth rate of nearly 3% in 2024. With the construction sector employing ~8 million people and accounting for 4.5% of GDP, it's no surprise that total construction spending in the U.S. also rose in 2024, by 6.5% (+/- 1%) over 2023, to an estimated $2,154.4 billion.

The construction industry also sustained its upward growth trajectory. According to Dodge Construction Networks, the total dollar volume of U.S. construction starts was up 8% in 2024, with a similar increase of 8.6% forecast for most sectors in 2025.

The chart below shows some of the top and worst-performing sectors in U.S. non-residential construction spending. According to The Hartford, data center spending continues to outperform most other verticals by a large margin with a 44.5% year-over-year increase. Spending on auto-related commercial construction (e.g. service centers, dealerships, parking) had one of the largest declines in YOY construction spending at -16.0%.



The top two sectors in non-residential construction spending were: Data Centers (44.5%) and Manufacturing Plants (11.3%), while spending on auto-related commercial construction, warehouses, and hotels all had YOY losses.

Sources: US Commerce Department; www.businessinsurance.com
Chart & Related Data: The Hartford GIS Feb 2025 Newsletter

2025: MOVING FORWARD IN THE FACE OF THE UNKNOWN

The majority of challenges faced by the construction industry in 2024 remain on the list of concerns as we move into 2025, to varying degrees. These include the labor shortage, supply chain issues with fluxuating/rising material costs, and increasing loss claims. However, top among the concerns once again, is economic uncertainty, particularly in these complex and volatile times.

Despite healthy growth forecasts for our industry, the economic landscape is certain to be further complicated by the ever-changing political landscape and policy reform, particularly with reference to new tariffs and potential trade wars. These 'unknowns' make it imperative for brokers and business owners to be vigilant and continue monitoring the effects of any major change on our industry and the markets. The close correlation between interest rates and insurance premiums also requires ongoing attention, as we prepare alternative solutions and strategies to help our clients contain costs to remain competitive.

In the pages that follow, we provide brief summaries of the key issues that may prove to be major market disruptors, as well as a review of the top construction trends we are seeing in North America. Finally, we also provide market status and rate forecasts for primary product lines of commercial construction insurance.

"These 'unknowns' make it imperative for brokers and business owners to be vigilant and continue monitoring the effects of any major policy change on our industry and the markets."

40%

More than 40% of the U.S. construction workforce is due to retire in the next decade.

MARKET DISRUPTORS

LABOR SHORTAGE*

The ongoing labor shortage remains a top concern for our industry. According to reports, more than 40% of the U.S. construction workforce is due to retire in the next decade, making the lack of skilled workers an issue that will remain at the forefront for the foreseeable future, with no quick fix or viable short-term solution available. There is also a heightened awareness and focus on ensuring the mental health and wellbeing of those workers currently on the job.

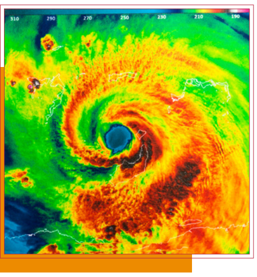
SUPPLY CHAIN DISRUPTIONS/PRICE FLUXUATIONS*

While the severity and volatility of current supply chain issues and related price concerns are a far cry from pandemic proportions, there are still challenges with delays and disruptions in sourcing certain goods and raw materials, as well as related fluxuations in pricing.

LOSS CLAIMS*

Whether induced by man or mother nature– the escalation of costs resulting from increasing loss claims is a growing problem for the entire industry.

a. Litigation: The abundance of claims and the proliferation of litigation, especially in the construction industry, is an ongoing concern for insurers as well as insureds who are dealing with rising, record high premiums, particularly on auto-related claims where increased repair times and costs are a factor. The growing number of large jury awards and 'nuclear verdicts' also heightens concern.



b. Natural Disasters/Climate Change: Substantial losses associated with natural catastrophes have been compounded by the increased severity and frequency of these disasters, keeping climate change on the list of concerns. Previously limited to a handful of specific regions, natural disasters such as the Los Angeles wildfires are becoming more common in areas typically thought to be low (or lower) risk.

* Indicates that these issues could be further complicated/impacted by political factors-see next page.

According to the NAHB.org, every one in four (25%) construction workers in the U.S. is an immigrant. When considering tradesmen, the number grows to 32.5%.

25%

TARIFFS
STEEL & ALUMINUM

The U.S. administration recently imposed a 25% tariff on steel and aluminum imports, likely leading to substantial cost increases for builders, causing industrywide concern.

MARKET DISRUPTORS: CONTINUED

POLITICAL/GEOPOLITICAL UNCERTAINTY

The construction industry could be one of the sectors most impacted by drastic shifts in U.S. policies and foreign relations. Major changes with regard to trade/tariffs, immigration, environmental/regulatory issues, labor, as well as political tensions due to both domestic and foreign relations may have dramatic effects on a variety of construction-related issues.

i. Trade Policies & Tariffs

Currently overshadowing all other economic concerns for our industry is the more urgent matter of new tariffs on imported goods and increased tariffs on steel and aluminum imports. The full impact and fallout from these tariffs, both politically and economically, remains to be seen but will likely have a substantial negative effect on construction. Tariffs are certain to impact project costs and may cause potential project delays if contractors are forced to wait for domestic production to ramp up to meet demand.

ii. Immigration

Changing political policies on immigration both in North America and abroad could further exacerbate the labor shortage problem with talk of mass deportations, tighter restrictions and limited entries.

iii. Geopolitical Tensions

Renewed fears of worsening supply chain disruptions and/or material shortages (both natural resources and manufactured supplies) have arisen due to increasing political tensions between the current U.S. administration and several other nations.

iv. Environmental/Regulatory Issues

A change in policies on this front may serve as a double-edged sword. In the near term, the loosening of licensing requirements and environmental restrictions may reduce delays and accelerate the building process, thereby reducing costs. However, fewer restrictions could lead to a potential spike in environmental claims and lawsuits (air/water pollution) which may prove more costly in the long-term.

According to ULI-Heitman, global insured losses from natural catastrophes hit $123 billion (USD) in 2023, marking the fourth straight year NatCat losses topped $100B.

MARKET TRENDS

44%

AGC's 2025 Hiring and Business Outlook Survey showed that 44% of construction companies plan to increase their AI investments in 2025.

AI & TECHNOLOGY UTILIZATION:

Increasing adoption of technology tools in construction such as drones, wearables, and telematics, has both insureds and insurers seeing results of enhanced safety records and improved efficiency, which should lead to more favorable insurance terms. The use of AI for data analytics is also on the rise, helping firms transform their risk management strategies with real-time information that offers better insights and the ability to forecast potential problems, thereby reducing delays and cost overruns.

INCREASING USE OF ART:

The past few years, the construction industry has experienced a shift toward the use of more Alternative Risk Transfer (ART) solutions, such as the utilization of Captives and OCIPs (where viable) to help reduce costs, standardize coverage, and enhance risk management profiles. Creativity and innovation are more important than ever when it comes to developing custom solutions that fit the client's needs.

SUSTAINABILITY:

The industry has seen a growing emphasis on the use of sustainable construction practices that focus on greater energy efficiency and/or use of eco-friendly building materials. While these improvements often come at a higher cost, many underwriters and insurers are offering incentives for 'green' initiatives.

According to McKinsey, almost 80% of construction spending focuses on infrastructure including transportation, energy and housing related projects.

80%

PREFAB, MODULAR & MASS TIMBER:

Reduced construction time and costs, due to increased efficiency are the main reasons for the increasing popularity of these various construction methods. Although mass-production claims improved quality control as another big advantage, insurers still have concerns about the potential of a single design or construction flaw being duplicated repeatedly, threatening structural or design integrity that could lead to large claims.

ALTERNATIVE DELIVERY METHODS:

While there are notable concerns regarding some aspects of certain alternative delivery methods such as: Design-Build (DB), Progressive Design-Build (PDB) and Private Public Partnerships (P3), these and other similar alternatives are quickly becoming the preferred option for many large, complex projects and infrastructure ventures.

INCREASED SAFETY & COMPLIANCE:

The adoption of technology as described above is one illustration of the increasing focus on safety, training, and compliance. Contractors are finally recognizing that a true safety-focused business approach often reduces the number and severity of incidents, leading to cost savings from fewer claims and eventually, lower premiums.

EVOLVING RISKS:

With tightening government regulations on PFAS and the high costs associated with cleanup, insurers have already introduced or are actively considering new PFAS exclusions in their policies.

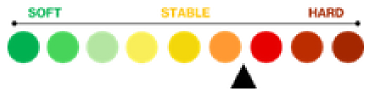
2025: A LOOK AHEAD

Overall, the construction industry remains a challenging environment in which to procure competitive insurance programs. Successful contractors are those who seek out and implement best practices, proactive risk management programs, stay informed of industry trends, engage their broker and insurer partners often, embrace the use of technology to reduce risk, and make investments in safety, training and loss mitigation programs. These measures can have substantial benefits in obtaining insurance programs with competitive premium rates, deductibles and coverage terms and conditions.

The construction insurance market in Canada is generally more stable than the U.S. but they too have concerns regarding wildfire risks, supply chain constraints and rising construction costs, which are pushing rates upward. However, increased government infrastructure spending and regulatory reform are supporting continued market growth.

PRODUCT LINE FORECASTS

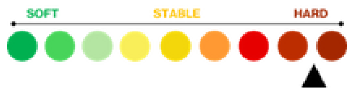
GENERAL LIABILITY INSURANCE:



Rate Trend: Challenging Market

- **Forecast**: Insureds are seeing rate increases from 5% to 10% on average, subject to loss experience, scope of work and geographic location.
- **Key Contributors/Driving Factors:** Increase in work zone/work site accidents; a marginal amount of new capacity entering the market to drive competition.
- **Insured Challenges:** Increasing deductibles and loss costs; social and economic inflation.
- **Underwriting Concerns:** Coordination of loss control, accident investigation and evidence preservation; contractual risk transfer and subcontractor vetting process.
- **CANADA:** With both new and additional capacity entering the market and driving competition, insureds in Canada are experiencing a stabilizing market seeing slightly lower rate increases from 3% - 7% on average.

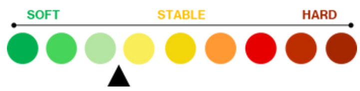
AUTO LIABILITY INSURANCE:



Rate Trend: Hard Market

- **Forecast**: Steep rate increases continue, ranging from 10% to 30% based on size and make up of automobile fleet.
- **Key Contributors/Driving Factors:** Increased claim frequency and severity, coupled with higher vehicle repair costs/longer rentals for extended repair time; increased claim costs.
- **Insured Challenges:** Distracted driving; lack of qualified drivers; fraudulent claims.
- **Underwriting Concerns:** Fleet safety and management practices including the use of telematics and cameras; claims history; and regulatory compliance.
- **CANADA:** Canadian auto rate increases are anticipated to range between 8%-15% due to factors similar to those in the U.S., as well as auto theft rings that are causing increasing premiums on physical damage coverage and increased deductibles.

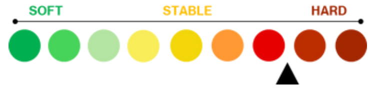
WORKERS' COMPENSATION INSURANCE:



Rate Trend: Stable Market

- **Forecast**: Workers' Compensation rates remain relatively stable with little to no increase (0-5%) with some insureds experiencing small rate reductions (-1% to -2%).
- **Key Contributors/Driving Factors:** Improved loss ratios as the result of better and more effective risk management practices being adopted within the industry.
- **Insured Challenges:** Regionally, rising labor costs (in states such as NY, NJ and CA) could offset Workers' Compensation savings; aging workforce.
- **Underwriting Concerns:** Safety training, compliance and monitoring; light duty and return to work programs; active nurse case management.

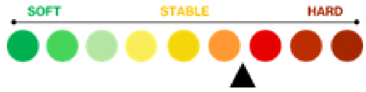
UMBRELLA & EXCESS LIABILITY INSURANCE:



Rate Trend: Challenging Market

- **Forecast**: Umbrella rates continue to rise, with 5% to 15% increases, while Excess Liability policies are seeing increases ranging from 5% to 10% on average.
- **Key Contributors/Driving Factors:** Concerns over high-risk exposures; automobile fleets; social inflation and nuclear verdicts driven by litigation funding; new capacity entering the market to drive competition.
- **Insured Challenges:** Primary and underlying attachment points; concurrency and consistency of coverage through an excess liability limit; insurer monitoring of limit aggregation.
- **Underwriting Concerns:** Safety and compliance, with a special emphasis on automobile fleet management; contractual risk transfer; subcontractor vetting process; historical claims; and emerging risks.
- **CANADA:** In Canada, this market appears to be stabilizing somewhat, with lower rate increases between 3%-7% due to additional and new capacity entering the market, driving competition.

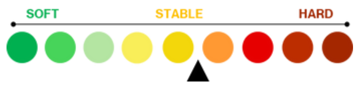
BUILDERS RISK & PROPERTY INSURANCE:



Rate Trend: Challenging Market

- **Forecast**: Coastal projects to experience higher rates and deductibles compared to projects in non-catastrophe prone areas. Relative year over year rate increases to range from 5% - 20% based on size, scope and geographic location of non-frame projects. Wood frame rates are decreasing between 5% and 10% on a year over year basis.
- **Key Contributors/Driving Factors:** Recent large losses from natural disasters and material cost inflation; new capacity for frame construction is increasing and driving softening rates.
- **Insured Challenges:** Obtaining coverage in high-risk disaster-prone areas; policy extensions and increasing deductibles/reduction in sub limits, particularly for water damage, flood and wind/hail.
- **Underwriting Concerns**: Geographic location; construction materials; risk mitigation practices including project security.
- **CANADA:** Rates are largely dependent upon geographic location, but insureds in non-catastrophe prone areas can expect to see lower rate increases over last year, ranging from 3% - 7% on Corporate Property/Contractors Equipment. With additional and new capacity entering in the market to drive competition, Builders Risk rates are also improving on non-combustible materials and reducing on wood frame or Mass Timber materials, helping to stabilize this still challenging market. Also noting that the implementation of IoT solutions are becoming part of the underwriting criteria in Canada.

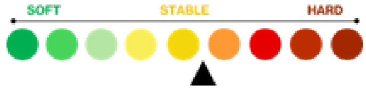
CYBER LIABILITY INSURANCE:



Rate Trend: Stabilizing Market

- **Forecast**: After notable rate peaks in prior years, the Cyber market is now stabilizing with rates expected to remain relatively flat (or modest increases of up to 5%) in 2025.
- **Key Contributors/Driving Factors:** More capacity in the Cyber market; insureds utilizing better security measures, reducing claims and insurers adjusting their rates accordingly.
- **Insured Challenges:** Adoption of new technologies internally can increase risk of attacks; cyber threats continue to evolve, becoming more sophisticated; contractually required cyber limits.
- **Underwriting Concerns:** Analyzing the effectiveness of a firm's cybersecurity protocols, including incident response plans and employee training; need to do same for subcontractors and partners.

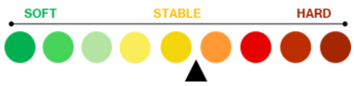
PROFESSIONAL LIABILITY INSURANCE:



Rate Trend: Stable Market

- **Forecast**: Professional Liability rates are expected to remain stable in 2025 with little to no rate increases (0-5%) anticipated for most projects.
- **Key Contributors/Driving Factors:** The market remains competitive with adequate capacity; some new entrants into the market as well.
- **Insured Challenges:** Coverage for certain high risk project types or projects in high-risk areas like Florida and New York; increase in project disputes and litigation, particularly design related.
- **Underwriting Concerns:** Design error claims; increasing project complexity; materials used; claims history; and subcontractor management.
- **CANADA:** With some additional and new capacity entering the market to drive competition, this market appears more stable than previously. Canadian insureds are seeing lower rate increases of 4%-8% on Coporate Professional policies and a stabilization of rates on Project Specific Professional policies.

POLLUTION LIABILITY INSURANCE:

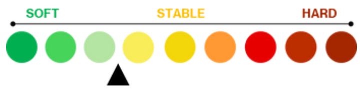


Rate Trend: Stable Market

- **Forecast**: Modest rate increases for Pollution Liability are anticipated.
- **Key Contributors/Driving Factors:** Heightened environmental awareness and public concern.
- **Insured Challenges:** Evolving risk landscape; use of new building materials and/or technologies make for more complicated risk assessments; increased PFAS regulations and high cleanup costs.
- **Underwriting Concerns:** Regulatory compliance; project-specific factors such as brownfield locations; environmental regulations; high cost of prolonged legal battles due to claims complexity.
- **CANADA:** In Canada, this market also appears to be stabilizing, with lower rate increases over 2024 expected, ranging from flat to 5%.

SUBCONTRACTOR DEFAULT INSURANCE:

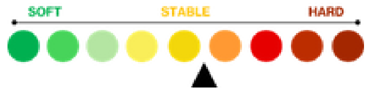
Rate Trend: **Stable Market**



- **Qualification For SDI:** The SDI market is stable but selective. Only six (6) carriers are actively writing business and within that small group, each has unique qualities around appetite and risk selection.
- **Forecast/Rate Trends:** Rate is dependent on contractor (loss history; robust SDI related policies and procedures; failure to consistently apply those procedures in the field) and market/carrier specific factors (reinsurance; losses; capacity). Rates, as well as terms and conditions, are holding steady to favorable for contractors who have a proven track record in mitigating the risk of subcontractor default, and who continue to focus on enhancing their procedures for subcontractor qualification and remained disciplined in job/sub award decision-making, in what is an increasingly risky market. It will be worthwhile to watch what upcoming reinsurance renewals amongst carriers as it may result in capacity, terms, and/or rate restrictions.
- **Key Contributors/Driving Factors:** Labor and workforce are stretched, and signs of subcontractor distress are ever-present, for both SDI and surety. In addition to some recent large subcontractor defaults in the marketplace, most notably in the MEP space, there has been a significant rise in default notices to SDI insurers and sureties in the past 18 months. This trend is expected to continue. Electrical contractors have been a loss leader alongside the usual suspects of curtain wall/envelope, superstructure, and wood frame. A recent survey from the Associated General Contractors (AGC) indicates that an astounding 88% of contractors struggle to fill positions. That, combined with other studies around construction workforce retirement (which show it to be as much as 41% by the close of the decade), make for serious warning signs.
- **Insured Challenges:** Contractors without formal, written policies and procedures that have been consistently utilized may not qualify for a program. But a recent development is the creation of a project specific product, catering to projects and contractors that historically did not align with SDI. Over the years, the SDI product has evolved to meet the changing risk environment and protect builders and their balance sheets. Additionally, excess policies are now being offered as well as quota/limit sharing between SDI carriers to help tackle capacity issues. Technology utilization and data capturing have become crucial in the prequalification process, with a majority of companies using or considering third-party companies for this purpose.
- **Key Underwriting Concerns:** Larger and increasingly complex projects present increased risk, requiring more scrutiny on insured's prequalification process, the character and experience of the GC insured, and discipline amid their own project management. Strict underwriting and recent claims studies re-affirm that the focus on prequalification, while important, cannot be emphasized over the day-to-day management of subs on the job. Roughly, less than half of all claims are financial related (the primary focus of pre-qualification vetting), while the balance is driven by labor and schedule issues.

In Canada, the Contract Surety market appears to be stable, with an increased demand for bonding on public infrastructure products.

PROJECT-SPECIFIC & CONTROLLED INSURANCE PROGRAMS (CIP)



Rate Trend: Stable Market

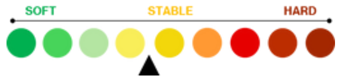
- **Forecast**: Relative year over year rate increases to range from 5% to 10% based on size, scope and geographic location, for sale residential and or wood frame projects. For sale residential and/or wood frame rates may be higher due to relative lack of competition.
- **Key Contributing Factors:** Competitive Market with multiple carrier options except as noted below with respects to professional liability.
- **Insured Challenges:** Geography; for sale residential; education around emerging design build project delivery models; availability of project specific Professional Liability limits; use of joint ventures.
- **Underwriting Concerns:** Safety and compliance; contractual risk transfer; subcontractor vetting process; historical project performance; inclusion of rail or marine exposures.
- **CANADA:** With both new and additional capacity entering the market and driving competition, insureds in Canada are experiencing a stabilizing market seeing slightly lower rate increases from 3% - 7% on average.

U.S. REGIONAL NOTES: The increased liability associated with New York Labor Law has curtailed the number of insurers in this market and this lack of competition has driven premium rates and deductibles to levels far above the averages. Contractors with **New York** operations should continue to expect a challenging risk management environment. Alternative Dispute Resolution (ADR) is now being utilized as an alternative to help reduce claims and costs.

Other states with unique and above-average environmental challenges include **Florida, California, Texas, Georgia,** and **Illinois**. Adverse jury verdicts, construction defect losses and other regionally specific challenges are driving higher than average premium rates and claims activity in these geographies.

CONTRACT SURETY

Rate Trend: Stable Market



The U.S. construction industry exhibited strong performance in 2024, driven by both public infrastructure initiatives and private sector investments. Various sources report that annual U.S. construction spending remained strong, around $2.2 trillion. The surety industry benefited from this, experiencing growth driven by economic factors, investment in technology and environmental initiatives. Notably, the Infrastructure Investment and Jobs Act (IIJA) continued to drive demand for contract surety bonds as more federal, state, and municipal projects required bonding.

The industry has also seen more government agencies enforce bonding requirements on federal and large public private partnership (P3) projects, ensuring more contracts required surety bonds. Private sector investment also increased with large-scale projects such as data centers, renewable energy facilities, and manufacturing plants. The increase in public and private investments has created increased demand for performance and payment bonds. Many top surety carriers reported higher premium growth, low loss ratios, and increased capacity to support contractors. A sustained period of profitable surety results has also led to newer surety entrants and larger program demands which has increased competition as many carriers are allocating more capital toward their T-Listings to support the demands of larger single projects and program demands. However, some sureties in the industry report an increase in claims activity and many have shared concern around economic uncertainty in 2025. These factors lead to tighter underwriting standards aimed at mitigating increased risks and maintaining profitability. Also, most sureties experienced tougher reinsurance renewals.

Overall, the industry maintained stable underwriting profits, allowing firms to expand bonding capabilities. Well qualified contractors are likely to benefit from this strong but cautious environment while marginal risks may be subject to more stringent terms and conditions.

- **Key Contributors/Driving Factors:** Premium growth reflects both rising construction activity and increased size of projects and contractor backlogs.
- **Insured Challenges**: Increasing loss ratios and economic pressures such as rising material costs and inflation lead to underwriters being more cautious. This means that contractors with less-than-ideal credit or financial history may find it more difficult and expensive to secure bonds.
- **Economic Uncertainties:** While infrastructure investments continue to drive demand, economic headwinds—such as higher interest rates and labor shortages—pose risks that could slow down market growth or further tighten underwriting conditions.
- **Key Underwriting Concerns:** Rising claims costs and a loss ratio that reached around 25% (as seen in the first nine months of 2024) for some, have led underwriters to tighten standards. Reinsurance costs increased and portfolio coverage reduced in 2024.

Technological Advancements: The surety industry is embracing digital platforms, blockchain, and AI to streamline underwriting, improve risk assessments, and reduce administrative costs. These technologies help speed up bond issuance and enhance fraud detection, making it easier for well qualified contractors to secure bonds.

Due to rising claims costs and loss ratios that reached nearly 25% for some (in the first nine months of 2024), underwriters have begun to tighten standards.

FINAL THOUGHTS:
PREPARE, PLAN, PIVOT, & EVOLVE

As construction, politics, and projects continue to grow more complex, American Global is here to help you prepare for whatever the markets may bring. Working proactively with our clients, we develop innovative solutions that enable them to pivot, as needed, in order to successfully navigate the difficult headwinds of today's challenging landscape.

In uncertain times such as these, discover how American Global's talented team of insurance, surety and technical professionals can make a world of difference for your business. We encourage you to explore our capabilities and learn how we leverage our credibility in the markets, for your benefit.

When you need a broker who understands your business as well as you do, contact the construction experts at American Global. **One Team. One Focus. One Goal.**

Expect **more** from your broker.

Email
info@americanglobal.com

Headquarters
390 N. Broadway, 3rd Floor
Jericho, New York 11753

Phone
516.387.1170

LinkedIn
@American-Global-LLC

Website
www.americanglobal.com