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Property Market Outlook: Insurance Rates Rising For Catastrophe-Exposed Properties

Rounding the corner of 2022 into 2023, the property market outlook is a little greyer. While we progressed through 2022 with slight decreases in rates, depending on the operations and geographic location, Hurricane Ian sent shock waves through the market. For any catastrophe-exposed property and costal locations, insurance rate increases are going to be significant, if not impossible to place for some renewals, especially in Florida.

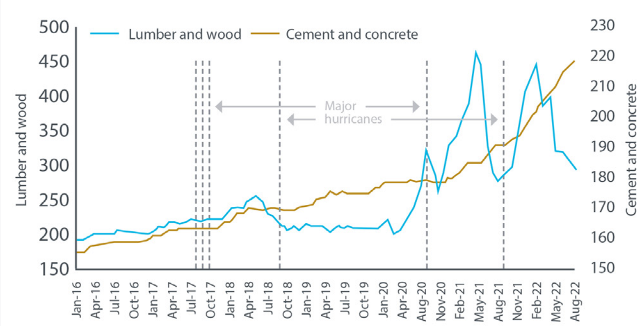
With the property markets experiencing unexpected late-year struggles, especially with catastrophe-exposed areas, these performance factors have been exacerbated by underperformance, loss of confidence in modelling and, especially in the last six months, inflationary pressures.[1]

Hurricane Ian caused up to $74 billion of insured losses in the Southeast, though estimates vary widely by up to $20 billion, inserting an extra layer of uncertainty for carriers when considering future pricing. While insurers are looking to protect their losses ahead of Q3 earnings, they are both preparing themselves for claims costs increased by litigation and inflation, as well as significantly increased reinsurance costs.[1]

Even before Hurricane Ian, there was an imbalance between supply and demand within the U.S. wind catastrophe (CAT) treaty market with rising demand and reinsurers looking to shed some of their exposure.1 Capacity for CAT-exposed insurance portfolios are expected to diminish in the next year, making various Florida exposure potentially unaffordable.1 Post Hurricane Ian, rate increases for 2023 are expected from 30% to 70% for U.S. wind risk, with CAT-focused cedents facing the least favorable pricing.1 Premises which are exposed to wildfires and high winds (Western and Midwestern states) are also receiving some additional scrutiny from underwriters.

In late 2022 raw material prices began to plateau and even decrease, specifically lumber; that trend likely will reverse in upcoming months as demand increases to rebuild structures and renovate water-logged structures in the Southeast. Inflationary pressures and valuations are long-term issues that will push underwriters to ask questions. With rising inflation, the overall cost of the insurance transactions will rise. Carriers are poised to seek better adjustments rather than incremental adjustments for valuations. Insureds should anticipate their abilities to articulate and support the actual data-based valuations for the coverages that their business is seeking. The delta between reported cost and the actual cost to rebuild will become more disconnected as the cost to rebuild and inability to seek skilled workers rises.

Producer price index of construction on materials since 2016



Insurers in the standard market are looking to reposition their portfolios and lower writings where losses have impacted their profits and losses. These adjustments have powered the surge in premium growth and development for the excess and surplus lines market. Price increases for non-CAT accounts has somewhat moderated within the single-digit range, but tougher classes of business with poor loss history are still experiencing significant rate increases.

[1] Target Markets: Four questions for the MGA market that need answering (www.insidepandc.com)