Property Insurance Market 2024

Strategies to Optimize Your Property Program

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The property insurance market outlook for 2024 has shown signs of improvement with decelerated rate increases as compared to the last several years. This comes as positive news amid insureds' fatigue of significant rate increases over multiple years, particularly in 2023, as insureds saw large jumps in their property insurance costs. Rate increases in 2023 were sometimes unbearable for insureds – dipping into an insured's profitability and ROI.

In the first months of 2024, we are seeing carriers increasing their line sizes, although still not to previous levels. Expected new capacity is planned for the year, while most carriers appear to have growth goals for 2024, helping further expand competition among insurers. Reinsurance renewals for the first quarter of 2024 were more stable than we saw in 2023. Moreover, most property carriers experienced a year of profitability for their property lines due to rate adequacy and a less active hurricane season last year.

Headwinds to Watch

It's important to note that the property insurance market still faces several headwinds, particularly in catastrophe-exposed areas and certain business classes where carriers continue to manage aggregates. Property carriers generally want and need to experience more than one year of profitability to remain long-term stable partners. Secondary perils are becoming more frequent and severe, yet harder to model. Carriers continue to be vigilant about maintaining sustainable profitability to meet their financial responsibility to insureds.

New Hurricane Model

Moody's newest RMS hurricane model (Version 23), released in 2023 will begin being transitioned by our carrier partners throughout this year and next. This could make conditions in the property market more complex, especially in Florida, Texas, and other states along the Gulf and in the Southeast. According to Moody's, Version 23 includes updates to existing models for core perils and climate change views and enhancements to geocoding, model flexibility, data framework, security, and more.

We expect the new version may drive up PMLs (probable maximum losses) and AALs (average annual losses), impacting premium rates. How much of an impact remains to be seen, particularly as many carriers use a multi-model approach to risk. As the new version is being rolled out, McGriff is working with clients to determine the new model's impact on program structure and pricing.

Inflation

Inflation continues to impact the cost of property repairs and replacement, increasing claims costs. The cost of building materials is higher, which leads to higher replacement costs for insured property. In addition to inflation in building materials, the rise in labor costs increases the total repair cost for building damage. According to the Bureau of Labor Statistics, labor costs increased 5.4% in 2023.

Moving Forward: Think Outside the Box

While the property insurance market shows signs of lighter conditions, it is vital to continue exploring non-traditional ways to purchase insurance. McGriff always aims to optimize your program structure and address the forces underlying the property market to enable you to move ahead confidently and as economically as possible.

Evaluate Risk Retention and Sublimits in Your Program Structure

One of the ways to optimize your program structure is to evaluate your risk-retention level. Most property carriers are not interested in high-frequency claims resulting in a trading of dollars between the company and insured. Taking on additional risk may or may not benefit your program. Structures such as plus aggregates or alternative all other perils (AOP) deductibles may potentially benefit both parties. All property programs should be analyzed to find the optimal deductible point.

Buy Only What You Need

2023 was the year to buy only what was needed – no more, no less – and we continue to do so. During soft market conditions, insureds could get higher limits at no additional cost. This is no longer the case, so purchasing limits and sublimits aligned with your risk is critical. McGriff will work with you to analyze limits based on your modeling results to help you avoid over or underbuying.

Explore Bifurcating Programs

In addition to optimizing your risk retention, insureds also need to understand what is behind the cost of your program. This can include a specific location, construction type, or risk in your portfolio of properties driving up your PML or AALs. Exploring a stand-alone solution for this challenging issue and optimizing specialized markets for that risk may prove to supersede a consolidated or global program; for example, insuring a location in a Cat-exposed area separately from your other properties or placing higher exposure properties like wood-frame buildings in their own program. Bifurcating policies to determine if there are better options to help with your overall insurance costs must continue to be explored.

Explore Non-traditional Program Structures

Alternative Risk Transfer Structures

It's critical to pay attention to lender requirements when setting up any non-traditional structure. Staying in loan compliance while reducing costs by altering the property structure is always the end goal.

Alternative Risk Transfer (often called "ART") allows insureds to self-insure a portion of their property risk while complying with their lenders by providing A rated paper. This type of paper (or policy) issuance is called "fronting," which can be done with or without a captive. Taking on more risk and exposure must still be done by showing a lender that insurance is purchased. To some degree, property insurance costs have risen so much that the cost of risk transfer may become intolerable to an insured and an insured may prefer to start taking on that costly risk themselves.

One form of ART is a multi-year loss-sensitive program. This structure issues a multi-year policy with an upfront multi-year premium. This multi-year premium comes with a variable cost, with an opportunity to receive a credit back depending on positive loss performance. Rather than your costs being subject to market volatility and conditions on their normal annual renewal date, the premiums are more under your control. Some structures come with cancellable clauses after year one, subject to your loss ratio. The fronted limits in these structures come with an annual per occurrence, annual aggregate, and term aggregate loss limit (i.e., $10M per occurrence/$20M annual aggregate/$30M term aggregate on a three-year policy). This structure is typically most beneficial in primary property layers where the highest insurance cost is located.

Parametric Solutions

Parametric solutions are increasingly becoming a more popular method of purchasing insurance. Fundamentally, parametric solutions are a type of insurance that covers the likelihood of the occurrence of a specific event rather than the actual loss experienced. These solutions bring a new option for peak catastrophe risks and are designed to provide a fast, transparent claims recovery process. Typically, there are no exclusions, and most policies have no deductibles.

With parametric insurance, a business receives a predetermined payout based on a triggering event measurement (miles per hour, hail size, earthquake magnitude). For example, the threshold may be $10 million if a 7.0 magnitude earthquake strikes a specific geographical area, $30 million if a Category 5 tropical storm hits a particular location, and $50,000 for every millimeter of accumulated rainfall that exceeds a given threshold. The threshold is typically consistent with an insured's business continuity plan and risk tolerance. For example, a client may know that their organization can withstand the consequences of a 7.0 magnitude earthquake thanks to current risk-mitigation procedures. Above that, the client would need alternate risk transfer solutions.

A parametric solution complements standard indemnity policies, filling in the protection gaps like deductibles, excluded perils, and scarce capacity. It removes the complexities of a claims investigation process and provides liquidity with a quick payout process.

While the property insurance market in 2024 is showing signs of rate deceleration and improved conditions, there are ongoing challenges. Insureds are still living with high property insurance costs and must not become complacent. Continuing to analyze the risk transfer of your property program is vital. McGriff is committed to helping our clients manage their property insurance programs cost-effectively and efficiently by optimizing your risk retention thresholds and deductibles and offering program bifurcation, parametrics, and alternative risk transfer structures.

About McGriff

When it comes to protecting what matters most in business and everyday life, we believe our clients should never settle for less than the best. For more than a century, we've relied on expertise, resources, and relationships to deliver insurance and risk management solutions focused on our clients' priorities and what they value most.

McGriff is a subsidiary of Truist Insurance Holdings, LLC, the fifth largest insurance broker in the U.S.* Our solutions include commercial property and casualty, corporate bonding and surety, cyber, management liability, captives and alternative risk transfer programs, employee benefits, small business insurance, and personal lines.

Our experienced risk management specialists develop highly tailored solutions while listening, learning, and executing with precision under the guidance of our four core principles:

> ***Integrity:*** We do what we say, every time.
>
> ***Determination:*** We relentlessly pursue success on your behalf.
>
> ***Passion:*** We are specialists in our field driven to serve you.
>
> ***Collaboration:*** We build strong relationships with teammates, partners, and you to create the best solutions.

Join the thousands of businesses, organizations, and individuals across the country who choose McGriff, a firm dedicated to building long-term relationships and helping protect your most valuable assets.

With McGriff, you'll never have to settle for less.

**Source: Truist Insurance Holdings, LLC ranking as listed in BusinessInsurance.com. July 2023*

McGriff By the Numbers

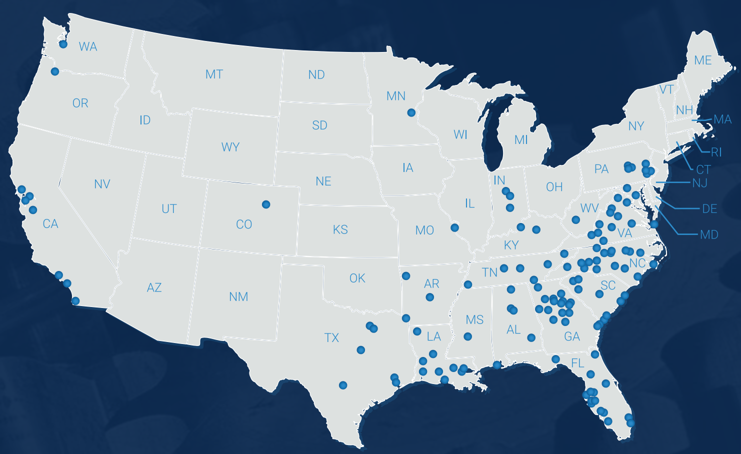
90+
Office Locations in the U.S.

160
Countries represented through global partnerships

3,500+
Teammates

$1.2 Billion
2023 Revenue

$12.7 Billion
2023 Premium Volume



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