



# Commercial Lines Insurance: Trends and Challenges

## National Association of REALTORS®

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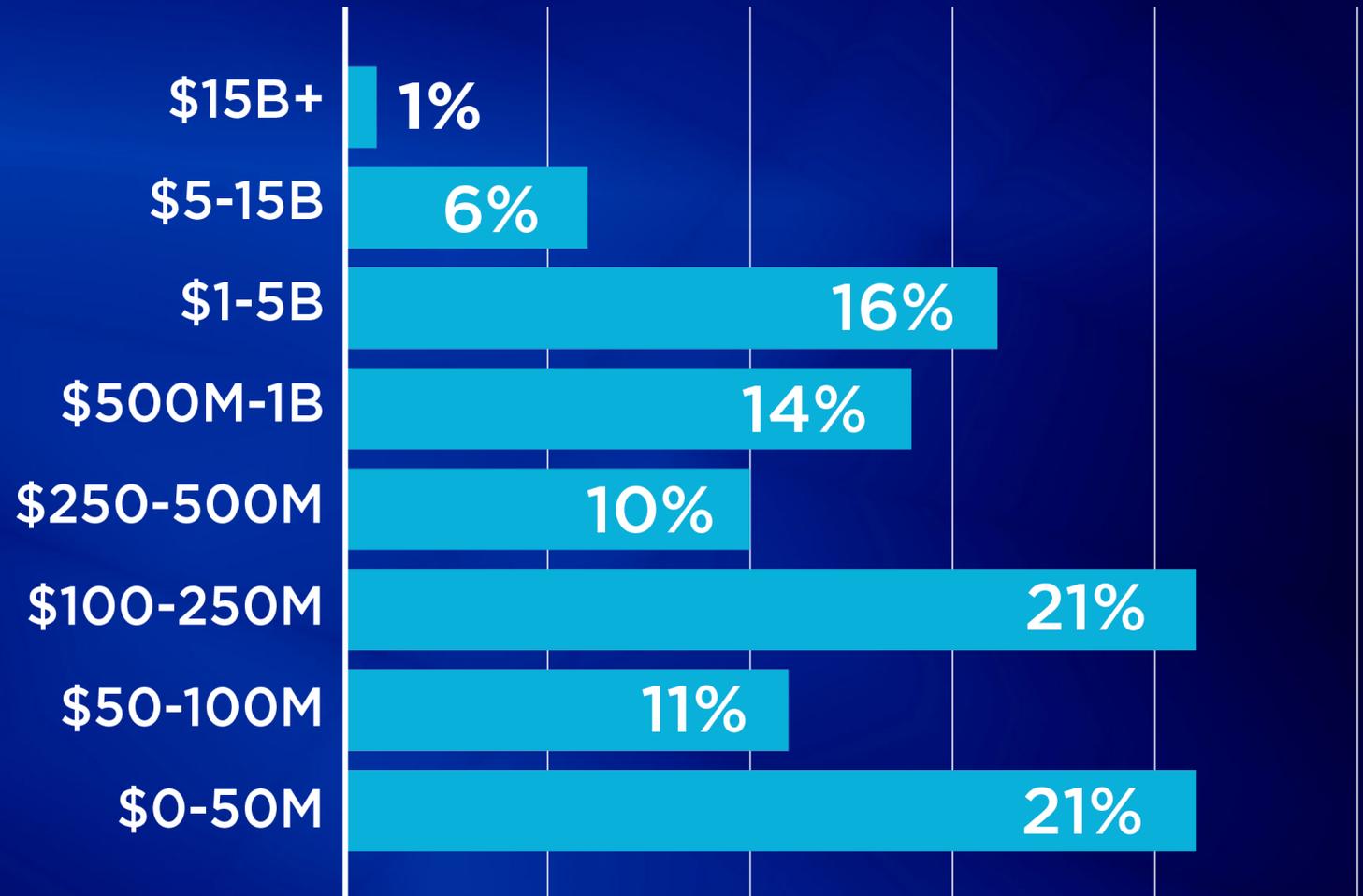
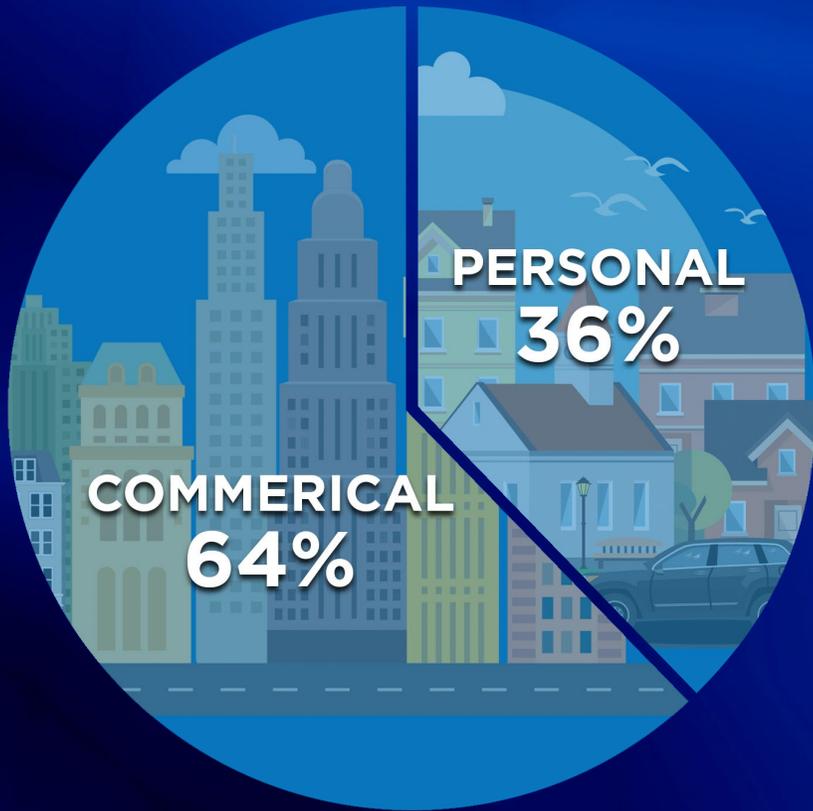
Eric M. Goldberg

Department Vice President and Counsel, Commercial Lines

May 7, 2024

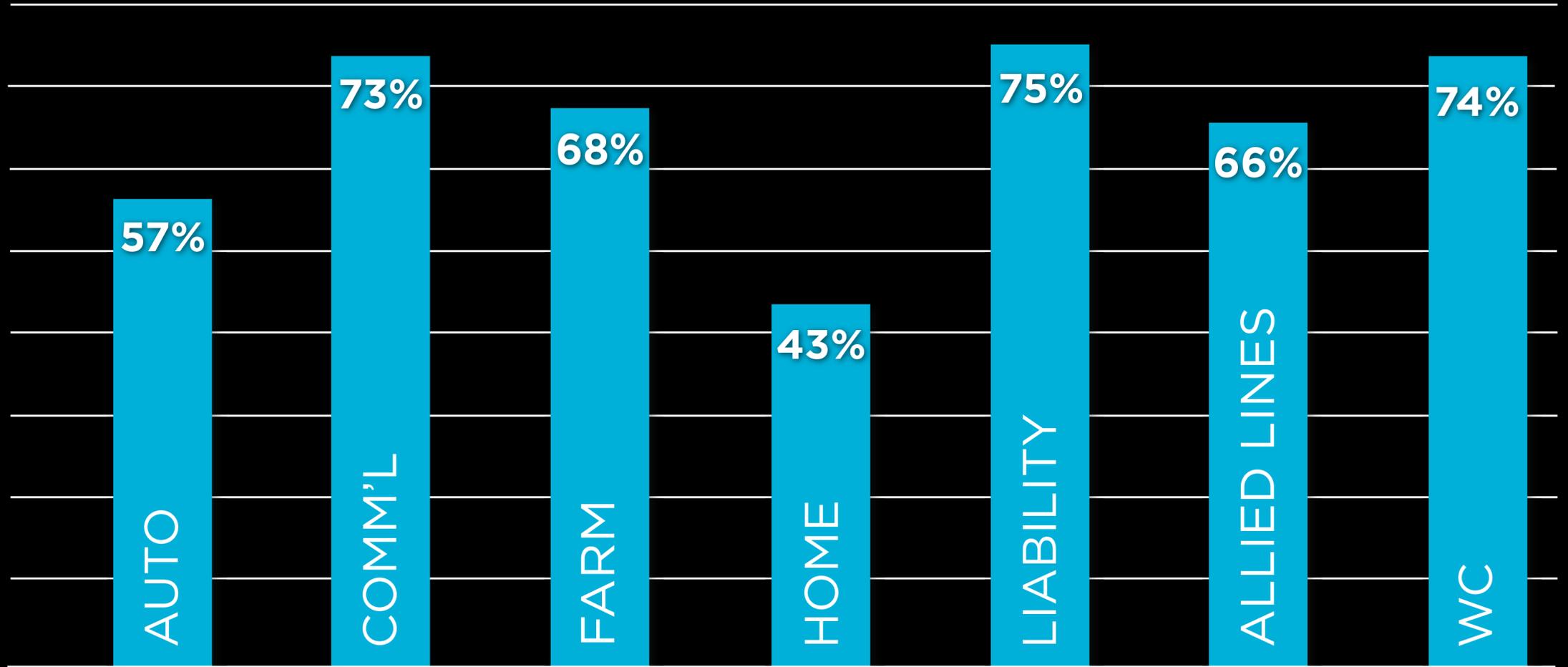


# APCIA Represents Members of All Sizes





# APCIA's Members Represent a Significant Share of the P&C Market



\*Based on companies reporting to NAIC

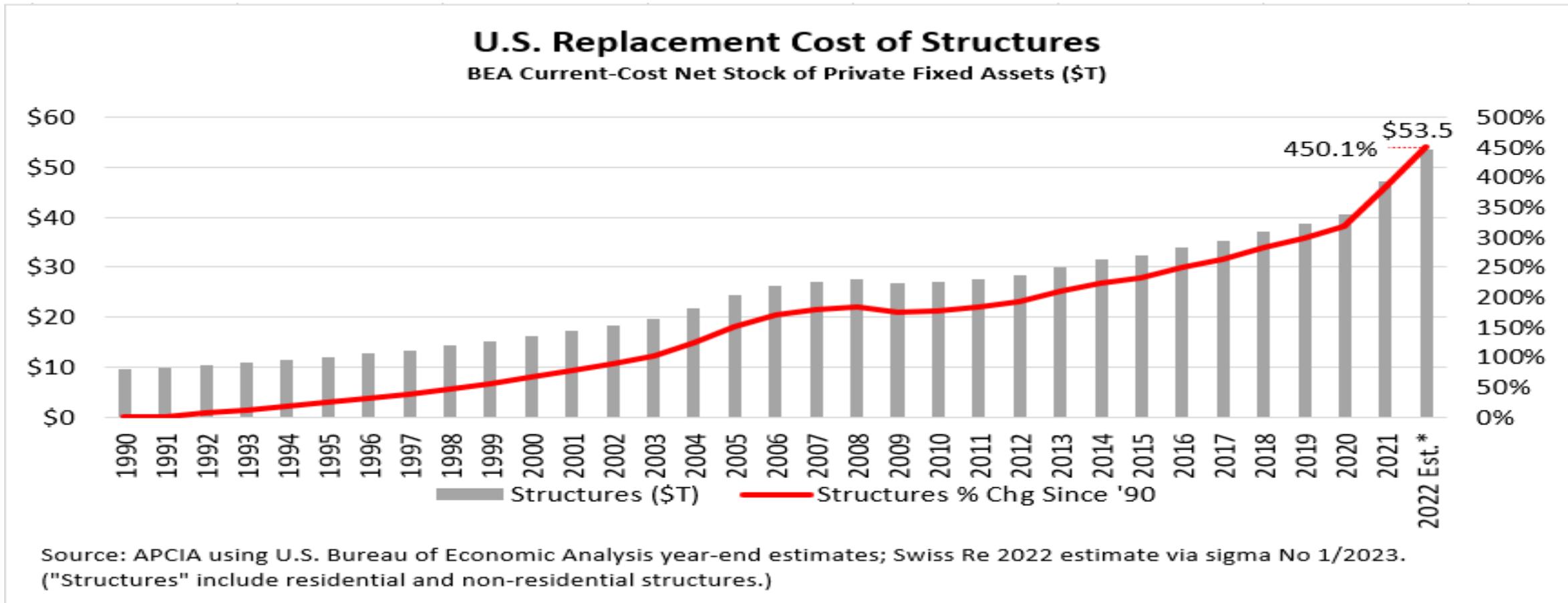


# There are Several Major Factors Causing Commercial Property Insurability Challenges

- A rise in exposure values and replacement costs
  - ✓ Continued construction in high-hazard areas
  - ✓ High levels of inflation that are driving up repair and rebuild costs
- The effects of climate change on different atmospheric perils
- The impact of reinsurance costs
- The impacts of human-made loss drivers, such as vacancy rates, legal system abuse, and political backlash against rate increases

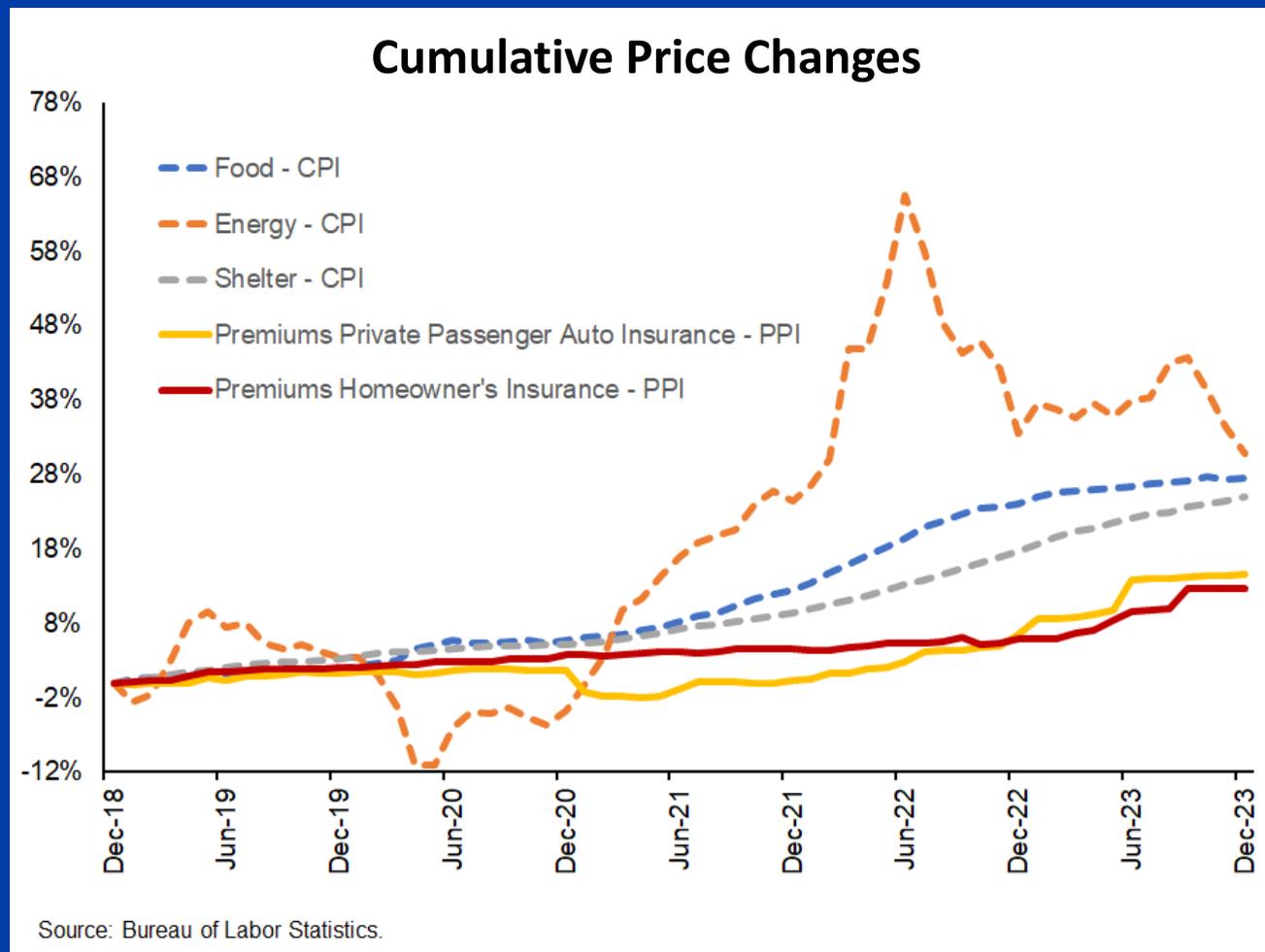


# Exposure Values in the US Have Been Increasing Steadily Over the Past Three Decades





# Increasing Inflation at a 40-Year Record High





## Increased Frequency and Severity of Natural Catastrophes Are Creating Insurability Challenges

“natural disasters hover on the edge of insurability”

*White House*

“Sea level rise and wetter, more intense storms could eventually make more than \$1 trillion in coastal real estate uninsurable... more frequent and intense wildfires could result in a similar death spiral for western property in the wildland-urban interface... hundreds of billions of dollars in fossil fuel assets may be stranded”

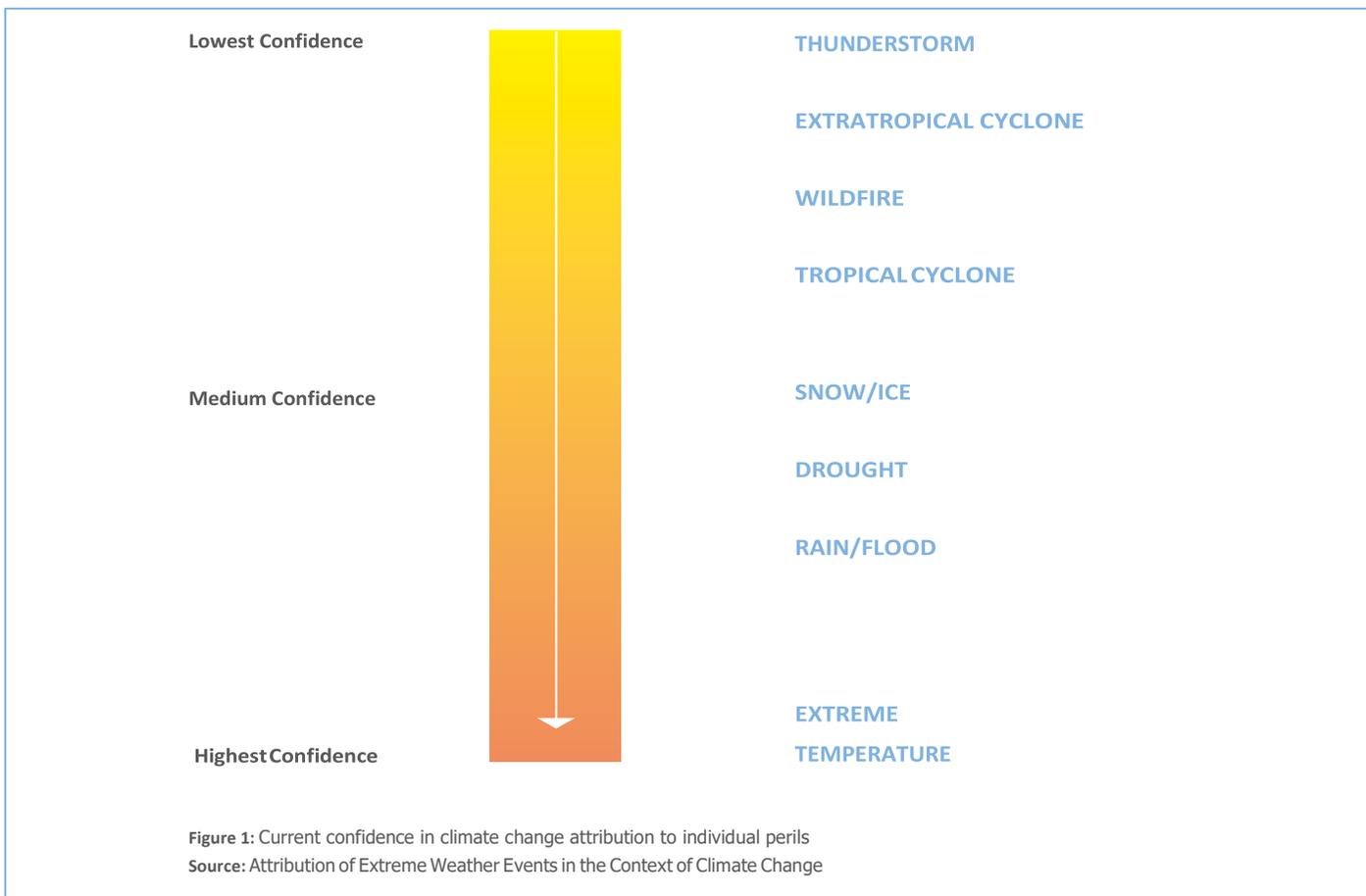
*Senate Budget  
Committee investigation*

“extreme weather patterns caused by climate change have led [insurers] to stop writing coverages in some regions... [and] say they will cut out damage caused by hurricanes, wind and hail... along coastlines and in wildfire country”

*Washington Post*



## Climate Change is Impacting A Variety of Natural Catastrophe Loss Factors



Climate change primarily impacts:

- Higher % tropical cyclones at Category 3, 4 or 5
- Heavier precipitation (rain/snow) per event
- More intense and prolonged droughts
- Larger, faster-moving wildfires
- Greater extreme temperature events (hot/cold)

*(Gallagher Re)*



## The Cost of Capital, Including Reinsurance, Has Created Challenges, But 2024 May Be the Year of the “Great Adjustment”

- “A **responsive reinsurance market** has materialized at January 1 renewals, reflecting **ample capacity** and a commercial approach to trading partnerships, albeit with continued underwriting rigor.” – [Guy Carpenter](#)
- “While reinsurance pricing remains robust, it is not as formidable as in 2023. Coupled with current valuation multiples, investors are approaching the sector with caution.” – [Morgan Stanley](#)
- “We expect **market conditions to remain favorable** at the 2024 midyear renewals, although with stabilizing rates as pricing is generally sufficient. Reinsurers are also expected to mostly maintain the tighter terms and conditions negotiated in 2023.” – [Fitch Ratings](#)
- Heading into 2024, a **positive outlook** on the **overall U.S. commercial lines sector** - stable outlooks for the commercial property and workers’ compensation lines, as well as a positive outlook for the excess and surplus lines market. However, that same level of optimism does not apply to most of the U.S. casualty segment—particularly commercial general liability and auto liability. – [A.M. Best](#)

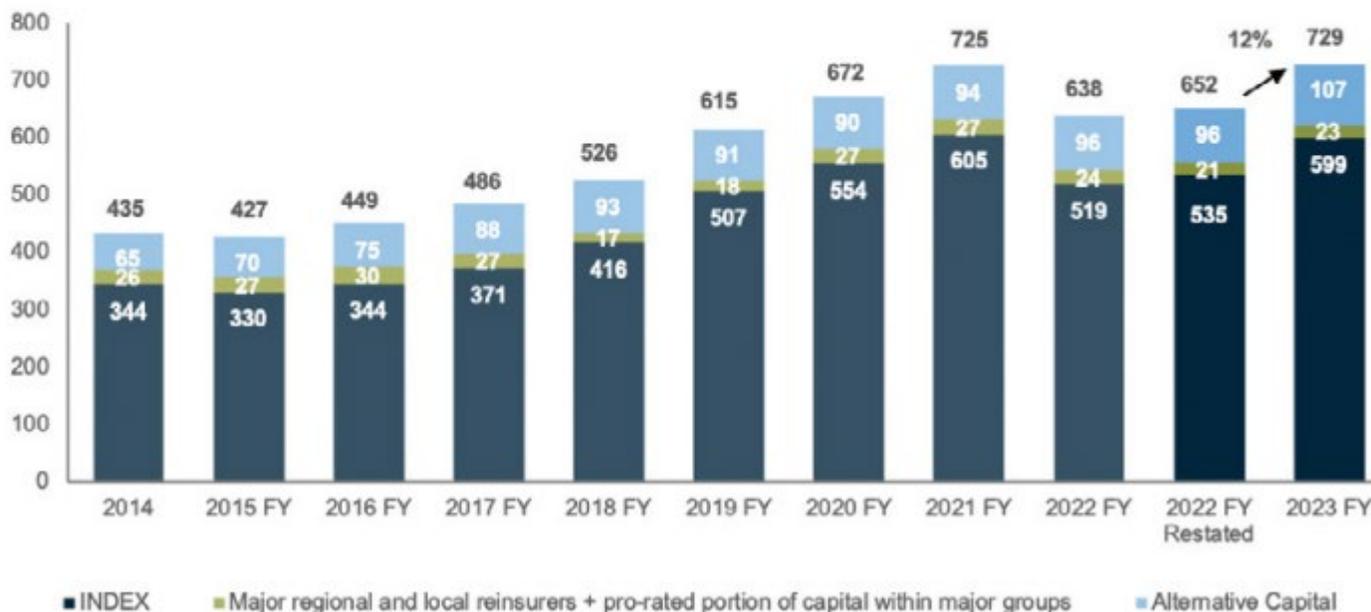


# Reinsurance Dedicated Capital Rises, Surpassing the Previous High Point of FY2021

## CAPITAL

Reinsurance dedicated capital rises, surpassing the previous highpoint of 2021 FY

Total reinsurance dedicated capital (USD B)<sup>6,7</sup>





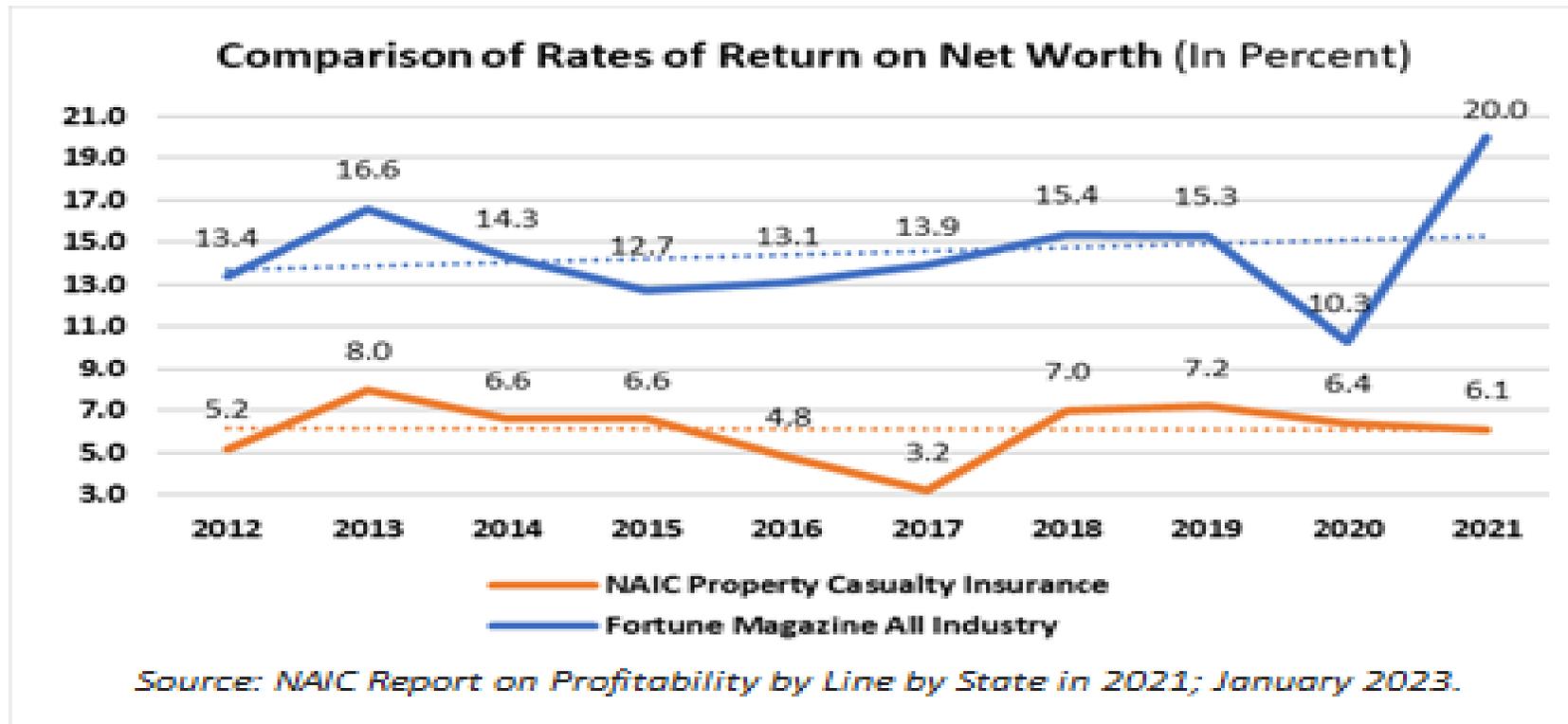
## False Narratives on Profitability

### False Narrative: *Insurers are making record profits*

- Insurers are “hiking premiums” and “making substantial profits” (Consumer Federation of America).
- “[Florida tort reform legislation] rewards big insurance companies which are making record profits” (trial bar handouts in FL)
- The net income of the largest HO insurer in CA should “be consistent with a rate decrease” (Consumer Watchdog 2023)
- “Insurers’ claims that they have been hurting because they haven’t been allowed to raise premiums quickly enough are overblown and misleading” (Los Angeles Times quoting Consumer Watchdog 2023)

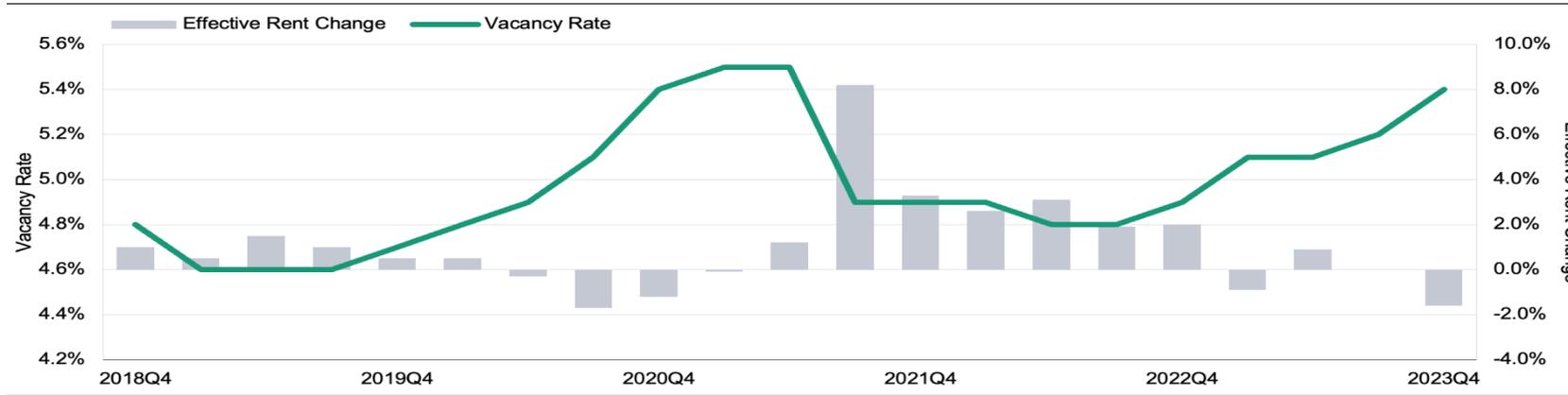


# The P&C Insurance Industry is Far Less Profitable Than All Companies in the Fortune 500

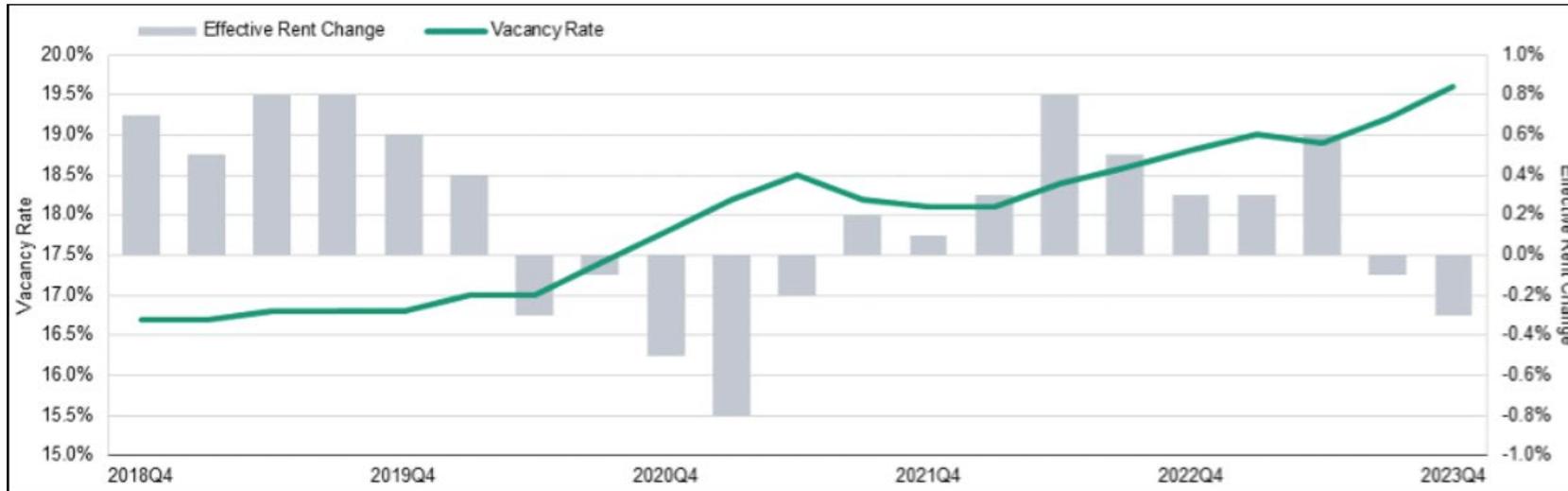




# Commercial Property Vacancies



## Apartment Rent and Vacancy Trend



## Office Rent and Vacancy Trend

source: Moody's Analytics CRE



# Commercial Property Vacancies Create Challenges for Insurers

Vacancies = Higher Risk

- Susceptible to increased frequency and severity of losses
- Concerns the underwriters for viability of the property
- Claims handling is more challenging

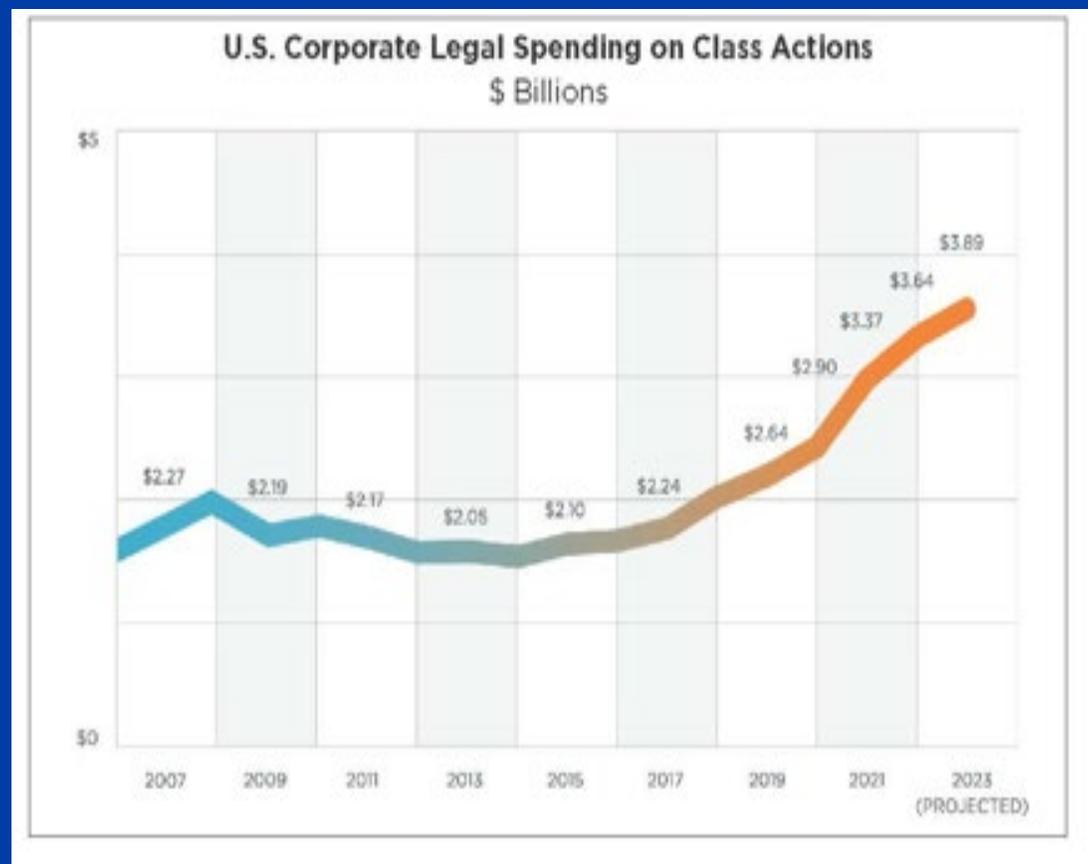
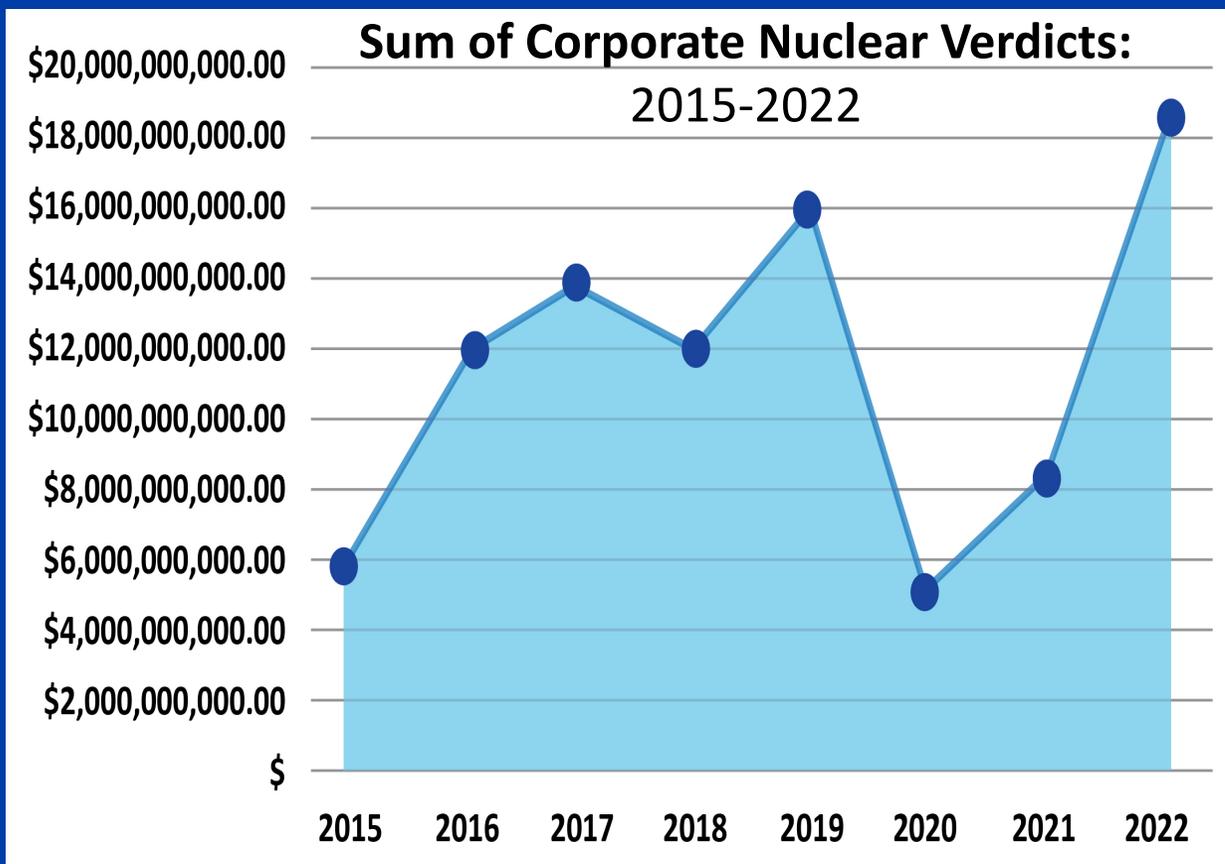


# Legal System Abuse





# Legal System Abuse is Driving Up Losses and Costs





## Third-Party Litigation Financing is Growing and Driving Up Settlement Values



- Litigation financing has grown to \$15.2B in the U.S.
- Financers admit they “make it harder and more expensive to settle cases”
- Sovereign Wealth Fund and similar foreign investment is now being uncovered
- Financing is now being reported in 30% of patent litigation



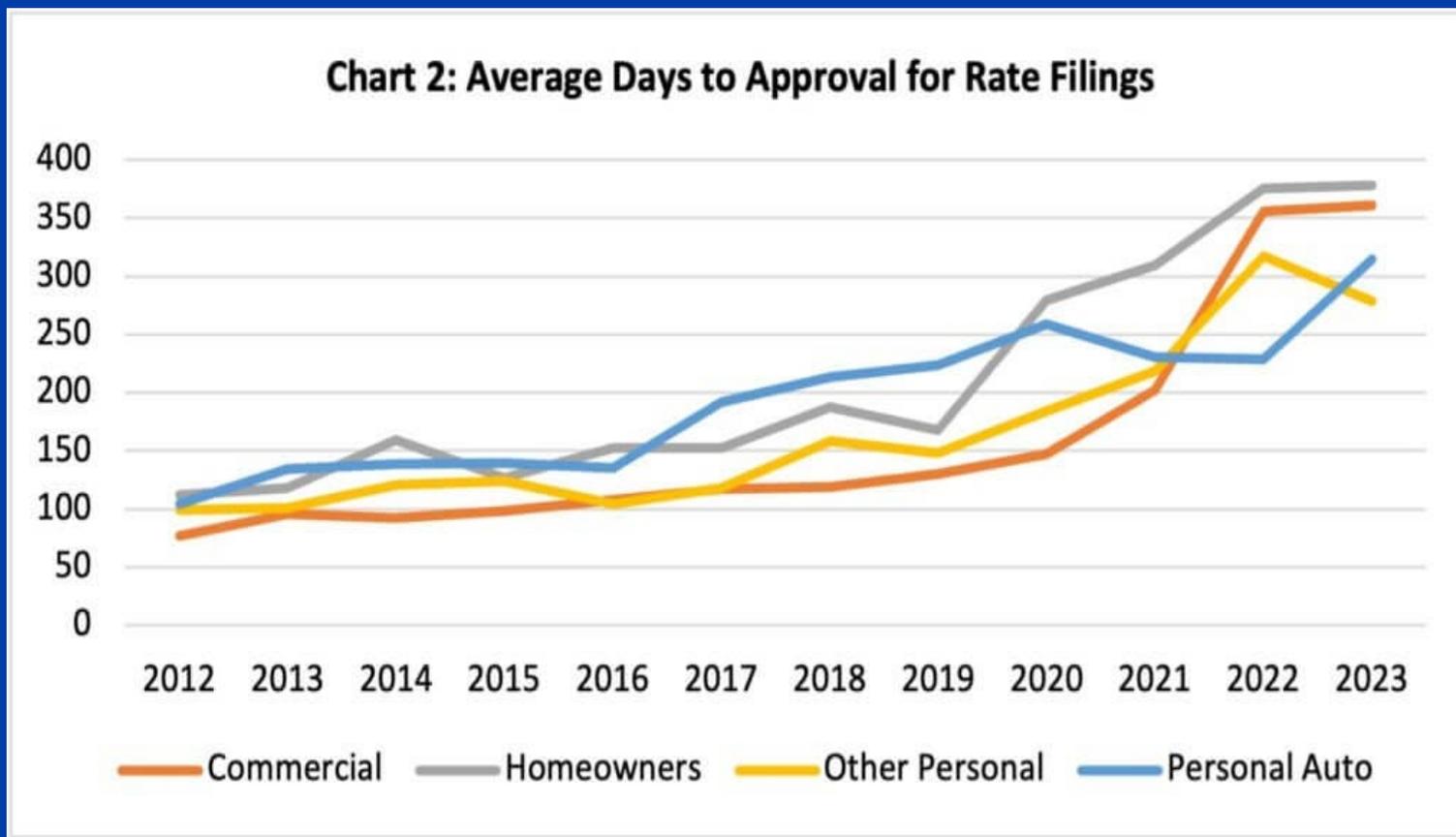
# Root Cause of Insurance Market Deterioration – Hostile Government Interference

- CA (2020-present)
  - Rate suppression; nonrenewal prohibitions; mandated coverage expansions; subsidized govt. competition; legal system abuse
  - No auto rate approval for > 30 months during record inflation
  - Rate approvals review delays still average nearly a year
  - Majority of largest CA insurers pulling back from market
  - E&S markets ballooning
  - CA FAIR Plan = “Ticking Time Bomb”





# Increasing Delays in Approving Rate Filings Make It Difficult for Rates to Keep Pace With Losses



Source: PERR+Knight, Compiled from filings available from S&P Market Intelligence



# State Price Controls Are Contributing to Insurability Challenges, Insurer Insolvencies and Market Failures

- P&C insurance is extremely competitive:
  - Several thousand P&C insurers (3332)
  - Herfindahl-Hirschman Index (HHI) of 72 - 337; (< 1,500 “Not Concentrated”)
- Yet many states suppress or delay P&C rate increases
- States suppressing rates have market failures
  - Insurers limit underwriting in states with most oppressive price controls
    - CA - Most top HO and several auto insurers have limited underwriting
    - FL - Went from 94% of HO policies written by national insurers to 18%
    - LA - Two dozen insurers withdrew or became insolvent in the last three years



## Insurers are leading efforts to make communities more resilient and to mitigate risks

- Working with federal & state policymakers
- Supporting resiliency & mitigation programs, such as infrastructure improvements and wildfire solutions
- Advocating for stronger building codes & land use policies
- Funding science-based research into risk mitigation
- Providing extensive insurance discounts
- Providing accurate risk signals to the market





# Mitigation Impact Potential

## Benefit-To-Cost Ratios

	Overall	Riverine Flood	Hurricane Surge	Wind	EQ	Wildland-Urban Interface Fire
Retrofit vital infrastructure	4:1	8:1	N/A	7:1	3:1	N/A
Retrofit existing buildings	4:1	6:1	N/A	6:1	13:1	2:1
<b>New builds meet codes</b>	<b>11:1</b>	<b>6:1</b>	N/A	<b>10:1</b>	<b>12:1</b>	N/A
New builds exceed codes	4:1	5:1	7:1	5:1	4:1	4:1

Source: APCIA via National Institute of Building Sciences and Swiss Re; vital infrastructure includes utilities, roads, other.



**THANK YOU**

**Q & A**