

## Tough Environment for Personal Lines Property & Casualty Insurance: Client Guidance

The past decade has been difficult for the property insurance industry, with the past three years in particular bringing one natural catastrophe after another. Insurance premiums for automobile, collections, and homeowners have also been affected by the increase in claim severity related to the rising costs of repair, led in turn by inflation and supply chain issues. Prolonged claims settlements caused by supply chain issues and shortage of skilled labor also contribute to increased claims costs for loss of use or temporary replacement of housing or vehicles, which then leads to higher premiums.

Additionally, reinsurance costs have been rising steeply, with double-digit increases in the past two years, and they are projected to increase another 25-40% in 2023. (Reinsurance is insurance purchased by carriers to partially insulate themselves from catastrophic claims events.) These costs are passed along to consumers in their policy premiums and are most apparent in catastrophe-prone areas like California, Florida, and remote places where fire department response times are longer or unavailable.

The challenges faced by the industry were further exacerbated by Hurricane Ian's landfall in September 2022, resulting in an estimated \$67 billion of insured losses, surpassing the cost of Hurricane Katrina in 2005.

### Challenges to Expect in 2023

- If you live in a **coastal or wildfire-prone area**, expect to see increases of 20% or more in homeowners' premiums. The likelihood of nonrenewal action from your current insurance carrier will also increase, which may result in higher-cost options with restricted coverage terms. Unfortunately, this market condition is no longer confined to Florida and California, as homeowners across the country are affected by similar increases and restrictions.
- **Water claims** from leaking or burst pipes are the most common cause of loss for homeowners, accounting for approximately 48% of homeowner claims. For condominium or co-op owners, this risk is increased as damage often comes from an adjacent unit. In major cities like New York, where vertical living is common, carriers are raising rates and/or nonrenewing policies for this reason alone.
- **Flood insurance premiums** continue to rise, whether through a FEMA-supported program or the open market. Because flood is excluded under the homeowner's policy, consider purchasing flood coverage regardless of whether you are in a special flood hazard area or not, as 40% of flood claims are for homes not in designated flood zones.
- Insurance regulators work to protect consumers, but there are often unintended consequences that further drive market conditions. Carriers that are forced to withhold rate increases or are restricted in their ability to respond to evolving risks often restrict new business, making it difficult to find a carrier willing to write complex risks. Some insurers are now refusing to offer any new policies in California for the foreseeable future, and the carriers that remain open are applying much **more restrictive new business selection criteria**.
- **Rebuilding and repair costs** continue to skyrocket across the country, influenced by demand, inflation, labor costs, cost of materials, and new building codes, all of which impact claim costs. These costs are even higher after a catastrophe that damages multiple structures, creating greater demand.
- **Auto insurance rates** are on the rise due to increased claim severity, supply chain issues, cost of parts, and a shortage of skilled labor, especially seen during and post-pandemic.

## Ways to Mitigate the Impact

- **Increase your deductible** – this will result in a lower annual premium while reducing the likelihood that smaller losses will impact your future insurability.
- **Implement loss prevention techniques** to improve your insurability and receive premium credits, such as
  - Water monitoring and automatic shut-off devices
  - Monitored fire/burglar alarms
  - Sprinkler systems
  - Approved hurricane protection on all openings (windows/doors/skylights) in hurricane-prone areas
  - Automatic earthquake shut-off valves in earthquake-prone areas
  - Updated plumbing and electrical systems
  - Removal of brush and fire hazards in wildfire zones
  - Fire-resistant roofing
- **Pay your premiums on time** to avoid cancellation for non-payment. Carriers are beginning to surcharge clients with frequent past due payments, and underwriters may consider frequency of late payments when considering whether to expand coverage or reinstate a cancelled policy. If a policy is cancelled for non-payment, replacing coverage may be difficult and/or costly, especially in catastrophe-prone areas.
- **Maintain a good driving record**, as traffic citations can remain on motor vehicle reports for up to seven years and significantly impact premiums and insurability. This is especially significant for youthful operators.
- **Consider placing all your coverage with the same carrier**, if available, as most carriers offer premium discounts for multiple policies (bundling). This not only saves money but also makes your risks more appealing to an insurance carrier.

2023 will be a challenging year for insurance carriers and policy holders. We recommend communicating with your insurance broker prior to renewal and when considering a home or auto purchase, or a renovation or construction in a catastrophe-prone area.

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