

Market Outlook

The past five years have seen the commercial property insurance market progressively harden, evidenced by consistent rate increases since 2017. However, according to industry data, such rate jumps showed some signs of stagnation in early 2022, with average increases staying within single digits. Going into 2023, rates are still on the rise. Some insureds are also encountering above-average rate increases and lower capacity—particularly those exposed to catastrophe (CAT) perils (e.g., hurricanes and wildfires). Looking ahead, policyholders who conduct high-risk operations, have poor loss control practices or are located in natural disaster-prone areas will likely remain vulnerable to persistent rate hikes and coverage restrictions.

Developments and Trends to Watch

- **Natural disasters**—The surging frequency and severity of natural disasters have continued to pose concerns in the commercial property market, as these catastrophes often leave behind severe property losses for affected establishments. According to industry data, natural disasters cost the global economy \$227 billion in 2022, with under half of those expenses (\$99 billion) covered by insurers. This marks the third consecutive year in which natural disaster losses exceeded \$100 billion.
- **Inflation issues**—Ongoing inflation issues in the commercial property space have been brought on by a combination of fluctuating demand for various building materials, wage increases across the construction sector and overall worsening economic conditions as the nation faces the possibility of a recession. Taking a closer look at such trends, the Associated Builders and Contractors reported that construction input prices in July 2022 were up 17.4% from the same period in 2021. As inflation issues press on in 2023, businesses could face higher claims costs following property losses and even encounter underinsurance concerns.
- **Reinsurance capacity concerns**—Current natural disaster and inflation trends have proven particularly difficult for the commercial property reinsurance space to navigate. Consequently, some reinsurers have begun limiting the capacity for CAT exposures or eliminating capacity altogether. Although demand for reinsurance protection remains high, capacity will likely become further constrained in 2023, therefore impacting overall commercial property insurance rates—especially for policyholders with CAT exposures.
- **Insurance-to-value (ITV) considerations**—As inflation issues continue to impact building expenses and valuations, insurance experts are encouraging businesses to be increasingly diligent in performing correct ITV calculations and maintaining ample commercial property coverage. An accurate ITV calculation represents as close to an equal ratio as possible between the amount of insurance a business obtains and the estimated value of its commercial building or structure, thus ensuring adequate protection following property losses.
- **Supply chain struggles**—Over the past few years, pandemic-related production and delivery bottlenecks, widespread labor deficits, extreme weather events and geopolitical conflicts have contributed to a range of supply chain struggles—prompting project delays and increased recovery expenses amid property losses. Heading into 2023, industry experts anticipate that shipment barriers created by the Russia-Ukraine conflict and an increase in flood-related property damage could result in copper and drywall shortages, respectively. In light of these supply chain complications, businesses may face increased claims severity if losses require them to rebuild structures or replace property on slower schedules and at higher prices.

Tips for Insurance Buyers

- Conduct a thorough inspection of your commercial property and the surrounding area for specific risk management concerns. Utilize additional mitigation measures as needed.
- Analyze your organization's natural disaster exposures. If your commercial property is located in a disaster-prone area, implement mitigation and response measures that will protect your property as much as possible.
- Conduct accurate ITV calculations to remain fully protected when covered events occur.
- Work with insurance professionals to start the renewal process early due to an increased submission volume.

