2023 Property Insurance Market Update

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INSURANCE & RISK MANAGEMENT

As we head into 2023, we thought it useful to outline the trends and developments that are happening in the insurance sector which are impacting the amount you pay for your insurance...

Index-Linking — how does this affect your premium?

Index-linking is a percentage that is applied to the Declared Value of the property at each renewal to ensure that the value remains relevant through changes in inflation and rebuild costs. It should be noted that it is recommended that Rebuild Cost Assessments are undertaken every three to five years in order to ensure that the Declared Value of a property is adequate. This serves to prevent underinsurance which can negatively impact a claim.

The percentage of index-linking that is generally applied is based on recommendations by the Royal Institute of Chartered Surveyors (RICS) and it is the Building Cost Information Service (BCIS), who operate under the umbrella of RICS, that supply these to insurers. The index-linking amount tends to fluctuate month on month as it is forever being updated and reviewed to ensure that the values are as relevant as possible.

The way that index-linking is calculated is not purely on the general rate of inflation and includes allowances for the cost of items relating solely to the re-building of the property, which can vary for residential and commercial buildings. There are multiple elements that are considered within the rebuilding costs, and these include:

- The cost of labour
- The cost of materials
- The cost of professional fees
- The cost of debris removal and site clearance

With this in mind it is important to be aware that in the past twelve months we have seen index-linking percentages rise as the cost of labour and materials has increased.

At present, index linking increases are as high as 18% for residential buildings and 10-15% for commercial properties.

We are, however, optimistic that these levels will remain static over the course of 2023. This will constitute an equivalent increase in premium as the value of a property is increased. It must also be noted that index-linking is applied in addition to any rate increases and so it would be prudent to ensure that any **budgeted amounts are taking both of these elements into account**.

We are operating in a Hard Market

We are currently in what insurance experts call a “hard” insurance market. This happens occasionally; however we have not seen the present hard market conditions for over 10 years.

Put simply, a “hard” market means a sellers’ market and, with that, demand exceeds supply. The simple economics of this means that in general **buyers do not get such a great deal as previously**.

The reason for this is that many insurers have consistently lost money over the last few years. Combined with **low investment returns, economic uncertainty, a global pandemic and Brexit** and the world has become a riskier place, with insurers taking a firmer stance on risk and how this is mitigated.

We have found that some insurers have completely withdrawn from certain types of insurance, trades or products because of this. Collectively, they are looking to urgently improve their profits and so it is very likely that you will be affected **regardless of your claim history**.

An increase in Claims and Construction Costs

Over the past 20 years, claims costs for Property Owners Insurance have risen significantly, while premiums have remained stable or even fallen. This is not sustainable. We are also seeing an increase in both the **frequency of losses** and the **cost of claims**, especially for property damage and business interruption claims.

The increase in the number of claims is partly due to more frequent **severe weather events**, changes in **construction methods**, challenges around **‘escape of water’** claims, and spiralling **rebuilding costs**. While claims costs have increased significantly over the past two decades, insurance rates and deductibles have not. Added to that, some insureds are not maintaining up-to-date building sums insured, exposing their businesses to additional risks due to **under-insurance**.

All of this means that costs have increased for insurers, while rates have stayed the same or even fallen in some cases.

In view of the above, insurers need to improve the profitability across their portfolios after a number of poorly performing years. This is something that we are experiencing from all our insurers, and it is the current reduction in insurance market capacity and risk appetite that is giving insurers the opportunity to “correct” their rates in what has, for several years, been a loss-making class of business for insurers.

We are currently seeing insurers apply 10-15% rate increases on claim free risks.

Premium increase expectations – what does the future hold?

With the rate increases above being applied, along with the current levels of index-linking, we are recommending that our clients anticipate a **25% premium** increase on claim free risks.