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Why Property Insurance Rates Are Rising

More severe natural disasters driven by climate change contribute to a hardening market

Everyone is experiencing the pain of increasing insurance costs. It's not just limited to condos. Businesses and commercial property owners are also seeing big property rate increases. Along with increasing rates, deductibles are increasing and there is less coverage available.

In the insurance industry, we call this a "hard market."

Back in 2016, we were enjoying a "soft market" with some of the lowest insurance costs since Hurricane Katrina in 2005. Insurance companies were very profitable due to a low frequency of natural disasters. This profitability brought in increases in capital from investors, which allowed insurance companies to offer higher limits at lower rates.

Then came 2017 and Hurricanes Harvey, Irma and Maria, along with an increased number of wildfires up and down the West Coast. These three hurricanes are ranked as the fourth, fifth and sixth costliest natural disasters in history, totaling over $265 billion in damage. Overall, 2017 was the costliest year on record for insurance companies, racking up a total of over $300 billion in insured losses.

2021 ranks as the second costliest year for insurance companies, with over $140 billion in insured losses. Hurricane Ida alone is believed to have caused $75 billion of that damage. With the two costliest years for insurance companies happening within the past five years, they are being forced to act in order to stay solvent.

Unfortunately, this means increased insurance costs, higher deductibles and/or reductions in coverage for all of us.

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Risk of flooding and the National Flood Insurance Program

As Earth's temperatures rise, the ocean expands, glaciers and ice sheets worldwide continue to melt, and the amount of water that evaporates into the air increases—affecting the intensity and frequency of precipitation. This correlates to increases in the number of annual storms, the severity of these storms and an increase in exposure to flooding.

Flooding can be financially devastating to a household—just one inch of water can cause $25,000 of damage. As the risk of flooding increases, especially in low-lying and coastal communities, it is advisable to consider purchasing flood insurance and to be aware of the program changes within the National Flood Insurance Program (NFIP).

As of April 1, 2022, all new or renewing flood insurance policies issued through the NFIP will be subject to the program's new rating methodology, referred to as Risk Rating 2.0.

Risk Rating 2.0 redesigns how a structure's flood risk and rates are determined under the NFIP. Rates more accurately reflect the risk of flood by incorporating catastrophe models, actuarial science and flood mapping data sets that include the risk of storm surge, tsunami and coastal erosion. Reformation of the NFIP's rating methods was necessary to ensure that the NFIP remains a viable and sustainable option to secure flood insurance coverage. Coupled with the removal of subsidies, many policyholders will see significant increases in their flood insurance premiums, although some may have decreases commensurate with their structure's level of flood risk. It is worth noting that the NFIP caps rate increases at a maximum of 18% annually.

Whether this is the end of the rate increases or just the beginning depends a lot on climate change. Hurricanes, droughts, wildfires and flooding affect us all. If we continue to have an increased number of natural disasters, you can count on insurance prices continuing to rise. ❖

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