

Property Insurance



FACING A PERFECT STORM

The property market is facing challenges on many fronts – from weather-related incidents and increased natural disasters to supply chain issues and rising construction and insurance costs.

Below we'll explain these current market conditions and provide ways for you to address these challenges to minimize the impacts on your municipality.

WEATHER-RELATED INCIDENTS

In addition to the growing frequency and severity of natural disasters such as hurricanes and blizzards, we're now facing increased weather-related issues in Massachusetts, as evidenced by flooding, hail, wildfires and even tornados. MIIA has seen recent losses under our property program specifically tied to significant increases in convective storms resulting in high winds, lightning strikes, power surges and sudden and torrential rainfalls.

Installing monitors to detect flooding – be it from a storm or a broken pipe – can help minimize damage from floods. Electric circuit breakers can prevent damage to vital equipment from power surges related to lightning strikes. And back-up generators can alleviate loss of power problems such as humidity and mold forming from lack of air conditioning or broken pipes due to freezing. All these measures can save your municipality thousands of dollars in equipment and facility replacement costs as well as limit increases to your annual premium.

AGING INFRASTRUCTURE

As buildings age they become vulnerable to loss as infrastructure, systems and materials deteriorate. Property reinsurers are acutely aware of this phenomenon referred to as “attritional losses” which is why they view building age and condition as critical underwriting factors. Even if a building has a favorable loss history, this doesn’t automatically guarantee a favorable rating.

MIIA has been collecting valuable Construction, Occupancy, Protection, Exposure (COPE) data on member properties to provide a snapshot of risk exposure and help influence a more favorable rating. COPE data provides underwriters with information on building conditions including, upgrades to infrastructure, underscoring the importance of following rigorous maintenance practices and timely capital improvements. Focusing your efforts on this area can have the greatest impact on helping to minimize your risks and reduce your losses.

CONSTRUCTION COSTS & SUPPLY CHAIN ISSUES

Rising construction costs are also negatively impacting the severity of losses. Year-over-year, building material prices have increased more than 20% since the beginning of the pandemic – and adding to this are rising inflation costs.

Chris Bailey, senior vice president of integrated solutions at XL Construction, said in a September 19, 2022, article in Construction Dive that construction costs have generally outpaced inflation by about 1.5%. To combat inflation challenges, he recommends pre-ordering long lead time materials and being prepared to use alternate materials.

Delays in obtaining critical building materials further complicate the timely resolution of claims. Heavy-duty electrical equipment and switchgear procurement has been particularly challenging. Supply chain issues not only drive up extra expense costs, but also result in delays getting critical operations back up and running.

Planning can also save your community time and money. During the pandemic many cities and towns understandably put capital planning on hold. If your community is one that did, we highly recommend updating your capital plan so you can invest in buildings and equipment where and when needed, through a planned process, versus a crisis.

REINSURANCE MARKET

Against the reinsurance backdrop of global weather events, sustained losses, and low investment rates, MIIA has seen a doubling of reinsurance costs over the past five years. At the same time, we've had to retain a higher percentage of losses before reinsurance coverages are triggered.

THE IMPORTANCE OF PROPERTY LOSS MITIGATION ACTION PLANNING

Implementing sustained facility management maintenance best practices, employing preventive and predictive maintenance, and updating capital improvement plans can all help ease the confluence of challenges we've outlined.

We encourage you to work with your insurance risk manager to identify risk areas and develop property loss mitigation action plans. By making this a priority within your community, you can help prevent property losses and save valuable time and money.

REFERENCES

<https://www.constructiondive.com/news/xl-constructions-chris-bailey-talks-inflation-supply-chain-immigration/632075/>