



State of the Market

# Why Are Insurance Premiums Increasing?

Aon Private Risk Management

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The insurance industry continues to experience historic “hard” market conditions, meaning that insurance companies are struggling to achieve sustainable financial results. Over the past several years, this hard market has resulted in insurers increasing premium, in some cases substantially, reducing their capacity in catastrophe-exposed areas, and implementing stricter underwriting. We expect this hard market to continue for at least a few more years. Therefore, we want to help our clients and their trusted advisors have a better understanding about the causes of the hard market and how it may affect you, other than the obvious fact that premiums have been increasing.

## Factors Contributing to the Current Hard Market<sup>1</sup>



Extreme weather has caused greater frequency and severity of catastrophe losses (hurricanes, wildfires, convective storms, hail, flooding, winter storms, etc.).



Historic sustained worldwide inflation has a direct impact on rebuilding/repair/replacement costs for virtually everything.



Supply chain disruptions and hangover affect the availability, cost, and timeliness of repairs/replacements.



High-tech equipment in homes and cars has increased repair/rebuild costs.



Labor shortages in skilled labor pools for construction trades, auto repair technicians, etc. inflate the cost and timeliness of work.

## The Current Hard Market

Insurance companies typically purchase reinsurance to shift a portion of their exposure to large global investors. For example, an insurer may decide to absorb the first \$50M of their losses for any single event, but purchase reinsurance to cover all losses above \$50M. This system has historically helped defray the cost of insurance for consumers. Unfortunately, due to the factors listed on the left, reinsurers have drastically increased their pricing and greatly reduced the amount of capacity they will provide to insurers.

As a result, insurance companies have been compelled to increase their prices as they strive for sustainable financial results. Reinsurers are also requiring insurance companies to reduce their exposure in catastrophe areas and to implement stricter underwriting to reduce losses. If insurers do not comply, they are unable to purchase reinsurance. Furthermore, Hurricane Ian in 2022 – estimated to be the second costliest insured-loss catastrophe on record<sup>2</sup> – put an additional strain on an already stressed system. The bottom line is that a perfect storm of factors has strained the reinsurance market, forcing insurers to increase their prices. Because none of these trends will resolve themselves overnight, we expect this historic hard market to continue for at least a few more years.



## What Does the Future Look Like?

Here are some trends we believe will emerge in the coming years based on current hard market conditions:

- Frontline consumers will continue to see premium increases from insurers for several more years.
- Insurers will continue to limit or reduce their capacity in catastrophe prone areas like California, Florida, and wildfire prone areas in the West.
- Insurers will continue to move catastrophe-exposed business to their excess & surplus lines side where they can limit coverage and charge rates more in line with the exposures.
- Insurers will continue to require clients to harden their homes against losses (e.g., in wildfire areas, replace wood shake roof with non-combustible roof; in hurricane areas, install impact resistant glass or hurricane shutters; if you've had a previous water loss, requirement to install a water flow alarm and automatic water shut-off device).
- Insurers will be quicker to non-renew clients who do not model well (loss history, lack of updates, lack of risk mitigation).
- Smaller and unprofitable insurers will continue to pull out of California and Florida or go bankrupt, further stressing the market.
- A flight to quality will occur, meaning reinsurers will offer more affordable reinsurance capacity to the best performing insurers.
- Loyalty will be more important in this continuing hard market than it has been in prior years.
- Agents and brokers will have the opportunity to differentiate themselves by explaining the changing market and pro-actively helping clients to improve their future insurability through risk mitigation and hardening.





## What Does This Mean for You, Our Clients?

- Expect premium increases from insurers for the next few years.
- Substantially increased pricing for risks located in catastrophe-exposed areas (California, Florida, wildfire prone areas).
- Insurers may insist on moving catastrophe-exposed risks to their excess & surplus lines program so they can limit coverage and charge more premium for these exposures.
- Insurers will be attracted to clients who are willing to take on more exposure, whether it is larger deductibles, sub-limits for catastrophic perils, or stronger personal risk management and evacuation planning.
- Insurers will ask clients to harden their property against common causes of loss and may require it in catastrophe areas.
- Unfortunately, because insurers are taking rate increases, remarketing to another insurer is less likely to provide cost savings.
- Loyalty is important in this market. If you move to a new insurer to save a few hundred dollars, that insurer could non-renew you the following year due to changed guidelines or increase your premium. You may then have to pay drastically higher prices or even find yourself with nowhere to go.
- The market should stabilize in a few years, after insurers have de-risked their books in heavy catastrophe areas and adjusted their actuarial models to account for the increased frequency and severity of catastrophes



## The Good News?

**Aon Private Risk Management can access the leading high net-worth insurance companies, in part because of our strong consultative relationships with our clients. We get to know you and your exposures. We have the expertise to help engineer risks for better profitability, making our clients attractive to insurers. In a market with extremely limited capacity, it is important to be with a broker like Aon, whose size and strong relationship with insurers offers us access to capacity that other agents may lack. While we wish things could return to normal immediately, rest assured we will continue to use our expertise to help guide you through the remainder of this hard market.**



## About

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

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