

Commercial Property Insurance: State of the Market

Q1 Edition



If your commercial property insurance policy has been up for renewal recently, you may have been hit with an unwelcome surprise. Property insurance rates have been surging, and it's becoming difficult to obtain suitable coverage. Don't go into your 2023 renewal unprepared.

Commercial Property Insurance Rates

MarketScout¹ says that commercial property rates were up 9.3% on average in the fourth quarter of 2022. That's noticeably higher than the 5.1% rate increase seen across all lines, but it's still reasonably manageable. However, MarketScout also notes that catastrophe-exposed commercial properties are seeing steeper rate hikes of up to 25% to 30%.



Individual accounts may see even larger increases. Some accounts are seeing substantial rate hikes, sometimes double or almost triple the cost from the previous year, along with reduced coverage.



Reinsurance Insights

Gallagher Re's 1st View: Market Turns report from January 2023 provides some insights into current pricing trends. According to the report, recent catastrophe losses, inflation, and rising interest rates are causing disruption in the U.S. market, and reinsurers are excluding natural perils on risk excess programs. Additionally, many reinsurers refused to quote before Thanksgiving 2022, which caused firm order terms to be delayed until mid-December.

U.S. Property Rate Movements

- Risk Loss-Free: +15% to +25%
- Risk Loss-Hit: 35% to 150%
- Catastrophe Loss-Free: +25% to +50%
- Catastrophe Loss-Hit: +45 to +100%

Source: Gallagher Re²

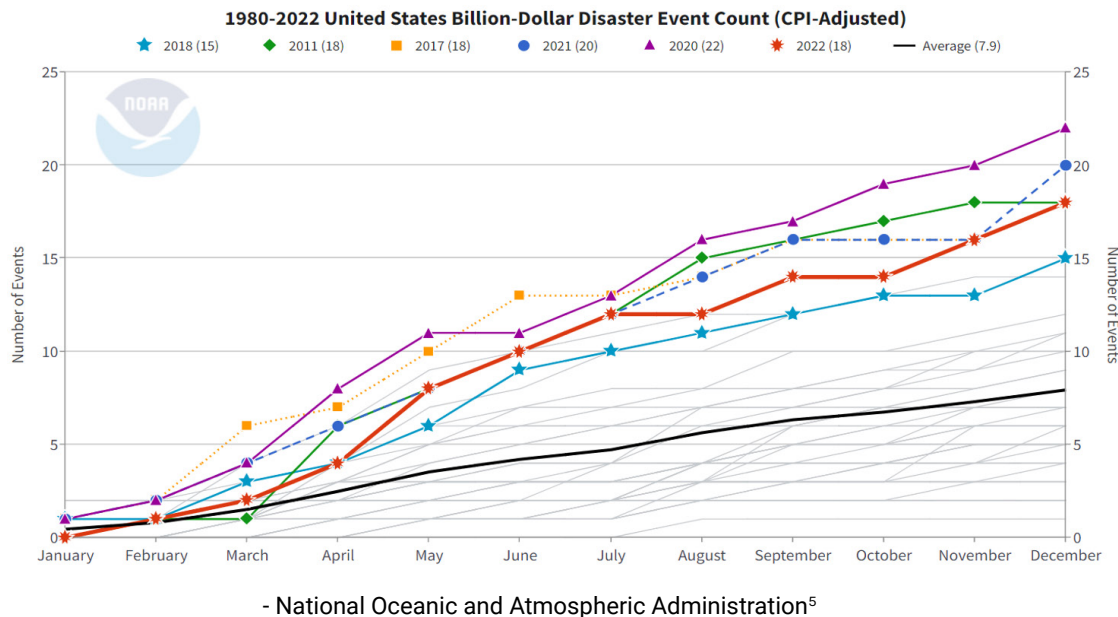


Natural Disasters

Costly natural disasters have put pressure on the property insurance industry. According to Munich Re³, natural disasters caused approximately \$270 billion in overall losses and \$120 billion in insured losses in 2022. Climate change and the La Niña weather pattern appear to be significant factors driving the high losses.



In the U.S., Hurricane Ian was especially destructive. Swiss Re⁴ says the insured losses from the hurricane came to around \$50 to \$65 billion, pushing the total natural catastrophe insured losses for the U.S. to around \$115 billion as of early December. The ten-year average is only \$81 billion.



Crime and Civil Unrest

In addition to natural disasters, property insurers and property owners have also had to contend with crime and civil unrest.

According to the Council on Criminal Justice⁶, robberies increased by 19% in the first half of 2022 compared to the first half of 2021, and nonresidential burglaries increased by 8%.

Businesses in some urban areas have dealt with repeated break-ins, robberies and vandalism, as well as protests and riots that sometimes involve fires, broken glass and other forms of property damage. According to KGW⁷, data from the Portland Police Bureau shows that burglaries in Portland, Oregon increased by more than 20% in 2022.

Between the first quarters of 2021 and 2021, property crime increased in **62** out of 100 cities.

Source: Value Penguin⁸ analysis of FBI data





Rising Inflation and Interest Rates

Inflation rates surged in 2022, and this triggered higher interest rates. These increases impact insurers as well as consumers.

The NAIC¹⁰ says that higher interest rates generally benefit insurers. However, the effect is not immediate, and rising interest rates can decrease the value of existing lower-earning bonds.

High inflation rates are definitely a problem for insurers. As prices rise, it becomes more expensive to repair or replace property. For example, replacing a stolen car or computer costs more because prices have risen, and repairing a damaged building costs more because labor and supplies are more expensive. As a result, the average claims cost increases along with inflation.

12-Month CPI Change

- January 2022: +7.5%
- February 2022: +7.9%
- March 2022: +8.5%
- April 2022: +8.3%
- May 2022: +8.6%
- June 2022: +9.1%
- July 2022: +8.5%
- August 2022: +8.3%
- September 2022: +8.2%
- October 2022: +7.7%
- November 2022: +7.1%
- December 2022: +6.5%

Source: BLS⁹

Tips for Managing Your Property Insurance

- **Prepare for rate surges.** If you are in an area with high natural disaster risk or you've had significant claims recently, you may see very large rate hikes.
- **Work with your broker.** This is a particularly challenging market, so you and your broker may need to get creative about your insurance strategies. Reach out to your broker well ahead of your property insurance renewal.
- **Control your risks.** Take steps to reduce your property risks whenever possible. This could include adding additional security to deter crime or upgrading your property to reduce fire risks.
- **Information is king.** Be prepared with all your building updates and details about your property to position you for success with carriers providing quotes.

RiskPoint can help you navigate the challenging property insurance market. Contact Us!

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Sources

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