

Bonds and Insurance in 2025: What Contractors Need to Know to Stay Competitive and Covered

June 1, 2025





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In 2025, bonds and insurance remain essential tools for risk management, operational credibility, and long-term growth for contractors. The construction industry is approaching the year with cautious optimism, navigating market fluctuations while remaining mindful of economic pressures that can impact projects of every size. In this environment, bonding and insurance have become even more critical to winning work, managing exposure, and securing and building backlog. Firms that understand and adapt to today's more selective landscape will have a competitive edge that goes beyond pricing: they'll be viewed as lower-risk, higher-value partners by developers, lenders, and project owners as well as the sureties and insurers.

The surety bond market remains financially stable and well-capitalized, but it is also more discerning than in past cycles. Sureties are placing greater emphasis on evaluating how much bonding a company truly qualifies for – both for individual projects and its overall backlog. Contractors should expect sharper scrutiny around job type, project size, and their own track record of performance. To meet these higher standards, financial transparency is paramount. High-quality, timely financial statements, including detailed interim reports, are a must. The time-tested “Three Cs” of surety underwriting remain essential: Capital, Capacity, and Character. Capital refers to a contractor's financial strength, measured through working capital and net worth, critical indicators that firms can weather unexpected delays, cost overruns, or market shifts. Capacity reflects a contractor's ability to perform at scale without overreaching, sureties want to know that a firm is not stretching itself beyond its proven competencies. Character remains the most intangible but equally

vital factor: a contractor's history of communication, dispute and claim resolution, and job completion strongly influences a surety's willingness to extend surety and the levels of bonding capacity.

Similarly, the insurance market for contractors has become more complex and cautious, reflecting the evolving risks facing modern construction businesses. Inflation, labor shortages, supply chain unpredictability, and especially climate-related disruptions are reshaping how underwriters price policies and structure coverage terms. Recent extreme weather events, such as the record-breaking wildfires across the Western U.S., severe flooding in the Northeast from storms like Hurricane Ida's remnants, and destructive hurricanes along the Gulf Coast including Hurricane Ian, have resulted in historic insured losses. These incidents have raised insurer sensitivity to property-related risks and made carriers more selective, especially when underwriting builder's risk and general liability policies. Contractors should expect closer scrutiny of builder's risk coverage as project values rise, and policy exclusions are carefully enforced. General liability coverage is also receiving renewed attention, particularly amid concerns about workmanship and jobsite safety as firms grapple with ongoing skilled labor shortages. In addition, workers' compensation has become a greater focus for underwriters, as labor scarcity can lead to the hiring of less experienced or insufficiently trained workers, factors that insurers evaluate as well as any related claims. Rising medical costs and litigation trends have further contributed to upward pressure on workers' comp premiums, making it essential for contractors to emphasize safety training, jobsite protocols, and injury prevention measures to maintain favorable coverage terms.

To put themselves in the best position for both bonding and insurance, contractors must focus on a few key best practices. First, financial readiness is non-negotiable. A common rule of thumb is that a contractor's single project bond limit is typically around 10 times their working capital, and their aggregate bond limit may be approximately 10 to 20 times their net worth. Firms need to carefully manage working capital, net worth, and profit margins, reinvesting in the business where appropriate while maintaining a clean, healthy balance sheet. Red flags like profit fade, or the appearance of declining profitability on long-term contracts, or collections of receivables lagging, can erode the confidence of both sureties and insurers. Second, project selection matters more than ever. Sureties and carriers

prefer firms that stick to their core competencies rather than chasing unfamiliar or overly risky work just to keep crews busy. Third, documentation remains critical. From detailed work-in-progress reports to comprehensive change order protocols, robust internal records signal to third parties that the business is professionally run and well-prepared for challenges. Finally, proactive communication with both sureties and insurance carriers cannot be overlooked. Regular updates, timely reporting, and open dialogue build the trust that prevents unpleasant surprises when claims arise or bonding needs change.

In the end, discipline will define success. Contractors that remain transparent, financially sound, and strategically focused have the best chance to secure the bonding and insurance coverage they need, they will also distinguish themselves in a crowded, competitive marketplace. The takeaway is clear: reviewing your bonding and insurance strategy today is not just good practice, it is essential preparation for protecting your business and enabling sustainable growth in the years ahead.