

# 2023 Commercial Property Insurance Market Outlook

The commercial property insurance market has continued to harden in recent years. In fact, global property insurance prices rose 6% in Q3 of 2022, according to insurance broking and risk management company Marsh. This trend may persist as both insurers and policyholders grapple with rising inflation and economic pressures in 2023. Additionally, climate change will continue to be a factor. According to the Association of British Insurers, the storms Dudley, Eunice and Franklin cost insurers an estimated £500 million last year. Such pressures may increase premiums or cause policy terms to become more restrictive, some of which has already been seen in the market.

## Trends to Watch

- **Inflation**—Inflation rose by 11.1% in the 12 months to October 2022—a 41-year high—according to the Consumer Prices Index. Inflationary pressures may cause insurers to scale back services or withdraw some altogether in 2023. Consequently, underwriting capacity may reduce and premiums could increase.
- **Building material costs**—Rocketing energy prices and Russia's invasion of Ukraine have put pressure on construction firms, disrupted supply chains and led to increased building material costs. UK insurers are now looking at an increase of 9.4% to cover rebuild cost inflation, according to the Building Cost Information Service. Consequently, policyholders could be left vulnerable if they don't regularly review sums insured. In fact, 43% of commercial properties in the UK are currently underinsured, according to research by global insurance broker Gallagher.
- **Extreme weather**—Climate change is causing unpredictable and severe weather events. Currently, 325,000 English properties have a 60% chance of being flooded in the next 30 years, a report from the National Infrastructure Commission has found. And this figure is only set to increase. With unpredictable weather, it's harder for insurers to predict future risks and negotiate reinsurance treaties. As such, associated costs may be passed onto policyholders.
- **Changing construction methods**—Modern Methods of Construction (MMC)—which focuses on off-site construction techniques—is encouraged by the government to speed up house building and address shortages. However, it's not yet clear whether MMC properties will be as resilient to flood, fire and escape of water as traditional builds. As such, MMC may affect commercial property insurance in the future.

## Tips for Insurance Buyers

- Work with your insurance professionals well in advance of your renewal date. Doing so will make sure your application has ample time to be adequately evaluated by underwriters.
- Be prepared to provide underwriters with extensive information about your property, such as alarm specifications, smoke detector locations and evidence of fixed wiring and electrical installation inspections.
- Address any insurer recommendations and take appropriate steps to reduce risks whenever possible. For instance, installing recommended building security measures may make your business more attractive to underwriters.
- Engage with professionals—such as estate agents, accountants and contractors—to estimate your property's current rebuild cost and adjust the sums insured accordingly.
- Be prepared for disruptions in 2023 by developing a documented business continuity plan (BCP). This will help your organisation remain operational and minimise damages in the event of an interruption. Test your BCP regularly with various possible scenarios.