

# PROPERTY INSURANCE MARKET ALERT: PREPARING YOUR RENEWAL

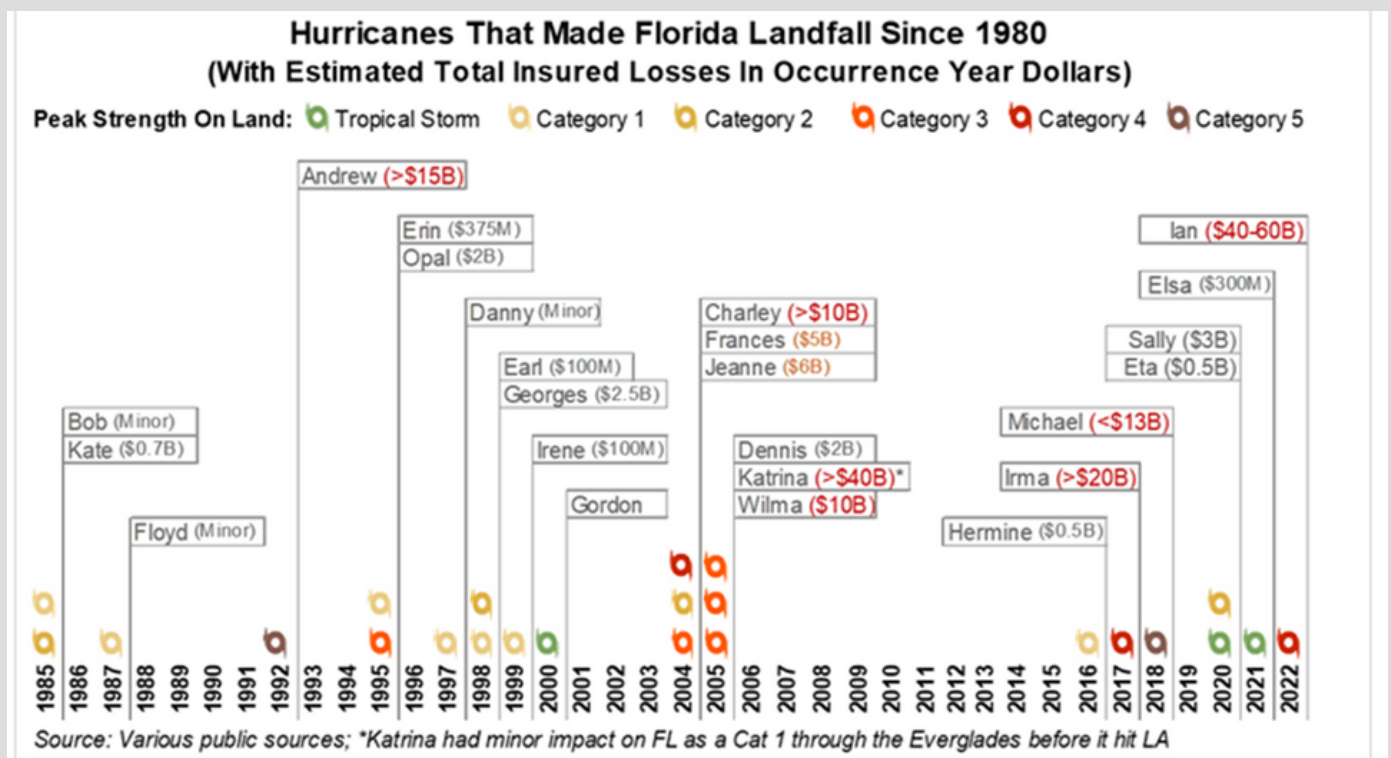


With each catastrophe comes difficulty – and from there arrives the lessons that inform the path forward. Hurricane Ian, an estimated \$30-\$70 billion event, is going to deal a far-reaching blow to a shaky property insurance market that had pre-existing challenges. And, with rising inflation – or possible recession – insureds and their brokers will need to get even more strategic navigating renewals.

Considering the 1/1 renewal season is upon us, all stakeholders involved (insureds, brokers, and underwriters) need to focus on effective planning and disciplined execution. **Insureds should:**

- Reassess risk tolerance
- Confirm coverage requirements
- Prepare the entire property program strategy

These tasks need to be completed at the beginning of the renewal process to avoid claims nightmares and lead the process with underwriters. **To secure the best outcomes, how do we know what to expect when navigating the 2023 renewal season?**

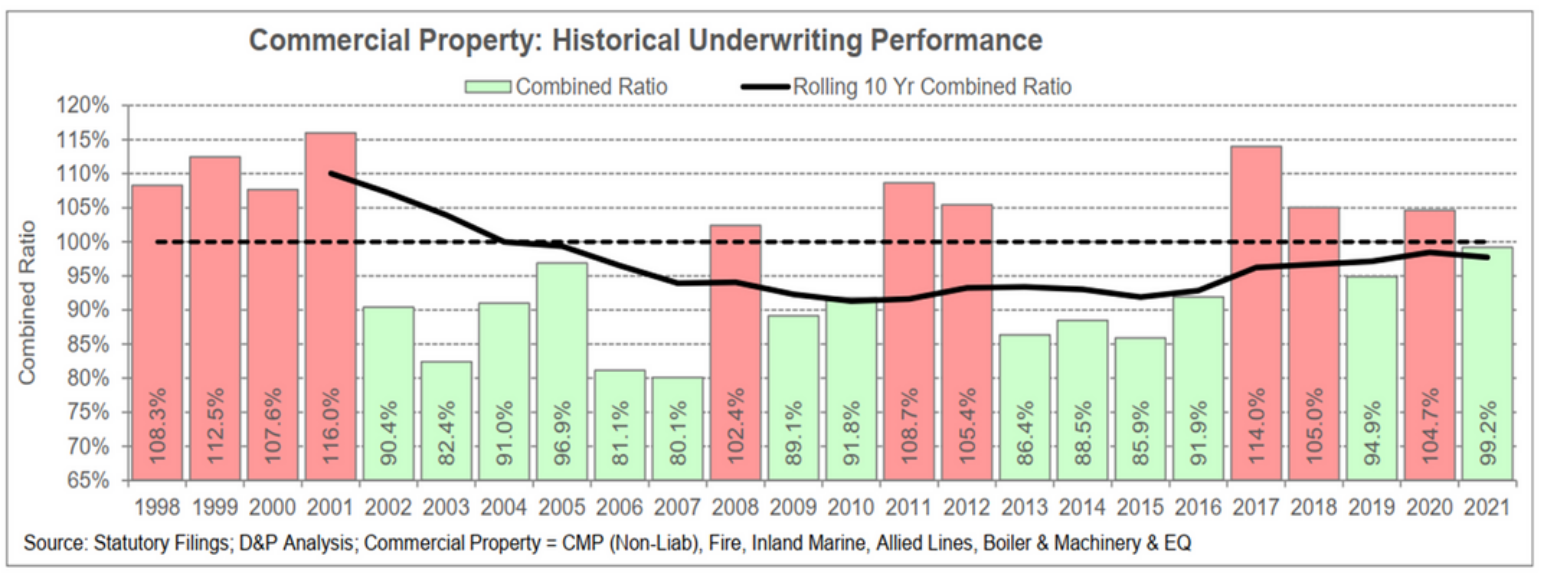


## REINSURANCE MARKET

- Reinsurers faced capital challenges, including rampant inflation, climate change, and investors fleeing to other investments with higher interest rates before Hurricane Ian. The storm should accelerate all these pre-existing factors.
- The 1/1/22 reinsurance renewals were flat to modestly up, but spring and mid-year renewals increased more significantly due to the record-setting inflationary environment that is driving up claim costs and property valuations.
- The projections from catastrophe models have claim expenses increasing up to 30% due to materials, labor, and other factors.
- Due to the estimated size of total losses in the aggregate ranging from \$30-70 billion and the amount of poorly capitalized Florida homeowners' carriers, reinsurers are expected to bear a large portion of Ian's claim expenses.
- At this point, the industry pundits aren't projecting more capital (supply) will enter the market to slow the hard market impact. All the above suggests we'll be facing the most challenging cat property market since the mid-00s.

## PRIMARY INSURANCE MARKET

The near-term trajectory for primary insurance markets looks grim. Material shortages and labor constraints added pressure on loss costs and ultimately insurers' profitability in '22. Today, it is clear renewals will become more difficult because of the catastrophic property insurance landscape.



## Primary Insurance Market Continued...

- The combined ratio, a measure of underwriting profitability (incurred losses +expenses/premium), has been over 100% in 3 of the 5 years for commercial property insurers. Hurricane Ian will lead to another year of net underwriting loss.
- We expect carriers to retreat from cat property to focus on lines of insurance where they feel they can grow safely. Expected reinsurance rate increases will be a catalyst here.
- Primary insurers continue to deal with inflation issues, which have been driven by supply chain issues and shortages of skilled labor. The inflationary environment has created a spotlight on accurate property valuations.
- Underwriting scrutiny will increase, which means expectations around accurate valuations, descriptions of property loss controls, lessons learned on prior claims, and disaster recovery plans will heighten.
- Carriers will be seeking higher retentions, imposing limiting coverage terms, and exercising limits management, among many other strategies to shift risk more to insureds.

## WHAT CAN YOU DO?

- 1 Develop a Strategy and Put it in Writing.** Strategies and plans for the next renewal should begin at least four months before coverage is bound. If this is not put in writing, then accountability can be lost on both sides.
- 2 Evaluate Risk Tolerance.** Since everyone's risk tolerance varies, insureds need to understand how much coverage they are purchasing and how deductibles impact their liabilities. Brokers often can be complacent about the minimum insurance requirements for an asset. Those insureds with higher risk tolerances can lower premiums but this should be reviewed with the team for financial feasibility.
- 3 Use Data to Your Advantage.** Keep property up-to-date and accurate to maximize negotiations. Use cat modeling and other emerging analytics tools to structure your carrier RFP more and enhance your negotiating leverage. Utilize computer software to estimate the likelihood of a loss, how much insurance to buy, and how much an underwriter should be charging you (most applicable to larger portfolios).

- 4 Reconcile All Valuations.** Most carriers require higher replacement cost values for assets they insure. Insureds and brokers need to confirm all assets are measured accurately. Discussions on the impacts of increasing square footage replacement costs need to be evaluated months before the renewal.
- 5 Develop a Thoughtful Negotiation Strategy.** Flooded with daily submissions, underwriters rely on data to properly evaluate an insured's risk. With carriers not aware of specifics on properties or the safeguards in place, be sure to highlight items that make the property a more preferred risk and favorable. When submissions are broad and incomplete, your risk will likely be put to the bottom of the pile and not receive the best result.
- 6 Demand a Detailed Coverage Analysis.** Both the broker and insured should have full policy forms and endorsements on file. Doing an audit of all policies ensures coverages are adequate and meet the insured's goals. In a hard market, insurance companies will look to include endorsements or policy language that remove coverages once included. All policy changes should be addressed.
- 7 Implement a Stewardship Plan.** When insureds are proactive ahead of renewal, holding stewardship meetings keeps everyone informed of current market conditions and what to expect at the time of renewal.



With the current property insurance market resembling a complex ecosystem, the essential wisdom is to approach renewal season with patience and a strategic plan.

[CONTACT US TO MAKE SURE YOU ARE READY.](#)

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