

Business



Rising rates to pressure profitability for commercial property owners and contractors

Setting the Scene

Commercial property rates are surging, but hope is on the horizon.

The volatile commercial property insurance market began 2023 in tumult, with economic uncertainty, rising replacement costs, supply chain delays and prominent weather catastrophes in 2022 elevating rates. Industries across the board are likely to pay more for property insurance and see terms and conditions tighten, but stabilizing inflation and improved underwriting should help the market settle into a less erratic future.

Losses from natural disasters cost insurers more than \$125 billion globally, contributing to a

17%

jump in commercial property rates worldwide this year.

Swiss Re Insitutue, "[A perfect storm.](#)" March 22, 2023

Catastrophes and inflation contributing to raising rates

Mother Nature wreaked havoc across the globe in 2022. Losses from natural disasters cost insurers more than \$125 billion globally, contributing to a 17% jump in commercial property rates worldwide this year.¹

Unexpected high inflation, rising interest rates and greater-than-expected CAT losses hurt the world's four largest reinsurers' bottom lines in 2022.² As a result, reinsurance rates for commercial property insurers rose 20% to 60% in the first quarter of 2023. Those insurers are now passing on costs to policyholders with higher rates and burdensome terms and conditions.³

In the U.S., hurricanes in the Southeast, tornadoes in the Midwest, hailstorms in the north and wildfires throughout the West battered the country. In Canada, late-winter storms in the East; tornadoes, hail and wind in the West; and Hurricane Fiona in Eastern Quebec and the Maritimes made 2022 the third-most costly year for insured damage in the country's history.

But there is hope that prices will moderate soon. Inflation in the U.S. has fallen steadily since its peak of 9% in June 2022,⁴ and few lingering supply chain bottlenecks from the pandemic remain. Insureds who invest in mitigation strategies are likely to see the greatest benefits.⁵



Commercial property rates have been on the rise — increasing every quarter since 2018. Adding to the market burdens are record disaster losses and higher costs for building materials, equipment, labor and financing. For property insurers, those rising prices drove up loss costs \$30 billion in 2021, marking a trend that continued into 2022.⁶

The rising prices have also affected property valuations: Nearly one-third of commercial properties are undervalued, creating gaps between coverage amounts and rebuilding costs.⁷

For most of the U.S., property insurance rates will rise 10% to 25%; properties in catastrophe-prone locations will see even more rate elevation. In Canada, rates will increase 5% to 15%, largely due to increased valuations. But there are signs that the market may peak this summer.

Underwriters are requiring property owners to post updated property valuations while shoring up terms and conditions. Best-in-class commercial property will obtain the most favorable terms and be first in line for rate relief.

1. Swiss Re Institute, "[A perfect storm](#)," March 22, 2023.
2. Fitch Ratings, "[Different Degrees of Diversification Drive European Reinsurers' 2022 Earnings](#)," March 23, 2023.
3. Fitch Ratings, "[Strong Pricing in Property and Specialty Dominate 2023 Reinsurance Renewals](#)," January 10, 2023.
4. Statista, "[Monthly 12-month inflation rate in the U.S. from March 2020 to March 2023](#)," April 17, 2023.
5. FM Global, "[Record US \\$800 million membership credit for FM Global's client-owners](#)," April 28, 2023.
6. McKinsey & Company, "[Countering inflation: How US P&C insurers can build resilience](#)," August 25, 2022.
7. Property Casualty 360, "[Growing construction costs driving commercial property coverage gap](#)," April 3, 2023.

Capacity will continue to challenge commercial property insureds

A lack of underwriting appetite for commercial properties among carriers will exacerbate challenges for property owners. Since the end of 2022, more than 85% of risk managers reported seeing reduced commercial property capacity.⁸ Insurers are scaling back coverages and in some cases, exiting difficult markets altogether.

While commercial insureds in Florida and Louisiana have had difficulty finding sufficient property coverage for many years, the capacity crunch has gotten worse. In Florida, more than a dozen insurance companies have been placed into receivership in the past two years, further crunching capacity.

With high inflation and rising construction prices, commercial companies may not be able to purchase full replacement cost for their buildings — which can leave them in violation of loan covenants.

Other states are feeling the pinch. Insurers are cutting capacity in Texas, which suffered immense property damage from the deep freeze of February 2021 and hurricanes hitting its Gulf Coast.⁹ Carriers are pulling away from tornado-prone states like Oklahoma, and reducing their interest in underwriting earthquake coverage across the U.S.



Insurers have also been fleeing California for reasons beyond wildfires. The state's insurance commissioner has increased property coverage limits to \$20 million under the Fair Access to Insurance Requirement (FAIR) Plan for those unable to secure insurance in the primary market.¹⁰ However, insurers are required to help absorb losses from FAIR Plan participation, which will be a major disincentive to insure commercial property in California.

In Canada, catastrophe-prone areas will see reduced capacity and increased rates. Commercial properties with exposure to earthquakes, floods and hailstorms will experience the most difficulty.

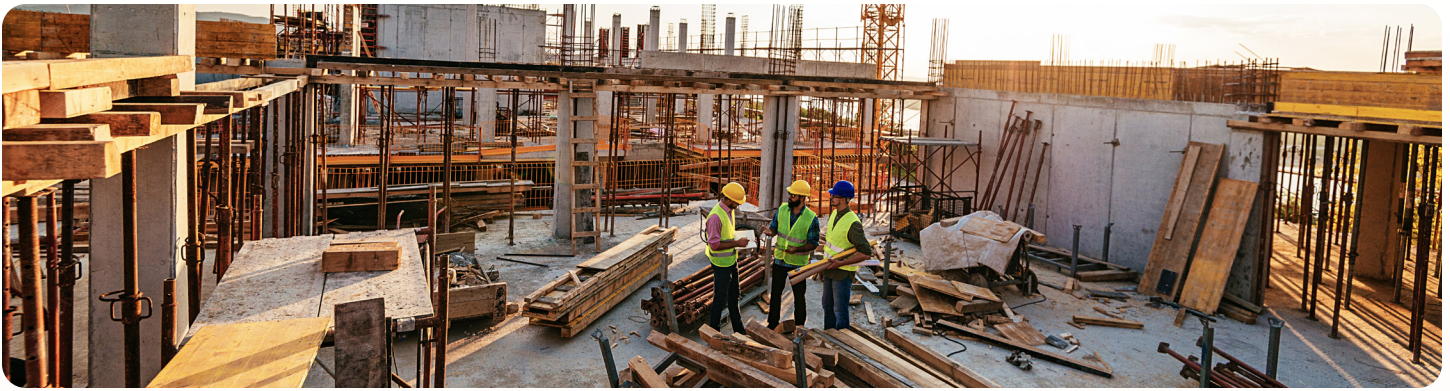
As insurers reduce capacity, it could force many CAT-exposed commercial property owners to seek coverage from excess and surplus (E&S) carriers. However, fewer E&S insurers are willing to underwrite commercial property catastrophe coverage. E&S rates for property have risen more than 20%, with rates more than doubling for CAT-exposed property coverage.¹¹

8. Insurance Office of America, "[Rates Moderate For Most Lines As Commercial Property Lurches Upward](#)," March 7, 2023.

9. E&E News, "[Growing insurance crisis spreads to Texas](#)," April 17, 2023.

10. Business Insurance, "[California plan increases commercial property cover limits](#)," March 30, 2023.

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



Insurance property prices will pinch many industries

Commercial properties and construction sites are under increased underwriter scrutiny, making transparency crucial. With chronic supply chain delays, contractors are routinely storing expensive equipment and materials on site — and builder's risk policies may not account for the loss of or damage to that equipment.

Contractors can expect to see their builder's risk rates rise 10% to 15% in 2023 — and much more for sites located in catastrophe-prone zones. Those who previously allotted about 2% of their budget for insurance can expect to earmark as much as 5% this year. And with insurers less likely to underwrite an entire project, contractors may need to procure shared and layered insurance programs, further increasing costs.

High inflation and increased construction costs are also leaving some projects underinsured mid-build.

Underwriters are scrutinizing all aspects of a build, including supply procurement and storage, and routinely inserting protective safeguard clauses — such as site security requirements or the employment of night guards — into policies, driving up costs even further.

For example, insurers are requiring contractors and storage operations in transportation to show precisely what equipment and combustible materials are on site and how long they will remain there. Also, underwriters are requesting specific evacuation plans, particularly for construction sites located in coastal or wildfire-prone areas. This includes plans for shutting down the site, evacuating workers and removing heavy equipment in the event of an impending catastrophe. They also need to show insurers a risk management strategy for security, as well as solid fire and water mitigation strategies on construction sites.

In the transportation industry, insurers are keeping a close eye on warehouse and garage safety, particularly with regards to fire hazards such as charging stations for vehicles or combustibles such as cardboard and trash. Insurers also expect in-depth plans for water and fire mitigation and security.

Contractors can expect to see their builder's risk rates rise

15%
in 2023

Alternatives and risk retention will provide some relief

Despite the difficult insurance market, alternative approaches can alleviate the pain for commercial property owners.

To help reduce rates, property owners can shoulder additional risk through reduced limits and increased deductibles and alternative placements. Captive insurance or a structured risk program may provide an alternative for commercial property owners who have absolute faith in their risk management strategies.

For CAT-exposed properties, parametric insurance is another coverage option; parametric coverage provides immediate payouts based on agreed-upon measurements such as wind speed or rainfall. Though still small, the parametric market is expected to grow to \$29.3 billion by 2031.¹²

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Even for properties in CAT-exposed areas, insureds can find affordable coverage if they're committed to decreasing risk. A knowledgeable broker armed with a client's solid risk reduction strategy, the right data and a positive loss history across a portfolio can mean the difference between getting declined and obtaining coverage.

12. Intelligent Insurer, "[No longer niche: Swiss Re thinks parametric insurance is the future.](#)" May 4, 2023.

Manage your risk to improve attractiveness to insurers

While finding insurance for commercial properties will remain difficult, we expect market instability will level off as 2023 progresses. But to improve insurability and reduce risk immediately, we recommend property owners adopt several best practices, including the following:



Start renewals as early as possible.

For a traditional renewal, plan to start the process 120 to 150 days out. Be sure to provide carriers with detailed information on recent upgrades to electrical, plumbing and roofs. Failing to provide that information could cause your risk profile to default to the worst-case scenario and highest premium.



Improve your risk management — and let the world know about it.

Consider technological upgrades to reduce exposures, such as water sensors, sump pumps, electrical backups and outdoor property improvements to reduce damage from wildfires, erosion and flooding. Completing a business insurance worksheet may provide a better picture of exposures and how they can be mitigated. Provide insurers with data that shows your properties are best-in-class risks and deserving of better terms and rates.



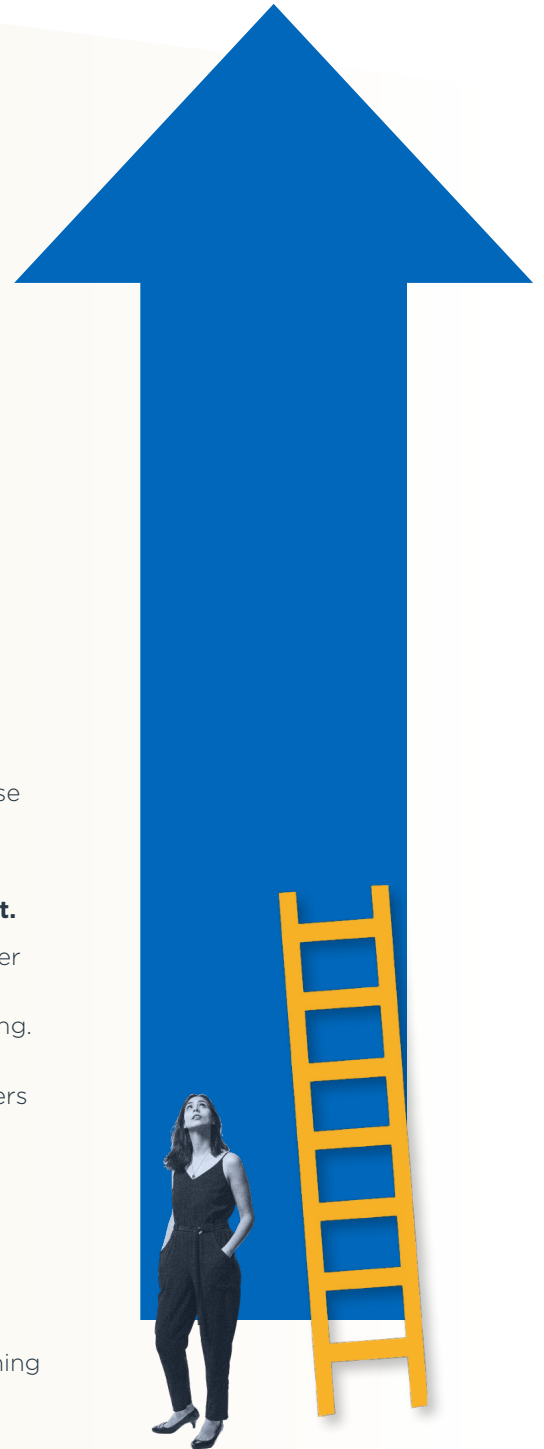
Develop evacuation plans for catastrophes.

Insurers want to know that there's a plan for dealing with a catastrophic event. You need plans for evacuating personnel, removing equipment and securing buildings in case of an approaching hurricane, windstorm, wildfire or possible flooding.



Take a layered approach to security.

Start with physical security such as fencing, signage, secured gates and doors, access control and security personnel. Then layer on technologies to further improve security, such as motion detectors, sensors and video surveillance.





Check your property valuations.

With inflation and rising construction costs, it's crucial for commercial property owners to have enough insurance to cover rebuilding. Also, it's imperative that you understand policies' full terms and conditions — be aware of any loss provision limitations or exclusions that could lead to losses.



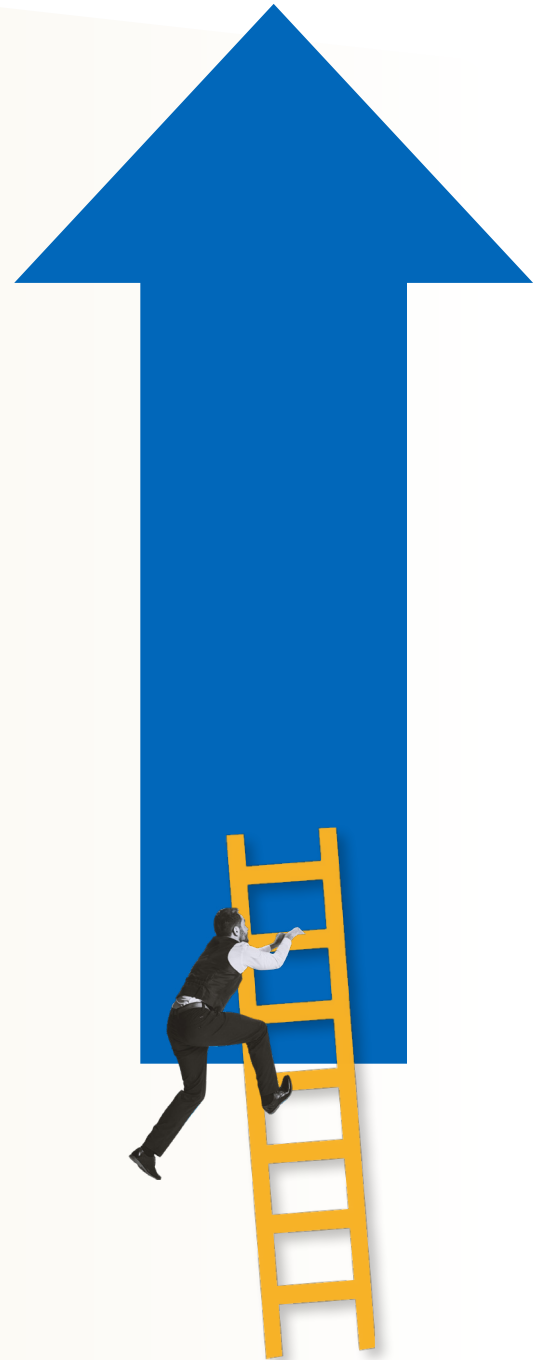
Consider nontraditional insurance coverage.

The days of finding adequate commercial property coverage from a single insurer may be over for some insureds. Purchasing difference in conditions (DIC) coverage or a deductible buy-down may be needed to fill in the gaps when traditional insurers reduce limits and coverage or raise deductibles. Commercial property owners may also consider coverage from E&S underwriters, consider participating in a captive or risk sharing, or shoulder additional risk themselves. Consult with your broker on these nontraditional options, as well as how to tame insurance costs through deductibles, self-insured retentions or other alternative means. Remember that your broker will need access to alternative insurance markets to leverage these options.



Work in partnership with your broker.

Always consult your insurance broker before purchasing a commercial building or building a new one, even in the concept development phase. It's essential to understand the risks and to leverage risk advisors' experience to identify exposures and develop risk mitigation plans. Your broker can show how to make your properties more attractive during both the construction phase and for the lifetime of the asset, and find the right insurance with the best possible terms and price.



Commercial Rate Outlook — U.S.

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

Based on our survey data, rates have risen in nearly every Property & Casualty commercial insurance line due to carriers' need for additional premium to support escalating 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	U.S. Rate Guide	Insights
Commercial Automobile: 5 Vehicles or Less	↑ 10% to 15%	While best-in-class risks in the small fleet segment may experience some rate relief, rising wages and repair costs, medical inflation and litigation trends continue to affect overall rate trends.
Commercial Automobile: > 5 Vehicles	↑ 10% to 15%	The disparity in rate increases continues to widen for above-average risks compared with below-average risks. Insureds must understand and highlight their fleet safety measures during the underwriting process, such as the use of telematics and mitigation procedures to combat unsafe driving exposures. Larger fleets must rely on lead umbrella options to secure sufficient limits.
General Liability	↑ 2% to 10%	<p>Carriers are deploying capacity carefully, and underwriters are requiring thorough submissions before accepting a risk in challenging classes, partly due to the persistence of nuclear verdicts but also to offset higher reinsurance costs. Risks with adverse claim history, or those with exposure to abuse and molestation or wildfire, are facing tougher renewals.</p> <p>Accounts with favorable loss history are experiencing moderate rate increases — and occasionally small rate reductions — based on exposures and sustainable program structures.</p> <p>Additional time will be necessary in all property & casualty lines to structure insurance programs and negotiate terms with carriers. Renewals should begin early — 120 to 150 days out.</p>
Workers' Compensation	↓ 5% to ↔ Flat	The market remains stable, with some insureds even experiencing reductions where there is growth in payroll, especially for better performing risks. Companies may want to leverage their workers' compensation exposure to help offset rate in other Property & Casualty lines to achieve the most competitive terms on an aggregate basis.
Package	↑ 10% to 20%	Loss activity continues to drive rate increases across the board, especially for risks with heavy property exposure, where increases may be closer to 25%.

Umbrella & Excess Liability

↑ 5% to 20%

Claims severity is the main driver for increased premiums, but new capacity is entering the market at elevated prices. Insureds with fleets above 300 units will be more difficult to place. Insureds may find more competition in their lead layer if the program is coupled with primary casualty, since carriers are seeking growth, particularly in workers' compensation.

Conversely, there is increased competition for excess layers above \$25M due to new capacity. Reviewing options on a global basis (including U.S. and global markets) is important; higher attachment points are available in Bermuda. HUB's state-of-the-art analytics capabilities can help insureds review program structures and determine appropriate retentions.

Commercial Property

↑ 10% to 25% or higher

The property market is the most volatile experienced in two decades. Replacement cost valuations remain a focal point irrespective of occupancy or geography, and insurers are pushing for elevated valuations. Appraisals or a narrative on the statement of values could be helpful when negotiating renewal terms. Insureds are seeing fewer blanketed limit options.

In areas subject to catastrophes, the number of standard markets is exceedingly rare, with limits only offered for best-in-class properties with superior construction. Demand for capacity now exceeds the availability, especially for properties located in California, the Gulf Coast and Florida, which rely on the non-standard E&S market and purchasing policies through shared and layered programs.

For properties with limited catastrophic exposure, expect continued underwriting scrutiny on insurance to value (ITV) and a minimum of 10% rate increases. While not typical, some insureds have acquired coverage with slight property rate reductions in non-catastrophe exposed geographies.

Residential/Habitational Property

↑ 20% or higher

Lack of capacity in the marketplace for habitational risks is an even more challenging issue than rate. However, rising construction costs, labor shortages and reinsurance costs have led to hefty rate increases. Carriers are pushing rate to return to profitability but claims continue to mount. Carriers are seeking elevated replacement cost valuations from insureds, or are urging indemnity limitations due to concern about underreported property values.

Catastrophic Perils (High hazard zones/tiers)

↑ 30% to 40% or higher

Single-carrier program increases
↑ 50% to 100%

Expect higher deductibles and retentions, coupled with reduced limits. Capacity continues to be limited, particularly in high-hazard areas exposed to floods, earthquakes, wildfires, hurricanes and convective storms. Scrutiny on wildfire exposure extends beyond California and Colorado — locations with wildfire scores of 80 or higher are seeing increasingly limited market appetite and substantial rate increases.

Portfolios exposed to tropical cyclones and storm surges — especially in Florida, Texas and Louisiana, as well as exterior insulation finishing system (EFIS) construction — should anticipate carrier dislocation on single-carrier placements, material rate increases and capacity shortages.

New critical catastrophe capacity will be a challenge in Q3 and Q4 as some markets and London syndicates are indicating carrier aggregates are filling up.

California earthquake-exposed risks are seeing similar challenges with significant price increases and limited capacity.

Coverage	U.S. Rate Guide	Insights
Environmental	↑ 5%	Modest rate increases are expected for many classes, and coverage limitations around perfluorooctanoic acid (PFOA) will become more common for many classes of environmental risk. This will be particularly challenging for pollution legal liability policies renewing from long-term policy periods.
Directors & Officers: Private	↓ 10% to ↑ 10%	Pricing and retentions are trending much more favorably after years of difficult market conditions. The continued influx of new markets for both primary and excess have created increased competition. Classes of business that are more difficult to place include Healthcare, Education, Oil & Gas, Cryptocurrency and Cannabis, along with financially challenged accounts where underwriters are concerned about liquidity or bankruptcy.
Directors & Officers: Public	↓ 10% to ↔ Flat	Risks with no major exposure changes are likely to see more favorable pricing. Excess rates are continuing to soften as well.
Cyber Liability	↑ 5% to 10%	Rates are easing for clients that have not had significant exposure changes or claims activity and maintain proper cybersecurity controls. However, the market continues to take slight rate. Rates for excess limits are decreasing much more than primary rates, with increased limit factors (ILFs) dropping dramatically — in some cases as much as 70% below the rate increases seen over the past few years.

Industry	U.S. Rate Guide	Insights
Agribusiness	↑ 10% to 15%	Property capacity challenges continue to impact the Agribusiness sector, resulting in fewer options for insureds at renewal. The sector has seen radical shifts in renewal terms, conditions and the application of loss limits on high total insurable value (TIV) exposures. Building and repair costs, catastrophic weather events, medical inflation and ever-increasing litigation settlements are forcing reinsurance carriers to reduce their risk tolerance, which in turn pushes more loss exposure to admitted carriers. Expect continued compression of umbrella and excess layer limit options in addition to rate increases. For example, policies with \$10M of expiring limits might only be offered \$5M options at renewal, or \$5M in expiring limits compressed to \$1-2M at renewal, requiring additional carriers on the program to maintain expiring coverage limits.
Cannabis	↑ 5% to 10%	<p>The cannabis sector is undergoing many changes — margin compression, long-term profitability concerns and a dramatic shift in capital markets — that have resulted in an avalanche of operators looking toward transactions to protect the interests of their stakeholders. Given the potential of asset sales, liquidations and even insolvency for clients in this sector, insureds must comb through their insurance policies and ensure coverage extends to the organization's operations as well as its directors and officers through the entirety of these various types of transactions.</p> <p>While there is some premium relief in D&O, product liability and workers' compensation, where rates had been historically extremely high, expect increases in other lines such as auto, catastrophic property and cyber.</p>

Industry	U.S. Rate Guide	Insights
Construction	↑ 10% to 15% or higher for CAT-exposed areas and certain construction types	<p>Market challenges persist due to profitability concerns and uncertainty, especially for catastrophe-exposed jobsites in Florida, Texas, the Carolinas and the Gulf Coast. Rates in these geographies have increased to absorb the cost of reinsurance. In Builder's Risk, increasing project size due to elevated inflation has impacted building costs, resulting in a larger insurance spend and need to build shared and layered programs, sometimes even for "small" projects. When policies need to be extended, incumbent carriers are maxed out of capacity, requiring contractors to find new carriers — which comes at a cost.</p> <p>Carriers require strict controls around EFIS construction and will require that contractors are properly licensed. Insureds that are storing additional supplies to curb supply chain challenges must communicate this to brokers and carriers to confirm adequate coverage. For surety bonds and subcontractor default insurance, rates are driven by volume and continue to be flat to low single-digit increases.</p>
Entertainment	↑ 10% to 15%	<p>Exposure is up as events and festivals have rebounded following pandemic shutdowns. Film and TV have ramped up production with more content needed to keep up with demand on streaming services.</p> <p>Expect increases in workers' compensation mid-2023 and 2024 arising from the lack of skilled employees, especially for risks with venues and staging. As slips and falls drive rate for venue liability, insureds must have adequate safety practices and should consider utilizing HUB risk control to implement programs to protect spectators and employees.</p>
Financial Institutions	↓ 10% to ↑ 15% (varies by sector)	<p>In the private equity sector, M&A deal flow declined more than 30% year over year, which has driven rates down significantly and increased coverage availability in the transaction liability market. Executive lines coverage for private equity firms and their portfolio companies is relatively soft, with rates averaging flat to +10% for many firms.</p> <p>In the banking sector, given the recent banking crisis, underwriters are taking a measured, responsible approach, analyzing the balance sheets of their banking clients on an individual basis and rejecting a broad-brush approach to underwriting D&O, bankers professional liability and bonding for the community banking sector. Overall rates and coverage continue to be stable. Last year's flooding in California, along with windstorms and flooding in Florida and on the Eastern seaboard, have led to significant rate increases and reduced capacity in mortgage impairment and forced place coverage for lenders.</p> <p>For the investment firm sector, carriers continue to recognize favorable claims experience with rate activity ranging from 10% reductions to flat.</p>
Healthcare	↑ 10% to 15%	<p>While profitability is improving, deployment of capacity remains a focus and jurisdictions are being carefully monitored. Combined ratios for the largest writers of medical malpractice remain above 110% — expect continued rate increases.</p>
Hospitality	↑ 15% to 20%	<p>Risks with exposure to delivery or transportation of guests are seeing larger automobile rate increases. Liquor liability remains tough to place. Additional underwriting of crime scores and sublimated coverage for assault and battery continues.</p>

Industry	U.S. Rate Guide	Insights
Nonprofit	↑ 10% to 15%	Capacity is nearly maxed out for difficult lines of liability such as sexual abuse and molestation and excess liability. State revival statutes — which allow adult survivors of childhood sexual abuse to bring civil claims, often allegations of negligence or assault and battery, after the statute of limitations has passed — continue to be a major contributor to rates and lack of capacity due to an unprecedented number of suits and the largest settlement figures in history over the past three years. The mental health issues plaguing the nation have increased the need for rate, coupled with limited excess options on professional liability lines due to increased claims related to drug use, suicide and other forms of mental anguish.
Real Estate	↑ 20% to 30% or higher	Property capacity was restricted following January 1st reinsurance treaty renewals earlier this year, with similar expectations following treaties renewing June 1st and July 1st. Expect hefty rate increases even for best-in-class properties. The biggest obstacle remains lack of capacity for habitational risks, properties in Florida and catastrophic perils — at any price.
Sports	↑ 5% to 10%	Participant numbers in youth and amateur sports have reached pre-pandemic levels, increasing abuse & molestation exposure, which is likely to result in high rate increases and capacity restrictions. As activity ramps up for sporting events, crowd control and patron safety remain a key focus during the underwriting process.
Transportation	↑ 10% to 15%	Rates are driven by automobile and physical damage lines, which continue to be adversely impacted by increased repair costs, medical inflation and litigation trends. Expect high single-digit rate increases in motor truck cargo, but risks in that sector with superior technology and fraud prevention will be more likely to see competitive pricing.

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 for calculating insurance premiums.

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