Private Risk

BKS PARTNERS

BRP

2023

State of the Market Mid-Year Report

Executive Summary

The private client insurance market remains tight, and carriers' appetites for risk have changed in the continued hardened market, with the property market being particularly challenged. Carriers have adjusted their underwriting terms, conditions, limits, and prices, and more of them are exiting disaster-prone markets, leaving thousands of homeowners unprotected from the destruction of natural disasters.

Factors leading to this tight market include inflation, frequent natural disasters, widespread fraud, and post-pandemic issues, like higher replacement costs for repairs. Despite the marketplace volatility, consumers are reacting differently today compared with prior hardened markets. They are beginning to understand this market and make necessary changes to adjust for the shift. In prior years, if a consumer received a higher quote than they were expecting, they had options to obtain more affordable coverage. Today, options are limited, in some cases, forcing consumers to bear more of the financial burden to protect their assets.

No cookie-cutter formulas for consumers exist today to obtain coverage. Some examples:

- **Carriers might take on the risk to cover an individual's home and valuables but decline to provide umbrella or auto coverage.**
- **In some cases, a carrier will write a homeowners policy with a 40% increase in premium but exclude the decade-old roof.**
- **An insurer will mandate specific upgrades in the home rather than giving premium credits for those same upgrades.**
- **Carriers will allot a small number of policies to insurance brokers to give their clients.**
- **An insurer will take on the risk of a secondary home, the automobile, the RV, and the collections, but decline coverage on the primary home because the region is vulnerable to flooding.**

Historically, insurers tend to prefer writing all lines of business for an insured when possible— today, they are more selective in their offerings, favoring better performing risks and declining to insure assets they consider too risky as defined by new underwriting terms and conditions.

Now, individuals are more receptive to establishing stronger partnerships with their advisors. They know they need more creative strategies to protect their assets—even if it means to piecemeal coverage options among several different insurers or self-insure by raising deductibles to higher limits than planned.

As the hardened market continues to correct, people may begin to see light at the end of the tunnel—but it may not be the exact hue they want to see. The underwriting process is anticipated to remain stringent while premiums rise, requiring consumers to be exact when valuing assets.

In time, with inflation expected to ease, the higher insurance rates may increase at lower multiples than the last 18 months as the market becomes more sustainable and steadier.[98]

Market Drivers

At some point, you might have personally felt the impact of weather events and economic inflation. Unfortunately, these factors and additional trends, both old and new, also impact the insurance carriers that provide insurance coverage for life's unexpected twists and turns. And being able to control your insurance spend starts with understanding what impacts premium rates so you can react appropriately.

It may seem like there is nothing you can do to navigate the current market, and containing the cost of risk and insurance may continue to be challenging for many individuals. Though you might not be able to control the insurance market, you can influence the results. In this report, we talk about how and where to start.

Emerging Drivers

Industry collaboration

Today, insurers from different firms will collaborate with an advisor to collectively provide coverage options to consumers. Previously, no collaborative effort existed, as each firm competitively sought to capture an insured's full business.

Auto capacity

Insurers that provided mileage discounts or refunds to vehicle owners who drove less during the pandemic have not been able to make up for losses from accidents that continued—even with increasing their rates. Because of increased losses, insurers cannot secure enough premiums to cover potential payouts. In specific regions within the U.S., rationing by insurers to insurance brokers is becoming common. Some carriers are even terminating broker partnerships. In other cases, they are allotting a vastly reduced number of policies to offer to advisors for clients' vehicles.

The result— insurance brokers are either unable to offer policies, or if they can, a minimum number of policies by an insurer is allowed each month.

Valuables

Insurers are increasingly requiring accurate valuations for assets – leading individuals to be more diligent with valuing their collections, such as art, jewelry, and antiques. They are taking the time to get accurate appraisals, whereas several years ago, people who sought coverage would base their policies specific to a particular limit and ballpark appraisal numbers. Now, they intentionally spend time listing each asset and its specific value to secure accurate coverage.

Entrenched drivers

Inflation and the economy

The current economy offers mixed signals—despite multiple interest rate increases by the Federal Reserve in the last two years that have slightly cooled the economy. Some economists pinpoint a recession occurring in late 2023—encouraging some consumers to use creative ways to produce more income from their personal assets, like engaging in the sharing economy.

Extreme weather events

Hurricanes, wildfires, snowstorms, and tornadoes are occurring with greater frequency and intensity, and more than half of last year's global economic losses from natural catastrophes were uninsured.[99] New insurers that entered specific markets within the last two to three years are rescinding writing specific lines of their business or completely pulling out of vulnerable areas. Often, if an insurer remains, the increase in the premiums is exponential, such as a 50% uptick in rates, pricing consumers out of their local market.

Social inflation

In today's increasingly litigious society, insurers' claims costs are soaring above economic inflation due to the increase in litigation costs brought by plaintiffs who seek large monetary disbursement for their injuries. Societal trends, such as increased litigation, plaintiff-friendly legal decisions, broader contract interpretation, and larger jury awards have led to the rising insurance claim costs.

Nuclear verdicts

Umbrella insurance has been the safety net for those needing coverage above and beyond what's provided in their other policies. But the umbrella market has also narrowed significantly over the past five years. Deep pockets and increased jury awards over $10 million have adversely impacted insurers and the coverage limits that they can offer.

> **Insurance fraud costs consumers at least $308.6 billion each year.**

Fraud

The number of people reporting false or exaggerated information on a claim is increasing as they seek to receive a larger payout from their insurer. Because this type of fraud happens more often now, insurers have raised rates to recoup losses. Data shows that insurance fraud costs consumers at least $308.6 billion each year, with fraud occurring in about 10% of property-casualty insurance losses. As a result, coverage affordability and availability are eroding as insurers deal with skyrocketing payouts.

Insurance Trends

Home Insurance

No respite in sight from Mother Nature's fury

Emerging Trends

Mandated upgrades to obtain coverage

Consumers can expect to install or upgrade certain features in their homes to obtain or keep coverage, not just as a credit to their premium. Some insurers indicate they will not provide coverage if a roof is older, a water flow device is not installed, or a tankless water heater is not on the property, for example. New home builders in several parts of the country are including generators as part of a basic package on a new home purchase that helps mitigate insurance risk.

Entrenched Trends

Persistent, destructive weather events

Obtaining the coverage needed to properly protect assets has been challenging, especially in some states, like Florida, Texas, and Louisiana, where insurers have scaled back their business, left catastrophic-prone areas, or declared insolvency. Extreme weather conditions are resulting in large catastrophic losses. NOAA cites 18 weather disaster events that occurred in the United States last year and tallied losses exceeding $1 billion each in total losses. Collectively, these disasters and economic uncertainty, market volatility, decreased competition, and increases in claims activity have forced insurers to re-evaluate pricing.

Carriers typically review past events when making risk calculations, which is why they are now struggling to keep up with the impact of unpredictable, extreme weather events. These events have been on the rise for the last 20 years. According to S&P Global Market Intelligence, in late 2018, after Hurricanes Irma and Harvey hit in 2017 and industry combined loss ratios rose above 100%, the insurance market began to turn.

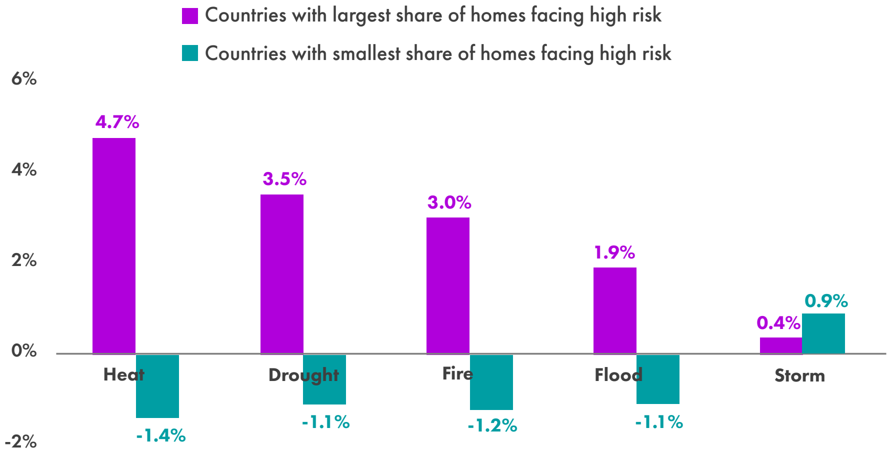
Insurers continue to adapt their underwriting strategies and develop climate modeling to keep up with the weather events, which negatively impacts their bottom line. In the current hard market, carriers are tasked with managing their financial stability while ensuring the availability and affordability of coverage for their insureds.

Migration patterns impacting losses

Additionally, within the last three years, data show one out of three Americans was living in a county in the U.S. hit by an extreme weather disaster.[102] Because many people relocate to vulnerable areas to take advantage of lower tax rates or other desirable opportunities, the cost to insurers from catastrophic weather events rises.

America's Climate-Endangered Areas Are Becoming More Populous

Populations change due to net migration in countries with certain climate risks, 2016-2020



Source: Redfin[96]

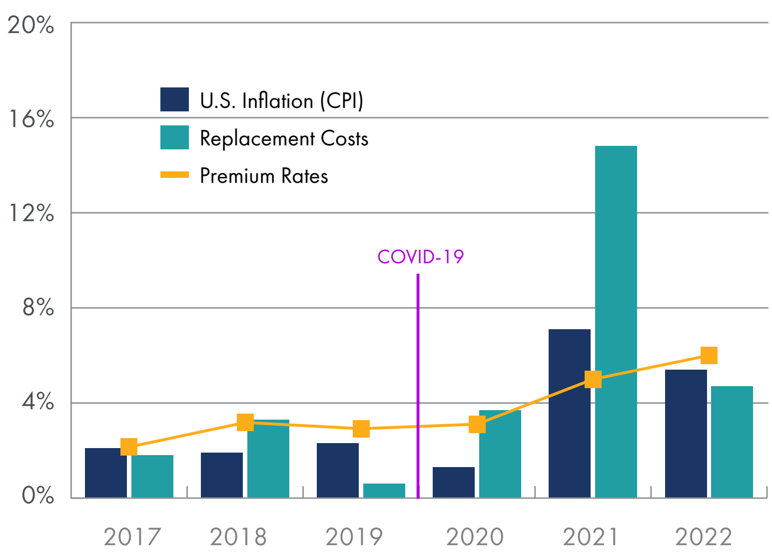
Ballooning replacement costs

After a disaster, it is more expensive to rebuild and repair a home. In fact, property insurer replacement costs are projected to increase between 4.5% and 6.5% in 2023. Those individuals who are repairing or rebuilding their homes after a disaster are impacted by higher replacement costs—largely due to higher labor and building materials costs, as well as supply chain issues, but we are seeing that issue lessen now.

With more people purchasing or building high-end custom homes and investing in home collections like art, antiques, stamps, sports memorabilia, or jewelry, policyholders are taking more precautions on appraisals of their valuables, especially in light of growing replacement costs.

Traditionally, insurers utilize asset valuation to properly price coverage. With higher replacement and repair costs, accurately valuing assets becomes a necessity for consumers but a challenge for insurers, resulting in significant losses year over year.

Homeowners



Source: Insurance Information Institute[104]

Your Beacon of Opportunity

Home Insurance

As you come to terms with the reality that more frequent and powerful weather events are becoming the new normal, it is important to adapt to the circumstances at hand to the best of your ability.

Work with your BRP advisor to identify improvements you can make to your home that will present your risk as more attractive to insurers, such as updating your roof and adding water leak detection devices. Making upgrades can not only help make your home more resilient to varying natural disasters but also help secure more favorable rates and coverage options.

Take the time to create disaster preparedness plans and emergency kits for natural disasters that might impact the area in which you live. Consider taking photos and documenting your belongings and property in a digital archive. In the event of a claim, you will want to know what to expect and have all necessary documentation available for carriers and the claim process.

Cyber Coverage

Shoring up your defenses from relentless malicious actors

Entrenched Trends

A common misconception is that companies are the only victims of hackers but malicious actors do not discriminate when it comes to choosing their victims. With economic times still challenging, criminals continue to increase the frequency of their attempts and develop new ways to steal. An average of 18.5 million online records are compromised each day.[105]

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Your Beacon of Opportunity

Cyber

Fortunately, there are tools at your disposal that can help you keep your digital life and assets secure. Use strong passwords across your online accounts, and use a password manager that will safely store them in a digital vault. We also recommend the use of multi-factor or biometric authentication. You should evaluate your and your family's online profiles, as the information you willingly share might be an invitation for criminals to target you. It is also important for you and your family members to be aware of common attack schemes so you do not fall prey. Because the digital landscape and cyber risks change at such a rapid pace, lean on your BRP advisor for guidance and access to resources that bolster your approach to cybersecurity at home. Our experts can help you create a cyber incident response plan, determine where you are most vulnerable, and find insurance coverage.

Auto Insurance

Growing rates driven by economic inflation and risky driving behaviors

2023 price prediction: +7%[106]

Emerging Trends

Innovative and income-producing assets

While the sharing economy is not a new concept, consumers are starting to rent out off-the-beaten-path assets to extract more value and income during the inflationary market—such as e-bikes and vehicles. For example, in 2020, almost 800,000 e-bikes were sold in the United States, and insurance for them is not mandatory. Within a typical homeowner, renters, or automobile policy, e-bikes are often excluded under "self-propelled motor or amphibious vehicle." As of May 2023, specialty market stakeholders are beginning to offer separate lines of coverage for e-bikes.

Termination of broker partnerships

Some areas within the U.S. are more vulnerable than others. As a result, some carriers are not partnering with brokers to write new business for auto insurance, as is the case in California, for example. Carriers are either terminating their broker partnerships or rationing how many policies a broker can write because the carriers cannot get enough premiums to cover the costs they are managing in their disaster-prone, saturated markets.

Entrenched Trends

COVID-19's continued fallout

The post-pandemic world continues to affect drivers and insurers. Because recent losses and the pandemic added a layer of unpredictability to the auto insurance market, carriers have become extremely calculated in their risk selection and pricing. People who received mileage credits or refunds for not driving during 2020 are seeing higher premiums today. The average annual rate for a full-coverage auto policy in 2022 was almost $1,800; in 2023, that same policy costs $2,014, an increase of 14%.[107]

> **The average annual rate for a full-coverage auto policy has increased 14%.[107]**

Due to lingering supply chain issues and delays getting parts for auto repairs, the claims process is taking longer. This is forcing claimants requiring a rental car to have it for a longer period of time - and insurers are paying for those additional days.

Natural disasters

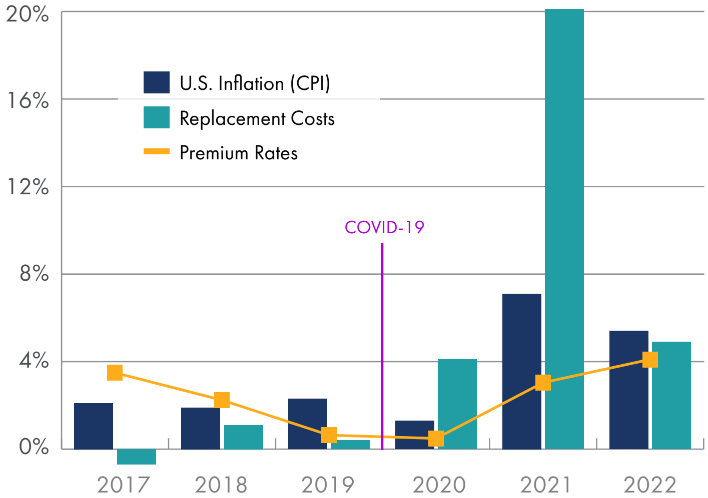
Natural disasters also impact auto insurance rates. Areas plagued by flooding experience vehicle damage, as well as property damage, causing auto premiums to rise. Auto insurance companies raise rates to compensate for the damage and offset claims to fix vehicles that will cost more to repair.

Economic inflation

Inflation is another issue that continues to impact auto insurance rates. Auto repairs, auto parts, and medical care for people involved in auto accidents all cost more, leading to a large uptick in insurance prices. It costs more to own, protect, and repair a vehicle today and with healthcare costs rising, auto insurers will increase premiums to compensate.

The hope is that inflation will ease and hard-to-find auto parts will become less challenging to locate, causing auto insurance rates to slightly fall. Until then, auto loss ratios continue to rise, and the larger insurers are assessing higher premiums to drivers.

Personal Auto



Source: Insurance Information Institute[108]

Riskier driving patterns

Premiums are also up due to newer drivers who drove on empty highways during the pandemic and are getting into more accidents because the volume of traffic has increased and they lack experience. Additionally, more drivers are engaging in risky behavior while operating their cars, and traffic injuries and deaths are up substantially. In fact, the National Highway Traffic Safety Administration estimated the first few months of 2022 saw more deaths from auto accidents than the last two decades.

The good news—total vehicle miles traveled have stabilized over the last six to 12 months, and claim frequencies remain flat. Claim severities are rising but at a slower pace.

Your Beacon of Opportunity

Auto Insurance

The best way to get optimal auto insurance rates from carriers is by maintaining a good driving record. Avoid speeding, maintain a safe distance between you and other cars, and avoid driving late at night if possible. Certain carriers may offer discounts if you sign up for a safe driving or defensive driving program.

If it is an available option, bundling your policies may result in discounts. Taking on a higher deductible will also reduce your premium spend, but be sure that you are comfortable with paying for the higher deductible should a claim arise.

Lastly, when it comes to teenage and younger drivers under your care, regularly reinforce the importance of safe driving. Look for discounts from carriers for good grades, or bundle their coverage with yours if it provides a discount. A BRP Private Client advisor can help identify ways that you can optimize discount opportunities from carriers.

Umbrella Liability

A litigious society's impact on your insurance rates

Entrenched Trends

In previous years, insureds were able to obtain $100 million in umbrella coverage without much difficulty from major carriers. Many insurers were writing high limits. But today, they have tapered down and it is rare to see a high $100 million umbrella policy—all largely due to litigation and social inflation.

Extremely high, or nuclear, personal liability settlements are driving these litigation costs and social inflation to the brink, influencing insurers to increase premiums to offset the sky-high claims costs involved in litigation. They also are limiting the amount of coverage offered or discontinuing coverage lines.[109] Industry stakeholders are aware of how the inflation-inducing pattern perpetuates a volatile market, which may lead to greater regulatory action.

Your Beacon of Opportunity

Umbrella Liability

An umbrella policy can help protect the totality of your assets, including your future earnings, home, retirement funds, and college funds should you be found liable for a claim. Generally speaking the more you have, the greater your risk, and the more protection you will need from an umbrella policy. And as your assets and lifestyle change, you should review your umbrella coverage to avoid overpaying, or being on the wrong side of insurance should a claim arise. Connect with a BRP Private Risk advisor for a lifestyle analysis and coverage recommendations for your unique circumstances.

Excess & Surplus Market

Increased uptake and loss trends impact pricing and capacity

The excess and surplus (E&S) market provides coverage for risks that standard insurance companies are unwilling or unable to insure due to high-risk or unique exposures. E&S insurance is a popular choice when markets are challenged because it offers more flexible underwriting, higher limits, and specialized expertise.

Emerging Trends

Increased uptake

More and more insureds have begun to turn to the Excess and Surplus (E&S) market as a result of experiencing significant challenges obtaining coverage to curb the effects of a hardened market. This is diminishing carriers' capacity, especially within surplus markets.

Entrenched Trends

Because of continuous loss patterns due to sustained weather events and nuclear verdicts, E&S lines are seeing rate increases through 2023. Sustained inflation also continues to impact E&S markets, with this economic trend challenging underwriters' ability to properly price coverage to align with rising loss costs.

Your Beacon of Opportunity

Excess & Surplus Market

It is always best practice to prepare early for your renewal, but this is especially true in a challenging insurance market. And if your home is in a disaster-prone area or you have personal exposures that may subject you to litigation, you will want the time to explore your coverage options. Our experienced BRP advisors can access both admitted markets, those licensed and regulated at the state level, as well as excess and surplus markets you may not otherwise be able to tap into.

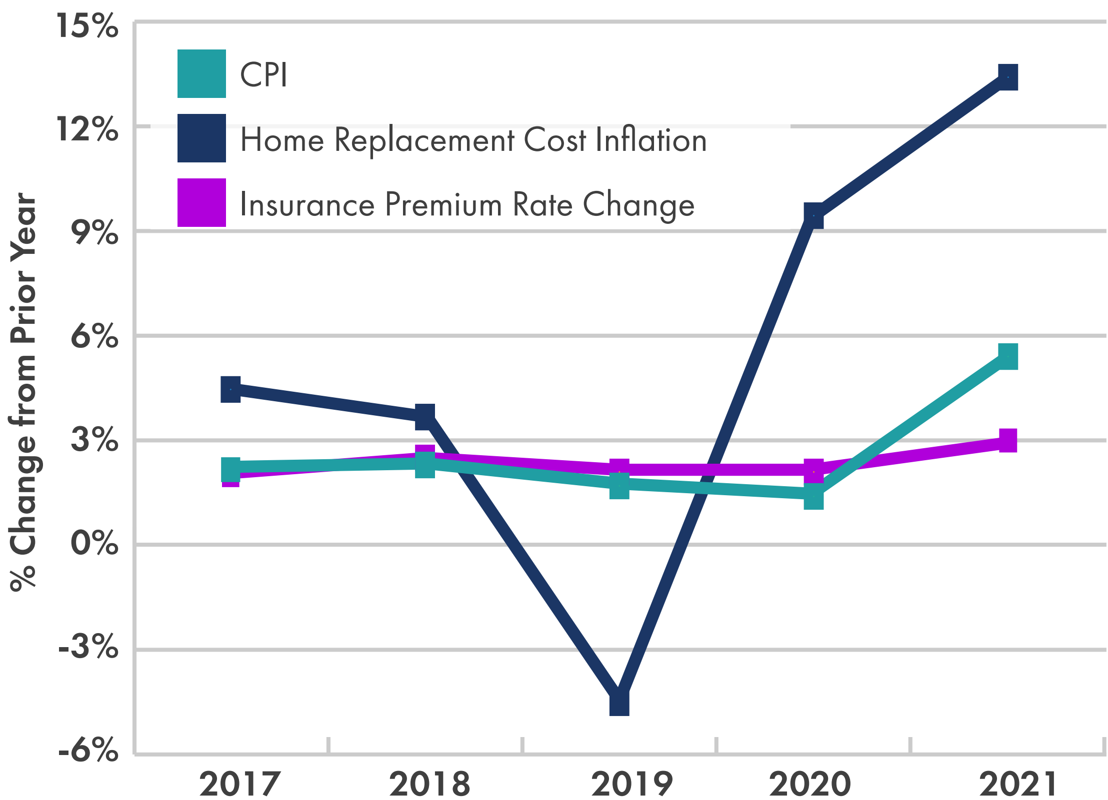
Rates

The U.S. homeowners and auto insurance premiums trailed the inflation rate in 2020 and 2021, laying the groundwork for the premium increases that occurred last year and will continue throughout 2023.[110]

In this inflationary environment, consumers have expected to pay more for insurance coverage but did not anticipate the percentage amount to renew their policies. Each policyholder is facing varying rate increases and terms for distinct reasons—and even in cases where people do not file a claim in the event of liability, they still likely pay more for insurance. Why? Other people within their areas are filing more claims requiring higher payouts. These insureds may pay less than others in these areas, but all still experience a premium increase.

Reinsurance rates that affect insurance companies also influence consumer rates. Insurers need insurance to protect their portfolios, known as reinsurance. When reinsurers raise rates, insurance companies pay more for their insurance, which gets passed to policyholders.

Overall, everyone is wrestling with paying higher insurance rates to protect their homes, autos, valuables, and more.



Source: Insurance Information Institute[111]

Our Recommendations: **Managing the Cost of Risk and Insurance**

BRP

Though 2023 is another year that is proving to be challenging for many people, taking proactive steps to protect your assets and lifestyle can help mitigate the impact that the unknown may have on your financial future. Here are some steps you can take to help manage the pitfalls of risk and your insurance spend.

1

Think twice before filing a claim

Some smaller claims that do not show negligence may be better off unfiled. Since carriers are scrutinizing small claims, opt for higher deductible limits and rely on your insurance policy for larger coverage needs.

2

Always make on-time payments

If your home, auto, or umbrella policy lapses for non-payment by the renewal or due date of the policy, no guarantee exists that coverage will be reinstated, especially in a hardened market. If your policy lapses, you may be subject to reapply for coverage and face new underwriting guidelines, which could cause premiums to increase. Or you could receive less coverage. Enroll in automatic payments or use your carrier's mobile app to keep up to date.

3

Be proactive with upgrades

Take the time to identify the upgrades needed that will offer more than a credit on your policy premium, such as an automatic water shut-off valve. Tearing out flooring from flooding at your vacation property can be more expensive than purchasing and installing a device. The extra effort to make small upgrades can save hundreds of thousands of dollars in property damage to repair.

4

Avoid contractor fraud scams

Get at least three written estimates for the work and compare bids. Check credentials, including licenses, references, and insurance. Make sure your repair contract includes estimated construction schedules and prices for labor and materials. One in 60 insured homes has a property damage claim[112]—stay diligent to get as much background information as possible.

5

Be willing to work closely with your advisor

Your insurance advisor represents you, not the carrier. They have deep valuation and protection knowledge about how to inspect homes, assess vehicle insurance needs, and identify risk mitigation strategies to help you ensure you are protected. They can explain how the reinsurance and insurance market and rising costs can potentially impact your bottom line.

6

Start your renewal process early

The renewal process is taking ten times longer than in the recent past, and underwriting standards are tighter. The scrutinization is adding more time to the process. Plan to meet with your insurance advisor at least four months before your renewal date.

7

Focus on precise asset valuations

Many property valuations are composed incorrectly or have not been updated in years. Undervaluation of assets can leave insureds unprotected after a natural disaster. For insurers, inaccurate assessments of how much risk they are truly absorbing result in inferior premiums collected. Expect carriers to increase their scrutiny of property valuations.

8

Consider higher deductibles

Familiarize yourself with the pros and cons of taking on higher deductibles—this is here to stay, and insurance carriers may likely begin to promote consumers taking on more risk by raising their limits. Raising deductibles in a hardened market may lessen premiums by 5%; in a softer market, the premiums may decrease up to 10%.

9

Embrace surplus coverage

Many standard carriers are shifting toward writing policy language that is custom and specific to your risk, although it varies state by state. They are working collaboratively to provide coverage to policyholders where in standard markets they are unable to obtain coverage.

10

Review identity protection with family members

Using multi-factor authentication, password protection, and unique logins for all devices helps keep family members safe. In today's world of increasing cyberattacks, conducting training about identity protection with family members, including a review of the family's social media policy, helps maintain strong security protocols.

A Partnership That Delivers Results

It is always important to partner with an experienced advisor to help you put proper risk management strategies and insurance coverages in place, but even more so in these current market conditions.

Working with our team of experts can help you identify your risks, determine where you are most financially susceptible to exposures, and implement strategies to protect your assets and investments. Whether it is property or liability exposures, our team has expertise in wide-ranging areas of risk and can provide recommendations about the best solutions to reduce the likelihood of a financial loss, both in the present and in the future.

Our private risk advisors have seen countless scenarios play out and can provide resources to help you improve how you approach risk and find insurance that meets your needs as your life evolves. We tailor insurance programs for clients' unique needs – looking at all coverage options, communicating with your other key advisors, such as financial and legal, and making recommendations based on your goals and lifestyle. We have also cultivated expansive, meaningful relationships with carriers over decades, which enables us to connect you to invaluable resources that help reduce the likelihood of a loss and your ability to rebound from the unexpected.

Should you have to file a claim, our in-house team of advocates helps expedite and manage the entire claims process so you can maximize recovery. We will then identify what caused the claim to happen and provide recommendations about risk mitigation strategies to reduce the severity of claims in the future.

With underwriting scrutiny at an all-time high and carriers providing less favorable terms for coverage, now is the time to work with a team of experts with a proven track record of success. Contact our team today to learn more about how we can help you.

2023

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