

# Higher Property Insurance Rates Forecasted for 2023

By Kevin McPoyle

There have been many worrisome reports regarding property insurance rates during the past few years. This has been particularly true when considering the reinsurance market and the



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impact it has on the property insurance market.

While many of these reports have

caused consternation and concern, they have ultimately been without merit. Reports of property insurance rates being incredibly challenging during recent years have called to mind Mark Twain's memorable reply to an English journalist who had questioned the famous author and humorist regarding rumors he was dying, "*The report of my death was an exaggeration.*"

However, we cannot overlook worrisome indicators which have revealed themselves during the past few months. ***These indicators forecast sharply higher property insurance rates for business owners this year.*** Following are a few metrics supporting this forecast:

1. The reinsurance market as a whole has not shown a profit during the past seven years.
2. The occurrence of natural disasters (catastrophes) has increased, not diminished or relented;
3. Post 1/1/23 reports from various reinsurance brokers provide alarming

news. They indicate +25% - +45% increases in catastrophe loss-free treaties. Treaties associated with catastrophe losses are increasing by +45% - +100%. Rates are skyrocketing regardless of loss experience.

4. Overall market capacity in the reinsurance sector is expected to continue its decline throughout 2023. In 2022, capacity declined and was deployed differently, causing retail carriers to offer smaller limits and more constrictive structures.

What does this unsettling news indicate for buyers of commercial insurance property policies?

Unfortunately, "*pain*" is the word best describing the situation. The commercial property policy of a few years ago containing "blanket limits," for example, and having 100% of the limits provided through one carrier is becoming a thing of the past. Brokers will be required to fight harder for their clients to gain every advantageous coverage term.

Another significant issue facing buyers of commercial property insurance policies is new scrutiny of property valuation by carriers. Carriers can be expected to ask what is the true **replacement cost** of your property following a loss?

During the past few years, carriers have not required or queried insureds to modify or increase the insured value of their property, both real

and personal. However, carriers are now paying attention and requiring an increase in valuation in the face of supply chain disruptions, an increase in building material costs associated with inflation, and no previous, consistent application of valuation. Carriers are now paying attention and are requiring an increase in valuation. Some carriers will work with their insureds, while others are changing values unilaterally.

The net result of all this activity is threefold:

- Rates are increasing
- Policy structure is changing
- Valuations are increasing

**Put energy into carefully reviewing your property schedule and your property values. Be aware of the impact any changes might exert on the way your policy provides the coverage you've come to expect in the past.**

**What steps should buyers of commercial property insurance policies take? Helpful ideas include the following:**

1. **Be realistic regarding your property valuation.** If the insured value of your building works out to \$90/sq ft. you should be aware *someone is going to call you out on it.* Be prepared. In this market, you don't want to alienate any potential carriers by your unwillingness to reflect reality in your valuation model.

## 2. Know your property.

- a. What life, safety, and health systems are in use?
- b. Are these systems functioning and up to date?
- c. What are the weak points that could expose you to a loss?
- d. Are you addressing these weak points, or do you require assistance to do so?

## 3. Describe your operations and process and what you are doing to protect your property?

- a. Do you have a process to manage housekeeping?
- b. Have you ever had the local Fire Department conduct an audit of your operations?
- c. How do you handle hazardous / flammable materials?

There are many other positive actions you can initiate. Start somewhere so you aren't caught flatfooted at renewal time. Your trusted insurance broker can provide valuable assistance with this process.

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