



FEBRUARY 2026

Project risk & profitability in focus

Construction & design market update



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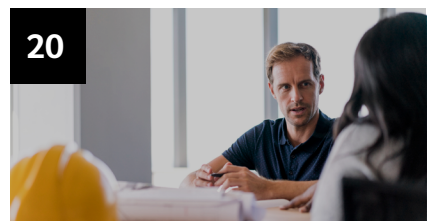
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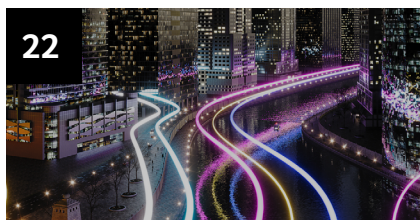
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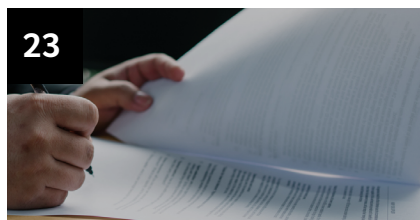
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Managing construction risk & insurance programs with confidence

Thank you for exploring Lockton's 2026 *Construction & Design Market Update*. If you would like more information or assistance managing key risks or insurance programs, we are here to help.

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Economic and policy trends drive many construction and design industry business risks, from labor to material costs to spending on projects. In turn, financial pressures — including labor shortages, turnover, and inexperienced skilled labor — can translate into jobsite injuries and third-party liability (construction defects, design errors or omissions, bodily injury, and property damage).

What can the construction sector expect to see in 2026?

What risks will be prevalent?

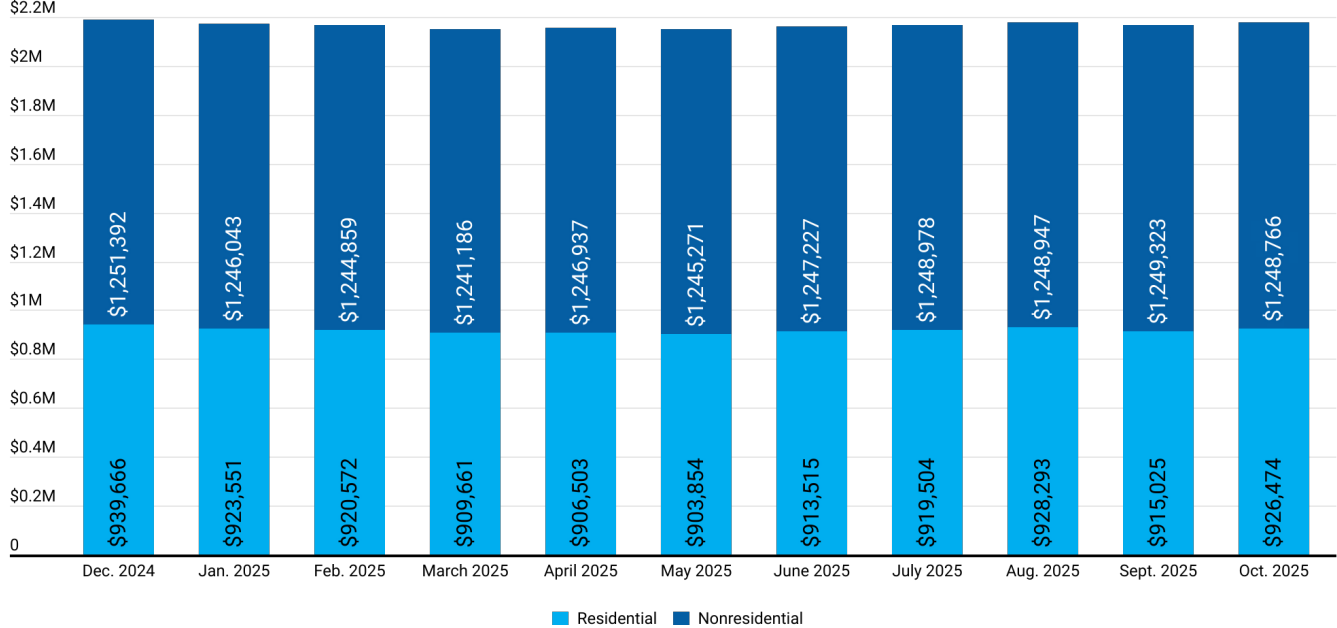
How can companies prepare to mitigate risks in the coming year?

Our *Construction & Design Market Update* examines these questions, considers others, and offers insights from Lockton’s construction and design specialists.

Overall industry conditions & outlook

TOTAL CONSTRUCTION SPENDING fell from a seasonally adjusted high of \$2.191 trillion in December 2024 to \$2.149 trillion in May 2025 but rebounded later in 2025, according to U.S. Census Bureau data. (See Figure 1.)

Figure 1: After falling slightly in the first half of 2025, construction spending picked up again in the fall.



Source: U.S. Census Bureau; Figures in millions

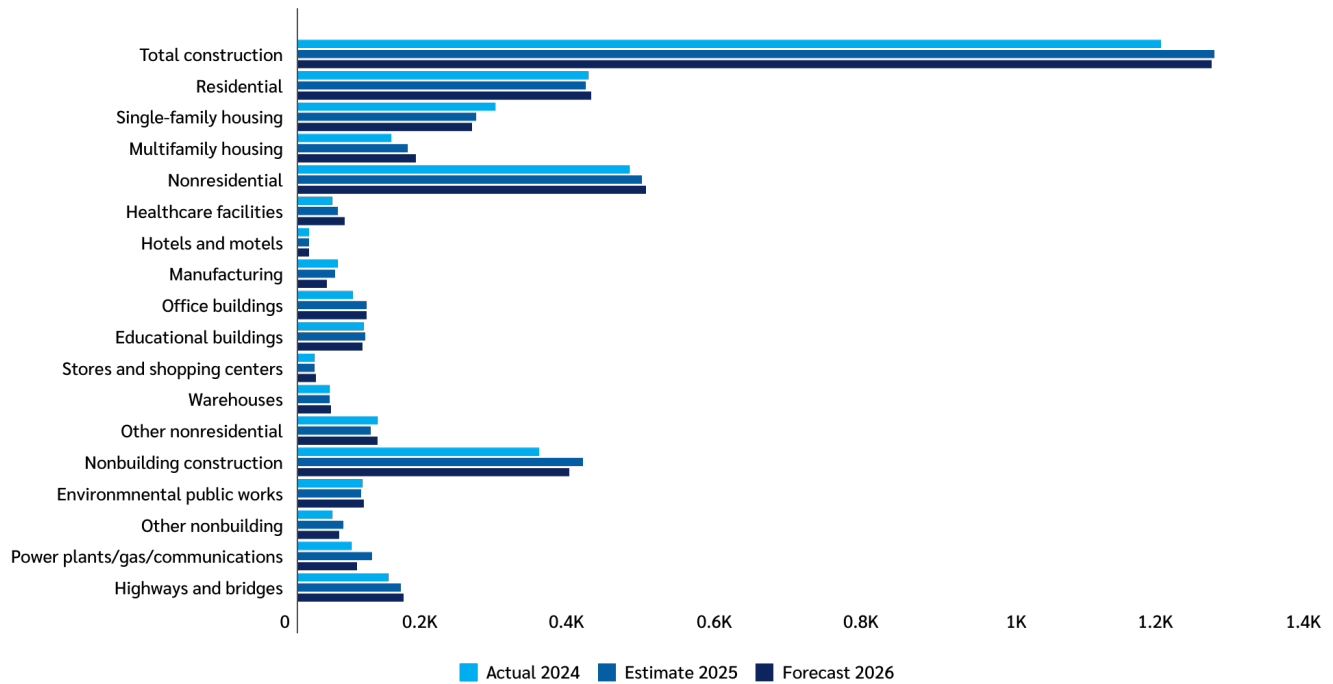
The value of construction put in place across the U.S. through the first 10 months of 2025 was \$1.825 trillion, down from \$1.851 trillion during the same period in 2024. This includes:

- \$779 billion for residential construction, down from \$798 billion in 2024.
- \$1.046 trillion for nonresidential construction, down from \$1.054 trillion in 2024.



Total construction starts are forecast to fall 0.4% in 2026, according to the Dodge Construction Network. (See Figure 2.)

Figure 2: Construction starts are forecast to fall slightly in 2026.



Source: Dodge Construction Network, via Engineering News-Record; Figures in billions

The insurance market is mostly favorable for construction and design industry businesses. Increased participation by new insurers and broadened offerings from existing insurers are fueling competition for construction risks.

Results from Jan. 1, 2026, treaty renewals suggest that the casualty market for contractors may be softening. Still, construction industry buyers face challenges in a few jurisdictions and lines of business, such as commercial automobile and excess casualty.

Proactive risk management within portfolios is recommended. For auto fleets and driving programs, that may mean telematics. Quality assurance and quality control are important risk management steps in eliminating design defects. Subcontractor management is key for general contractors to maintain quality of building components.

Safety has always been important in project risks and profitability, but technology has helped the industry become more proactive. For example, wearables, site sensors, and analysis of body mechanics are helpful tools in preventing injuries. Top drivers of construction claims continue to be generally led by:

- Falls from a height.
- Slips, trips, and falls.
- Strikes by or against objects.
- Water damage.

In 2026, construction and design businesses should focus on their individual project risk and profitability.



Casualty

Insurance markets should be relatively predictable at renewals in 2026. To obtain the best available rates, terms, and conditions in casualty lines, insurance buyers should consider two elements within their control ahead of renewals:

- Take the time to collect and analyze information, and allow for adequate time to negotiate coverage.
- Work with Lockton to build a strong story with strong information, including loss data, specific details around large claims, loss trends, and operating changes.

Underwriters are trying to de-risk insurance buyers' casualty programs, so providing as much information as possible will position insureds in the best light.

FOR EXAMPLE, ONE LOCKTON CONSTRUCTION CLIENT WAS ABLE TO SEEK A WORKERS' COMPENSATION RATE REDUCTION EVEN THOUGH THE COMPANY'S PAYROLL INCREASED BY 12%. The organization informed its insurers that it was paying more for skilled labor in a competitive hiring market, yet its man-hours did not change, and neither did its construction project profile or losses. Those details led to a favorable outcome at renewal.

For 2026, construction businesses should be aware that insurers tend to pursue new business aggressively. This requires buyers and their brokers to evaluate where the best options may be and to assess the insurer/policyholder relationship. Is the cost to change insurance partners equal to or more than the expected savings? It's important to consider those factors in a competitive marketplace.

On excess towers, capacity management is still top of mind for casualty insurers. Insurers are sensitive to their aggregate exposures and may look more closely at clients' programs in deciding how much capacity to deploy. Operations and exposures — for example, wildfire risks, large fleet exposures, and presence in difficult legal jurisdictions — will dictate what coverage layers look like in excess programs.



Controlled insurance programs (CIPs)

CIPs can offer cost savings and administrative efficiency in both residential and commercial construction. Owner-controlled (OCIPs) and contractor-controlled (CCIPs) insurance programs in 2026 should be stable, except for a few challenging segments.

Primary general liability (GL) coverage is stable in residential CIPs, but buyers are seeing challenges in finding excess GL coverage due to fewer markets willing to write these layers.

On condominium and for-sale projects, the insurance market is hard, particularly in jurisdictions such as Florida. Capacity is constrained in this segment, and prices are continuing to rise.

THREE TYPES OF CIPS ARE EXPERIENCING COMPETITIVE CONDITIONS IN THE CURRENT MARKET:

- **GL-only CIPs.** On owner-controlled programs covering only the general liability exposure, standard lines insurers are beginning to compete with excess and surplus lines insurers.
- **Data center CIPs.** Insurers' large appetite for data center risks is making the market for controlled programs competitive.
- **Multiline CIPs.** Combining GL and workers' compensation makes the GL component more competitive, and workers' compensation rates are falling or soft where experience modification factors are going down.

Despite the generally favorable conditions for CIPs, owners and contractors should be aware that judgments and claims are getting larger, with an uptick in premises liability claims from owners of adjacent properties. Some risk mitigation steps to consider include post-completion inspections on residential projects, and monitoring of water intrusion, vibration, and settlement during construction.



Residential

Spending on residential construction rose steeply during 2025, but it appears set to cool in 2026. Residential construction starts are forecast to fall for single-family homes, though multifamily is expected to continue at a robust pace.

Builder's risk

The builder's risk market for residential construction is softening. More carriers are entering the space, with appetites to underwrite a variety of projects, from single-family homes to multifamily high-rises. This applies to both woodframe and noncombustible construction types.

Conditions are especially favorable for single-family projects. In addition to renewing programs with lower rates, many buyers are able to secure lower deductibles than in prior years.

London underwriters tend to view woodframe as a class of business that is better managed than it was five years ago. This has led to a significant increase in appetite.

Crime scores and wildfire exposure continue to be factored into pricing. Insurers are also closely monitoring severe convective storm (SCS) exposure as claims increase in frequency and severity. Builder's risk insurers have not imposed any new exclusions on SCS but are limiting natural catastrophe coverage at \$25 million to \$50 million on large exposures.

Liability

The general liability market for residential/for-sale properties — including single-family homes, tract homes, and condominiums — remains limited. Rates are typically two to five times higher than commercial rates, and buyers are seeing slight increases year over year. Class-action litigation on these properties is a key concern for underwriters.

Excess layers are also becoming more challenging. We are seeing more quota shares, and with no new carriers entering the market, competition is drying up and rates are rising.

Many contractors and owners are putting all for-sale products into CIPs. General contractors and subcontractors want this coverage under separate policies. For-sale properties are often excluded under policies purchased by these entities.

Many liability carriers now require third-party quality assurance/quality control at an additional cost and as a condition of underwriting. For insurance buyers, this underscores the importance of engaging insurance brokers and starting renewal processes early, to allow sufficient time to capture all insurance-related costs.



Architects & engineers professional liability (A&E)

As the construction industry pursues a high-growth trajectory, design professionals are taking on more and different scopes of work. Project values and complexity are increasing, with data centers and infrastructure leading the way. Both owners and contractors are pushing their design partners to take more risk, reviving interest in project-specific professional liability insurance to protect corporate practice programs. Combined with continued topline revenue growth across their business, both organically and via acquisition, the increased risk is driving firms to reconsider their corporate limit adequacy.

Though demand for higher insurance limits is growing, especially in the United States, capacity is abundant. Large firms can still obtain the limits they seek, even when looking for drastic changes to their overall towers.

Corporate programs

RATES FOR A&E POLICIES ARE GENERALLY RENEWING FLAT OR WITH LOW SINGLE-DIGIT INCREASES WITH INCUMBENT CARRIERS, ASSUMING NO ORGANIZATIONAL CHANGES. That said, retentions are rising along with firm growth, allowing for some efficiencies in rate for many firms. Terms and conditions in this segment are stable.

For firms with favorable loss histories that have not tested the market in recent years, competition has been prevalent. Multiple carriers are aggressively seeking to unseat incumbents when risks fit their appetites.

Loss drivers for architects and engineers have not significantly changed, but underwriters are looking at losses in more detail. Specific areas of scrutiny include design firms' risk management practices, the use of artificial intelligence and controls in place for it, and mergers and acquisitions strategy and resources. With rapid ongoing consolidation among design firms, underwriters are focusing on due diligence practices, historical losses of target firms, and how firms are integrating their operations.

Project-specific programs

AS HAS BEEN THE CASE FOR MANY YEARS, THE PROJECT-SPECIFIC A&E MARKET REMAINS LIMITED. Though there were no major exits in 2025, carriers have not looked to expand limits being offered. With premiums remaining elevated, including in excess layers, we are seeing increased interest from and more placements utilizing wholesale brokers and the domestic excess and surplus lines markets.

Terms and conditions for project-specific programs remain stable. The biggest challenges are vetting capacity on mega projects with multiple phases, for which carriers prefer not to stack limits across phases/clients, and finding coverage through the statute of repose. Some carriers are seeking to limit policy term plus extended reporting period length to 10 years overall; longer terms are achievable, but with restricted capacity.



Contractor's professional liability

The insurance market for contractor's professional liability was stable throughout most of 2025, with no significant surprises or shifts in capacity. Later in 2025, the market began tightening somewhat, with smaller rate reductions more commonplace.

Over the last 12 months, the contractor's professional market has hardened ever so slightly. Heading into 2026, the expectation is that well performing accounts will see flat to slight rate increases. As was the case in 2025, there is no expectation of any broad, sweeping restriction in coverage or market push on retentions. Some carriers, however, will continue to evaluate the limits they're willing to offer for rectification coverage.

Project-specific professional liability coverage continues to be available, though insurers remain attuned to managing their aggregate exposure. Underwriters in 2026 will continue to focus on clients' operations, their spread of risk in construction vs. design activities, and loss history. The more design work a contractor does, the greater the risk.

Insurers have seen an influx of rectification claims during the past five years but so far are not restricting coverage. The increase in claims frequency is a natural consequence of a larger group of contractors using design-build project delivery and noticing errors during the construction process.

An important consideration for policyholders is the reporting requirements for rectification claims. Generally, awareness of design errors that can be rectified prior to project delivery must be reported to insurers immediately. The trade-off for insurers is paying for rectification during construction to avoid larger liability claims afterward. The adjustment process therefore moves quickly.

Risk mitigation steps for contractors on professional liability exposures include:

+ ENSURING CLEAR LANGUAGE IN CONTRACTS.

Pay special attention to the language that may limit liability for subcontracted design professionals.

+ UNDERSTANDING THE COVERAGE IMPACT.

Underlying contracts with design professionals can limit the amount of professional liability insurance available to a general contractor. This information is useful in negotiating subcontracts.

Contractor's pollution liability (CPL)

The insurance market for pollution liability exposures should remain favorable for contractors in 2026. With ample capacity and relatively low retentions, contractors seeking either project-specific or practice policies will find coverage readily available. A robust marketplace, including new players that entered in 2025, is driving competitive pricing and broad terms and conditions for contractor's pollution liability placements.

While the pursuit of CPL placements is often driven by contractual requirements, underlying risks are primarily shaped by evolving environmental regulations, which have significantly impacted the insurance landscape. One area undergoing continual change involves laws related to per- and polyfluoroalkyl substances (PFAS), commonly referred to as "forever chemicals." Currently, most CPL insurers provide coverage for PFAS, but pollution policies contain important nuances. For this reason, partnering with brokers that have environmental expertise is essential to help contractors navigate the excess and surplus lines market, where CPL coverage is typically written.

Common losses stem from pollution conditions that are caused or exacerbated by a contractor, such as a broken pipe that releases petroleum or stockpiling contaminated soils on a site during construction. Completed operations claims for mold can be costly.

RISK MITIGATION STEPS THAT CONTRACTORS SHOULD CONSIDER INCLUDE:

- **Understanding environmental, health, and safety (EHS) regulations.** A solid understanding of EHS is an overlooked aspect of construction operations.
- **Performing strong due diligence.** Environmental risk is important for owners and developers as well as contractors. Historical site pollution can be identified through environmental site assessments, which lenders generally require for later phases of construction. Contractors can commission these early on to minimize unknown conditions that might trigger claims later.
- **Assessing pollution coverage and how it applies.** Owners and developers should trust but verify that contractors have adequate pollution coverage. A certificate of insurance will provide evidence of coverage but not how it may apply to the project.
- **Seeking complementary coverage where available.** CPL coverage by itself will not meet all the pollution risk financing needs on a given project. Site pollution coverage dovetails with CPL policies to provide more comprehensive protection for cleanup and remediation, especially for sites with known or potential historical contamination.





Builder's risk

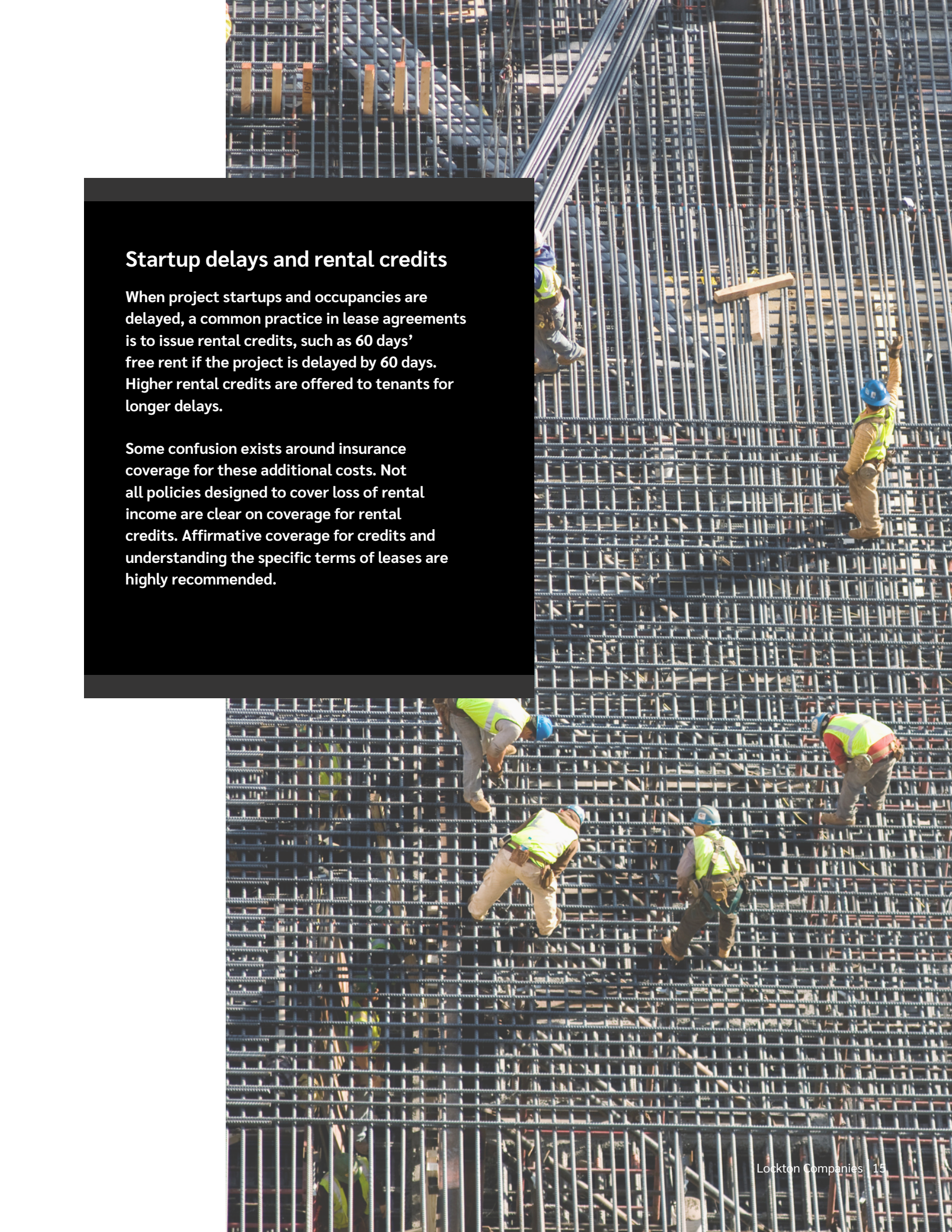
Insurer appetites for builder's risk are expanding, as new capacity and renewed interest from the London and U.S. markets are making this line of coverage favorable to buyers.

In noncombustible classes, such as data centers, the market is stable. Hyperscale projects are being built quickly, and their high values require insurers to get creative in deploying capacity. Even though insurers in the U.S. and London have a big appetite to write data center risks, they are challenged by accumulation of values.

ITEMS THAT CONSTRUCTION FIRMS SHOULD EXAMINE CLOSELY ALONGSIDE THEIR INSURANCE POLICIES INCLUDE:

- **Soft or ancillary costs.** Underwriters continue to scrutinize expenses that are not directly related to construction activity, such as debt service on projects and permitting fees.
- **Procurement of equipment.** Some specialized equipment, such as transformers and turbines, may be difficult and costly to replace.
- **Sourcing of labor.** It can be expensive to find suitable labor in a tight hiring market.

Working with a knowledgeable broker to align coverage to meet business challenges is prudent.



Startup delays and rental credits

When project startups and occupancies are delayed, a common practice in lease agreements is to issue rental credits, such as 60 days' free rent if the project is delayed by 60 days. Higher rental credits are offered to tenants for longer delays.

Some confusion exists around insurance coverage for these additional costs. Not all policies designed to cover loss of rental income are clear on coverage for rental credits. Affirmative coverage for credits and understanding the specific terms of leases are highly recommended.



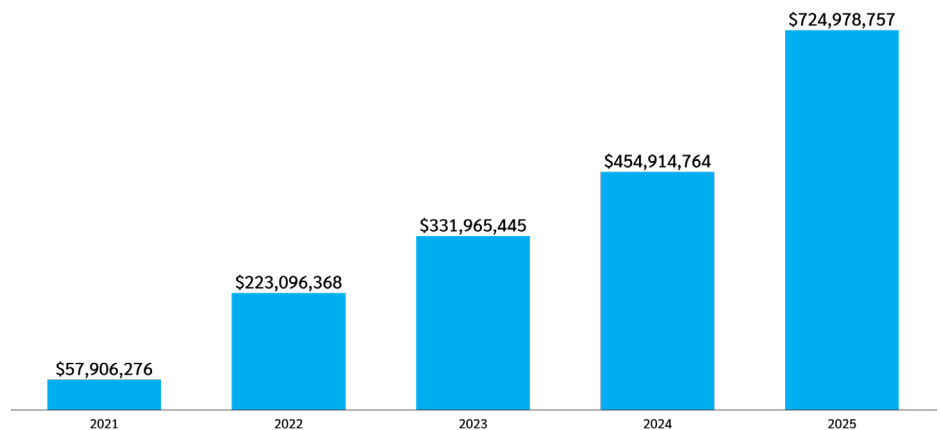
Marine cargo/logistics

The marine cargo and logistics insurance market is in a good place, with ample limits available and segments where rate reductions are possible. The overall outlook for 2026 is stable, barring any shock losses. Catastrophe events and geopolitical pressures may complicate pricing, but there is no indication so far of a market hardening for marine risks.

Cargo and stock throughput (STP) markets in the United States and London have been favorable, and those conditions should continue into 2026. The marine market is relatively disciplined as underwriters focus on catastrophe-prone geographies and use improved modeling tools to seek more detailed risk information. Capacity for cargo risks remains abundant.

Also concerning for insurers is the ongoing surge in cargo theft. Nearly \$725 million in cargo was stolen across the United States and Canada in 2025, according to Verisk CargoNet, a 59% increase from 2024 and more than 12 times the value of cargo stolen in 2021. (See Figure 3.) 3,594 cargo theft incidents occurred in 2025, slightly down from 2024. California, Texas, and Illinois remained the top three targeted states for cargo theft.

Figure 3: The value of cargo stolen across the U.S. and Canada grew by nearly 60% from 2024 to 2025.



Source: Verisk CargoNet

Technology solutions are available to track cargo and inform decisions on what kinds of cargo to assign to certain motor carriers. **Construction organizations can also mitigate their cargo risks by knowing their supply chains, ensuring they have ironclad contracts with motor carriers, and being clear on their cargo valuations.**

Logistics fraud risk rising

A concerning proliferation of fraudulent cargo pickup is occurring in the logistics industry. Some construction industry clients have experienced multiple thefts of valuable cargo such as copper, lumber, and other hard-to-trace building materials.

In fraudulent pickup schemes, a criminal either impersonates a motor carrier to drive away with a truckload or tricks an unsuspecting, legitimate motor carrier to deliver a load to the criminal or a location where the criminal can intercept it. The Federal Bureau of Investigation calls this strategic theft, which involves fraud to perpetrate.

A survey of motor carriers and logistics services providers (LSPs) by the American Transportation Research Institute (ATRI) found more than 65% of motor carriers experienced cargo theft in 2023 or prior years, while 100% of surveyed LSPs had cargo stolen in that period.

In addition, almost 70% of cargo theft incidents were valued at less than \$50,000, while nearly 60% of LSP cargo thefts were above \$100,000. The average annual value of stolen cargo was \$521,135 for motor carriers and more than \$1.8 million for LSPs. States with the highest incidence of motor carrier cargo theft are California, Illinois, Texas, Georgia, Florida, and Tennessee, according to ATRI.

ACCORDING TO ATRI, STRATEGIES FOR COMBATING CARGO THEFT, INCLUDE:

- Providing cargo security training for truck drivers.
- Modifying of procedures and policies to align with realities of cargo theft.
- Vetting transportation partners.
- Verifying the authenticity of bills of lading and other shipping documents.



Subcontractor default insurance (SDI)

SDI remains a preferred risk-transfer solution for managing subcontractor failure, particularly on complex, schedule-dependent projects. Demand continued to rise throughout 2025 despite several exposures, including cost inflation, schedule pressures, and labor constraints. This has reinforced SDI's effectiveness as an alternative to surety bonds or self-insurance for general contractors.

Infrastructure growth and data center development have had a profound impact on the market. The carrier panel has remained stable, including Arch, AXA XL (Indian Harbor), Berkshire Hathaway Specialty Insurance, Hudson, Liberty Mutual, Optio (formerly Cove), and Vantage. While competition persists, underwriting standards have become more stringent through strategic capacity allocation and increased scrutiny of project types, geography, and sponsor strength. Enhanced due diligence at the subcontractor and project levels has become a more common practice.

Default notices in 2025 remained elevated compared with pre-2022 levels, primarily driven by root causes of subcontractor financial strains, including depleted margins and poor cash flow. Rising interest rates, material costs, and labor shortages continue to compound these risks. Importantly, a subcontractor's history has little bearing on its ability to perform or avoid default; even companies that have operated for years could be at risk.

Looking ahead, default concerns will center on infrastructure projects, such as data centers, semiconductors, and clean rooms. Carriers have an interpretation of how exposures trend as subcontract values increase, which favors the idea that a "multiplier" for the cost to cure/finish a defaulted subcontract reduces as subcontract values increase in size to over \$10 million. Although the industry average to cure a subcontractor default is 1.5 to three times the remaining subcontract balance, claims with subcontracts greater than \$30 million have been filed more frequently in recent years than in the previous decade, surpassing policy limits.

COMMON ELEMENTS IN LARGE DEFAULTS INCLUDE:

- The discovery of defects late in projects, with extensive rework.
- A lack of lump-sum agreements for rework (time and materials agreements prevalent in large claims).
- Supply chain disruptions and labor competition.



Key policy and operational themes for 2026

RIGHT OF RECOVERY/ SUBROGATION

Carriers are actively pursuing recovery when subcontractor reimbursements fall short; language and obligations vary.

NOTICE PROVISIONS

Strict timelines (often under New York state law) require immediate reporting of default indicators.

INDIRECT COST TREATMENT

Disputes over credibility and attribution are occurring frequently.

POLICY NUANCES

Default triggers, limit multipliers, coordination with other insurance, and cooperative subrogation provisions differ by carrier.

High-risk geographies include the state of Washington and elsewhere in the Pacific Northwest; Austin, Texas; Florida; and New York. Critical scopes include electrical, mechanical, curtain wall, and heavy mechanical.

Reinsurance markets are increasingly focused on data center life cycles, with concerns about obsolescence within five years. There is also apprehension given political and regulatory uncertainty in the U.S., centered on potential civil disruptions or increased risk exposure for contractors operating in certain states.

In 2026, underwriting discipline will remain a priority, supported by targeted risk appetites across segments, trades, geographies, and delivery methods. Technology adoption will enhance subcontractor risk selection and monitoring.

TO MITIGATE RISK, GENERAL CONTRACTORS SHOULD:

- Complete annual review of program and policy parameters.
- Update subcontract templates for clarity on default, supplementation, and termination.
- Engage early with brokers and carriers.
- Improve subcontractor qualification and performance monitoring.
- Implement an SDI default playbook.
- Train teams on policy differentiators and claim documentation.
- Preapprove consultants and counsel for rapid engagement.
- Conduct default scenario planning exercises.
- Create a unified, well-documented system to streamline cost attribution practices.

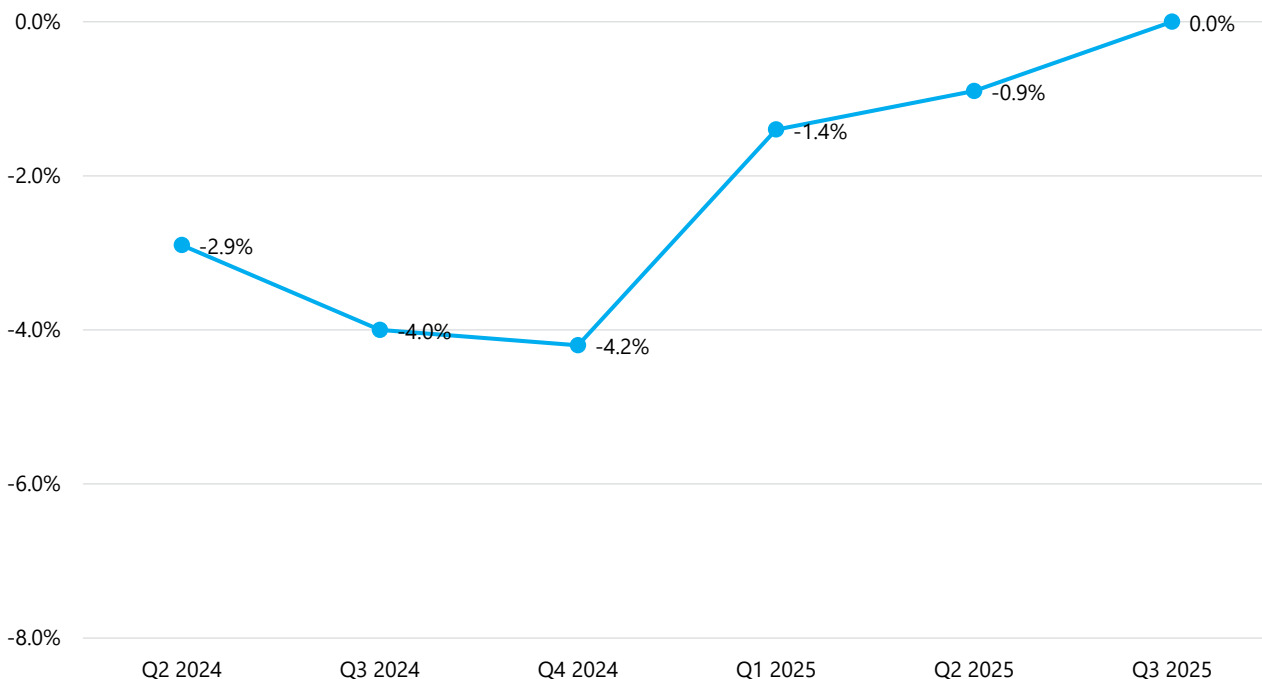
Despite uncontrollable factors such as supply chain and labor availability, proactive planning and robust policy design remain critical to mitigating catastrophic losses in or alongside evolving infrastructure sectors.



Executive risk

The market for executive risk lines is stable, but shifting in some respects. Construction and design buyers generally can expect stable capacity and retentions. But directors and officers liability (D&O) pricing has reached the bottom, according to Lockton data, and insurers are evaluating potential rate increases. (See Figure 4.)

Figure 4: D&O rates for construction and design buyers were flat in the third quarter of 2025.



Source: Lockton P&C Edge Benchmarking Report; Median total program rate changes year-over-year shown

Many D&O insurers are showing caution amid global economic uncertainty and continually shifting regulations. These factors have led to a dynamic loss environment, which is putting pressure on managing overall loss portfolios. For example, 749 companies declared bankruptcy through Dec. 14, 2025, which is 8% more than declared bankruptcy in all of 2024, according to S&P Global Market Intelligence. This highlights that managing overall financial performance is essential.

CONSTRUCTION & DESIGN FIRMS SHOULD PRIORITIZE:

- Project profitability.
- Mitigating financial disruptions due to supply chain/logistics challenges or increased tariffs or taxes.
- Overall governance of project execution and avoiding contract disputes.

Sound financials are also essential to perpetuating stable company valuations, especially for companies with employee stock ownership programs. D&O and fiduciary underwriting are closely tied together; for best results, buyers should remain focused on approaching the marketplace with robust submission materials, leaning into carrier relationships, and partnering with brokers to establish ample renewal timelines.

The Department of Labor has signaled a more favorable regulatory environment in 2026, committing to less “regulation through litigation.” However, fiduciary liability buyers should remain cautious and maintain a heightened awareness of retirement and health and welfare plan governance.

Employment practices liability rates are expected to shift in 2026. Two years of soft market conditions coupled with increased losses have driven insurers to an inflection point. While insurers have kept a close eye on capacity deployment and retention levels, EPL pricing has not kept pace with the claims environment. Social inflation remains a key threat; jurisdictions across the country — especially California — tend to favor plaintiffs, whose expectations have risen. Defense costs for companies targeted in litigation are rising at a quick pace.

For construction and design firms, EPL claims are the most frequent type of executive risk claim. In addition to allegations of discrimination, harassment, retaliation, and wrongful termination, wage and hour claims are extremely prevalent. Employment litigation can be costly, and buyers are looking for insurance solutions for both routine issues and emerging risks. Staying ahead of the renewal timeline will help to avoid surprises in EPL renewals in 2026.

For commercial crime buyers, employee theft is still commonplace. The increase in bankruptcies and corresponding job losses and cutbacks has insurers concerned about a potential uptick in claims activity. Social engineering fraud loss remains front of mind as threat actors continue to use sophisticated attacks bolstered by AI use. Appropriate risk management controls are critical. For the construction and design industry, where high-valued transactions for large projects are frequent, limits should be aligned with average ACH and wire transaction values.



Cyber

Following a correction in 2020-2022, the cyber market continues to stabilize. This market has been hypercompetitive since 2023, driven by an abundance of new capacity entering the space and more thoughtful underwriting oversight.

While the cyber market remains favorable to buyers, signs of a firming market are appearing as claims frequency and severity continue to rise. These claims trends and aggressive pricing are pressuring insurers to hold the line on rate so far in 2026.

THREAT ACTORS continue to find inventive new ways to compromise IT environments and exploit victim organizations. Ransomware attacks, for example, are growing more sophisticated in response to construction and design firms' investments in more resilient security tools and practices. Threat actors are now favoring data exfiltration tactics over encryption. Extortion payments that were once made in exchange for decryption keys are now being made to suppress the publication of sensitive data stolen by threat actors.

ARTIFICIAL INTELLIGENCE is a double-edged sword. On one side, AI is enabling threat actors to craft seemingly legitimate communications to orchestrate more effective phishing attacks. On the other, AI is helping construction and design firms more quickly discover vulnerabilities, better prioritize cybersecurity investments, and more efficiently execute remediation efforts across IT environments.

LITIGATION FOLLOWING A CYBER EVENT is becoming more prevalent as a byproduct of expanding data privacy laws as states continue to enact stricter regulations. It is increasingly common to see third-party demands or class-action suits after data breaches.

Although construction and design firms are not rich in consumer data, the confidential business data they hold — particularly organizations focused on critical infrastructure or projects related to the Department of Defense (DoD) — is an enticing target for cybercriminals. As of November 2025, Level 1 compliance with the DoD's Cybersecurity Maturity Model Certification was required for all organizations seeking to secure DoD contracts.

Generally speaking, construction and design firms have historically lagged other industries in cyber risk mitigation controls and practices. In recent years, they have largely closed the gap. Firms are investing in proper cybersecurity tools, personnel, and practices. There is no "finish line" in cybersecurity, however, as the virtual arms race between firms and cybercriminals will continue to intensify.

Contract surety

The construction surety market has remained stable for an extended period, with no industrywide shifts expected in 2026. Significant macroeconomic movement would be required to change this outlook. Even though capacity and pricing remain stable, pockets of stress exist from concentrated surety losses and tightening of reinsurance.



Construction sectors expected to remain resilient through 2026 include infrastructure, energy, renewables, data centers, manufacturing, and healthcare. Surety underwriters are applying greater scrutiny to private equity-backed contractors, reflecting heightened sensitivity to financial leverage, growth pace, and capital structures. This segment would likely be the most sensitive area of the contract surety market if loss activity were to materialize. Broadly, sureties are applying closer scrutiny to large, complex deals. Smaller sureties are particularly sensitive to their portfolio risk and concentrations of exposure.

Increasing project values are driving greater demand for surety capacity. Data center campuses, for example, represent multibillion-dollar investments with highly compressed schedules. A decade ago, projects of this scale would have strained the surety market. Capacity is generally plentiful for sophisticated, well-capitalized contractors. Co-surety arrangements have become a common mechanism for supporting large, capital-intensive programs while managing aggregate exposure.

An area to monitor in 2026 is the continued movement of experienced surety professionals across the market. Many experienced professionals are joining newer entrants, including both carriers and brokers. In the event of significant losses or systemic change, there is a risk that underwriting reactions could be more abrupt as fewer professionals have firsthand experience managing prior market stress cycles.

TO MITIGATE VOLATILITY IN THEIR SURETY PROGRAMS, CONTRACTORS CAN:

- Be selective about bids. Not every project falls within the operational capabilities of every contractor. Viewing each opportunity through a risk lens enables contractors to improve their odds of success.
- Thoroughly review contracts. It's critical to understand contractual risks as part of project selection so contractors can avoid surprise liabilities. Larger project values amplify assumed contractual risks. Owners and upstream general contractors are increasingly pushing risk down the contract chain, making disciplined contract review and negotiation more important than ever.
- Implement robust project controls and financial reporting. Operational discipline and transparency are essential to maximize bonding capacity and mitigate surety losses.
- Nurture relationships with surety partners. Contractors should communicate early, especially on large bid opportunities, with their surety partners. Surety brokers and underwriters frequently have knowledge and resources that can help contractors win business and support contractors' growth plans. As capacity needs grow, preemptively engaging a backup or co-surety partner is critical.



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