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A Perfect Storm

2022 Mid-Year State of the Insurance Market

Insights for navigating turbulent times

Commercial Risk
Employee Benefits
Private Risk Management

TABLE OF CONTENTS

INTRODUCTION

Labor shortages. Rising inflation. Persistent supply chain slowdowns. Catastrophic weather events. Not to mention a near-global war in Ukraine. Each one of these current phenomena would be a major disruptor on its own. But together, they are causing significant impacts on almost every segment of the economy for businesses, organizations, and individuals.

At the same time, insurers, which typically safeguard against financial losses and provide a layer of security in periods of uncertainty, are also experiencing challenges and shifting fundamentals. Social and economic inflation is also wreaking havoc on claims-related losses, insurance costs, and individual policyholders and is impacting companies across the board.

As a result, markets for Commercial Risk, Employee Benefits, and Private Risk Management are all experiencing sizable headwinds at this time. In fact, a myriad of business-altering trends are not only causing major challenges, but they are also reshaping the protection insurance carriers offer and limiting their capacity to underwrite certain risks. These trends have had the greatest impact on certain lines of coverage such as catastrophic property and cyber insurance, as well as geographic areas that have seen extensive, historic losses, which are only projected to get worse due to the mounting effects of climate change.

With so much instability on the horizon, how can businesses, organizations, and individuals protect what's important to them, weather the storm, and ensure best possible outcomes? And how can their business advisors truly help them through these challenging times? The key is to understand current market forces along with the risks each one represents – and plan appropriately.

In our 2022 Mid-Year State of the Insurance Market report, we will examine:

- **Key trends in Commercial Risk, Employee Benefits, and Private Risk Management**
- **Significant challenges businesses, organizations, and individuals face right now**
- **Potential opportunities to mitigate impact, maintain stability, and protect profitability**
- **Important ways advisors can help both business leaders and individuals move ahead in these challenging times**

PRIVATE RISK MANAGEMENT

Executive Summary

For individuals and families seeking to insure their home, property and valuable assets, industry experts say the effect of the current hard market may get worse before it gets better. More stringent underwriting guidelines, lower eligibility rates, increasing non-renewal notices, and declining capacity are all making it extremely difficult for individual insureds to acquire and afford the coverage they need.

Key factors noted in the following report include:

- **Destructive wildfires.** The impact of incredible losses from recent wildfires across the western U.S. are causing insurers to not only stiffen eligibility requirements to buy or renew coverage, but to completely retreat from certain markets, like California, Colorado, and Washington, where wildfire destruction has intensified in recent years.

- **Widespread fraud.** The fallout from frequent insurance fraud, resulting from predatory sales practices particularly in the state of Florida, is driving up claims and leaving insurance companies on the hook to pay for expensive and unnecessary services and/or incur legal costs to fight or settle the claims. To stymie continued losses, insurers have resorted to cancelling policies and leaving this geographic market at an alarming rate. The result is more stress on homeowners to secure coverage and more pressure on agents and brokers to help them find it at a price they can afford.

Across the U.S.
Insurance fraud costs consumers at least $80 billion every year.
Source: The Coalition Against Insurance Fraud (CAIF); https://www.iii.org/article/background-on-insurance-fraud

In Florida
"Property insurers are projected to post a cumulative underwriting loss of $1.7 billion due to runaway litigation costs."
Source: Mark Friedlander, iii.org

- **Floods, hurricanes, and tornadoes.** Rising temperatures due to climate change are driving a variety of weather-related events and stretching capacity for insurers. Whether it's floods, hurricanes, or tornadoes, events seem to be getting worse - increasing in number, impacting more areas, putting more people in harm's way, and causing greater damage. And it's getting harder for forecasting models to predict. Now, some insurers are "underwater". Others are drastically modifying guidelines to scale back exposure. Both of these realities are forcing homeowners to pay exorbitant premiums, leaving them underinsured in order to manage rising costs or without insurance at all.

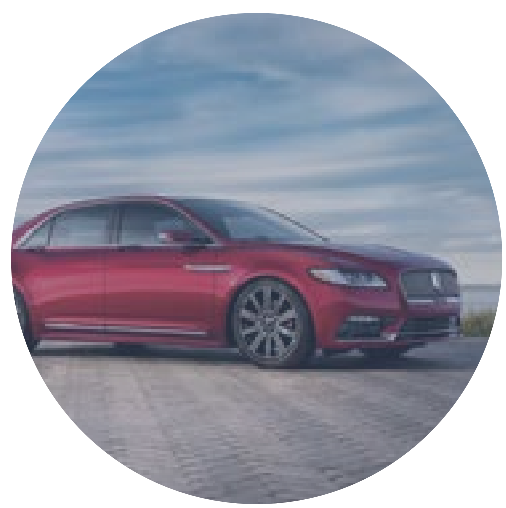
Insured losses from weather catastrophes exceeded previous 10-year average.

Source: SwissRe Institute

- **Soaring inflation.** Just as with food, gas, and almost everything else, individuals are also likely to pay more for insurance this year. For example, due to supply chain issues for cars and car parts, both new and used cars are increasing in value. So even small accidents are carrying huge price tags to fix damage.

1977 Car Part Average = $500

2022 Car Part Average = $1,137



These are just a few of the key highlights in our report for Private Risk Management.
Read on for a closer look at the current trends, challenges and opportunities for stakeholders in this market.

Mirroring trends that are occurring in the commercial risk insurance market, private risk insurers are also entrenched in a hard market. Suffering record losses from social inflation and billion-dollar weather events, insurers are doing whatever is necessary to better manage growing exposure to risk. Raising premiums and deductibles. Reducing capacity. And even exiting geographic markets in some cases. Unfortunately, these trends are making it difficult for individuals to get and afford the coverage they need to protect their homes, vehicles, and valuable assets.

Shifting winds

According to a 2022 EY report, insurance priorities for individual consumers are evolving.
As a result of coming through the pandemic, they have:

- A renewed focus on financial protection;
- More interest in obtaining affordable insurance alternatives; and
- A desire for customized coverages that fit their needs.

PROPERTY

WEATHER & WILDFIRE

Due to climate change, hotter average temperatures are leading to more numerous and destructive weather events, like wildfires, floods, and storms. In fact, record-breaking losses are reshaping the market for personal property insurance. In some cases, storms were not confined to a single geographic area as effects lingered and extended across multiple states.

Statistics compiled by industry sources give insight into the severity and frequency of current conditions:

- As of **May 2, 2022, more than 21,000 fires had already burned a total of 1.1 million acres** in the U.S., well above the 10-year average of about 16,000 fires and approximately 689,000 acres.
- A major fire in Colorado in January destroyed 1084 homes. Insured losses for this single event is estimated at more than **$513 million**.
- In 2021, wildfires cost insurers **$13 billion**; natural disasters caused $120 billion in insured losses.
- Hurricane Ida was the year's costliest natural disaster, with insured losses of totaling $36 billion from this one event.
- There were **20 separate billion-dollar** weather disasters last year alone.

In addition, the supply chain crisis, which continues to limit the supply of and increase the price for raw materials and construction supplies necessary to rebuild, and repair damages. It's also challenging insurers' ability to accurately estimate replacement values on homeowner policies.

FRAUD

Losses arising from social inflation are also impacting insurers, particularly exploding from fraud and "nuclear" verdicts. Roof-replacement fraud, for example, is playing a major role in claims trends, particularly in the state of Florida, where roofing companies are using predatory sales practices. After a storm, these companies canvass neighborhoods to get people to agree to repairs for roofs which are supposedly covered by insurance. Homeowners then sign an agreement which states the insurance company will pay the contractor for the cost of repairs. If the insurance company denies the claim because it finds that the roof damage wasn't caused by the storm, or the cost to repair is too high, the contractor will take the company to court.

Social inflation is also contributing to larger losses. According to the **Society of Actuaries**, total class action settlements in the U.S. increased more than 10 percent from 2019 to 2020 ($2 billion to $2.3 billion). In many cases, insurance research provider, **Conning**, reports that insurers are now paying out more money in claims than they're receiving from premiums.

Combined, the overall impact of these trends is resulting in multi-pronged challenges and making it more difficult for insurers to forecast risk, establish accurate premium levels, and assess replacement cost value for rebuilding structures. For individual policyholders, this means jacked up rates, more stringent underwriting guidelines, fewer insurers in market, and scaled back limits, all of which make it more difficult to purchase, or even renew, insurance coverage.

A study by the Florida Association of Insurance Agents found that while only 8.15% of U.S. homeowner claims were opened in Florida in 2019, Florida accounted for more than 76% of property claim lawsuits in the U.S. Moreover, between 2013 and 2020, Florida's property insurers paid out $15 billion in claims cost, of which only 8% was paid to consumers. A staggering 71% was paid to attorneys. The result was insurers lost $1.22 billion in the first three quarters of 2021.

Opportunity

Facing rising premiums, stricter underwriting requirements, and fewer insurers in market, individuals are challenged to find the insurance they need. Set yourself up for a successful outcome by working with an insurance broker who has deep expertise developing effective and creative ways to adjust coverage, will utilize their extensive network of insurers to help secure the most appropriate coverage, and will educate clients about how to remain an attractive risk to insurers. Be proactive taking preventive measures to protect your assets so insurers are more likely to positively view your risk profile. Keep up with home maintenance, trim back large trees, and replace shingle roofs that are more than 10 or 15 years old. Consider installing risk mitigation controls, such as a surveillance system, storm shutters, water shut off devices, and electrical system monitors. Implement cyber security best practices for your online accounts and devices, as cyberattacks continue to increase in frequency and severity. And be sure to review your insurance policies at least once a year to make sure the coverage still matches your need.

AUTO

Soaring Inflation

Individuals are likely to pay more for auto insurance this year, as well as the necessary car parts for repair in the event of an accident. According to **the U.S. Bureau of Labor Statistics**, prices for motor vehicle parts and equipment are 125.3% higher today than they were in 1977. And so far, 2022 has seen the third-largest price increase in this sector in more than 40 years.

Year	USD Value	Inflation Rate
1978	$515.22	3.04%
1988	$649.86	1.86%
1998	$671.47	-0.75%
2008	$854.89	5.89%
2018	$953.93	0.43%
2019	$972.36	1.93%
2020	$983.07	1.10%
2021	$1,029.88	4.76%
2022	$1,130.89	9.81%*

Source: https://www.in2013dollars.com/Motor-vehicle-parts-and-equipment/price-inflation

Exacerbating current conditions are accident victims suing more and winning a greater number of cases with larger settlements and jury verdicts, if they do go to trial.

For example, data compiled by CaseMetrix reports:

- A man struck by an elderly driver and suffered a brain injury was awarded $30.1 million.
- An Army vet disabled in a motorcycle accident in Alabama received an $18 million verdict.
- A cyclist was hit by a sportscar and won a $6 million settlement.

Opportunity

In a recent survey, 65 percent of drivers said they would allow telematics to monitor their driving if it meant a discount on their auto insurance. But the same survey revealed that only 27 percent of drivers actually understand this innovation. Work with a broker who has a broad background that includes auto insurance and will share information with you about the benefits of use-based premiums, help close the knowledge gap, and may help you save a little money at this time.

VALUABLE ARTICLES

At this time, several trends are impacting this sector. Increasing stock market valuations, soaring property values, and rising savings rates during the pandemic drove an uptick in personal wealth and spurred purchases of art and jewelry, as individuals had money to spend and added to their private collections.

Online buying made it easier to add to those collections. In fact, according to the **Art Market Report 2022**, "The shift online transformed buyer behavior and demographics. Different ways of purchasing art enticed new buyer segments," drove demand and contributed to strong performance in recent months.

However, the concentration of valuable articles and collections in disaster- and flood-prone areas also increased as individuals migrated to warmer climates in response to pandemic-induced lifestyle changes. Frequent wildfires challenged the market, as well. With little advance warning of one starting and little time to take precautions to protect or save valuable articles, chances for total loss rose.

Not surprisingly, individuals in states like California, Florida, and other areas where extreme weather events have resulted in catastrophic weather-related losses, are finding insurance coverage for their art and valuables becoming more expensive and more difficult to get. If and when they can secure coverage, they're finding it now contains new exclusions, higher deductibles, and higher premiums.

According to an article in the **artnewspaper.com**, "Individuals living in areas where there are recurring losses and claims resulting from natural disasters, who want full insurance protection for their art collections, are paying up to 25% increases in premiums at renewal."

As another way to reduce the overall exposure to risk, some insurers have started to place limits on transit coverage, which tends to be a major area of claims.

Opportunity

Check in with an experienced broker to learn about the importance of risk mitigation, especially if you live in places where natural disasters are recurring events. Creating preparedness plans, for example, can identify what events present the most exposure for risk and what action steps can be taken to limit your losses.

Review your existing insurance coverage to make sure you understand what's actually covered under your homeowners policy and review the replacement cost value for any art collections or valuable articles. If appraisals for certain items are more than a year or two old, it's wise to get a current appraisal, and adjust coverages as needed.

CLOSING

The insurance market is in a state of flux and will likely continue to face challenges over the short term. Fortunately, insurance brokers and advisors are prepared to help both businesses and individuals move ahead by sharing practical insights that can steady the way forward.

KEY TAKEAWAYS:

ALIGN WITH TRUSTED PARTNERS

With so much disruption and uncertainty, now is the time to align yourself with experienced broker partners who can help you navigate the everchanging risk and insurance landscape. Your trusted advisor should not only keep abreast of the current state of the market but also build and foster existing relationships with carriers and other partners to ensure your decisions are based on sound knowledge and guidance. Finding the best strategic partner who will take the time to understand and guide you through your unique situations is the the key to developing the most effective risk management strategy for you, your family, or your business.

KEEP A REALISTIC MARKET VIEW

With so many sectors of the economy in a state of unrest, it's important to only trust reputable sources of information and understand changing conditions so you can make the most informed decisions about possible impacts on your specific situation and how to respond appropriately.

COMMUNICATE. COMMUNICATE. COMMUNICATE

We always recommend keeping the lines of communication open with your insurance brokers and advisors, but now, it is more important than ever. Ask questions about your unique situations pertaining to the current market, update your broker about any changes in your business or personal life immediately, and strengthen the relationship with your broker. Your support team should be readily available to help, proactively offering guidance based on the current market, and helping you plan for a successful future – regardless of the current hard market.

As we continue to work through this unique and unpredictable time, we remain focused on exploring and developing creative and innovative ways to effectively address current challenges for our clients and future clients.

DOWNLOAD THE FULL REPORT HERE, INCLUDING COMMERCIAL & BENEFITS

CONNECT WITH US TODAY TO DISCUSS YOUR CURRENT SITUATION AND GET HELP GUIDING YOU THROUGH THIS TUMULTUOUS TIME.

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