

Personal lines of property & casualty insurance in a hard market



What personal insurance consumers can expect in 2023

The property insurance industry has had challenging results over the last decade, with the past three years bringing one natural catastrophe after another. Personal lines premiums for automobile, collections and homeowners have also been impacted by skyrocketing increases due to claims severity and associated costs of repair, led by rising inflation and supply chain issues. Supply chain issues and shortage of skilled labor prolong claims settlement, which increase claims costs for loss of use or temporary replacement of housing or vehicles. As claims costs increase, premiums follow.

Additionally, reinsurance costs have increased by double digits over the last two years and are expected to increase another 25%-40% in 2023. Reinsurance is insurance purchased by insurance companies to partially insulate themselves from a catastrophic claims event. The costs of reinsurance are passed along to consumers in their policy premiums and are most apparent in catastrophe-prone areas like California, Florida and remote areas where fire department response times are longer or unavailable.

Hurricane Ian's landfall in September 2022 further exacerbated market challenges with an estimated \$67 billion of insured losses, making it more costly than Hurricane Katrina in 2005. Furthermore, 12 of the top 22 most costly insured events in U.S. history have occurred since 2020 with all but 9/11 being weather-related.

What should I expect in 2023?

- If you live in a disaster-prone coastal or wildfire area, expect to see an increase in homeowners' premiums of at least 20% or greater. The likelihood you will face nonrenewal action by your current insurer will also increase, which often results in options that are higher in cost and may have restricted coverage terms. This is no longer confined to Florida and California as market conditions often impact homeowners across the country.
- The most prevalent cause of loss for a homeowner is due to non-weather-related water claims from leaking or burst pipes. Approximately 48% of homeowner claims are the result of water leaks from aging infrastructure. For condo or co-op owners, this risk is increased because the damage often comes from an adjacent unit. In major cities like New York where vertical living is predominant, carriers are raising rates and/or nonrenewing policies for this reason alone.
- Flood insurance premiums continue to increase, whether through a FEMA supported program or in the open market. Because all homeowner insurance policies exclude coverage for flooding, it is recommended that everyone consider purchasing flood coverage, regardless of whether they are in a special flood hazard area or not. Experts estimate 40% of flood claims are for homes that are not in designated flood zones.
- Insurance regulators work hard to protect consumers; but, there are often unintended consequences that further drive market conditions. When carriers are forced to withhold releasing rate increases or are restricted in their ability to respond to evolving risks, the result is often to restrict new business. When this occurs, it becomes increasingly difficult to find a carrier willing to extend any offer of coverage. Some insurers are now refusing to offer any new policies in California for the foreseeable future and the carriers who remain open are much more restrictive in their selection criteria.
- Rebuilding and repair costs continue to skyrocket across the country. Demand, inflation, labor costs, cost of materials and new building codes all influence claim costs. These costs are even greater after a catastrophe that damages multiple structures, creating greater demand.
- Auto insurance rates continue to climb. Increased claim severity, supply chain issues, cost of parts and shortage of skilled labor especially seen during and post-pandemic influence these rates.

What can I do to mitigate these issues?

- Minimize your premiums by increasing your deductibles, thus reducing the likelihood of smaller claims impacting your future insurability. Understanding and discussing your personal risk tolerance with a qualified insurance specialist will often help reduce premiums.
- Consider loss prevention techniques to improve your insurability and maximize premium credits:
 - Install water monitoring and automatic shut-off devices;
 - Install monitored fire/burglar alarms;
 - Sprinkler systems;
 - Approved opening protection in hurricane-prone areas;
 - Automatic earthquake shut-off valves in earthquake-prone areas;
 - Update plumbing and electrical systems;
 - Remove brush and fire hazards in wildfire zones;
 - Fire-resistant roofing.
- Pay your premiums on time. If your policy cancels for non-payment, you will likely have to pay more to replace the coverage and may also give up valuable coverage terms. Carriers are beginning to surcharge clients with frequent late payment histories but are sometimes offering reduced rates for pre-payment and on-time payment histories. Underwriters also consider premium payment history when deciding whether to approve expanded coverage or reinstatement of a canceled policy.
- Maintain a good driving record. Some traffic citations remain on motor vehicle reports for as long as seven years and they have a significant impact on premiums and insurability. For youthful operators, this is even more significant.
- If possible, have all your coverage placed with the same carrier. Most carriers offer premium discounts when multiple policies are in place, often referred to as bundling. This can provide significant premium savings while making your risks more appealing to an insurance carrier.

MOST IMPORTANTLY, talk with your Lockton insurance professional when you have questions or concerns and when you are considering acquiring a new home or planning a major renovation. Advance notice is essential in this market as underwriters are deluged by people seeking solutions to these challenges. Our team deals with these issues daily and we are here to help you navigate these uncharted waters.