



# **Seven Factors**

*Driving Commercial  
Property Insurance Costs*



The commercial property insurance space has progressively hardened in recent years, evidenced by ongoing rate increases and other difficult market conditions. This is largely due to several cost-driving trends impacting the segment. As such, it's important for businesses to understand the primary reasons behind rising coverage expenses. Here are seven factors currently affecting commercial property insurance costs.



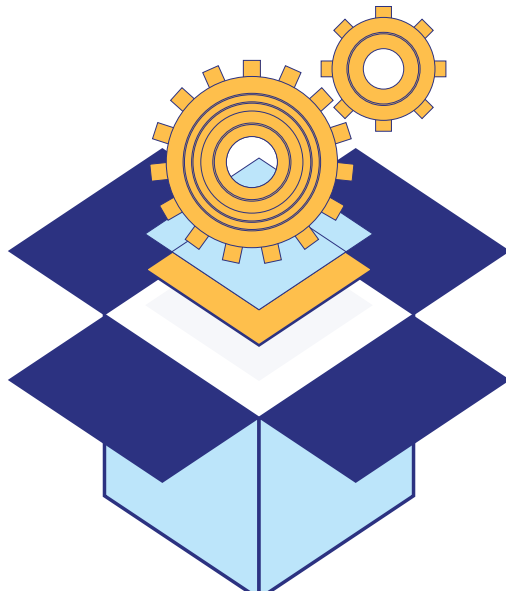
# 1. Catastrophe Losses

Natural disasters (e.g., hurricanes, wildfires, tornadoes and winter storms) often cause severe losses, and the rising frequency and severity of these catastrophes have continued to pose concerns in the commercial property insurance market. Such disasters have cost the global economy more than \$100 billion in annual insured losses for five of the last six years, according to industry research. In 2022 alone, these losses reached an estimated \$140 billion. Making matters worse, many climate experts anticipate that natural disaster trends will proceed to exacerbate related catastrophe losses in the coming years.



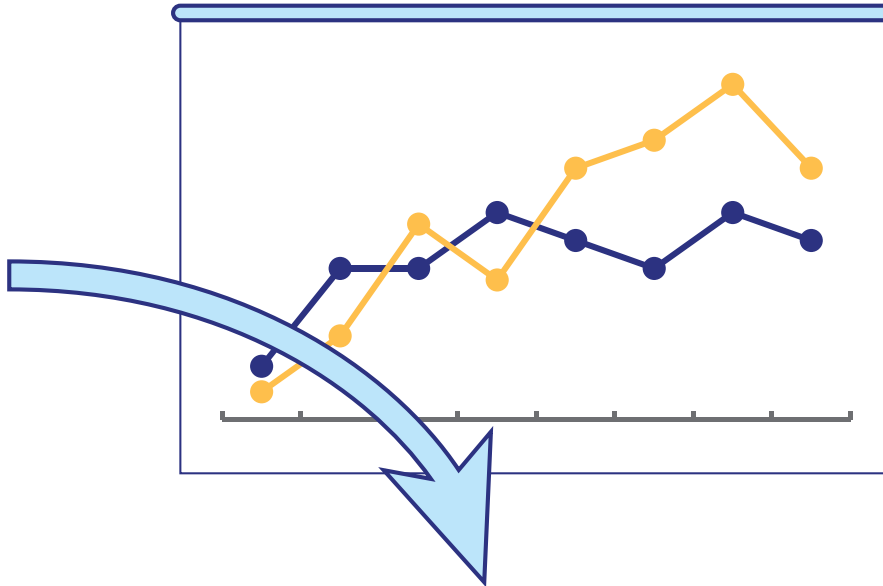
## **2. Inflation Issues**

Inflation has been a prevalent issue across all lines of commercial insurance over the past few years. In fact, the U.S. Bureau of Labor Statistics (BLS) reported that the consumer price index (CPI) reached a 40-year high in June 2022, remaining at near-record levels for the rest of the year. The CPI has somewhat cooled in 2023, but it's still elevated, increasing the cost of certain building materials and associated property repair expenses. As a result, inflation has played a major role in rising claim costs within the commercial property insurance segment.



### **3. Supply Chain Disruptions**

Since the onset of the COVID-19 pandemic, a range of supply chain disruptions have taken place. The majority of these issues originally stemmed from increased demand for some materials amid a slowdown in production and lack of availability during pandemic-related closures. Even though businesses have since resumed their operations and increased production levels, demand for certain materials continues to outweigh inventory. Furthermore, congestion at global ports, geopolitical conflicts, rising fuel and energy costs, extreme weather events, and an ongoing shortage of warehouse workers and truck drivers have slowed shipment and delivery times for several high-demand goods. These supply chain disruptions have impacted multiple types of construction materials, thus delaying building and structural repairs and prolonging related commercial property insurance claims.



## 4. Labor Shortages

The last few years have seen widespread labor shortages. Many employers have increased their workers' wages to help minimize these shortages.

Despite offering higher salaries, the Associated General Contractors of America reported that 9 out of 10 contractors have still struggled to find skilled employees, giving them no choice but to delay projects. These labor challenges have resulted in construction projects becoming increasingly expensive and taking longer to complete, driving up associated commercial property insurance costs.



## **5. Property Replacement Costs**

The culmination of inflation issues, supply chain disruptions and labor shortages have made buildings, other structures and their contents far more expensive to replace following large-scale property losses. According to the latest BLS data, the cost of structural steel has risen by 55% in the past few years, whereas the price of lumber has jumped by 35%. In addition, construction machinery and equipment expenses have increased by 18% during this time frame. Altogether, these trends have caused overall nonresidential construction costs to surge by 36%. As material and labor challenges persist, rising replacement expenses are likely to follow suit, contributing to elevated commercial property costs.



## 6. Underinsurance Concerns

Underinsurance has become a growing concern in the commercial property insurance market due to heightened building and structural repair and replacement expenses. Specifically, businesses that fail to consider inflation and other segment trends could end up with incorrect or outdated property valuations and related coverage limits, leaving them with inadequate protection and significant out-of-pocket expenses following various losses.

According to a recent study conducted by market research and analytics company Harris Poll, less than half (43%) of businesses said they revised their policy limits to reflect rising property repair and replacement costs.





## **7. Reinsurance Challenges**

The latest natural disaster and inflation trends have proven particularly difficult for the commercial property reinsurance space to navigate, contributing to several coverage challenges. In particular, reinsurers have grown more selective in how much risk they are willing to take on. According to industry data, the gap between reinsurance supply and demand is currently sitting at \$60 billion, nearly tripling from last year. Compounding concerns, Hurricane Ian wreaked havoc on the segment at the end of 2022, causing substantial losses and making it even harder for reinsurers to maintain their coverage offerings, specifically as it pertains to catastrophe exposures. Some reinsurers have consequently begun limiting their capacity for these exposures or eliminating capacity altogether, all while rates continue to surge. These rising reinsurance costs are typically passed on to policyholders.



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