



Marsh Specialty

Data center construction



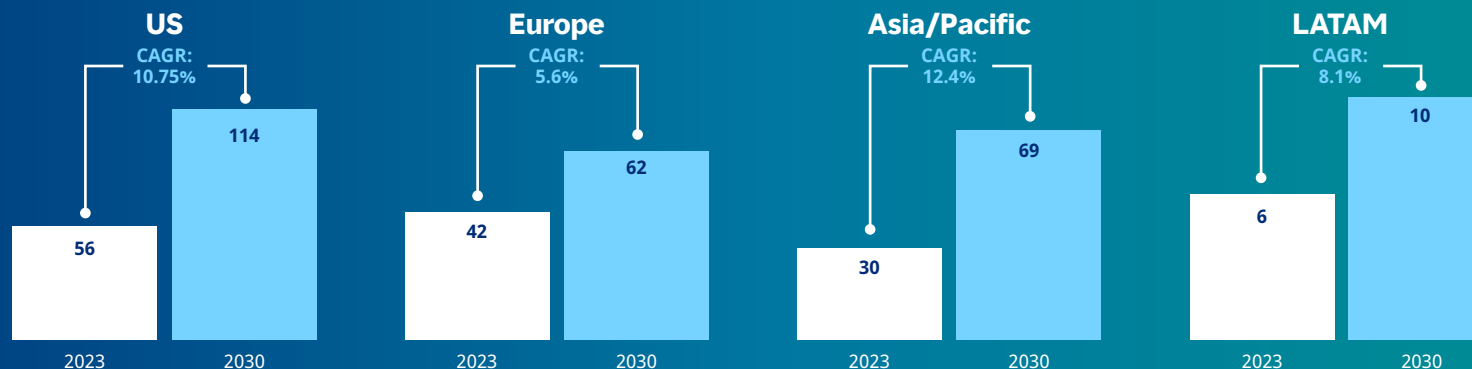
The rise and rise of data centers

Rocketing data usage is driving a construction boom for data centers. Contractors and developers must navigate a specialized risk and insurance landscape to ensure the success of their projects.

The demand for more data centers is high and growing, fuelling major investment in infrastructure development. The Data Centers 2024 Global Outlook report shows the market is set to grow by more than 10% from 2023, reaching US\$437 billion by 2030.

Data center developments present a unique mix of physical and contractual risk factors that must be considered when negotiating construction contracts and finance agreements, and when designing and placing the project insurance program. These risks are outlined in the following slides.

REGIONAL DATA CENTER MARKETS AND GROWTH TRENDS



Figures in US\$ billion

Our expertise and approach

OUR EXPERTISE

Marsh's Data Centre Working Group brings together Marsh experts from across the globe – who have a wealth of experience working with investors, hyperscalers and developers – to support owners and operators with data centre projects from concept through to operation.

In the past 4 years, Marsh has supported 35+ data centre projects with a combined capacity in excess of 2,000MW.

OUR APPROACH

We assign a Marsh data centre expert to each client. This individual serves as the client's single point of contact and will project manage engagement across the Marsh McLennan family – leading the creation of a tailored insurance programme across the complete data centre project lifecycle.

This approach allows us to provide resources and expertise from design to disposal and meet the unique and challenging requirements of each project.

Physical risk factors



Specialized contractor shortages

In a specialized industry undergoing a boom, insurers pay close attention to whether the selected contractors have the experience and credentials to carry out some of the more sensitive elements of the build — particularly considering the ongoing skills shortage in construction.



Cooling facility construction

Cooling facilities are vital to data centers; many have significant works in water or heavy lifts. Insurers consider both types of works as high-risk activities and will pay particular attention to the construction methodology.



Prototypicality

Rapid advances in cooling facilities and data center technology may prompt insurer questions about unproven methods, components, and systems. Potential insureds should prepare to offer sufficient “proven” elements, or prototypes, to the constituent design to inform insurers and allow them to better assess the risk.



Fit-out phase

Data center projects require dovetailing multiple insurance policies covering insured property and activities in close proximity. The process is rarely straightforward. The need to install high-tech, high-value, and sensitive equipment while shell construction is finalized creates a physical risk factor that is reflected in many contractual risk concerns. Tech companies often insure their own fit-out works, even when third-party developers are engaged in continuing shell construction.



Power connections

Power supply determines capacity and factors heavily in site selection criteria. Often, power connection works can involve extensive disruption to public areas near the project site. Although these works might take place early in the schedule, the risk of damage or injury to third parties is significant. Furthermore, interconnection or build-over agreements to public utilities could include significant consequences for damage and disruption and should be considered in the project risk matrix and the insurance program design.



Contractual risk factors

Structure

The construction contract(s) for a project typically underpin the insurance-purchasing obligations and inform caps on liability and project risk allocation; they should be considered in the insurance program design. The wide range of contractual structures present different risk landscapes, which can affect any project party's risk allocation under contract and the efficacy of the insurance program.

Marsh Specialty is the insurance adviser for some of the world's largest data center projects (owned by large tech and non-tech companies). We also partner on smaller developments for dedicated data center firms.

Develop, build, operate

For most construction projects globally, the principal (generally, a tech company) appoints project managers, contractors, and designers to deliver the asset, which the principal will own, occupy, and operate. In this case, the tech company provides the core construction "all risks" (CAR) and third-party liability (TPL) insurance covers.

Many major tech companies self-finance and do not need to purchase delay in start-up (DSU) cover. However, they will need to comply with lenders' requirements should they raise external finance.

Tech company as tenant

In this case, the tech company occupies the premises and pays rent to a third-party developer, who builds the asset, typically the shell, core, and supporting infrastructure/utilities. The tech company installs its own equipment, for example, hardware such as servers.

Sometimes, office furnishing and equipment, such as racks, form part of the build contract. In this case, the developer provides the core build CAR and TPL insurances because they are developing, and will own, the asset and are retaining the development risk. In many cases, the developer has lender involvement, and a related obligation to insure throughout construction and to cover the DSU risk.

As noted above, it is common for the tenant to insure its fit-out works, which are likely to be ongoing at the finalization of the shell construction.

Hybrid structures

The tech company may offer to build the asset at a prime location belonging to a third party, usually due to a power supply issue. The agreement would typically be for the tech company to construct the data center and then sell it to the third party, with a long-term lease agreement included as part of the transaction.

The specifics of the agreement, including which party is responsible for the risk of loss at the point of testing and commissioning and when the asset transfers to the third-party owner, can affect the insurance program. If project finance is being raised for the purchase, the future owners' insurance will be under scrutiny from the first day the lenders' interests could be compromised.

Depending on when the first payment is made, this could make the transaction as simple as a real estate purchase of a built asset, or as complicated as a concession structure. Each structure provides different dynamics, which impact which insurance classes will need to be arranged, to what extent, and by who.

Unless handled carefully, some proposed contractual structures aligned to the insurance-purchasing responsibilities can result in wasted premium, uninsurable risks, or the inability to raise finance for the project.

Design risk

Given the exact operating conditions needed for data centers, another key consideration is who will be responsible for the specification or design risk under the relevant contracts. Developers should consider their rights of recourse against the designer in respect of the selected contractual structure, and how they would prefer this potential liability insured.

As professional indemnity (PI) insurers typically offer restricted limits and coverage terms, making it important to consider the alignment of insurance coverage with the contractual structure. It is also worth noting that many tech companies originate from the US, where professional liability is more widely insured than in other parts of the world, including Europe.

US-based contract forms

Many data center construction projects involve at least one party originating from the US. Construction professionals will be aware of the significant differences between construction contracts used in the US and elsewhere. To promote placement of an efficient and effective insurance program, insured should also focus their attention on the contract conditions.

Owners and developers that should develop a contracting approach that considers future insurance requirements, which can mitigate the risk of an insurance program that is inefficient or unnecessarily costly.

Lender requirements and DSU cover

Lenders subject projects that raise finance on a non-recourse basis to a rigorous insurance review and approval process. A construction contract awarded without due consideration to future lending requirements could face challenges in raising the finance required to progress. For example, nearly all contracts are set up as standard for the contractor(s) to provide the CAR and TPL insurances, whereas lenders will often expect the party raising the finance to procure these insurances, along with DSU insurance to mitigate the financial risk of delay caused by damage.

The revenue flowing from completed data centers can be immediate and significant, and a high DSU sum insured can impact the dynamics of the insurance placement and present a higher-rated risk for insurers. Of note in any agreement with lenders will be the requirement to commit to the scope of operational insurances for the term of the loan. Any unnecessary over-commitment will result in high premium costs for the duration of the loan and the future operational model - be it on a lease basis, co-location, or otherwise - will need to be factored in.



Contractual risk factors

The above-referenced physical and contractual risk factors need to be included in any insurance program design - in the optimal presentation of the technical project insurance information, the extent of cover procured for the project, or the detailed insurance program design. The scope of this advisory and placement work is extensive; among the nuances that should be considered:

Insurance dovetailing

The dovetailing of insurance procured by different parties within the contractual structures can be complex where different parties insure the building and the fit-out works.

Early works

Many companies' risk models are predicated on preparing the base facilities to construct a data center on behalf of a future tenant, but not embarking on the main construction work until commercial agreements are significantly advanced.

In such a case, it is too early to put the main project insurances in place, meaning an early works placement needs to be arranged to accommodate the schedule. Insurers may have concerns if these works are completed and left dormant for some time.

It is important to approach placement strategically to ensure the premium costs are not unnecessarily inflated by the requirement to have multiple-staged policies.

Cyber risk

Data centers are particularly vulnerable to cyberattack. At present, traditional property insurers remain wary of taking on such risks.

Marsh Specialty works with policyholders and insurers globally to navigate the difficult landscape for insuring these elements of cyber risk.

Latent Defects Insurance (LDI)

The future usage of the asset in terms of onward sales or co-location may alter the insurance program dynamics as the developer seeks to provide additional guarantees relating to the performance of the asset.

Supplementary insurances, such as LDI, might be considered to provide the future buyer or user with confidence in the data center's structural integrity.

Geographical variances

Each country has its own legal and insurance regulatory framework, which can significantly impact the type, cost, and security of insurance that will ultimately be arranged for the project.

Global variances need to be factored into all relevant project agreements at an early stage

Water damage

In recent years, insurers' portfolios have been severely affected by increased incidences of water damage in the construction industry.

For the building and real estate sector, it is mainly the frequency of these events that have caused insurance issues.

However, more severe losses have occurred where high-value equipment has been damaged in complex developments.

The technology sector has also experienced such incidences and insurers now focus on water damage risk management as part of the key underwriting information.

Multi-storey developments

Some data centers are building upwards to maximize the footprint of their development.

Insurance arrangements will need to facilitate a multi-storied development with different computing centers during varying stages of completion.

This may exacerbate the complications surrounding the interaction between completed infrastructure, ongoing construction, and equipment fit-out works

SEEKING OPTIMUM CONSTRUCTION INSURANCE TERMS

Work with a broker with expertise in both construction and wider specialties, including the capabilities to properly respond to the challenging economic and business risks faced by developers and contractors.

With their technical expertise, market knowledge, and close relationships with underwriters, Marsh brokers have extensive experience with tightening insurance markets.

Clients should consider carefully their contractual structure together with the insurance program design.

Working with insurance brokers as early as possible in the process should allow for sufficient time to negotiate terms and conditions.



Introducing Nimbus

Building data centre resilience

The surge in data usage is driving a construction boom for data centres. Developers and data centre operators must navigate a specialised risk and insurance landscape for their projects to succeed.

Marsh's Nimbus programme is a market leading insurance solution for data centre construction projects, designed specifically for their unique challenges. It helps streamline coverage for every stage of the project lifecycle, from planning and construction to completion and handover.

Marsh has been at the forefront of supporting and delivering results for clients in the construction, data, and technology sectors. Our innovations continued with the launch of the Marsh Data Centre Insurance and Risk Management Services.

This group brings together specialists from across Marsh, enabling clients to access effective risk management and insurance solutions to navigate the complexities of data centre operations and optimise their investments and operational capabilities.

Recognising the growing need for data centre construction projects, Marsh Nimbus furthers our commitment to meeting the technology sector's infrastructure demands.



Pre-arranged capacity

Nimbus is designed to enhance business resilience and the insurance process, enabling organisations to scale rapidly and efficiently.



Ongoing protection

Offers property damage (PD) and business interruption (BI) coverage for handed-over data centres until final practical completion, safeguarding your investments.



Comprehensive coverage

Provides construction "all risks" (CAR) and delay in start-up (DSU) insurance throughout the entire construction phase, ensuring robust protection against unforeseen events.



Seamless transition

Streamlines the transfer from construction to operational insurance with a single policy that responds to damage, irrespective of the project's phasing, simplifying the insurance process.

Benefits and features



Up to €1 billion limit

Provides up to €1 billion contract value of maximum capacity with additional DSU/BI coverage of up to €350 million, equipping clients with the financial protection to manage risk exposures.



Streamlined process

Protects renewable property insurance programmes while construction is ongoing, for uninterrupted coverage.



Simplified claims handling

The claims process is made easier with a single panel of insurers engaged to respond, reducing complexity and expediting resolutions.



Tailored solutions

A bespoke solution that eases contractual negotiations with main contractors regarding damage to sectionally completed areas of the data centre.



Solution-focused approach

Facilitates compliance with lender and customer insurance requirements, ensuring that all stakeholders' needs are met.



Aims to deliver competitive pricing

Maximising on our extensive market relationships with key carriers, we aim to ensure that clients receive the best value for their coverage.



Marsh value

Clients benefit from market-leading policy coverage and wording, along with access to Marsh's global resources and capabilities, including a dedicated Data Centre Group that specialises in this sector.



Expertise in complex claims

Dedicated claims advocacy and servicing by our construction experts, lawyers, engineers, and chartered loss adjusters.



Guaranteed low-claims rebate

Providing additional financial relief during challenging times.

Market leading solutions

The Marsh Specialty Construction Practice is the largest team of dedicated construction specialists in the insurance industry. Made up of more than 1,200 construction specialists in nine global hubs, our team works closely with a variety of clients across the construction, infrastructure, and engineering sectors. From multimillion dollar turnover family businesses to multi-billion dollar multinationals, we tailor our range of services to our clients' needs and provide them with access to leading placement capabilities.

How we are different

Depth of expertise - We can draw on the experience and expertise of 1,200+ construction professionals. We understand contractual risk and have in-depth knowledge of the insurance market.

Unique insurance facilities - Marsh offers a range of proprietary insurance solutions, each of which is designed to address profile-specific risks of our clients. One such facility is Fast Track, an innovative insurance solution that offers pre-arranged capacity from Lloyd's of London insurers, across all in scope lines of insurance, for placements in all regions of the world.

Multi-class solutions managed within our dedicated practice - We provide a unified service to our clients. Solutions are delivered by the team for the standard construction insurance classes and all ancillary and associated classes, including marine, motor, office and contents, and pension trust liability.

A global network - Operating in over 130 countries with approved partners in many more.

Market relationships - We use our size and experience to assist clients in negotiating premiums, designing program structures, and seeking to resolve major claims. In 2022, Marsh Specialty placed approx. US \$6 billion of construction insurance premiums.

Benchmarking - Our extensive client portfolio enables us to conduct detailed benchmarking studies and, when requested, silent reviews.

Enhanced claims solutions - Our claims team, consisting of more than 100 claims handlers, includes lawyers, former insurers, and loss adjusters. Our resources include advocacy and dispute management specialists. We have a 'cold case' claims capability to investigate claims under policies we have not placed.

Extensive risk consulting and advisory capabilities - This includes engineering and enterprise risk management, probable maximum loss (PML) studies, risk finance optimization (RFO), claims management, and loss control solutions.



Surety bonds

Our surety experts focus purely on surety bonds and guarantees.

Our 300+ strong team of experienced surety professionals has developed strong relationships with key regulated bond providers around the world.

We provide a complete solution for sourcing surety bonds; from arranging bond facilities and ensuring adequate capacity, to advice on bond wordings and indemnity negotiation, and deliver exceptional services in the marketplace.

Our solutions

We can assist with the following bond types:

- Performance bonds
- Advance payment bonds
- Retention bonds
- Subcontractor Default Insurance (SDI)



Claims culture

Marsh's highly experienced claims professionals specialize in assisting clients with the management, negotiation, and settlement of a wide variety of losses.

Our dedicated team of claims specialists focus on losses across various annual and project-specific policies. Horizontal integration across teams ensures that expertise is applied effectively to each circumstance and outcomes are achieved with our clients' needs at the forefront of any loss scenario.

Our global claims solutions team is a diverse group of expert claims professionals, including loss adjusters, claims advocates, and forensic accountants from more than 40 countries, who are committed to settling major losses on behalf of policyholders across a wide range of industries worldwide.

Core objectives

We focus on three core pillars throughout our claims operations to achieve the correct resolution for our clients:



Client-driven service

- More than 50% of top 50 global contractors claims managed



Technical and expertise

- Managed the largest engineering claim
- Market leading claims advocates with average expertise of 15+ years, including team members with legal background and training



Insight, and oversight

- Annual insurer benchmarking exercise
- Regular claims meetings with all key insurers

Claims solutions

The management of insurance claims is becoming more complex. At Marsh Specialty, we are well positioned to assist you with our expertise, market knowledge, and relationships to develop a transparent resolution strategy.

Our aim is to minimize the impact and risk to your business, saving you time and money. Our skilled claims specialists work with you every step of the way as part of your team.

By applying a tried and tested claims management and resolution methodology, we dedicate ourselves to recovering your full entitlement.

Advisory capabilities

In an ever-changing world that is increasingly complex and dynamic, organizations are looking for ways to prevent and mitigate risk. Marsh's Advisory specialists help you anticipate challenges and capitalize on emerging opportunities through proactive risk advice that builds resilience and confidence.

We can provide a variety of advisory capabilities, including:

Environmental, social, and governance strategies

Engagement and deployment of ESG tools to recognize and navigate changing stakeholder expectations in this area. Our advisors provide guidance and understanding on developing regulatory contexts, using diagnostic tools to help clients benchmark their performance. We develop bespoke objectives, strategies, and governance structures to support internal change management. Our climate resilience experts are on hand to assist clients with risk mitigation related to environmental perils in the full range of industrial contexts.

Risk finance optimization

We use data, analytics, and statistical modeling to provide an auditable insurance program design process. This will involve:

Establishing risk appetite through assessment of risk tolerance, being a company's financial ability to retain insurance risk.

Understanding an insurance program's key performance indicators to structure a program that optimizes a company's own capital rather than that of an insurer, but also dovetails with wider business goals.

Project governance and controls

We can provide strategic risk advice on corporate risk structure, analysis, appetite, controls, and monitoring using key risk indicators. The effective design and implementation of project risk governance structures promote appropriate control and communication, and provide independent assurance of critical project controls thus managing cost, scope, quality, and schedule risks.

Professional liability studies

By using our construction claims database, we can identify and quantify professional indemnity exposures and help you understand your control environment. This helps us design the most appropriate insurance solution and process improvements to protect an organization.

Supplier and contractor due diligence

By assisting clients with establishing practical and effective due diligence processes and checks for third parties, we can help clients to mitigate counterparty risks and increase confidence among project stakeholders.

Cyber

Marsh Advisory can help evaluate and mitigate cyber risks in the contractor space, and support you with professional indemnity and third party liability policies, estimation of cyber potential losses, and placement of cyber insurance programs

Property and safety risk advisory

Our specialized risk engineers and consultants can provide a range of operational risk assessments and advice, covering property risk surveys of operational risk assessments and advice by our specialised risk engineers and consultants; from property risk surveys (including specialist flood risk surveys) and valuations, to mental health and wellbeing, health and safety, motor fleet risk, and procedure audits and training.

Project delay and claims monitoring

Throughout a project's life cycle, our engineers can monitor and test progress and identify a project's evolving critical path. Should critical delays be identified, we can assist in the design and implementation of mitigation and acceleration measures. For any consequential costs incurred, delays, or financial losses, we can help you to assess the appropriate recovery routes via insurance or contracts, and prepare claims or assist in dispute resolution proceedings.

Terrorism estimated maximum loss

Our specialist security engineers can conduct a threat, vulnerability, and risk assessment based on project location and profile. Using bespoke blast models, we can assist in predicting the financial implications of a catastrophic terrorism event. Understanding the threat and potential impact allows us to provide advice on practical measures to manage the risk and select appropriate levels of cover.



Credit specialties

We deliver payment, performance and country risk and insurance knowledge and solutions. We specialize in leveraging insurance risk capital to optimize our clients' results.

We enable growth and enhance returns by facilitating sales, replacing collateral, securing finance, and releasing capital in a world of continuous change. Our broad product offerings provide corporates, financial institutions, non-bank financial institutions, commodity traders, and public agencies access to a variety of insurance risk transfer solutions, which are tailored according to the complexity of the underlying credit risk.



Meet the team

To inquire further about how we can assist your construction project, please contact your local Marsh Specialty representative or:

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About Marsh

Marsh, a business of [Marsh McLennan](#) (NYSE: MMC), is the world's top insurance broker and risk advisor. Marsh McLennan is a global leader in risk, strategy and people, advising clients in 130 countries across four businesses: [Marsh](#), [Guy Carpenter](#), [Mercer](#) and [Oliver Wyman](#). With annual revenue of over \$24 billion and more than 90,000 colleagues, Marsh McLennan helps build the confidence to thrive through the power of perspective. For more information, visit [marshmclennan.com](#), follow us on [LinkedIn](#) and [X](#).

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