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Rising Costs, Natural Disasters and Politics Strain U.S. Property Insurance Market

"Along with the rising cost of living..., property insurance availability and affordability continue to be a challenge across the U.S.," David A. Sampson, president and CEO of the American Property Casualty Insurance Association (APCIA), told *Insurance Journal* (November 26, 2024).

"Inflation has been persistently increasing repair, labor, and medical costs; and legal system abuse is plaguing the marketplace for consumers in every state. In a challenging time like this, it's more important than ever to have state regulators aligned and focused on how to work together to empower consumers and improve the marketplace."

The rising cost of living, coupled with challenges in property insurance availability and affordability, poses a growing concern for U.S. businesses and consumers. Inflation has driven up costs for repairs, labor, and medical care, while legal system abuse has further strained the insurance market. To address these issues, state regulators play a critical role by overseeing market conduct and solvency. Their focus is essential in ensuring insurers maintain sufficient reserves to pay claims while preventing excessive rates, fostering competition, and promoting innovation to protect consumers.

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This Just In ...

A M Best maintains a stable outlook for the U.S. commercial lines insurance sector in 2025, citing strong underwriting performance, improved investment returns, and robust risk-adjusted capitalization. Despite challenges like social inflation driving higher casualty claims, elevated property costs, and geopolitical risks, the segment remains resilient. Combined ratios have averaged in the mid-90s over the past three years, aided by moderate pricing gains and economic growth.

Key trends include:

- **Commercial Property:** Premium growth slowed in 2024 due to stabilized reinsurance markets, but Hurricanes Helene and Milton are expected to keep reinsurance terms firm in 2025.
- **Casualty:** Concerns over social inflation lead to greater selectivity among reinsurers, potentially

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Key Challenges:

1. **Market Turmoil:** Losses are outpacing premiums, causing significant disruptions in the insurance industry. A.M. Best downgraded the personal lines insurance sector for the first time, reflecting ongoing financial losses. Auto insurers have faced a historically bad three-year stretch, while homeowners insurers have seen five consecutive years of underwriting losses.
2. **Cost Pressures:** Inflation has significantly increased the costs of construction labor (up 35.1%), building materials (up 37.3%), vehicle repairs (up 22.2%), and parts (up 24.2%). These increases strain insurers, whose premiums have not kept up with rising expenses.
3. **Natural Disasters:** The frequency and severity of natural disasters, including $28 billion-dollar weather events in 2023 alone, have led to higher rebuilding costs. Population growth in high-risk areas exacerbates these challenges.
4. **Regulatory and Legal Factors:** Regulatory burdens and legal system abuses, including fraud, have driven up claims costs and complicated insurers' risk management strategies.

Solutions:

- Mitigation and Reform: Insurers advocate for measures to limit damage from natural disasters and work with state regulators to address unique cost drivers, such as legal system abuse.
- Collaboration: Florida's recent reforms showcase the benefits of industry-regulator collaboration. After legislation reduced legal system abuse, the state's insurance market stabilized, new carriers entered, and rates decreased or remained stable for many policyholders.

Path Forward:

"There is no silver bullet and each state has its own challenges," says Sampson. "But insurers are committed to working with state regulators and all stakeholders to provide consumers with the benefit of a healthy, competitive, and sustainable property insurance marketplace with accessible and affordable coverage options." By addressing inflation, fraud, and risk exposure, insurers aim to create a more competitive and sustainable environment for consumers.

Postscript Commentary:

It is important to note that federal policies play virtually no role in determining the adequacy of insurance premium rates, as the regulation of the insurance industry falls primarily under state jurisdiction. The effectiveness of state-level insurance regulation often hinges on the qualifications and expertise of state insurance commissioners. Unfortunately, some appointees lack the requisite industry knowledge, which can undermine the stability and fairness of the marketplace.

Additionally, political posturing by state leaders who decry necessary rate increases, despite insurers facing escalating claims costs due to inflation and natural disasters, only exacerbates the problem. These rate adjustments are often fully justified as insurers work to maintain solvency and ensure the availability of coverage for consumers. Without a focus on thoughtful reforms and qualified oversight, such rhetoric risks further destabilizing already strained insurance markets.

This Just In

hardening liability markets.

- **Workers' Comp: This line remains highly profitable, continuing to offset weaker performance in auto and general liability.**
- **Emerging Risks: Secondary perils like storms and wildfires increasingly drive insured losses. Nuclear verdicts and litigation financing heighten risks in commercial auto and product liability, prompting rate increases.**

A shift to the excess and surplus (E&S) market reflects admitted carriers' caution, with E&S seeing growth in high-risk and volatile lines like D&O and cyber. Overall, AM Best expects profitability to persist, underscoring the importance of disciplined risk selection and innovation.

This information was published in AM Best's "Market Segment Outlook: US Commercial Lines."

How New Building Codes in Florida, California and Other States Are Saving Lives and Dollars — When Implemented

Last spring, the Federal Emergency Management Agency (FEMA) issued a stern warning to southwest Florida communities still reeling from Hurricane Ian's devastation in 2022.

FEMA announced that these areas risked losing their community-wide discounts on federal flood insurance due to violations related to improper rebuilding in designated flood zones.

In response, local officials in Lee County and the Fort Myers region worked urgently to address FEMA's concerns. Over the following months, they compiled extensive documentation to demonstrate compliance with elevation standards and other building requirements. Officials also clarified that some structures were either exempt from these regulations or had been rebuilt in accordance with the required guidelines. These efforts aimed to preserve the insurance discounts critical for making flood coverage affordable for residents in the high-risk region.

The failure to consistently implement FEMA guidelines and enforce updated building codes in disaster-prone areas has compounded the costs of disasters, both immediately and in the long term. Research underscores the importance of modern codes in mitigating damages and reducing rebuilding expenses. For example:

1. **Hurricane Andrew's Legacy (1992):** After Hurricane Andrew devastated Florida, it became evident that substandard construction practices contributed to the widespread destruction. Florida responded by adopting stricter building codes, including requirements for wind-resistant construction. These measures have since saved billions of dollars by reducing damages from subsequent hurri-

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canes like Irma (2017) and Ian (2022), according the National Association of Home Builders.

2. **California's Wildfire Preparedness:** California's building codes now emphasize fire-resistant materials and defensible spaces around homes in wildfire zones. However, some areas have resisted adopting these measures due to concerns over increased costs. This resistance has led to repeated losses, such as during the 2018 Camp Fire, where over 18,000 structures were destroyed. Research estimates that adhering to modern fire-resistant codes could have significantly reduced these losses, according the National Association of Home Builders.

3. **Floodplain Development Issues:** Despite FEMA's guidance, many municipalities allow rebuilding in flood-prone areas without incorporating higher elevation requirements. For instance, areas affected by Hurricane Harvey (2017) in Texas saw repeated flood losses because rebuilt properties were not elevated to withstand future flooding. In contrast, Louisiana's post-Katrina rebuilding efforts included updated flood elevation standards, which have helped mitigate subsequent flood damages, according to Verisk.

4. **Economic Analysis:** FEMA studies estimate that for every dollar spent on disaster mitigation, such as enforcing modern building codes, society saves $11 in disaster recovery costs. However, as of 2019, only about 30% of U.S. communities had adopted the latest building codes. This gap contributes to billions in preventable losses annually, as older codes do not account for evolving risks like stronger hurricanes and more frequent wildfires (Verisk).

To bridge these gaps, FEMA and other stakeholders advocate for stricter enforcement and incentives to encourage compliance with modern codes. Enhanced collaboration between federal, state, and local governments could ensure that rebuilding efforts prioritize resilience and sustainability while addressing concerns about upfront costs. For more details, FEMA's Building Resilient Infrastructure and Communities (BRIC) initiative outlines strategies to incorporate these practices effectively.

17 Add-on Coverages You May Need to Supplement Your Basic Liability Policy

A Commercial General Liability (CGL) policy forms the foundation of a business's insurance coverage by addressing basic third-party liability risks. However, businesses often face additional exposures that require specialized policies to expand upon the CGL's protections.

Here's a breakdown of key policies businesses might consider to create a comprehensive risk management strategy:

1. Property Insurance

- Covers damage to or loss of the business's physical assets, such as buildings, equipment, and inventory, due to risks like fire, theft, or vandalism.
- Optional Enhancements: Business interruption insurance can provide financial protection for lost income during a covered shutdown.

2. Business Owner's Policy (BOP)

- Combines CGL, property insurance, and business interruption insurance into one package. BOPs are tailored for small to medium-sized businesses.

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3. Professional Liability Insurance (Errors & Omissions)

- Covers claims arising from professional negligence or mistakes, especially for service providers like consultants, lawyers, or accountants.
- Addresses gaps not covered by CGL policies, which exclude professional services.

4. Workers' Compensation Insurance

- Required by law in most states, it covers medical expenses, lost wages, and rehabilitation costs for employees injured on the job.
- Also protects the employer from lawsuits by injured employees.

5. Commercial Auto Insurance

- Provides liability and physical damage coverage for vehicles used in business operations.

6. Cyber Liability Insurance

- Covers financial losses and legal expenses from data breaches, cyberattacks, or other technology-related risks.

7. Directors and Officers (D&O) Insurance

- Protects executives and board members from personal liability for decisions made while managing the company.

8. Employment Practices Liability Insurance (EPLI)

- Covers claims related to wrongful termination, harassment, discrimination, or other workplace-related issues.

9. Umbrella or Excess Liability Insurance

- Provides additional liability coverage above the limits of primary policies, including CGL, auto liability, or employer liability.

10. Pollution Liability Insurance

- Covers liability for environmental damage caused by pollutants released during business operations.

11. Inland Marine Insurance

- Protects property that is transported or stored offsite, such as tools, equipment, or inventory in transit.

12. Product Liability Insurance

- Focuses specifically on liability arising from defective products that cause injury or property damage.

13. Crime Insurance

- Covers losses due to theft, embezzlement, forgery, or fraud by employees or third parties.

14. Key Person Insurance

- Provides financial support to the business in the event of the death or disability of a critical employee or executive.

15. Builder's Risk Insurance

- Covers property and materials during construction or renovation projects.

16. Business Travel Accident Insurance

- Protects employees traveling on company business against accidents and health emergencies.

17. Specialized Policies

- Liquor Liability Insurance: For businesses that serve alcohol, covering liability from alcohol-related incidents.
- Event Insurance: Covers risks associated with hosting special events.
- Media Liability Insurance: For businesses in advertising or publishing, covering risks like copyright infringement or defamation.

Conclusion

The choice of additional insurance policies depends on the specific risks associated with a business's industry, operations, and growth plans. Consulting with an experienced insurance agent or broker can help tailor a comprehensive coverage package.

What's in a Basic Liability Policy?

We often write about many of the policies that expand upon the coverage offered in a basic Commercial General Liability (CGL) policy. But what are the main features of the CGL coverage?

The CGL provides broad protection for businesses against third-party claims arising from bodily injury, property damage, and certain personal and advertising injuries. Here's a breakdown of key coverages:

1. Coverage A: Bodily Injury and Property Damage Liability

- **Bodily Injury:** Protects against claims for physical injury, sickness, or disease caused to a third party due to the business's operations or premises.
- **Property Damage:** Covers damage or loss of use of tangible property owned by others, caused by the insured's operations, products, or completed work.
- **Key Exclusions:** Coverage does not apply to intentional harm, pollution (without an endorsement), or damage to the insured's own property.

2. Coverage B: Personal and Advertising Injury Liability

- Covers claims for offenses such as defamation, libel, slander, false arrest, wrongful eviction, and infringement of copyright in advertisements.
- Key Exclusions: Excludes claims involving breach of contract, knowingly false statements, and advertising for businesses in specific prohibited industries.

3. Coverage C: Medical Payments

- Pays medical expenses for injuries to non-employees on the insured's premises or due to the insured's operations, regardless of fault.
- **Key Exclusions:** Does not cover injuries to employees or injuries arising from certain high-risk operations.

4. Supplementary Payments

- Includes legal defense costs and other related expenses, such as court fees and bail bonds, in defending covered claims.

Additional Features:

- **Occurrence-Based Coverage:** Most CGL policies cover claims arising from incidents that occur during the policy period, regardless of when the claim is made.
- **Aggregate Limits:** Specifies limits for the total amount payable for all claims within the policy period.

Common Exclusions:

- Professional services (covered under separate Errors & Omissions policies).
- Pollution (unless specifically endorsed).
- Liquor liability for businesses manufacturing, selling, or serving alcohol.
- Damage to the insured's work or product (often covered under a separate products-completed operations policy).