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CA COMMERCIAL INSURANCE: STRATEGIES FOR A NEW ERA OF RISK



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TOPICS

6 Forces Driving Commercial Property Insurance Costs

Global Losses: Catastrophic Weather Events vs. Man-made Losses

2024 U.S. Weather & Climate Disasters

Insurance Companies' Reaction

California Focus

Liability and Umbrella Challenges

Insurance Best Practices for Building Owners and Property Managers

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Q&A

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LIBERTY

Real Estate Insurance Marketplace

6 Forces Driving Commercial Property Insurance Costs



Catastrophe losses



Property replacement costs



Reinsurance



Skilled labor shortage



Underinsurance



Property rate need



Catastrophe Losses

Catastrophe losses

- ▶ **Major Catastrophes:** Hurricanes, floods, wildfires, tornadoes, winter storms.
- ▶ **Industry Impact:** Increasing frequency and severity of events are straining the industry.
- ▶ **Global Losses:** Annual insured losses have exceeded \$100 billion over the last four years.
- ▶ **2023 Figures:** Total global insured losses reached \$118 billion.
- ▶ **Severe Convective Storms (SCS):** Account for 58% of global losses.
- ▶ **U.S. Impact:** 6 out of the 10 most expensive events were SCS events.



Reinsurance

- ▶ **Reinsurance Capacity:** Improved in 2023 and into 2024.
- ▶ **High Costs:** Despite improvements, available capacity remains expensive.
- ▶ **Cost Drivers:** Impact of catastrophic events
 - Rising cost of capital
 - Financial market volatility
 - Inflation
- ▶ **Carrier Impact:** These increased expenses are passed along to customers.



Reinsurance



Underinsurance



Underinsurance



Rising Costs: Material and labor costs have increased, yet insured property replacement values lag behind.



Under-coverage: Only 43% of business owners have raised their policy limits to match current replacement costs.



Importance of Accuracy: Customers need accurate asset valuations to avoid financial shortfalls after a loss.



Premium Impact: Premiums will reflect the higher values required for proper coverage



Property Replacement Costs

- ▶ **Structural Steel:** Fabricated structural steel prices increased by 65%.
- ▶ **Concrete Products:** Prices rose by 37%.
- ▶ **Overall Construction Costs:** Nonresidential construction costs surged by 37% over the past four years.
- ▶ **Machinery & Equipment:** Costs increased by 22% during the same period.
- ▶ **Supply Chain:** Contractors continue to face supply chain challenges, still not back to pre-pandemic levels.



Property Replacement Costs

Skilled Labor Shortage

Skilled Labor Shortage



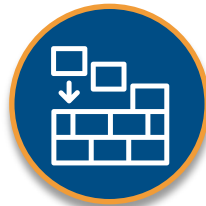
Labor Costs: Nearly half of construction costs are wages and salaries.



Wage Increase: Wages have risen by 22% over the past four years.



Skilled Labor Shortage: 77% of contractors report difficulty finding skilled labor.



Impact on Rebuilding: Higher costs and delays could lead to more business interruption losses.



Property Rate Need



Escalating Loss Trends: Loss trends have outpaced rate increases for years.



Key Drivers: Catastrophes, severe weather, and large fires.



Future Outlook: Carriers are expected to raise rates again this year.



Goal: Closing the gap between loss trends and rate increases.

LIBERTY

Property Rate Need



▶ **Catastrophic Weather Events:**

- December Swiss estimated **\$135 Billion** in natural catastrophic losses.
- Notable risks include increased flood risk.
- Natural catastrophic risks encompass:
 - Earthquake
 - Flood
 - Hurricane
 - Wildfire
 - And others

▶ **Man-made Losses:**

- Over the past 10 years, man-made losses totaled **\$10 Billion**.
- This marks the **5th consecutive year** that natural catastrophic losses have exceeded **\$100 Billion**.

I. Global

- ▶ Total Economic Losses that includes insured and non-insured losses was approaching \$320 Billion

Table 1: Estimated total economic and insured losses in 2024 and 2023 (USD billion in 2024 prices)

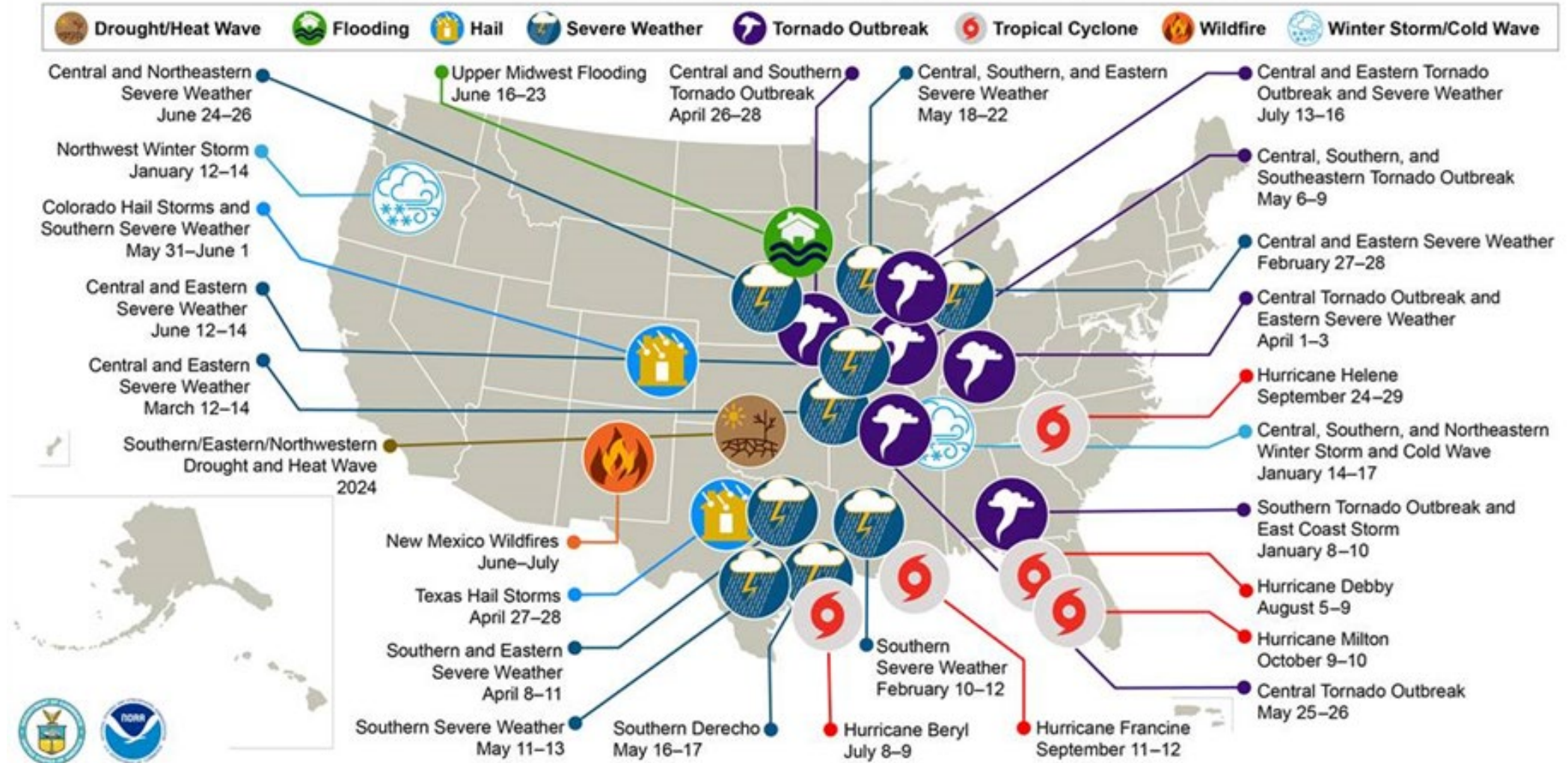
	2024	2023	Annual Change	Previous 10-y average
Economic losses (total)	320	302	6%	254
Nat Cat	310	291	6%	241
Man-made	10	11	-8%	13
Insured losses (total)	144	125	16%	108
Nat Cat	135	115	17%	98
Man-made	9	10	-7%	10

Source: Swiss Re Institute

- ▶ **2/3's of these losses are attributable to the US.**
- ▶ Reinsurance companies who provide insurance to insurance companies have been responding by increasing their rates and/or limiting their capacity in what they perceive is a catastrophic risk area.

I. Global

U.S. 2024 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the 27 separate billion-dollar weather and climate disasters that impacted the United States in 2024.



II. Insurance Companies' Reaction

▶ **Changed Appetite: More Risk-Averse:**

- Increased scrutiny of risks.
- Shift to a “show me” underwriting stance.
- Standard markets now seek the “cream of the crop,” avoiding older, unprotected, or non-upgraded buildings.

▶ **Big Data Utilization:**

- Use of multiple information sources.
- Implementation of risk scores for wind, hail, lightning, wildfire, and crime.

▶ **Market Shifts:**

- Buildings previously eligible for standard insurance are increasingly pushed to alternative markets.
- Options include government or quasi-government insurers, such as the California Fair Plan.

Insurance Companies' Reaction

Insurance Companies' Reaction

II. Insurance Companies' Reaction

- ▶ **Alternative Risk Transfer Options:**
 - **Surplus Lines Carriers:**
 - Insurance carriers whose rates and coverage are not directly governed by the Department of Insurance.
 - **Risk Purchasing Groups:**
 - Hold master policies and provide shared coverage among owners with similar risks.
 - **Lender Force-Placed Insurance**
- ▶ **Risk Transfer to the Insured:**
 - **Via exclusions.**
 - **Higher deductibles.**



II. Insurance Companies' Reaction

▶ **Enhanced Risk Management:**

- Increased inspections with mandatory loss control recommendations.
- Ongoing re-underwriting of risks by insurance companies.

Insurance Companies' Reaction



California

Well-Publicized Crisis:

- ▶ The insurance industry is currently facing a widely recognized crisis.
- ▶ **Market Withdrawals:**
 - Major companies like Allstate & State Farm have exited the California market.
 - Many carriers are reducing their appetite for older buildings and those in wildfire-exposed areas.
 - This withdrawal has resulted in a reduced supply of insurance, even as demand remains high.
- ▶ **Wildfire Impact:**
 - Significant wildfire claim events continue.
 - Current California fires have an estimated economic loss of **\$135 to \$150 billion**.
- ▶ **Uncertain Marketplace Effects:**



III. California

▶ **California Fair Plan Data:**

- According to California Insurance Commissioner Richardo Lara (NYT 1/14/25), California Fair Plan holds **\$377M in reserves**.
- There is approximately **\$5.75 billion in reinsurance**.
- Assessments are levied against insurance carriers based on written premium.

There is increased pressure for some carriers to either exit the state or reduce their writings.



California

Liability and Umbrella Challenges

- ▶ **Increased Liability Claims: Social Inflation** = Higher payouts.
- ▶ **Rising Claim Frequency:**
 - Nuclear verdicts (>\$10M) increased by 27% in 2023.
 - Thermonuclear verdicts (>\$100M) increased by 35% in 2023.
- ▶ **Market Dynamics:** Personal injury attorneys are adept at working the system—indicating a need for reform.



Liability and Umbrella Challenges

- ▶ **New Policy Exclusions:**
 - Habitability exclusions.
 - Firearms exclusion.
 - Assault and battery exclusions.
 - Animal exclusions (e.g., dog bites).
 - Abuse and molestation exclusions.
 - Liquor liability exclusions.
- ▶ **Financial Impact:** Premiums are rising due to large payouts.
- ▶ Insurance carrier appetites are shrinking regarding the limits they are willing to underwrite.
- ▶ Shared and layered towers are increasingly common to achieve adequate limits.

Liability and Umbrella Challenges

Insurance Best Practices for Building Owners and Property Managers

Insurance Best Practices for Building Owners and Property Managers

- ▶ Risk Transfer contracts for all vendors and contractors on your property
- ▶ Be prepared to document physical updates on your buildings.
- ▶ Implement risk management and loss control programs
- ▶ Inspections - first and third party
- ▶ Capital expenditure plans
- ▶ Roof, Electrical and Plumbing updates are the big 3
- ▶ Fire sprinkler testing showing psi information



Strategies for Insurance Programs and Renewals

- ▶ Bundle properties that are on separate policies – create a master policy
- ▶ Work with your broker to create the best possible submission to the underwriters.
 - Narrative
 - Pictures
 - Best Practices
 - Sprinkler reports
 - Updates or plans to update
 - Roof, electrical and plumbing updates/maintenance on all buildings
 - Loss history and detailed information on any claims
 - Current building valuations on all buildings done with insurance broker and client

Strategies for
Insurance
Programs and
Renewals

Strategies for Insurance Programs and Renewals

Strategies for Insurance Programs and Renewals

▶ **Align with Lender Requirements:**

- Understand your lender's coverage expectations and risk tolerance.
- Ensure policy limits and exclusions meet their criteria.

▶ **Develop a Tailored Strategy:**

- Customize your property insurance plan based on lender needs.
- Integrate risk assessments and data analytics for informed decisions.

▶ **Collaborative Approach:**

- Establish open communication channels between your team and the lender.
- Work together to identify exposures and develop mitigation strategies.



Strategies for Insurance Programs and Renewals

▶ **Optimize Coverage & Costs:**

- Balance comprehensive protection with competitive premium rates.
- Leverage market expertise to navigate exclusions and underwriting challenges.

▶ **Build Trust & Transparency:**

- Maintain regular updates and clear documentation.
- Ensure your insurance strategy supports both your business objectives and lender requirements.



Strategies for Insurance Programs and Renewals

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