How we can work together to insure the US property market

The confluence of increased severe weather-related events, undervalued properties and an unprecedented high in re-build prices due to inflation has created an ugly triad which needs to be addressed if our industry is able to continue to uphold its promise to pay.

At Brit we were early movers in these conversations, sharing our analysis of the increase in weather and climate related events. This has coincided with the undervaluation of many personal lines and commercial property accounts across the United States, and a huge rise in reconstruction costs. This document seeks to clarify the dilemma the industry is facing and to ensure Brit provide our coverholders with the right support to have timely conversations with their customers.

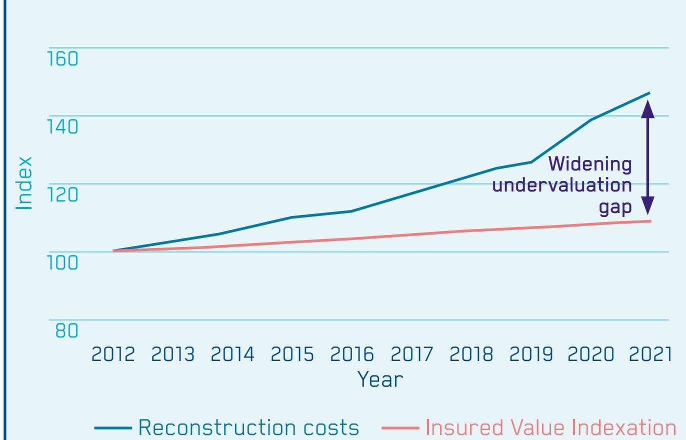
Weather-related disasters are at an unprecedented high

In 2021 there were 20 weather related disasters resulting in over $1bn in losses. When compared with an average of 7.7 per year between 1980 and 2020 the last five years (2017-2021) have seen an average of 17.8 $1bn events (CPI) adjusted. In July the Tropical Storm Risk (TSR) increased its hurricane activity forecast by one to nine and total storms to 18. This is slightly behind 2021's 21 named storms which was the third most active season recorded. Add that to the increases in major floods and ice storms, it seems "above normal" weather is set to stay.

Rebuilding – inflation and supply chain pressures have created spiralling costs, compounded by undervaluation

Inflation hits every part of reconstruction. Both materials and labor costs are at an unprecedented high which, when mixed with static or outdated valuations makes for a toxic cocktail. Figure 1 is taken from some analysis we have done which demonstrates the growing gap between valuation and re-build costs.

Figure 1: the widening undervaluation gap



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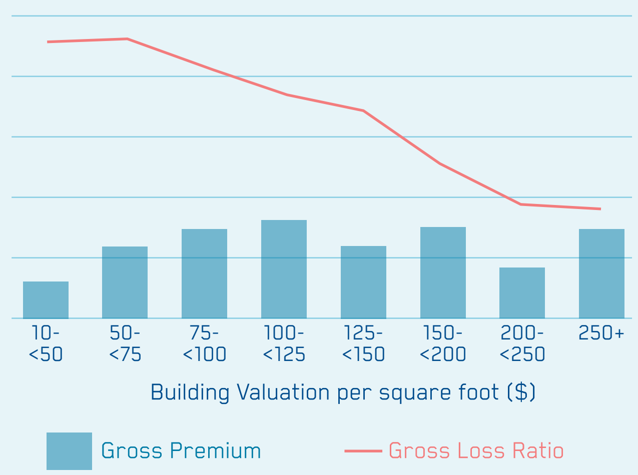
No one can be under any illusion of the inflationary pressure on reconstruction costs these past few years and yet we see business renewed year after year without any change in valuation and have experienced at time of loss many examples of dramatic under-insurance. This is detrimental for both the insured and the insurer.

A compelling correlation between underwriting performance and low valuation

Figure 2 shows an analysis of over $2B of gross premium covering a six-year period across both commercial and residential exposures. We see a correlation between poorer performance and lower valuation levels, indicative of undervaluation or other risk features.

Figure 2: performance vs valuation



Effectiveness of wind and hail deductibles on undervalued properties

A contributing factor to the underperformance of undervalued properties includes the effectiveness of the wind and hail deductible often expressed as a percentage of the insured building value.

	Undervalued	Adequate valuation
Policy limit	$400,000	$750,000
2% wind/hail deductible	$8,000	$15,000

How does this impact our customers?

This is a problem for:

- The insured – an 80-90% coinsurance clause means they might not be fully covered in event of a loss leading to a claim.
- The retail agent – as they could be sued by the insured if their advice has resulted in the client not being adequately covered.
- Coverholders – as properties that are undervalued and therefore under-priced could lead to carrier portfolio underperformance resulting in a withdrawal of capacity.

Actions we at Brit are taking

- Increased focus on valuation levels and inflationary increases when assessing pricing adequacy and capacity deployment on our coverholder renewals.
- Implementing and explaining the need for both minimum valuation requirements and inflationary value increases at renewal.
- Sharing of data insights with our coverholder partners.

...and finally

We want to be there for our coverholders and their clients. We strive to be transparent and collaborative in our decision making, ensuring we have the ability to support claims when they arise and help provide a seamless service to the end insured.