2025 MARKET OUTLOOK

COMMERCIAL PROPERTY INSURANCE

Moving into 2025, the commercial property insurance market appears to be stabilizing, and most renewals with favorable loss histories will see single-digit rate increases (non-catastrophe (CAT) exposed assets with good loss histories can expect flat to 10% rate increases). While some complex risk profiles are still difficult to place and challenges remain in high-risk areas with persistent capacity and pricing pressures (e.g., wildfire zones), the double- or triple-digit rate increases the commercial property insurance segment saw in 2023 are less common. Although the market appears to be more stable and competitive, updated CAT models may affect the risk appetite of insurers and lead to pricing fluctuations.

DEVELOPMENTS AND TRENDS TO WATCH

- **Natural disasters**—Through October 2024, the United States saw 24 weather and climate disasters with losses exceeding $1 billion, according to the National Oceanic and Atmospheric Administration. As of the third quarter of 2024, insured losses from natural disasters reached approximately $108 billion, with severe convective storms being the primary cause. Hurricane Helene incurred insured losses estimated between $10 billion and $15 billion, making it the costliest event in the year's first nine months. Furthermore, projected losses from Hurricane Milton are expected to range from $30 billion to $60 billion. Overall, total insured losses for 2024 are anticipated to exceed $140 billion, indicating another year of significant financial impact from natural disasters.

- **A stable reinsurance market and increased capacity**—The reinsurance market stabilized in 2024 and is expected to recover close to pre-COVID-19-pandemic highs. This surge has been fueled by increased involvement from capital markets through instruments such as insurance-linked securities, CAT bonds and sidecar arrangements, resulting in significant growth in available capacity. Additionally, higher retentions by policyholders have contributed to lower losses for reinsurers. The increased access to reinsurance capital has enabled direct insurers to offer increased capacity for renewals or new business. High-risk accounts are taking advantage of increased capacity through shared and layered programs from international markets like London and Bermuda. Effectively, insurers have more capital available and are willing to take on portions of larger, more complex risks, making it easier for some insureds to secure coverage.

- **Insurance-to-value (ITV) considerations**—ITV calculations are critical, as they help insureds determine the appropriate amount of property coverage by assessing an asset's actual, market and replacement value. Securing an accurate ITV calculation has been challenging; a property's value is often affected by factors like inflation and material costs, both of which have been volatile in recent years. An accurate ITV calculation represents as close to an equal ratio as possible between the amount of insurance a business obtains and the estimated value of its commercial building or structure, thus ensuring adequate protection following potential losses. Common approaches to accurately estimating this value include getting a property appraisal from a third-party firm, leveraging fixed-asset records that have been adjusted for inflation or relying on a basic benchmarking tool (e.g., dollars per square foot).

- **Continued interest in alternative risk financing**—Alternative risk transfer options can provide more customized solutions and, in some cases, cost savings. There are several options available to risk managers, including captives, parametric coverage and structured fronting. Captives are insurance companies formed by one or more parent companies to insure their own risks rather than relying on third-party insurers. As natural

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disasters become more severe, parametric coverage has risen in popularity. Under such coverage, the amount a policyholder is compensated isn't decided by the exact cost of damages sustained but by the calculated intensity of the covered event itself. Structured fronting is an insurance solution that allows insureds to manage their own risk. In these arrangements, policies are written by an insurer, but most or all the risk is passed on to the insured or another third party (e.g., a captive or reinsurer).

TIPS FOR INSURANCE BUYERS

+ Conduct a thorough inspection of your commercial property and the surrounding area for specific risk management concerns. Implement additional mitigation measures as needed.
+ Work with insurance professionals to begin the renewal process early.
+ Determine whether you should adjust your organization's commercial property limits to avoid underinsuring your property and facing coinsurance penalties. This may entail updating your total insurable values as needed and conducting accurate ITV calculations.
+ Analyze your organization's natural disaster exposures. If your commercial property is located in an area that is more prone to a specific type of catastrophe, implement mitigation and response measures that will protect your property as much as possible if such an event occurs (e.g., installing storm shutters on windows to protect against hurricane damages or utilizing fire-resistant roofing materials to protect against wildfire damages).

CONCLUSION

As the commercial property insurance market stabilizes, businesses must remain proactive in managing their risk exposures and ensuring accurate insurance-to-value calculations. While increased reinsurance capacity and alternative risk financing options offer more coverage opportunities, evolving CAT models and natural disaster losses may still impact pricing and availability. By working with experienced insurance professionals and implementing effective risk mitigation strategies, companies can better navigate the shifting insurance landscape and secure the protection they need.

For more risk management guidance, **contact us today.**

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