

# Q4 UPDATES

## 2022 State of the Private Risk Insurance Market



# WHERE WE ARE NOW

In our Mid-Year Private Risk Management State of the Market Report, we highlighted key trends that were impacting individuals. In this update, we give a quick recap of the trends we observed at that point and offer additional insights into what's happened since then.

## RECAP: DESTRUCTIVE WILDFIRES

The impact of incredible losses from recent wildfires across the western U.S. is 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.

### UPDATE:

Scientific weather research continues to indicate that climate-change is causing drier and hotter conditions, which, in turn are fueling more wildfires, especially in the western United States. As of September, 53,605 fires burned almost 7 million acres, causing additional yet-to-be-determined losses and damages.



## RECAP: 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.

### UPDATE:

**Since our mid-year update, two developments have impacted this situation:**

**FIRST**, the massive property damage caused by September's Hurricane Ian raised new concerns that unscrupulous contractors will descend on hard-hit areas in Florida and seek to scam homeowners (and insurers) out of funds—despite considerable efforts by the state's lawmakers to clamp down on fraudsters.

**SECOND**, industry experts have started to observe a new type of fraud emerging. Transunion, the consumer credit monitoring agency, reports increases in "soft fraud" where consumers give incorrect or incomplete information on their applications to save money, especially given the current high rate of inflation.

## RECAP: 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.

### UPDATE:

**The widespread and catastrophic damage caused by hurricanes Fiona and Ian in September has only made this situation worse.** And while total economic losses have not been calculated yet, some experts predict that the financial damage that these two hurricanes caused along with western wildfires will likely exceed \$100 billion. Property damages and losses from Hurricane Ian alone are currently projected at \$41-70 billion, which will likely further stress an already fragile insurance market for both homeowners and insurance companies, particularly in Florida.



## RECAP: 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.

### UPDATE:

The Consumer Price Index (CPI) rose a higher-than-expected 0.4% for September, according to the Bureau of Labor Statistics (BLS) as individuals continued to endure higher food and gas prices. Prices at grocery stores rose 0.8% in both August and September, and energy prices, which were a big contributor to soaring inflation at mid-year, declined gradually over the summer, although recently have started to creep up. **Insurance premiums were not immune to increases either.** For example, individuals can now expect to pay almost 5% more when they insure their cars as a result of several factors, including higher car prices, recent weather-related damages caused by Hurricane Ian, and the ongoing bump in stolen cars and catalytic converters.

## CONCLUSION

Although disruption continues, we remain focused on exploring innovative ways to effectively address current challenges for our clients. Connect with your advisor to discuss your personal situation and get helpful guidance.

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