

# Commercial Property Insurance

The commercial property insurance market has hardened in recent years, with consistent rate increases since the third quarter of 2017. These rate increases were evident in the beginning of 2022, with first-quarter rates rising by an average of 7.6%, according to industry data. Similar pricing trends occurred in the reinsurance markets during the same period through moderate, single-digit rate increases for most carriers. Yet, it's important to note that some insureds may have

encountered above-average rate increases, lowered available capacity and certain coverage restrictions—especially those exposed to catastrophe perils (e.g., hurricanes and wildfires). Looking ahead, policyholders who conduct high-risk operations, have poor loss control practices or are located in natural disaster-prone areas will likely remain vulnerable to ongoing rate increases and coverage limitations.

## Developments and Trends to Watch

**Natural disasters**—The growing frequency and severity of natural disasters have continued to pose concerns across the commercial property insurance market. After all, these catastrophes often leave behind severe property damage and associated losses for affected establishments. According to industry experts, natural disasters cost the global economy \$32 billion in the first quarter of the year, with under half of those expenses (\$14 billion) covered by insurers. Such costs are only expected to persist—and even worsen—during the remainder of 2022, largely due to predictions of above-average hurricane and wildfire seasons. Specifically, Colorado State University researchers anticipate 20 named tropical storms to occur in 2022, with 10 becoming hurricanes and five reaching major strength with sustained winds of more than 111 mph. Additionally, the National Interagency Fire Center reported that wildfires have already burned more than 2.6 million acres throughout the West Coast so far this year, nearly doubling the number of acres burned at this time in 2021. Such numbers indicate yet another intense wildfire season in the months ahead. Further, many climate experts estimate that natural disaster trends will continue to exacerbate related losses in the coming years.

**Supply chain and inflation issues**—The COVID-19 pandemic and various foreign disruptions have contributed to a range of material shortages (e.g., lumber and metal), supply chain issues and inflation concerns within the past few years, thus impacting overall property construction and valuation costs. The first half of the year has seen exceptionally high inflation levels. In fact, as of May 2022, the Bureau of Labor Statistics reported that the Consumer Price Index (CPI) had risen 8.6% in the past 12 months, representing a 40-year high. According to industry experts, such inflation issues have resulted in property construction costs rising by 10%-15% (depending on local conditions) between 2021 and the beginning of 2022. Compounding concerns, ongoing worker shortages in the construction industry have led to elevated labor costs and project delays. Consequently, policyholders may face more claims severity and possible underinsurance issues if losses require them to rebuild structures or replace business personal property at higher costs. Moving forward, overall inflation issues are expected to continue—potentially keeping property-related losses and subsequent claims costs high for years to come.

## Tips for Insurance Buyers

- Determine whether you will need to adjust your business' retentions or limits to manage costs.
- Gather as much data as possible regarding your existing risk management techniques. Be sure to work with your insurance professionals to present the loss control measures you have in place.
- Conduct a thorough inspection of your commercial property and the surrounding area for specific risk management concerns. Implement additional mitigation measures as needed.
- Develop a documented business continuity plan (BCP) that will help your organization remain operational and minimize damages in the event of an interruption. Test this BCP regularly with various possible scenarios. Make updates when necessary.