5 Trends Impacting Commercial Property Insurance Rates

The cost of insurance for commercial policyholders can be a significant business expense. Commercial property continues to face pressure from multiple variables, and policyholders may have questions about what factors are driving up commercial property insurance costs. Here are five trends impacting commercial property insurance rates and what your insureds can do to manage the risks.

1 Natural Disasters and Catastrophic Storm Losses

Natural disasters and severe weather have increased significantly in recent years, both globally and in the U.S. Commercial property insurance rates and deductibles are increasing across the industry to address this trend. Assuming current catastrophic loss trends are a guide to the future, we expect to see a continuing trend of larger and costlier events. According to the National Oceanic and Atmospheric Administration (NOAA), the U.S. has sustained 341 weather and climate disasters since 1980, where damages and costs reached or exceeded $1 billion each. **The total cost of these 341 events exceeded $2.475 trillion**. In 2022, there were 18 weather/climate disaster events with losses exceeding $1 billion each. While the average between 1980–2022 for these events has been around eight annually, the annual average for the most recent years (2018–2022) is 18 events, per NOAA's first quarter release.

To mitigate risk, property owners should conduct regular risk assessments to understand exposures better and develop a plan for quick recovery should a catastrophic loss occur. The Insurance Institute for Business & Home Safety (IBHS) provides resources for preparing buildings for disasters. IBHS's resources, such as Open for Business-EZ, can be used to create a business continuity plan to help businesses prepare, respond and recover.

2 Inflationary Impact

The rising cost of inflation has impacted insurance premiums as consumers may have also experienced increased costs of other goods and services. Inflation has recently been a significant influence when settling property claims due to skyrocketing increases in construction costs, including building materials and labor costs. According to The American Property Casualty Insurance Association (APCI), the U.S. inflation rate accelerated to a 40-year high of 7.5% in January 2022. As a result, insurance claims inflation has risen even faster, causing significant underwriting losses.

Property owners are encouraged to proactively manage risk and loss costs by regularly reviewing insurance policy coverages with their insurance agent to ensure adequate and appropriate coverage and limits. In addition, property owners can look for ways to mitigate risk by exploring safety programs, keeping business property well-maintained and timely reporting of claims.

Natural Disasters

Inflationary Impact

Insurance-To-Value

Increased Claims

Reinsurance Pricing and Capacity

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3 Insurance-To-Value and Underinsurance

A recent study of property appraisals by Kroll revealed that 68% of buildings valued from 2020 to 2021 were underinsured by 25% or more, and 19% were underinsured by 100%. In total, close to 90% of the buildings appraised were undervalued, Risk & Insurance reported in March 2023. Replacement costs in claims settlements have escalated, making it critical that valuations keep up with the current high inflation environment. Proper Insurance to Value (ITV) is essential so policyholders have adequate property limits at the time of loss and can avoid unexpected out-of-pocket costs. As the construction industry continues to experience rising costs with building materials and labor costs, the insured's policy limits may not be enough to cover replacement costs at today's prices. According to the Federal Emergency Management Agency (FEMA), an estimated 40% of businesses do not reopen following a major disaster, and another 25% fail within one year, Policyholder Pulse reported in December 2022.

Policyholders should regularly assess building, business personal property and business income with their agent to determine the current value of their property and identify potential gaps to ensure adequate protection.

4 Increased Claims Costs

With higher claims costs, insurers focus on maintaining adequate rates and valuations. The rising costs of building materials and labor shortages have resulted in escalated costs of claims. Supply chain demand for products has also impacted claim settlements as it takes longer to obtain materials to reconstruct damaged or destroyed buildings. According to Gen Re, business interruption loss estimates also need to reflect longer reconstruction periods, disrupted supply chains and planning constraints. Twelve months is rarely, if ever, adequate to indemnify an insured for a large loss.

Policyholders can work with their claims representative to develop a plan after a loss. Timely decision-making allows flexibility for anticipated delays and can lock in pricing for materials and equipment. In addition, taking quick action helps to restore business operations as soon as possible, reducing their business income exposure.

5 Reinsurance Pricing and Capacity

Natural disasters and inflation have significantly impacted the cost of reinsurance, forcing many commercial property insurance carriers to retain more risk at a higher cost due to less reinsurance capacity and increased pricing, an expense that directly impacts policyholders.

Business Insurance reported that property catastrophe reinsurance rates for loss-hit U.S. accounts jumped between 45% and 100% at Jan. 1 renewals, according to a Gallagher Re report.

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