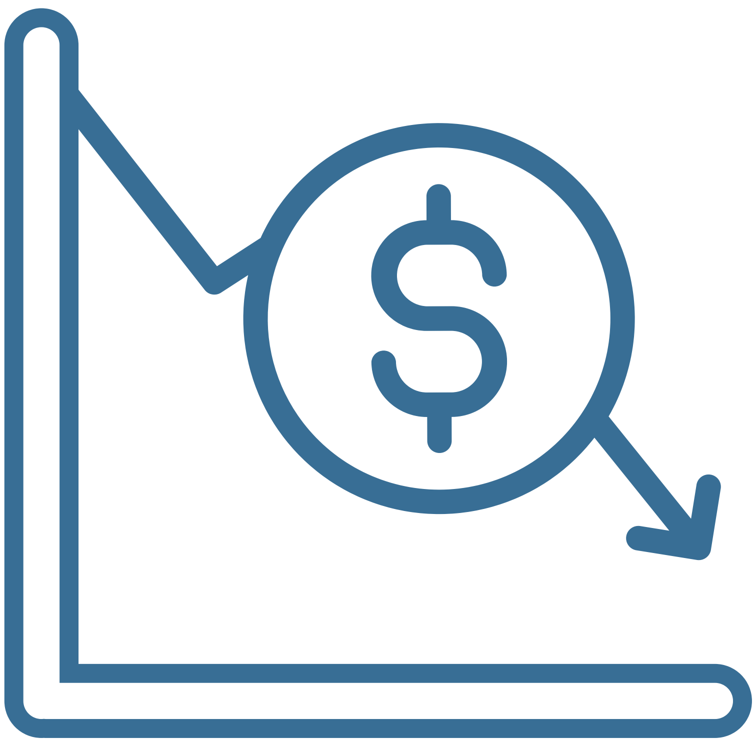
OMNIA
INSURANCE & RISK SOLUTIONS INC.

Ready for anything.

$27 Billion Underwriting Loss in 2022



The industry suffered a substantial underwriting loss of $26.9 billion in 2022, which was over six times greater than the underwriting loss of $3.8 billion in 2021. This loss in 2022 was the largest the industry had encountered since 2011.

Robert Gordon, Senior Vice President of Policy, Research & International for APCIA, has stated that the insurance industry is facing several challenges such as rising input costs, natural disasters, legal system abuse, and inadequate rates in some states. These factors led to a 14.1% increase in incurred losses and loss adjustment expenses, resulting in a contraction of over $76 billion in insurers' surplus. As loss exposures continue to increase, insurers are faced with a significant challenge in 2023 to close the rate gap and meet their growing cost of capital.

Although policyholders' surplus has slightly improved to $952.4 billion from the $911.7 billion total in Q3 of 2022, it is still below the year-end 2021 figure primarily due to the significant unrealized capital losses accumulated in 2022. The rate of return on insurers' average policyholders' surplus, which is a measure of overall profitability, decreased to 4.2% in 2022 from 6.4% in 2021.

Neil Spector, President of Underwriting Solutions at Verisk, has stated that property insurers faced significant losses last year due to Hurricane Ian and the impact of inflation. Furthermore, the personal and commercial auto lines were adversely affected by the ongoing problem of accident severity. To remain profitable in these challenging circumstances, many insurers are exploring new ways to decrease expenses, improve efficiency, and enhance the customer experience. They are seeking assistance from a growing ecosystem of advanced technology and analytics to help them achieve these objectives.

4213 State St, Ste 205
Santa Barbara, CA 93110
T: 805-563-0400 | F: 805-563-0440

OMNIA

INSURANCE & RISK SOLUTIONS INC.

Ready for anything.

Forces Driving Commercial Property Rates

1. Castrophe Losses

Hurricanes, floods, wildfires, tornadoes, winter storms. The frequency and severity of major catastrophes continue to stress the industry. In five of the past six years, these events have caused annual insured losses of more than $100 billion globally1. Last year, total insured losses globally were estimated at a staggering $140 billion.2

2. Reinsurance

Catastrophic events are a major factor driving up the cost of reinsurance — an expense primary carriers need to pass along to customers. At the same time, inflation and the economic environment has been making reinsurers more selective.3 In early 2023 the gap between reinsurance supply and demand was estimated at $60 billion, three times what it was the previous fall.

3. Underinsurance

Recent inflation has driven the cost of materials and services much higher, but just 43% of business owners say they have increased their policy limits to accurately reflect what it would take to replace insured property now.5 Customers must have accurate valuations for their assets so they don't come up short after a loss, and premiums will reflect those higher values.

4. Property Replacement Costs

Led by a 55% increase in the cost of structural steel and a 35% increase in the price of lumber, construction costs have jumped over the past three years: Nonresidential is up 36% and multifamily residential is up 32%. Similarly, machinery and equipment costs have increased 18% over the same period.6 Many contractors continue to grapple with materials shortages and supply chain disruptions as well.

5. Skilled Labor Shortage

Nearly half of reconstruction costs are wages and salaries, which have increased 16% over the past three years.7 Even with higher pay, nine out of 10 contractors are struggling to find skilled labor and are delaying projects as a result.8 Higher rebuilding costs and longer delays may trigger an increase in business interruption losses.

6. Property Rate Need

For years, escalating loss trends have outpaced rate increases, primarily because of the costs of catastrophes, severe weather and large fires. Expect carriers to raise rates again this year to close the gap

4213 State St, Ste 205
Santa Barbara, CA 93110
T: 805-563-0400 | F: 805-563-0440