

# Private Client



**Managing risk will be key for homeowners in problematic property insurance market**

## Setting the Scene

# Catastrophic losses pressuring property insurance rates.

*The losses broadly affected the insurance marketplace, driving global property reinsurance rates to a*

**20-year high**

Swiss Re Insitutue, "A perfect storm," March 22, 2023

Several years of catastrophic losses, rising inflation and economic uncertainty converged to create one of the hardest insurance markets faced by homeowners in decades. While insurance rates rose in virtually all lines of coverage, substantial catastrophe losses in 2022 will have a significant effect on U.S. and Canada property rates.

Property owners will pay more for insurance coverage in 2023 as the industry recalibrates and rebounds from losses due to hurricanes, floods, tornadoes and wildfires. But stabilizing inflation and improved underwriting should help the property market settle into a less erratic future.

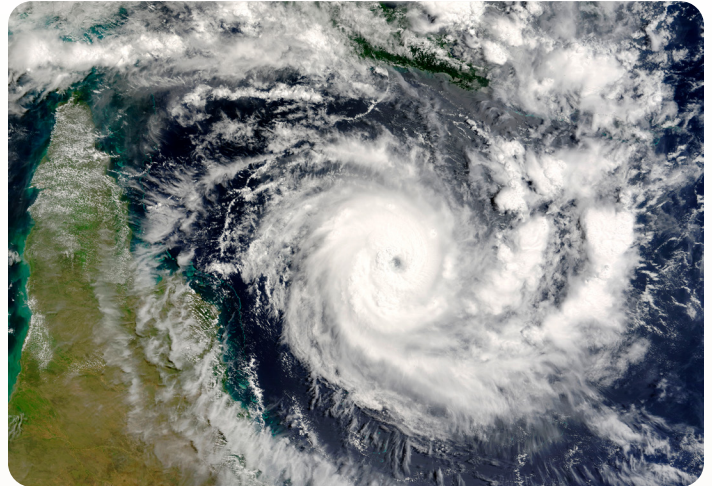
# ***From high winds to headwinds, significant losses trigger rising rates***

Homeowners renewing their property insurance policies this year will be in for a surprise, with rates rising for nearly all homes. The mounting cost of catastrophic (CAT) events in the past few years, coupled with claim severity outpacing inflation for nearly all property insurance claims, have contributed to price hikes in the property insurance marketplace throughout North America.

In the past seven years, hurricanes, wildfires, convective storms and other natural disasters have cost the U.S. more than \$1 trillion. In 2022, catastrophes resulted in insured damages of more than \$170 billion in the U.S.,<sup>1</sup> and \$3.1 billion in insured damage in Canada.<sup>2</sup>

But the rising cost of non-CAT claims further complicates the marketplace, with payouts for water damage stemming from plumbing, HVACs and appliances increasing as rebuilding costs surge and construction delays continue.<sup>3</sup>

In the U.S., average costs for both CAT and non-CAT claims rose 9% in 2021 compared with the prior year.<sup>4</sup> With climbing repair costs in both the U.S. and Canada, that number is expected to increase further.



But there's reason for optimism. New technologies make risk mitigation easier for homeowners to implement than ever before, and insurers are encouraging policyholders to add these devices.

Homeowners that evaluate exposures and invest in risk reduction measures will not only increase the safety and value of their properties, they will also make themselves a much more attractive risk to underwriters and receive fairly priced policies in return.

1. National Oceanic and Atmospheric Administration, "[Billion-Dollar Weather and Climate Disasters](#)," accessed May 2, 2023.
2. Insurance Bureau of Canada, "[Severe Weather in 2022 Caused \\$3.1 Billion in Insured Damage — making it the 3rd Worst Year for Insured Damage in Canadian History](#)," January 18, 2023.
3. The Hartford, "[More Frequent Losses Lead to Large Property Risk Sharing](#)," accessed May 15, 2023.
4. Insurance Research Council, "[Rising Homeowners Insurance Claim Costs Continue to Outpace Inflation, According to IRC Study](#)," May 4, 2023.

# ***Winter storms, CATs and replacement costs all contributing to market commotion***

The changing landscape of risk throughout North America is challenging property owners and underwriters alike, particularly when analyzing properties previously considered to be located in low-peril areas.

Winter storms, including the bomb cyclone that plowed through the Great Lakes region in late December, cost insurers nearly \$6 billion in 2022 — the second-highest winter storm loss year on record.<sup>5</sup> Losses for convective storms, which have steadily increased in frequency and severity, now average about \$17 billion in insured losses — with more than \$11 billion attributed to hail damage.<sup>6</sup>

States previously considered less susceptible to natural disasters — such as Minnesota, Missouri, Indiana and South Dakota — were among the most impacted by hail damage and windstorms in 2022.

Canada, too, has experienced significantly more damaging weather events in recent years, with late-winter storms in the East, tornados, hail and wind in the West and Hurricane Fiona in Eastern Quebec and the Maritimes making 2022 the third-most costly year for insured damage in the country's history.

These losses broadly affected the insurance marketplace, driving global property reinsurance rates to a 20-year high.<sup>7</sup> Property underwriters are now paying 70% to 100% more for their reinsurance coverage in 2023, and double-digit increases in materials costs, supply chain delays and elevated inflation will make all homeowners' claims more expensive.



The end result: Property insurance rates will likely rise 25% to 35% across the board. Homeowners will see rising premiums, an increasing number of exclusions and fewer insurers willing to offer full coverage for high-value properties.

In addition, policy terms and conditions are also changing: For example, more insurers are excluding from coverage cosmetic roof damage from hailstorms, and insurers are less willing to underwrite properties unable to withstand high winds. In Texas, high claims numbers from winter storms have resulted in carriers tightening policy language and raising premiums.

On the plus side, the rate of inflation in the U.S. has been steadily falling since its high of 9% in June 2022,<sup>8</sup> which should help moderate prices. And material shortages and supply chain bottlenecks due to the COVID-19 pandemic have eased, helping to keep remediation or reconstruction projects on schedule.

5. Insurance Information Institute, "[Facts + Statistics: Winter Storms](#)," accessed May 15, 2023.
6. Reinsurance News, "[Hail a major loss driver, CoreLogic's Severe Convective Storm risk report shows](#)," April 11, 2023.
7. Swiss Re Institute, "[A perfect storm](#)," March 22, 2023.
8. Statista, "[Monthly 12-month inflation rate in the U.S. from March 2020 to March 2023](#)," April 17, 2023.



## ***Regional threats persist, affecting rates and capacity***

While residential property insurance rates will rise throughout North America, regional variations can be striking. But legislation could help alleviate property rate increases in the future.

Homeowners with properties in areas exposed to floods, earthquakes, wildfires, hurricanes and convective storms will see catastrophic perils rise 10% to 20%. And capacity will also be more limited with insurers exiting challenging states such as California, Colorado and Florida entirely.

In hurricane-prone Florida and Louisiana, a number of property insurers have been declared insolvent. Those states' insurance associations now must borrow hundreds of millions to cover policyholder claims and shore up the property insurance market.<sup>9</sup>

In the Sunshine State, the capacity shortage has been acute. As a result, Citizens Property Insurance Corp., Florida's insurer of last resort, is projected to hold 2 million policies by 2024, compared with fewer than 450,000 in 2020. To help combat the crisis, Florida lawmakers have revamped its assignments of benefits law and eliminated one-way attorney fees in hopes of reducing frivolous insurance litigation.<sup>10</sup>

Hurricane Ian, which was predominately a flood event, led to nearly \$4 billion in flood damage payouts from the National Flood Insurance Program (NFIP) — and that figure does not include insurance claims paid by private flood insurers.<sup>11</sup>

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9. E&E News, "[Fla. and La. must borrow millions to pay insurance claims.](#)" May 2, 2023.
10. U.S. Chamber of Commerce Institute for Legal Reform, "[New Law Reforms Florida's Troubled Property Insurance Litigation Culture.](#)" January 17, 2023.
11. Federal Emergency Management Agency, "[Nearly \\$4 Billion in Flood Insurance Payments Reach Policyholders After Hurricane Ian.](#)" May 4, 2023.

With so many significant flood events in recent years, homeowners in coastal regions and flood zones may also struggle to find affordable flood insurance. The Federal Emergency Management Agency's new methodology for calculating federal NFIP premiums — which provides coverage up to \$250,000 for residences — will cause policy price spikes in excess of 300% for homes in high-risk locations.<sup>12</sup>

Wildfires in California continue to pressure the property insurance marketplace. For 2023, the state's insurance department agreed to raise rates 7% after more than four years to encourage insurance carriers to underwrite property coverage. Although capacity issues persist, California homeowners who implement sufficient wildfire risk mitigation strategies may receive insurance discounts under the state's new "Safer from Wildfires" framework.<sup>13</sup>

Colorado, which has not historically been a difficult state for acquiring property insurance, has seen expensive wildfires over the past two years dramatically reduce capacity and prompted lawmakers to introduce legislation creating an insurer of last resort.<sup>14</sup>

Some homeowners of CAT-exposed properties will no longer be able to find coverage available in the traditional insurance marketplace and will need to consider excess and surplus (E&S) carriers. However, the E&S marketplace is also seeing fewer insurers

willing to underwrite the risk than homeowners seeking CAT coverage. Rates for non-CAT property in the wholesale marketplace is up more than 20%, with rates more than doubling for CAT-exposed insurance coverage.<sup>15</sup>

CAT-exposed homeowners in Canada are also having difficulty finding affordable coverage. In British Columbia, the recent active wildfire seasons and flooding in the province have made insurers assess a property's risk based on the home's blanket kilometer radius from an area deemed an elevated wildfire risk. Alberta homeowners can expect to see rate increases of about 10% due to recent wildfires and hailstorms. Elsewhere, rates are expected to rise between 5% to 7%, except for Quebec, where rates will rise approximately 2%.<sup>16</sup>

A spate of floods has prompted the creation of Canada's first government-backed flood insurance program. With more than 1.5 million homes located in high-risk flood zones, Canada's National Flood Insurance Program, which is expected to be established in the next 24 months, will help protect homeowners insure against storm surges, riverfront flooding and urban overland flooding.<sup>17</sup>

12. Insurance Journal, "[FEMA Releases New Flood Insurance Rates by ZIP Code. Brace for Impact](#)," May 8, 2023.

13. California Department of Insurance, "[Commissioner Lara enforces nation's first wildfire safety regulation to help drive down cost of insurance](#)," October 17, 2022.

14. The Colorado Sun, "[Colorado would offer homeowners, businesses last-resort property insurance under new bill](#)," April 6, 2023.

15. Inside P&C, "[HNW homeowners space 'in hardest market in decades'](#)," March 22, 2023

16. Canadian Underwriter, "[How personal lines are shaping up heading into 2023](#)," March 13, 2023.

17. Global News, "[Why \\$31.7M for national flood insurance in Budget 2023 is 'just the start'](#)," March 29, 2023.

18. National Institute of Building Sciences, "[Mitigation Saves up to \\$13 per \\$1 Invested](#)," accessed May 15, 2023.

# Manage your risk to improve attractiveness to insurers

While securing adequate coverage will remain difficult, property owners can do the following to reduce their risk profile and obtain better rates:



## Assess your property's exposure.

Consider ways to improve your home's resiliency. A short-term investment can have a long-term positive impact on both your property's value and property insurance premiums. In fact, some studies suggest that for every \$1 invested in risk mitigation measures, up to \$13 is saved in replacement costs.

For instance, adding a water flow detector with an automatic shut-off can protect your home from water damage and improve its risk profile with insurers. Other damage mitigation measures include backup batteries to sump pumps, central station burglar and fire alarms, temperature and gas leak sensors and security cameras with motion-detection floodlights.



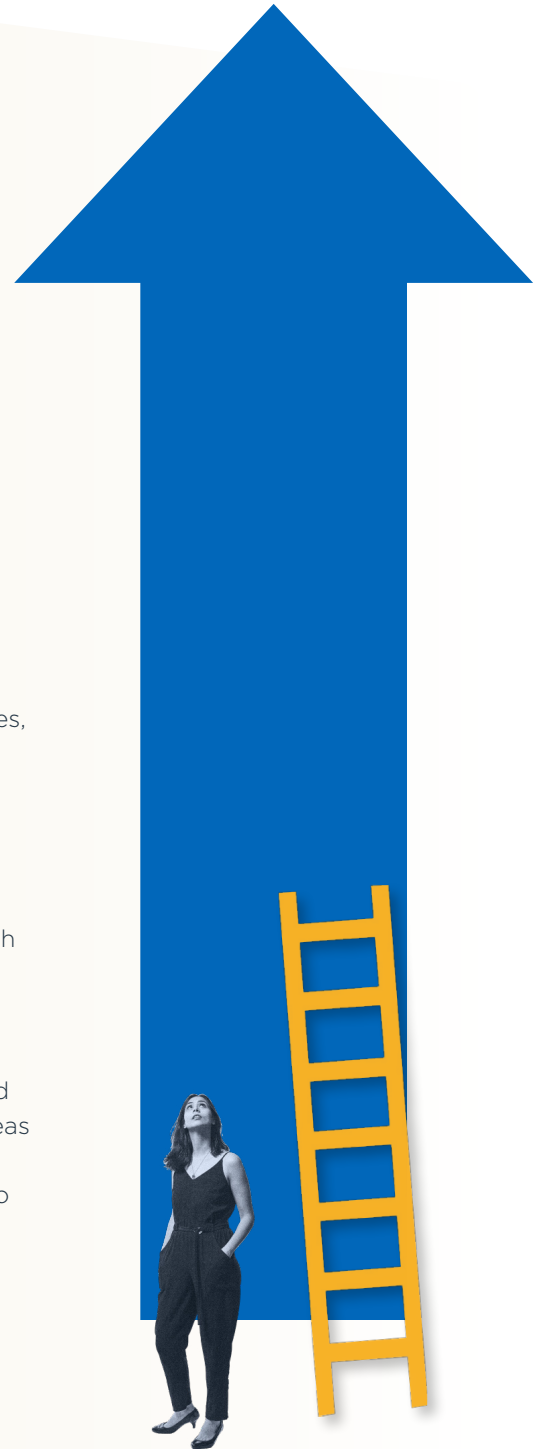
## Be familiar with your regional risks.

Homeowners at risk of wind damage should install double-strapped roof systems and impact-resistant windows. Property owners in areas susceptible to wildfires should create a brush removal strategy and plant fire-resistant landscaping. Homeowners should also be sure to maintain trees close to their roofline — particularly if their region is affected by convective storms — and remove those showing signs of disease or rot. Homeowners in earthquake-prone areas need to ensure that living structures outside the home such as apartments above garages can withstand seismic activity.



## Review the value of your property against your policy.

With recent inflation and increased rebuilding costs, it's crucial to ensure you have enough insurance to cover replacement costs, or if it's an option, consider an extended replacement policy. Experts estimate that nearly three-quarters of homes in the U.S. are underinsured right now.



**Retain top contractors for modifications.**

Check references and insurance for all contractors hired to make property modifications to reduce exposures. It's essential to employ knowledgeable contractors who understand what you're trying to accomplish and how to get the job done.

**Add flood insurance to your coverage mix.**

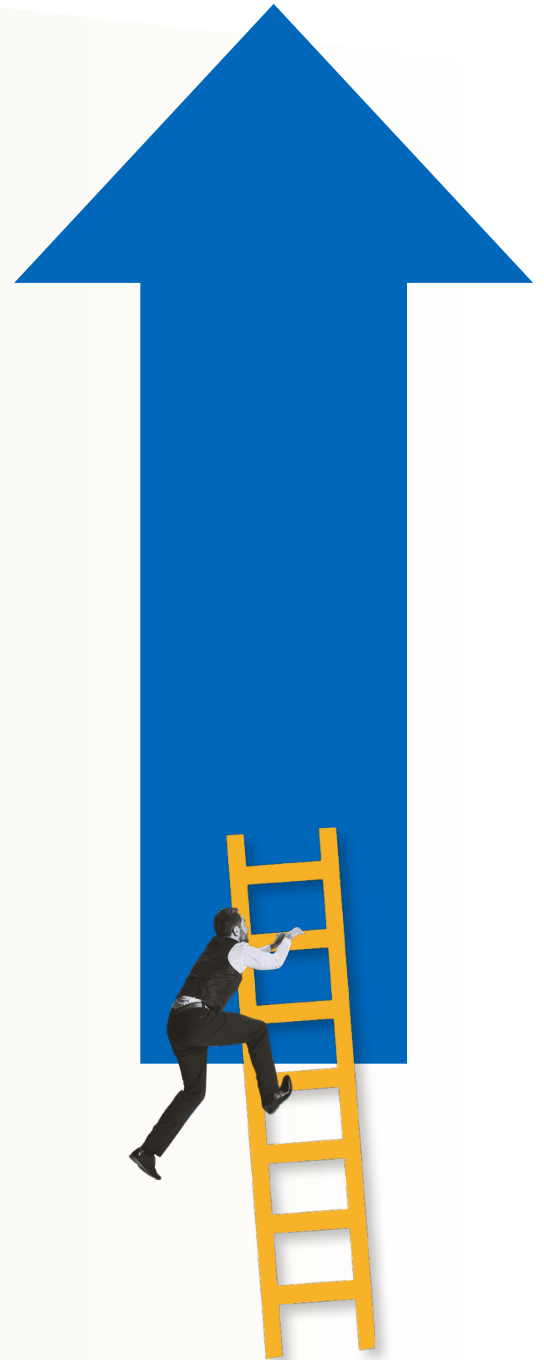
Flood damage is not covered by traditional homeowners' insurance policies, and just one inch of accumulated water can cost thousands in structural and property damage. Even if your property is not located in or near a flood zone, adding this coverage can protect your property against water intrusion from poor drainage, summer storms or broken water mains. If you're purchasing a property, obtaining a quote for flood coverage may unearth past flood issues or water events that may make you reconsider your choice.

**Consider nontraditional insurance strategies.**

Homeowners with high-value properties or those located in high-risk locales need to act like commercial properties and be prepared to look for coverage in excess and surplus markets or even take on additional risk. Consult with your broker on how to tame insurance costs through deductibles, self-insured retentions or other alternative means.

**Work in partnership with your broker.**

*Always consult your insurance broker* before purchasing a new property. It's essential to understand the risks involved and to leverage risk advisors' experience. A broker will identify exposures and develop a plan to mitigate those risks. Your broker can show how to make your property more attractive to insurers and find insurers that can provide property coverage with the best possible terms.



# Private Client Rate Outlook — Canada

HUB International analyzes proprietary national survey data and interviews our personal lines insurance brokers and risk services consultants throughout North America each quarter to bring you our 2023 Mid-Year Personal Lines Rate Report for Canada.

Based on our survey data, rates have increased in nearly every Property & Casualty personal insurance line due to carriers' need for additional premium to support increased losses and expenses. Below are average rate increases as of Q2 2023. Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.

Coverage	Canada Average Rate Guide	Insights
<b>Automobile</b>	↑ 5% to 10%	Increased loss severity is driving rate, specifically for claims involving physical damage. Repair costs have risen steadily over the last two years due to elevated inflation and labor expenditures and increasingly sophisticated components in newer cars that harness technological innovations.
<b>Homeowners</b>	↑ 15% to 20%	Catastrophic weather events continue to drive rate increases. Losses from these natural disasters, combined with double-digit increases in material costs and a 5% average increase in labor costs, will place significant pressure on homeowners rates as the costs to repair and/or replace continue to rise.
<b>Personal Umbrella</b>	↔ Flat to 5%	Social inflation continues to drive the need for rate as more lawsuits are being filed against liability limits and judgement payouts are increasing.
<b>Catastrophic Perils</b>	↑ 10% to 20%	Capacity remains limited, particularly in high-hazard areas exposed to floods, earthquakes, wildfires and convective storms. Reinsurance premiums have risen between 50% to 100% from 2022-2023 in high-hazard areas. If earthquake capacity is even available, especially for B.C., expect higher deductibles coupled with reduced limits.
<b>Specialty (Motorcycle, RVs, Watercraft)</b>	↑ 5% to 10%	Similar to automobile coverage, repair costs for specialty products have also increased due to inflation, labor and replacement costs.

**NOTE: Rate** is typically defined as the amount of money necessary to cover losses, expenses, and provide an insurance company with a profit for a unit of exposure. **Exposure** refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.

## HUB Private Client

When you partner with us, you're at the center of a vast network of experts who will help you reach your goals. For more information on how to manage your insurance costs and reduce your risk, talk to a HUB Private Client risk advisor.

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clients

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