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FOIL Update 7th January 2026

Building Resilience: The Evolving Landscape of UK Construction Insurance

Increased capacity and growing competition were key drivers behind a softening of the UK construction insurance market during 2024 and into 2025. Now, buoyed by a renewed pipeline of infrastructure investment, a boom in data centre development, the escalating energy transition and a broader need to strengthen climate resilience, insurers are recalibrating their appetite, pricing and product design in pursuit of ambitious growth plans in a rapidly evolving market.

At the same time, however, global focus is shifting from reinsurance capacity to the growing, more complex issue of supply chain disruption caused by geopolitical conflict, tariffs and health crises, often resulting in budget overspends and project delays. Risks from climate change and national catastrophes are adding to underwriting complexity and threaten to slow market momentum.

Market dynamics

The underlying demand for construction-related cover has increased with public and private investment in infrastructure, housing and strategic projects. The UK Government's 10-year strategy highlights significant planned capital investment that will sustain project pipelines across transport, housing and utilities, generating demand for increased construction all-risk, liability and surety capacity. The strategy sets out over £725 billion of public funding, supported by additional private investment, to deliver the government's strategy to deliver growth and change.

Additionally, corporate and institutional investment in renewable and transitional energy, digital infrastructure and high-tech manufacturing projects has exploded. Recent reporting suggests data centre spend in the UK is projected to rise 5x to £10 billion a year by the end of the decade, significantly increasing construction activity and insurance needs for specialist builds.

On the supply side, insurers are carefully navigating an environment of varying profitability and cautious capacity placement. Global reports indicate construction insurance remains a growth-oriented market, yet underwriters are focused on stricter underwriting discipline, selective appetite and more granular risk assessment to support long-term profitability.

Emerging risks

The market's overall risk profile is currently being reshaped by the nature of the projects progressing through the construction sector. Climate and weather-related exposures continue to intensify, with the growing frequency of severe weather events driving higher property damage and delay losses. UK insurers have faced record levels of climate-linked claims in recent years, with UK insurers paying a record £585 million for weather-related damage to homes and businesses in 2024. This trend is increasingly reflected in underwriting assessments, particularly for flood-prone locations and projects with extended build programmes.

At the same time, more complex and high-value specialist projects are introducing new technical challenges. Developments such as data centres, battery storage facilities and offshore wind substations involve concentrated, highly engineered risks, characterised by significant power loads, intricate electrical and cooling systems and extensive third-party interdependencies. These factors heighten aggregation risk and necessitate bespoke cover and specialist engineering insight.

Market fragility within the construction supply chain also represents a growing concern, as high numbers of contractor insolvencies and wider financial pressures are elevating counterparty risk. These factors carry implications for risk transfer mechanisms, completion guarantees and demand for surety products. Insurers and sureties are therefore placing greater scrutiny on areas such as covenant strength, contractual allocations of risk and potential extension-of-time exposures.

Overlaying these challenges are geopolitical and inflationary pressures from global events that influence commodity prices and trade flows. The result is rising material costs and supply-chain disruptions, which increase volatility to project timelines and budgets. This environment is contributing to increased delay risk and higher insured values, influencing pricing, retentions and claims severity across the entire construction insurance market.

Opportunities

The evolving landscape in the construction sector is both reshaping risk and creating clear opportunities for market innovation and growth. A significant area of potential lies in specialist product development driven by an increasing demand for tailored parametric and hybrid solutions. Examples include covers that respond to weather-related delays and bespoke policy wordings designed for technology-intensive projects such as data centres. Insurers capable of combining deep engineering expertise with flexible, responsive product design are well placed to differentiate themselves and benefit from growing demand in this area.

As underwriting becomes more selective, brokers and insurers can strengthen their proposition by offering value-added risk engineering and preventive services, such as pre-construction risk assessments, resilience planning and targeted loss-prevention support. These services can help reduce the frequency and severity of claims but also reinforce long-term client relationships through practical, proactive risk management.

In addition, the continued expansion of the UK's infrastructure pipeline presents opportunities in blended finance and the provision of long-duration capital to strategic projects. Insurers and pension funds can play an important role by offering long-term capital through mechanisms such as project insurance, political-risk cover and blended-finance solutions to mitigate and transfer risk, improving the attractiveness to private investors. These approaches can help bring forward projects that might otherwise struggle to progress, thereby supporting market growth and national development objectives.

Macroeconomic and geopolitical drivers

Macroeconomic variables have a material impact on the construction insurance market, with interest rates, inflation and exchange rates all influencing capital costs, contractor margins and material prices. In turn, these change influence insured values and claims severity. Whereas lower rates or fiscal stimulus can accelerate project pipelines, tighter monetary policy or budgetary restraint can have the opposite effect, slowing projects or even bringing them to a halt.

Geopolitically, supply chain disruptions caused by conflicts or trade restrictions increase costs and delay risk. Recent supply crises have raised significant concerns about energy security, pushing investment into domestic generation and storage projects and expanding the surface of insurable construction risks. Additionally, global reinsurance capacity and catastrophe markets significantly influence the UK construction sector by directly impacting the cost and availability of essential insurance products, which in turn affects project viability, operational costs and risk management practices.

Future Areas of Focus

Looking ahead, several trends are set to shape the construction insurance market in the near to medium term. Insurers are expected to utilise more structured programmes that integrate traditional indemnity cover with parametric triggers and contingent business-interruption solutions. This blended approach offers the dual benefit of rapid liquidity in the immediate aftermath of an event, alongside more comprehensive indemnity where detailed assessment is required.

Advances in data and digital technology will also play a central role, with the use of IoT sensors, satellite imagery and sophisticated modelling techniques set to expand. These tools will be particularly valuable for managing weather-related and operational risks on complex or high-value construction sites and enable insurers to refine exposure mapping, reduce basis risk and support real-time risk mitigation.

Greater focus on aggregation risk and overall portfolio management is also expected, as insurers are likely to apply stricter controls on site-specific aggregation, especially in areas where clusters of data centres, renewable energy projects or other high-value developments could concentrate exposures. This trend will be accompanied by greater demand for transparency around potential accumulation risks.

Sustainability and ESG considerations will continue to influence underwriting decisions, with projects able to demonstrate strong environmental performance, robust climate adaptation measures and sound governance frameworks likely to benefit from more favourable pricing and capacity terms.

Sustained demand for infrastructure investment is also expected to support broader use of blended finance and institutional capital. Insurers and long-term investors, such as pension funds, are expected to explore new instruments for providing long-duration capital, supporting the delivery of large-scale projects while managing their own risk-return requirements.