POMS RISK CONTROL & INSURANCE
SMARTER INSURANCE FOR SMARTER BUSINESS.

NAVIGATING A HARD MARKET CYCLE FOR COMMERCIAL PROPERTY INSURANCE PURCHASE AND RENEWAL:

A Broker's Perspective on Optimizing (and Presenting) Your Business as a "Quality Risk"

by David Poms

For the first time in nearly a generation, commercial property owners are facing a prolonged hard market.

The market cycle is expected to persist at least until the end of 2023–and likely further.

In this publication we aim to identify in relatively simple terms what you, a business owner, manager, or financial officer can do to make your business more insurable during the most difficult insurance market in nearly a generation.

By looking at your business holistically, you can build a path to coverage purchase and renewal that is clear and predictable, helping your organization to curb insurance cost increases now and reduce insurance outlays when stability returns to the markets.

As part of POMS' dedication to delivering "Smarter Insurance for Smarter Businesses," this publication is intended to ramp up your general knowledge about economic and market forces that are reshaping how insurers and reinsurers are doing business today–and how to successfully navigate this market cycle and emerge more resilient against business risks.

Part 1: What's making the markets?

As noted above, we're in the midst of a hard insurance market cycle, which is characterized by:

- Tighter, more stringent underwriting criteria
- Reduced carrier capitalization, access to reinsurance and capacity to write insurance policies
- Less competition among insurance carriers
- Higher insurance premiums

The big-picture view is that global insured losses continue to outpace historical averages. As economies claw back from disruption and reduced productivity due to the Covid-19 pandemic, massive loss events like Hurricane Ian have displaced hopes for a swift return to the relatively favorable insurance climate during much of the period from 2006 - 2020.

"Unprecedented." There's that word again...
Events spanning early 2020 and the present have drained all meaning from the word "unprecedented." Nevertheless, it seems an apt description for a time with double-digit inflation; armed conflict potentially pitting global superpowers; "100-year storms" as an annual occurrence; and a viral pandemic that's extending into its fourth year.

After consecutive above-average natural catastrophe years in 2020, 2021 and 2022, reduced reinsurance capacity is leaving some carriers with a narrower field of available options beyond premium increases to offset rising costs.

2023 will mark the seventh straight year of double-digit increases to property insurance program costs. Owing to this and other forces, McKinsey & Company projects this year to be "an inflection point" for commercial carriers.

Year	In dollars when occurred	In 2022 dollars (2)
2013	$24.1	$31.0
2014	23.2	29.2
2015	22.9	28.8
2016	31.6	39.3
2017	130.9	158.7
2018	60.4	71.6
2019	38.8	45.2
2020	81.0	93.3
2021	93.3	102.7
2022	98.8	99.9

Figure 1– Estimated Insured Property Losses, U.S. Natural Catastrophes, 2013-2022 ($ billions) Aon

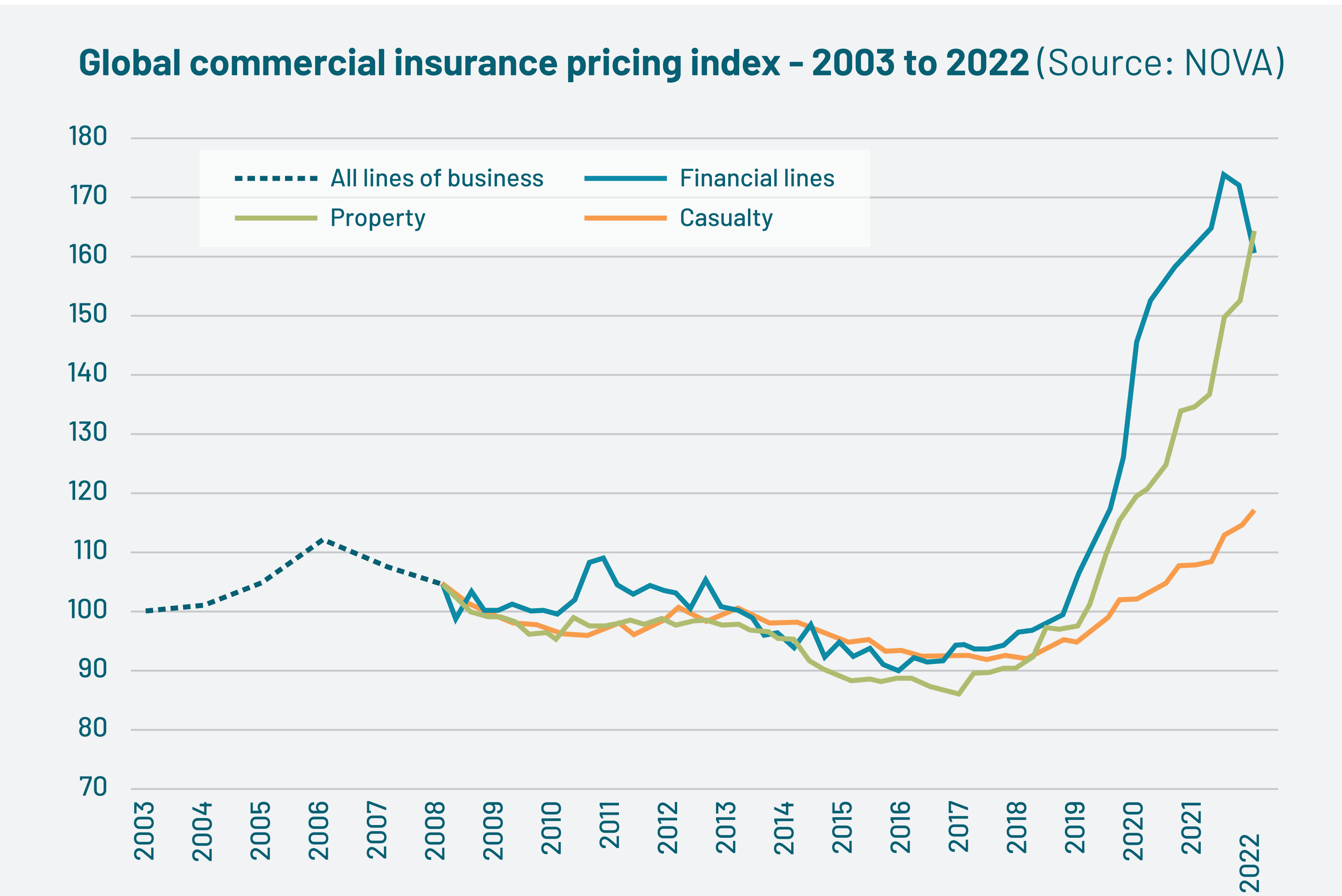

Figure 2-General Global Insurance Pricing Trends-Property Lines in green (Howden/NOVA)

To give a sense of where we are now, a January, 2023 Zurich Insurance study shows a 12.90% average increase in rebuilding costs for the year, with some regions seeing increases of more than 21%.

Reinsurance/capacity is just one factor feeding into the prevailing view that we're in a prolonged "hard market" for carriers that will continue to put pressure on the cost of commercial property insurance.

One European-based megabroker, Howden, calls 2023 a "Great Realignment," especially for renewals, with markets roiled by:

- Multi-decade high inflation
- Rising loss costs
- Economic downturn–reduced returns on carrier investment portolios
- Capital impairments
- Higher reinsurance / retrocession (cost of risk transfer)
- Catastrophe losses–more than $600bn since 2017
- A rapidly shifting cyber risk landscape.

The reasons for how we've arrived at this moment of reckoning are manifold and complex, but not arbitrary.

And these are problems that have solutions, especially for business leaders who think and act for the long-term. How your business prepares and presents itself as a "quality risk" can go a long way toward reducing insurance premium volatility. Let's look at some possibilities.

Part 2: Reality check: It's not all bad news.

One important element of successfully navigating this market is to have *realistic expectations*, namely:

Expect the price you pay for insurance to go up.

Expect more exhaustive underwriting and fewer options when purchasing new insurance or renewing existing policies.

Expect support from your broker's risk management advisers. A broker with institutional memory of previous hard markets can be an invaluable competitive advantage.

Pack what you need for the "Flight to Quality"
David Novak, Area President at Risk Placement Services (RPS), a wholesale insurance broker specializing in commercial property risks throughout the U.S., helps us to zero in on what to expect when navigating the purchase and renewals landscape in a hard market:

> *The commercial property Insurance market today is being driven by what I like to call the 'flight to quality.'*
>
> *Insurers are under pressure to produce an underwriting profit, especially in the absence of investment income returns over the last 12 months. As a result, carriers are looking to reduce their writing of more natural catastrophe-driven accounts and risk classes which have been historically difficult to make a profit in.*
>
> *Even for asset classes that have performed well, carriers are being more selective with the risks that they deploy capacity on and are looking for the cream of the crop. As a result, those businesses that are able to demonstrate active risk control strategies will be the ones who fare best in this hard market cycle.*

What looks like insurers 'cherry-picking' the most profitable customers is actually the outcome of a complex process centered on the simplest of market principles: increased demand (for coverage) vs. decreased supply (insurers' capacity–especially in areas with high natural catastrophe risks due in part to more expensive facultative reinsurance capacity).

It's not personal; it's business [insurance]
Carriers are looking to select the best risks not just because they can, but because their business depends on it. Here's how you can act accordingly.

If you haven't seriously considered what carriers look at when writing business property insurance policies, then now would be a good time to start sweating the details about your business.

Taking advantage of risk control services provided by your broker is an important step that can help show your business to carriers in the best possible light to ensure asset values are in line with industry expectations.

Working with brokers that focus on loss prevention in good times is an effective way to secure and unlock value from your commercial property coverage. In today's hard market cycle, your broker can help you plot a strategy to mitigate insurance premium increases and prepare to take advantage of more favorable insurance market conditions when they return.

Part 3: Insurance isn't an "annual" decision; it's a continuum.

Even if you've had insurance for several years and the nature and size of your business hasn't changed, odds are you will find renewing carrier coverage in 2023 to be more difficult than in the past.

Let's begin with some conventional wisdom for renewal time:

1. **Start the renewal process early, ideally three to six months before the policy expiration date.** This permits ample time to review coverage with experts and negotiate terms with insurers.
2. **You should conduct regular thorough reviews of your coverage to assess risk exposure.** This involves reviewing the policy limits, deductibles and exclusions. Work with your broker to identify coverage gaps and make changes to the policy.
3. **Provide accurate and detailed information** on your operations, locations, assets and any changes to your risk profile to secure the right coverage at a fair price.
4. **Prepare for more rigorous underwriting scrutiny.** You should be prepared to provide additional information, such as loss history, risk management strategies and financial statements.
5. **Invest in relationships.** Consult regularly with your broker for tactics and best practices that can lead to more favorable treatment from carriers–at renewal time, or when you need to file a claim.

The second best time to do something important is now
The demand v. supply (carrier capacity) equation driving insurance markets today intensifies insurers' focus on how commercial property owners/users approach risk exposure.

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To paraphrase a familiar adage, "the best time to address big issues is five years ago; the second best time is now."

For example, more insureds with facilities needing modernization are finding themselves placed in residual markets. If you own or lease warehouses, work with your broker's risk management experts to determine a course of action, such as finding temporary facilities that meet safety standards while you retrofit.

Other tactics that can make a difference:

1. **Work with your supply chain to find alternative methods to insure.** These can include Stock Throughput Policies, a separate insurance product that replaces basic transit coverage in all-risk policies, to cover inventory/goods across the entire chain.
2. **Transfer risk to other parties.** Consider whether it's possible or practical for suppliers to assume/share ownership of risk to value of goods longer, optimally till your business needs them.

   Use partnership management as a tool to offset costs and risks, such as non-insurance risk transfers with reputable contractors to reduce exposure to liability claims. Work with your legal counsel to develop a process for reviewing and maintaining these agreements.
3. **Manage deductibles.** Work with your broker to find accurate insurance to loss value (ITV) calculations. If your business has adequate liquidity you might consider choosing higher loss deductibles as a tactic to balance long-term cost v. short term losses.
4. **Understand factors unique to your business** and be prepared to discuss their impact on your insurance with a broker.

These items range from...

Major:
- Geography, size and age of business premises–especially with regard to natural catastrophe risk
- Impact of inflation on loss of business continuity
- Supply chain issues for equipment maintenance/replacement
- Fluctuations in land value

To Minor:
- Changes to local environmental laws
- Vulnerability of transaction data to cyberattacks
- Impact of cannabis use on fleet vehicle operators

The more information you can gather on your unique set of risks, the better prepared you and your organization will be to partner with insurance experts.

Insurance is going to cost more, and the tail on these premium increases might persist into 2024 and beyond.

Steps you take today–including consulting with your broker on risk control and loss reduction–might have a price now, but will yield long-term savings when stability returns to insurance market cycles.

Look to us to help to keep you informed.

About Poms Poms brings a new approach to business and personal insurance – one that makes sure you're not just protected against liability, but proactively shielded from risk. We leverage decades of experience and expertise to help you avoid expensive claims, and if those claims do occur, we're prepared to mitigate them. At Poms, we believe knowledge is the best insurance. We believe proactive risk management is a smarter way to insure.