

# Navigating the Commercial Property Insurance Market

## A Comprehensive Guide for Insurance Agents

Includes three key takeaways as you head into 2024.



# Introduction

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Insurance agents play a crucial role in helping their clients navigate the complexities of the commercial insurance industry. This whitepaper serves as a comprehensive commercial property insurance guide for agents, providing insights into the current state of the market and an outlook for the remainder of 2023. It examines key trends, challenges, and opportunities, focusing on how agents can assist clients in navigating the evolving landscape of commercial property insurance.

## Topics addressed in this paper:

- 1.** Rising premiums and policy modifications driven by increased rebuilding costs, rising property values, reinsurance costs, higher operational costs, and higher liability claims.
- 2.** The importance of understanding and adapting to an evolving risk landscape, particularly the increasing frequency and intensity of weather disasters.
- 3.** Leveraging technology, such as data analytics, artificial intelligence, and the Internet of Things (IoT), to enhance risk assessment, underwriting, customer segmentation, and personalization.
- 4.** Key challenges in the commercial property insurance market related to climate change and catastrophic events.
- 5.** Providing comprehensive cyber insurance solutions to address evolving cyber threats, including educating clients, conducting risk assessments, and staying informed about the cybersecurity landscape.

**By exploring market conditions created by an evolving risk landscape and economic factors such as inflation, agents can better assist their clients in overcoming obstacles and making informed insurance decisions.**

# Current State of the Commercial Property Insurance Market

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## Rising premiums and policy modifications

Experienced agents are likely aware of the escalating premiums in the commercial property insurance market. A hard market in the insurance industry refers to a period of high insurance premiums, reduced availability of coverage, and stricter underwriting standards. The U.S. commercial insurance industry has been in a hard market for about four years.

Understanding the factors driving the current hard market, including the rise in catastrophic climate events, nuclear verdicts, and inflationary pressures, empowers agents to effectively communicate premium adjustments to clients. Moreover, agents should proactively assist clients in evaluating policy modifications and finding the most suitable coverage options in response to these market dynamics.



Catastrophic events, such as natural disasters, can lead to more claims, causing insurers to incur substantial losses. These increased losses can lead to premium increases as insurers seek to offset their financial burden.

To avoid catastrophic losses, insurers may be more cautious about the risks they're willing to underwrite, including imposing stricter conditions or reducing coverage options.

Inflationary pressures related to increased building costs, rising property values, higher liability claims, increased operational costs, and reinsurance costs can also impact premium increases.

# Inflationary Pressures on the U.S. Commercial Insurance Industry

## Increased Rebuilding Costs

Inflation can drive up the cost of construction materials, labor, and other expenses associated with rebuilding or repairing commercial properties. As a result, insurance companies may need to increase premiums to cover the higher rebuilding costs in the event of a loss.

## Rising Property Values

Inflation often leads to an increase in property values over time. As the value of commercial properties goes up, insurers may adjust their premiums to reflect the increased replacement value of the insured assets. Higher property values mean higher potential payouts in the event of a loss, which can lead to higher premiums.

## Reinsurance Costs

Reinsurers, which provide insurance to insurance companies, may also be affected by inflation. If reinsurers experience higher costs due to inflation, they may pass those costs to primary insurers. As a result, primary insurers may raise premiums to compensate for the increased expense of obtaining reinsurance coverage.

## Increased Operational Costs

Inflation can impact the general cost of doing business. Like any other business, insurance faces rising operational costs due to inflation, such as employee wages, office rent, and administrative expenses. Insurers may adjust their premiums to account for these increased costs to maintain profitability and pay claims.

## Higher Liability Claims

Inflation can also impact liability claims and the associated legal costs. As the cost of living and medical expenses rise, the compensation sought in liability claims may increase. Insurance companies may factor in these potential higher claim amounts when determining premiums for commercial property insurance.

## Adapting to an evolving risk landscape

Agents must stay informed about the evolving risk landscape surrounding commercial properties. The increasing frequency and intensity of weather disasters, such as hurricanes, wildfires, and floods, require a deeper understanding of their implications.

By understanding the potential impacts on property values, insurability, and claims, agents can provide valuable risk management advice to their clients. Collaborating with risk management specialists and offering tailored risk mitigation strategies enables agents to help clients proactively address vulnerabilities and minimize potential losses.

### BY THE NUMBERS

**\$118B**

Incurred U.S. commercial insurance losses in 2015.

**\$185B**

Incurred U.S. commercial insurance losses in 2021.

Incurred losses increased annually between 2015 and 2021.

Source: [Statista](#)

## Leveraging technology for enhanced services

Agents must embrace technological advancements within the commercial property insurance market to improve customer service. Data analytics, artificial intelligence, and the Internet of Things (IoT) can help agents provide more accurate risk assessments, customize policies based on specific property characteristics, and offer personalized pricing options. Agents should emphasize the benefits of digitization to clients and assist in implementing relevant technologies where appropriate, leading to improved risk management and cost-effective coverage solutions.

***Risk Assessment and Underwriting:*** Data analytics allows agents to analyze historical claims data, evaluate risk profiles, and price policies accurately. This enables agents and their underwriting partners to make more informed decisions, improving risk selection and pricing.

***Customer Segmentation and Personalization:*** By analyzing customer data, agents can identify distinct segments and tailor their products and services to meet specific needs. This personalization fosters stronger customer relationships, enhances customer satisfaction, and helps increase customer retention rates.



# To be truly data-driven, insurance agents must have access to various types of data. Some key sources of data in the commercial insurance industry include:

## Internal Data

Agents can leverage their internal data, including customer information, policy data, claims history, and financial records. Analyzing this data provides insights into customer preferences, claims patterns, and business performance.

## External Data

Agents can augment their internal data with external sources such as demographic, market, and industry-specific data. This broader perspective enables agents to understand market trends, identify emerging risks, and align their strategies accordingly.

## Telematics and IoT Data

With the proliferation of telematics and IoT devices, agents can access real-time data on vehicles, equipment, and property. This data helps agents assess risk more accurately, customize insurance policies, and offer usage-based pricing models.

# Key Challenges in the Commercial Property Insurance Market

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## Addressing climate change and catastrophic events

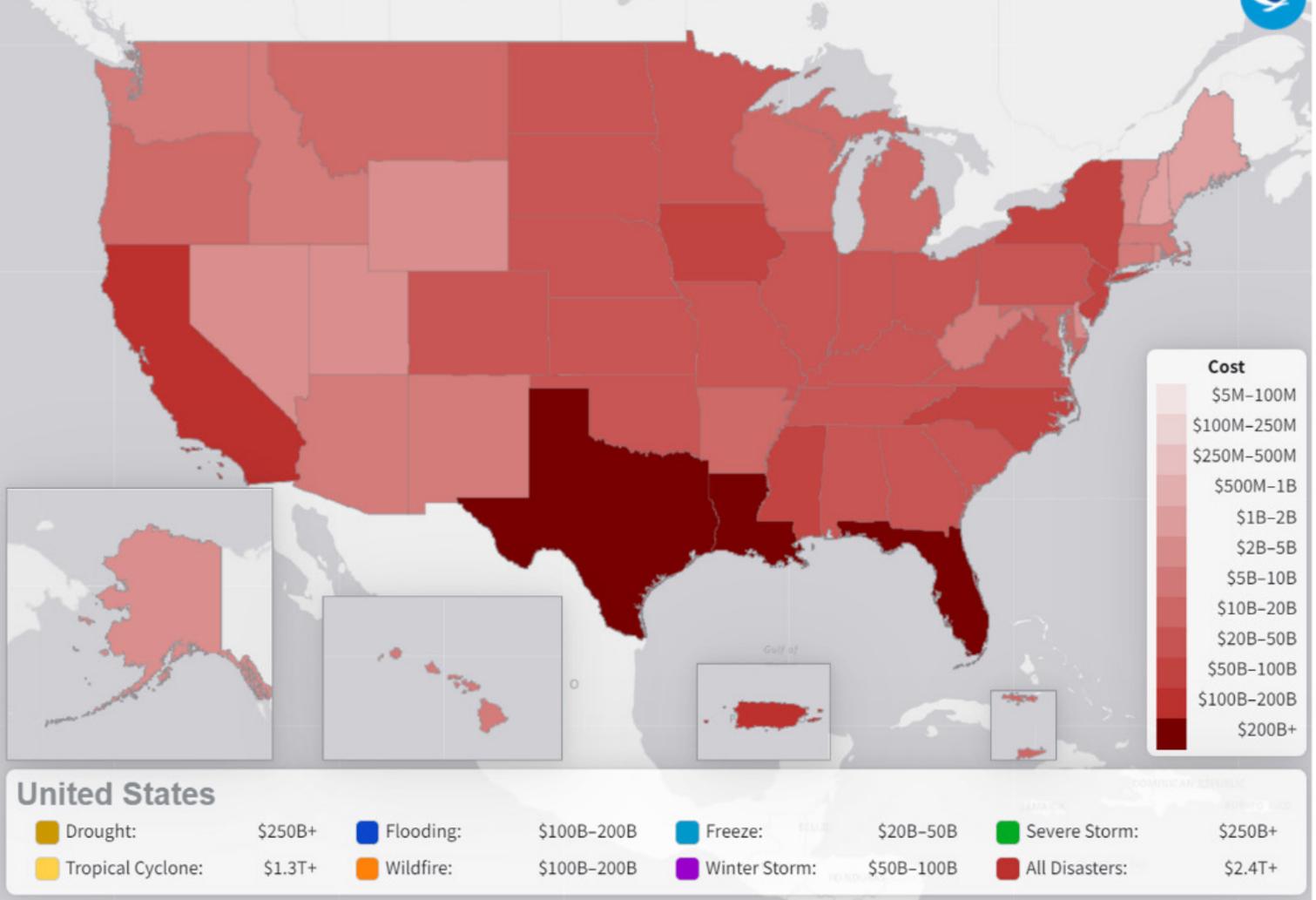
Agents play a pivotal role in helping clients navigate the challenges posed by climate change and the increasing occurrence of catastrophic events.

The U.S. has seen a [sharp increase in billion-dollar weather and climate disasters](#) in recent years, according to the National Oceanic and Atmospheric Administration (NOAA). The uptick is partly due to increased exposure, with more assets in high-risk areas. Climate change has also increased the frequency and intensity of extreme weather events.

“These trends are further complicated by the fact that much of the growth has taken place in vulnerable areas like coasts, the wildland-urban interface, and river floodplains,” NOAA explains in its analysis of 2022’s billion-dollar climate and weather events.

By proactively assessing properties in high-risk areas, agents can recommend risk mitigation measures, guide clients toward favorable coverage options, and educate them about the impact of climate-related risks on their premiums. Collaborating with underwriters and insurance carriers specializing in commercial property coverage can enhance an agent’s ability to offer tailored solutions to clients facing these challenges.

# 1980-2022 Billion-Dollar Weather and Climate Disaster Cost (CPI-Adjusted)



Graphic courtesy of the National Oceanic and Atmospheric Administration (NOAA).

## BY THE NUMBERS

**18**

Billion-dollar weather disasters recorded in the U.S. in 2022, tying 2017 and 2011 for the third most in a year, behind 2020 (22) and 2021 (20).

**122**

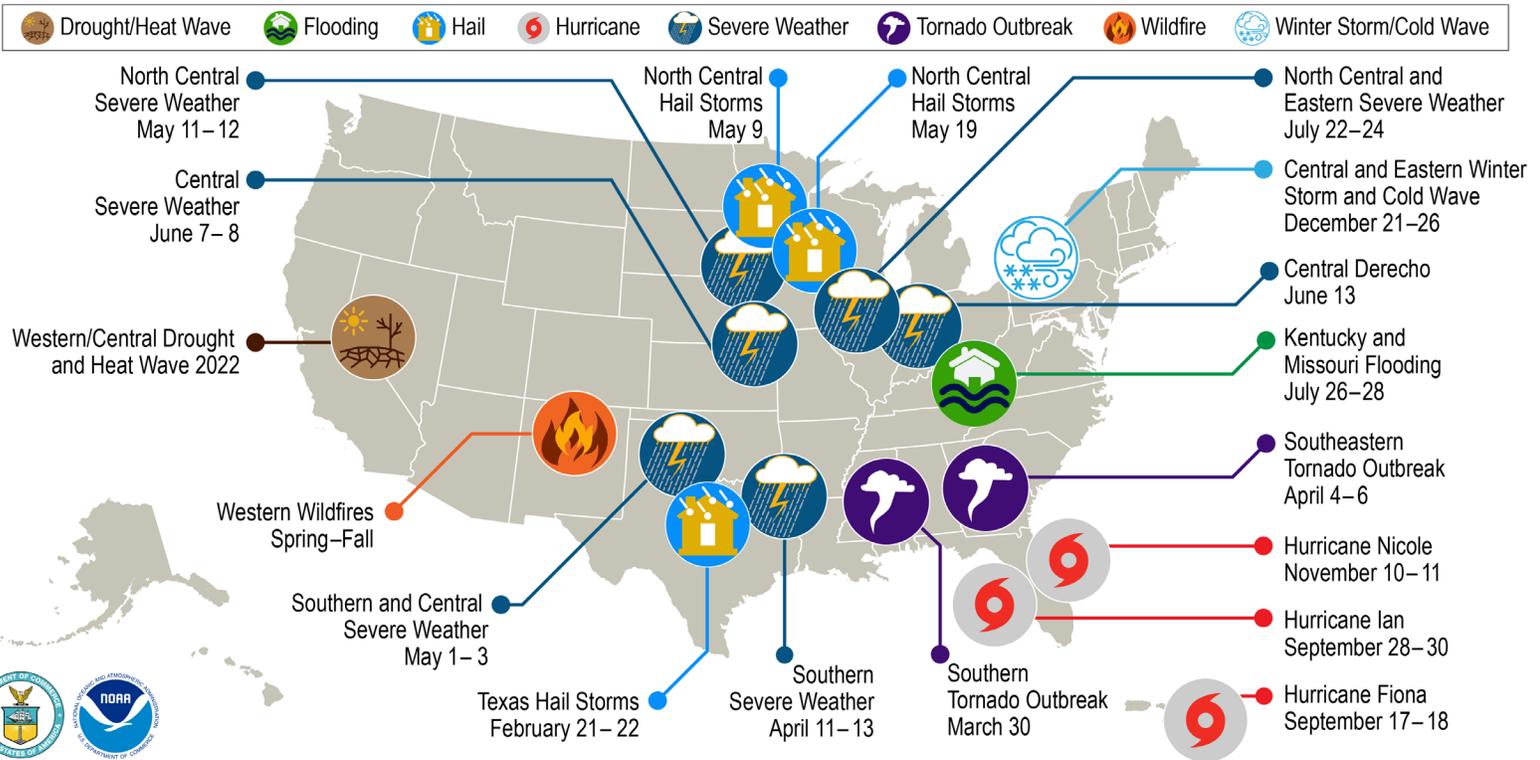
Billion-dollar weather disasters recorded in the U.S. between 2016 and 2022. Together, these disasters killed at least 5,000 people and cost more than \$1 trillion in damage.

**89**

Billion-dollar weather disasters in the U.S. between 2018 and 2022, more than the 86 recorded in all of the 1980s and 1990s.

Source: NOAA

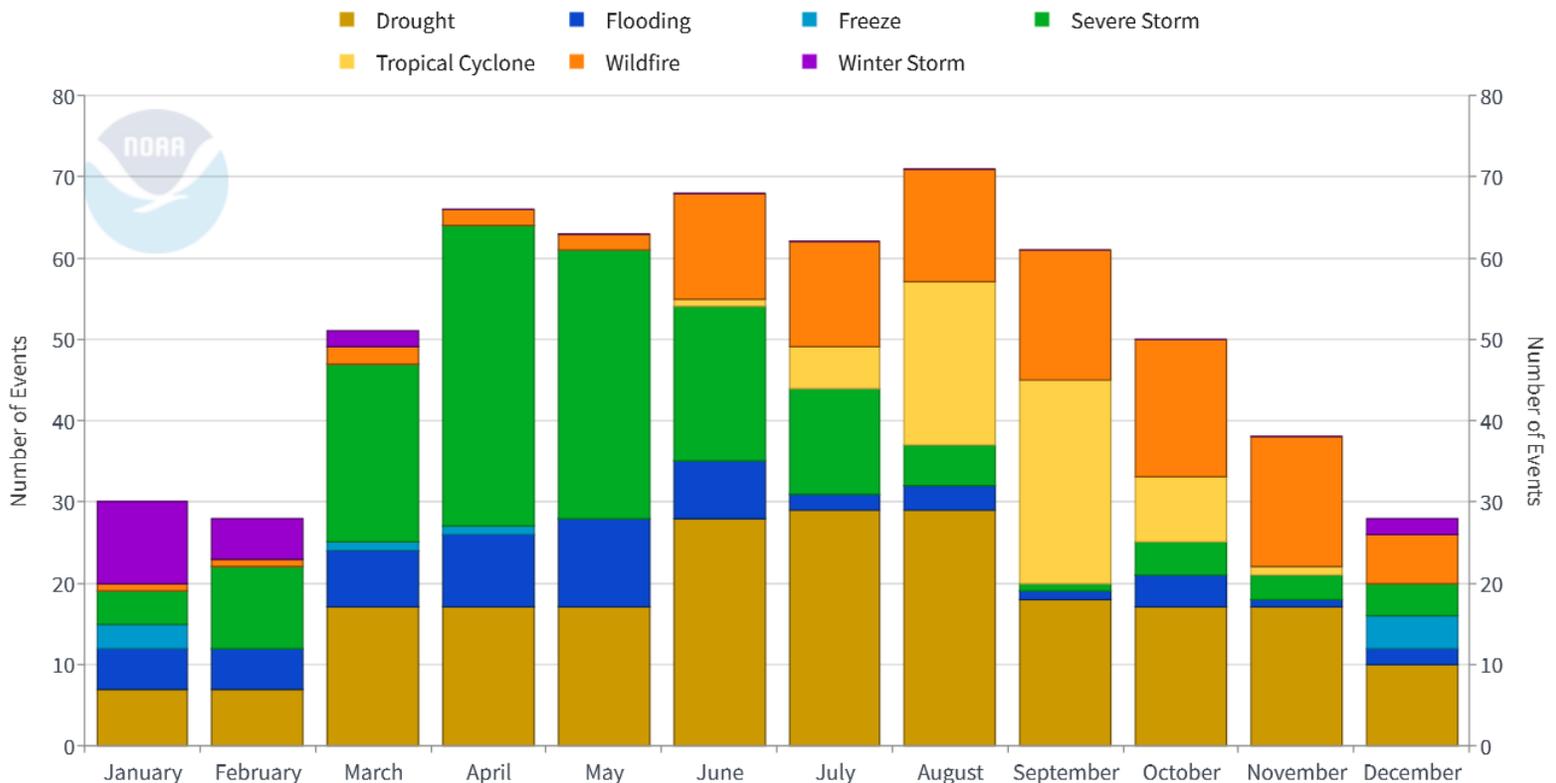
# U.S. 2022 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the 18 separate billion-dollar weather and climate disasters that impacted the United States in 2022.

Graphic courtesy of the National Oceanic and Atmospheric Administration (NOAA).

## United States Billion-Dollar Disaster Type Counts By Month 1980-2021 (CPI-Adjusted)



Graphic courtesy of the National Oceanic and Atmospheric Administration (NOAA).

## Providing comprehensive cyber insurance solutions

In the face of evolving cyber threats, agents should assist clients in understanding the critical importance of comprehensive cyber insurance coverage.

Educating clients about potential cyber risks, conducting risk assessments, and collaborating with insurers to refine policies ensures that businesses are adequately protected against cyberattacks, data breaches, and related financial losses.

By staying informed about the ever-changing cybersecurity landscape, agents can offer clients the most suitable coverage options and help them manage cyber risks effectively.



### **Cybersecurity Snapshot**

While ransomware claims in the U.S. decreased in 2022 compared to 2021, claims related to business email compromise (BEC) increased, according to the [Coalition 2023 Cyber Claims Report](#).

Ransomware is malicious software (malware) that encrypts data on a computer network, making it unusable. Cybercriminals often steal data from the network and hold it hostage until a ransom is paid. In 2022, federal authorities received 2,385 ransomware complaints and reported losses of more than \$34.3 million, according to the FBI's [2022 Internet Crime Report](#). The report notes that cybercriminals are more frequently threatening to publish stolen data if the victim doesn't pay the ransom.

The FBI received nearly 22,000 BEC complaints in 2022 and reported over \$2.7 billion in losses. BEC scams are often carried out when a cybercriminal compromises legitimate business email accounts using social engineering or computer intrusion techniques to conduct unauthorized funds transfers.

BEC scams are evolving quickly to become more sophisticated. The FBI's 2022 Internet Crime Report states that cybercriminals are increasingly spoofing legitimate business phone numbers to confirm banking details.

Cyber insurance carriers are asking (in some cases, requiring) that insureds put [proactive measures in place](#) to mitigate the likelihood of ransomware, BEC, and other cyber threats.

### Five of the most common criteria in an insurance application include:

- 1. Multi-Factor Authentication:** A security measure that requires anyone logging into an account [to complete at least a two-step process to verify their identity](#).
- 2. Secure Backups:** By [backing up data](#) in a safe location, businesses can recover data quickly in case of a cybersecurity breach.
- 3. Software Updates:** Also known as patches, these updates fix known problems and provide new security measures to protect against ever-evolving cyber threats. Cybercriminals tend to target known vulnerabilities.
- 4. Awareness Training:** Cybercriminals [use social engineering](#) to prey on human imperfections. Businesses that train employees how to identify signs of social engineering (e.g., phishing emails and spoofed phone calls and texts) and to use the appropriate level of caution before clicking on suspicious links and attachments can [create a human firewall](#).
- 5. Endpoint Detection and Response (EDR):** EDR systems are designed to continuously monitor computers and electronic devices to detect and respond to the latest cyber threats. EDR is akin to the [next generation of antivirus technology](#).

# BY THE NUMBERS

**801,000**

The number of U.S. cybersecurity incidents reported to the FBI in 2022.

**\$10.3B**

Estimated losses related to U.S. cybersecurity breaches in 2022.

Source: [FBI 2022 Internet Crime Report](#)

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**7%**

The increase in the average size of cybersecurity claims in 2022 compared to 2021.

**\$169,000**

The average size of cybersecurity claims in 2022.

Source: [Coalition 2023 Cyber Claims Report](#)

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**54%**

The increase in business email compromise claims in 2022 compared to 2021.

**33%**

The increase in likelihood that a business experienced a cybersecurity claim in 2022 if the business had unresolved cybersecurity vulnerabilities.

Source: [Coalition 2023 Cyber Claims Report](#)

# Top Takeaways: #1

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By providing expertise on premium adjustments, risk management strategies, technology integration, and comprehensive cyber insurance solutions, agents can add significant value to their clients' insurance portfolios, foster long-term relationships built on trust, and facilitate proactive risk management.

## ● Navigating Premium Growth

Agents should prepare clients for the anticipated premium growth in the commercial property insurance market through the remainder of 2023.

By explaining the underlying factors driving these increases, agents can help clients comprehend the changing landscape and make informed decisions regarding their insurance budgets. Agents can also assist in exploring alternative coverage options and negotiate favorable terms with insurers to mitigate the financial impact of premium growth.

***"Rising premiums in the commercial property insurance market require agents to effectively communicate the underlying factors driving these increases to clients. By providing transparency and explaining the impact of catastrophic events and climate change concerns, agents can help clients make informed decisions about their coverage options."***

– Nathan Tripler, Senior Business Development Consultant, HAI Group



# Top Takeaways: #2

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## ● Risk Mitigation Strategies

Agents should actively promote risk mitigation strategies to their clients. Agents can help businesses implement effective security systems, develop disaster preparedness plans, and establish business continuity strategies by collaborating with risk management experts. Encouraging clients to prioritize risk management can help minimize losses, enhance insurability, and enable businesses to secure more competitive premiums.

*"The commercial property insurance market is witnessing a significant shift as businesses face evolving risks. Agents must stay updated on these changes and assist clients in adopting proactive risk mitigation measures to protect their assets."*

– Elizabeth Owens, Director of Risk Management and Consulting, HAI Group



Need risk management tips for your commercial clients? Sign up for HAI Group's newsletter.

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# Top Takeaways: #3

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## ● Expertise in Cyber Insurance

Given the growing demand for comprehensive cyber insurance, agents should enhance their cybersecurity expertise. By staying informed about the latest cyber threats and policy enhancements, agents can offer clients the most up-to-date and relevant cyber insurance solutions. Conducting thorough risk assessments and providing tailored coverage options will help businesses mitigate the financial impact of cyber incidents.

*“Navigating cyber risks is becoming increasingly critical for businesses. Agents should collaborate closely with clients, helping them understand the importance of comprehensive cyber insurance coverage and assisting in assessing their cyber risk exposure.”*

– Angel Fear, Account Services Manager, HAI Group



Looking for cybersecurity resources to pass along to your commercial clients? Visit HAI Group's Cybersecurity Center for free downloadable tip sheets, checklists, guides, and more.

[Visit Cybersecurity Center](#)

# Supporting Your Growth in the Affordable Housing Segment

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HAI Group has been creating insurance programs for the affordable housing industry for more than three decades, underwritten by Housing Enterprise Insurance Company, Inc., (HEIC), an admitted carrier rated “A” by AM Best. HAI Group’s programs include comprehensive property and casualty coverage designed for for-profit and nonprofit providers of affordable housing, mixed-income housing, and tax-credit-financed housing.

*“Affordable housing is our sole focus, so we also understand the unique challenges your affordable housing clients face and tailor our products to address them.”*

Trusted by more than 1,800 customers nationwide, HAI Group insures more than \$70 billion in building values across the United States.

“We offer 24-hour in-house claims services, specialized risk management consulting, in-depth industry research and support tools, and much more,” said Nathan Tripler, a senior business development consultant at HAI Group. “Affordable housing is our sole focus, so we also understand the unique challenges your affordable housing clients face and tailor our products to address them.”



**Download HAI Group's Agent and Broker Kit to learn more about our affordable housing programs.**

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