

2023 Commercial Property Insurance Midyear

Market Outlook

The last several years have seen the commercial property insurance market progressively harden, evidenced by ongoing rate increases over the past 22 consecutive quarters. Such rate hikes showed some signs of stagnation throughout 2022 by largely remaining within single digits, according to insurance experts. However, this moderation didn't last in 2023, as rates surged by an average of 20.4% in the first quarter of the year. Industry data reported that this jump represented the first time the segment has recorded overall rate increases above 20% in more than two decades. Further, current market trends have left some insureds with 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 increasingly vulnerable to persistent rate hikes and coverage limitations.

Developments and Trends to Watch

- **Natural disasters**—Natural disasters often cause severe losses for affected establishments, and the rising frequency and severity of these catastrophes have continued to pose concerns in the commercial property insurance market. According to industry research, natural disasters cost the global economy an estimated \$77 billion in the first quarter of the year, with about one-third (\$22 billion) of those expenses covered by insurers. Such costs are only expected to persist—or even worsen—throughout 2023 as hurricane season approaches and wildfires spread across the Western United States. In particular, the National Oceanic and Atmospheric Administration predicts that 12-17 total named storms will take place amid this year's Atlantic hurricane season, which runs from June 1 through Nov. 30. Among these storms, as many as nine could become hurricanes (winds of 74 mph or higher), while up to four could reach major strength (winds of 111 mph or higher). Additionally, the National Interagency Fire Center reported that nearly 20,000 wildfires have already taken place so far this year, burning more than half a million (620,986) acres along the West Coast. Although this total falls below the 10-year average, the potential for yet another intense wildfire season in the months ahead remains. Many climate experts anticipate that natural disaster trends will proceed to exacerbate related property losses in the coming years.
- **Reinsurance capacity concerns**—The latest natural disaster and inflation trends have proven particularly difficult for the commercial property reinsurance space to navigate over the last few years, contributing to widespread capacity challenges. Making matters worse, Hurricane Ian wreaked havoc on the segment in the final months of 2022, causing substantial losses and making it even more challenging for reinsurers to maintain their coverage offerings, specifically as it pertains to CAT exposures. Consequently, some reinsurers have begun limiting their capacity for these exposures or eliminating capacity altogether, all while rates continue to surge. According to industry data, Jan. 1 reinsurance treaty renewals delivered some of the hardest market conditions in decades, with capacity shrinking by more than half across most layers and rate increases ranging between 40% and 100% for most policyholders, depending on their CAT exposures. Six months later, June 1 renewals reflected similar trends, with capacity tightening even further and rate hikes falling between 25% and 40%, thus demonstrating ongoing risk aversion within the reinsurance space.

Tips for Insurance Buyers

- Gather as much data as possible regarding your existing risk management techniques. Be sure to work with your insurance professionals to present loss control measures you have in place.
- Conduct a thorough inspection of both your commercial property and the surrounding area for specific risk management concerns. Implement additional mitigation measures as needed.
- Analyze your organization's natural disaster exposures. If your commercial property is located in a disaster-prone area, develop safeguards and response protocols that will protect your property as much as possible.



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