

Insurance Challenges and Navigating Local Impacts from Climate Effects



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Manage Increasing Insurance Costs

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FAST FACTS:

- **Climate Change & Extreme Weather Events:** More frequent and severe natural disasters like hurricanes, floods, wildfires and storms have led to increased claims
- **Rising Construction Costs:** The costs of building materials and labor and supply chain disruptions have increased significantly, raising the cost of repairs or rebuilding damaged properties. Insurers are requiring higher limits for structures and adjusting premiums to account for higher replacement costs.
- **Location & Risk Factors:** Buildings located in coastal or wild-fire prone areas are seeing higher premiums due to increased risk of damage and higher demand for coverage exceeding available capacity, creating a hard market environment

Several factors have contributed to the increase in property insurance premiums in recent years.

Construction Materials Affect Premium

ISO Construction Material Types

Class 1 – Frame

(Exterior & bearing walls, roof and supports are wood or light-gauge metal)

Class 2- Joisted Masonry

(Combines concrete block or masonry walls with wood frame roof)

Class 3 – Non-

Combustible (Exterior walls, floors, roof made of non-combustible or slow-burning material)

Class 4 – Masonry Non-

Combustible (Exterior walls of masonry and non-combustible floors and roofs)

Class 5 – Modified Fire

Resistive (Structural floors, roof and supports are non-combustible with fire rating of not less than 1 hour)

Class 6 – Fire-Resistive

(Highest class of ISO rating, reinforced concrete found in high-rises or parking garages.)

Construction materials have a direct influence on property insurance premiums because they affect the risk of damage and cost of replacement or repair.

Risk of Damage or Destruction;

Fire Resistant materials like concrete and brick reduce the likelihood of fire-related damage, water damage or storm related damage, contrasted with wood-frame buildings which are more susceptible to these perils, resulting in higher premiums.

Cost of Repair & Replacement;

The more expense or specialized the construction materials, the higher the potential cost of repair or replacement in the event of damage. Insurers will take replacement costs into account when calculating premiums

“Properties built with more resilient, fire-resistant materials generally have lower insurance premiums”

Mitigating Environmental Impacts

To mitigate environmental impacts, building owners can adopt several best practices that focus on sustainability and risk-reduction, such as:

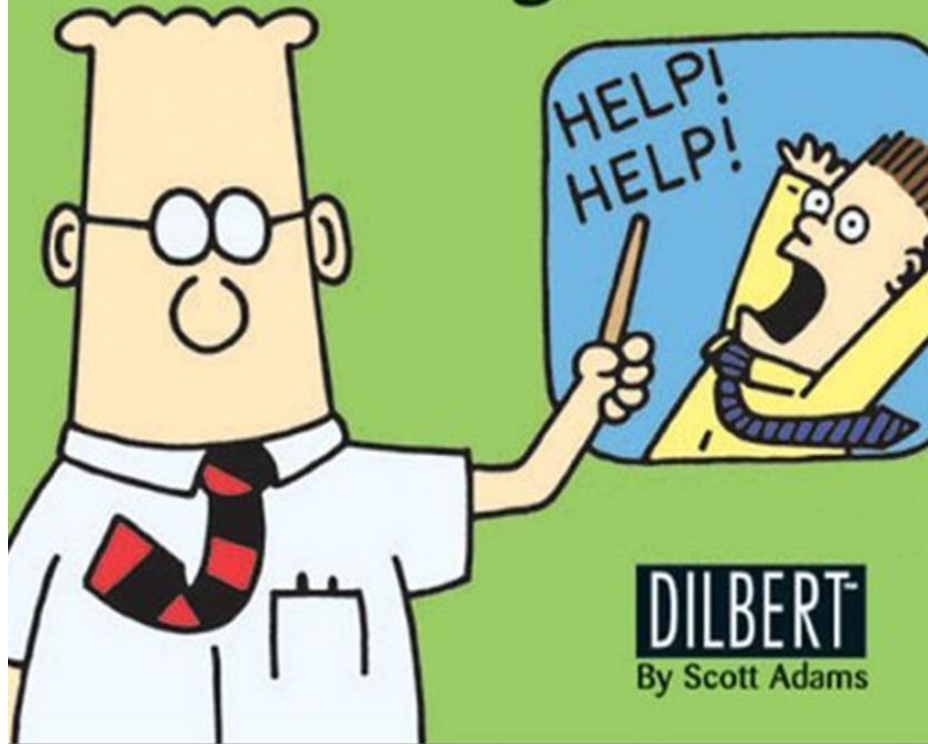
- ✓ **Resilience to Climate Risks**

- ✓ Design buildings to withstand extreme weather conditions such as earthquake, flood and wildfire, like raising foundations, incorporating flexible steel or concrete and using fire-resistant materials
- ✓ For areas prone to wildfire, using non-combustible roofing materials, fire-resistant siding and defensible space landscaping can reduce risk of catastrophic fire
- ✓ To enhance earthquake resilience, consider incorporating flexible steel, base isolation systems, shear walls and seismic dampers along with strong foundation. Incorporating seismic shutoff valves at the main gas line to automatically shutoff gas in the event of an earthquake can prevent potential gas leaks and reduce the risk of fire or explosion.

- ✓ **Risk Mitigation & Regular Maintenance**

- ✓ Regularly inspecting and maintain the building's roof, plumbing, electrical and structural elements can prevent costly repairs and reduce risk. Well-maintained buildings are less likely to experience significant damage.
- ✓ Installing fire detection and suppression systems to provide early warnings, allow for evacuation and significantly reduce fire damage and loss of life.
- ✓ Structural reinforcement, bolting the foundation to the frame, reinforce walls or installing structural steel connectors can significantly reduce damage from a seismic event

**Our Disaster Recovery Plan
Goes Something Like This...**



**A well-prepared
disaster recovery
plan can help
reduce insurance
premiums by
demonstrating to
insurers that a
property owner is
taking proactive
measures to
mitigate risk**

Disaster Plan Example

- **Risk Assessment & Business Impact Analysis**
 - Understand the potential risks to the property such as fire, flooding, earthquakes, storms, power outages
 - Evaluate the severity of each risk. For example, a fire might damage multiple units
 - Focus on areas that are vital to the building's operation, like electrical, HVAC and safety features
- **Emergency Response Plan**
 - Outline clear evacuation routes for tenants. Include specific plans for people with disabilities or special needs.
 - Maintain an updated list of emergency contacts, including local fire department, police, contractors and utility companies
 - Ensure a method to communicate with tenants, employees and emergency services (e.g. phone tree, app, mass notification)
- **Property Documentation**
 - Keep all insurance documents in a secure and accessible place. This includes property insurance and renter's insurance.
 - Keep detailed records of the property contents, maintenance and equipment. Photo's or video's of the property condition will be useful in the event of a claim
- **Backup Systems & Redundancy**
 - Ensure generators or other backup power solutions are in place for essential systems like elevators, emergency lighting
- **Recovery & Restoration Plan**
 - Quickly evaluate extent of damage, focusing on structural integrity, utilities and overall habitability
 - Have a list of trusted contractors, such as plumbers, electricians and mitigation contractors who can begin cleanup and repair immediately
 - If units are uninhabitable, arrange for emergency relocation for affected tenants
 - Start insurance claim process as soon as possible to avoid delays in claim payments
- **Regular Testing & Training**
 - Conduct regular drills with staff and tenants (as appropriate) to practice evacuation procedures and other emergency response
 - Ensure staff are trained in emergency procedures, first aid and disaster response protocols

Increasing Insurance Premiums; What can you do about it?

Work with an experienced insurance broker

Experienced brokers have a deep understanding of the market and can help identify the most cost-effective policies while ensuring adequate coverage. They should provide valuable insights and offer risk mitigation strategies which you may haven't heard before

Implement Risk Management Practices

Buildings that implement comprehensive risk management practices, such as regular maintenance and robust property protection measures can reduce the likelihood of claims. Insurers often reward insureds with premium credits and more favorable terms to building that demonstrate a commitment to reducing risk.

Assume More Risk

Depending on the risk level, you may benefit from higher deductibles or more restrictive policy language, reducing premiums in exchange for taking on a higher portion of the risk.

Properly Identify Building COPE

Construction, Occupancy, Protection and Exposure are the core underlying elements of property rate development. Inaccuracies in any of these elements can result in inflated premiums. Property owners commonly carry-over data year after year without updating.

Establish Appropriate Building Valuations

An accurate insurance to value calculation represents as close to an equal ratio as possible between the amount of insurance an owner obtains and the estimated value of its commercial property, ensuring adequate protection following a property loss without over or underinsuring.

Insurance Climate Awareness

What to be prepared for.

Natural Disaster or Climate Change – Does it matter which?



- Increasing insurance premiums are the result of many factors, including: Repair rates for damages, in large part from climate-fueled disasters, are surging due to higher material and labor costs for builders. Structural replacement costs associated with homeowners insurance increased by 55% between 2020-2022. Commercial insurance would be similar.

Factors that Impact Builder's Risk Coverage

- Total Insured Value (TIV) - **Accuracy counts**
- Type of Construction (Residential, Commercial, Size, Complexity, Materials used)
- Location, Location, Location - Terrain, Proximity to severe weather or Natural Disasters (Hurricane, Floods, Tornadoes, Earthquake), Environment, Neighborhood

What ways can you reduce Risk?

- Good planning for location – Including Trust in your Borker
- Materials
- Safety
- Planning for an event (Minor or Large)
- Regular Safety and Risk inspections
- Having Buy in from all parties involved (Owner, Builder, Subs and your Broker)

Catastrophe Plan

- Having a set plan to follow (On site plan and in hands of Site Supervisor/Site Manager)
- 1. Hierarchy and flow of who's in charge (Who, when #1 is absent)
- 2. Emergency Contacts in possession for responsible parties
- 3. Agreement with vendor(s) on who will respond and if unavailable, back up contractor, or Vendor
- 4. Posted guidelines to follow. Leads to know their part
- 5. Take pictures, identify parties present and/or involved
- 6. Secure and/or protect evidence or item that failed

Resources

- <https://www.cbo.gov/publication/59918> Congressional Budget Office

Climate Change, Disaster Risk, and Homeowner's Insurance

August 27, 2024 | Report

CBO analyzes recent changes in property insurance markets and considers alternative insurance products as well as policy approaches to increase the availability and affordability of insurance for homeowners and renters.



[View Document](#)



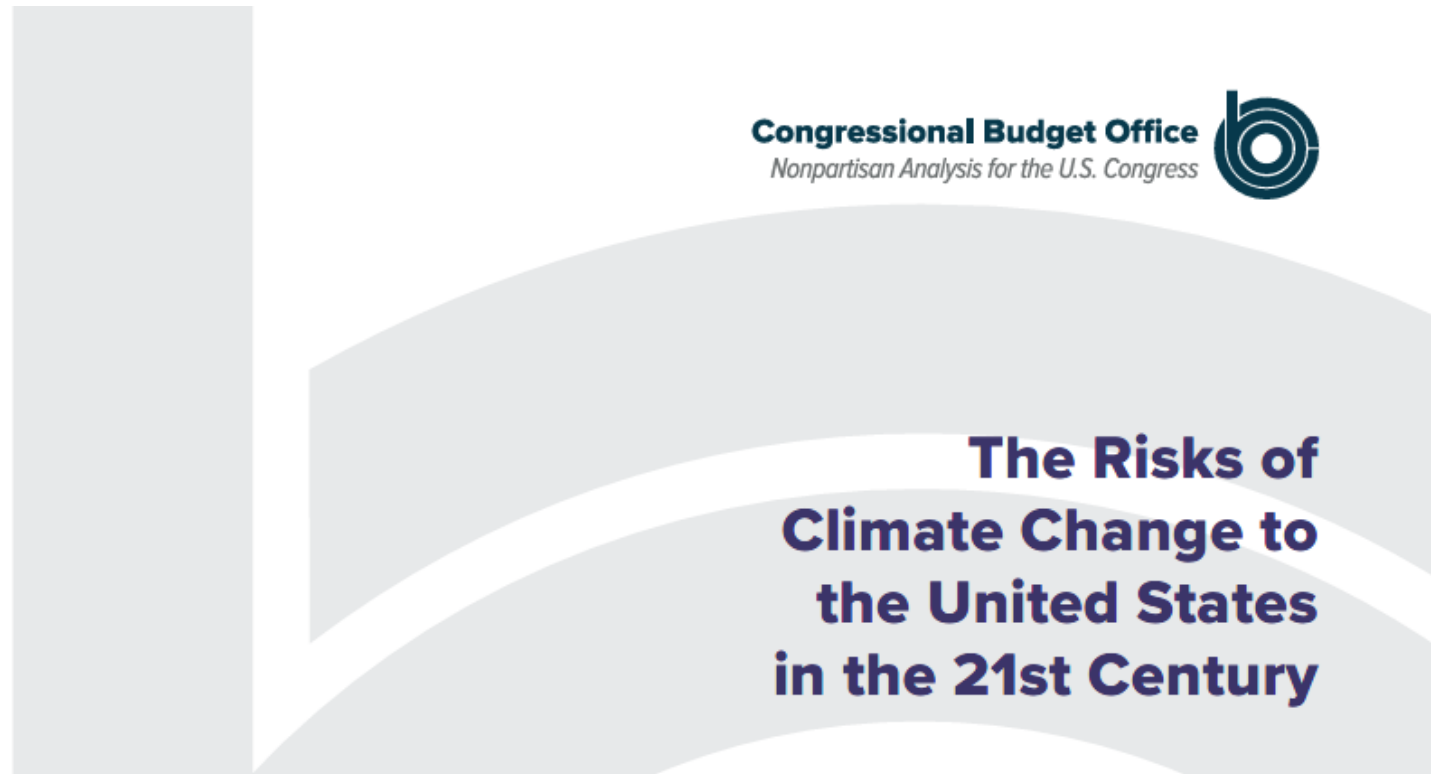
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2.7 MB



Resource – Congressional Budget Office

- <https://www.cbo.gov/system/files/2024-12/60845-climate-risk.pdf>



From the CBO

July 11, 2024

Flood Damage Avoided by Potential Spending on Property-Level Adaptations: Working Paper 2024-03

May 28, 2024

Flood Damage and Federally Backed Mortgages in a Changing Climate

November 13, 2023

How CBO Analyzes Public-Private Risk Sharing in Insurance Markets

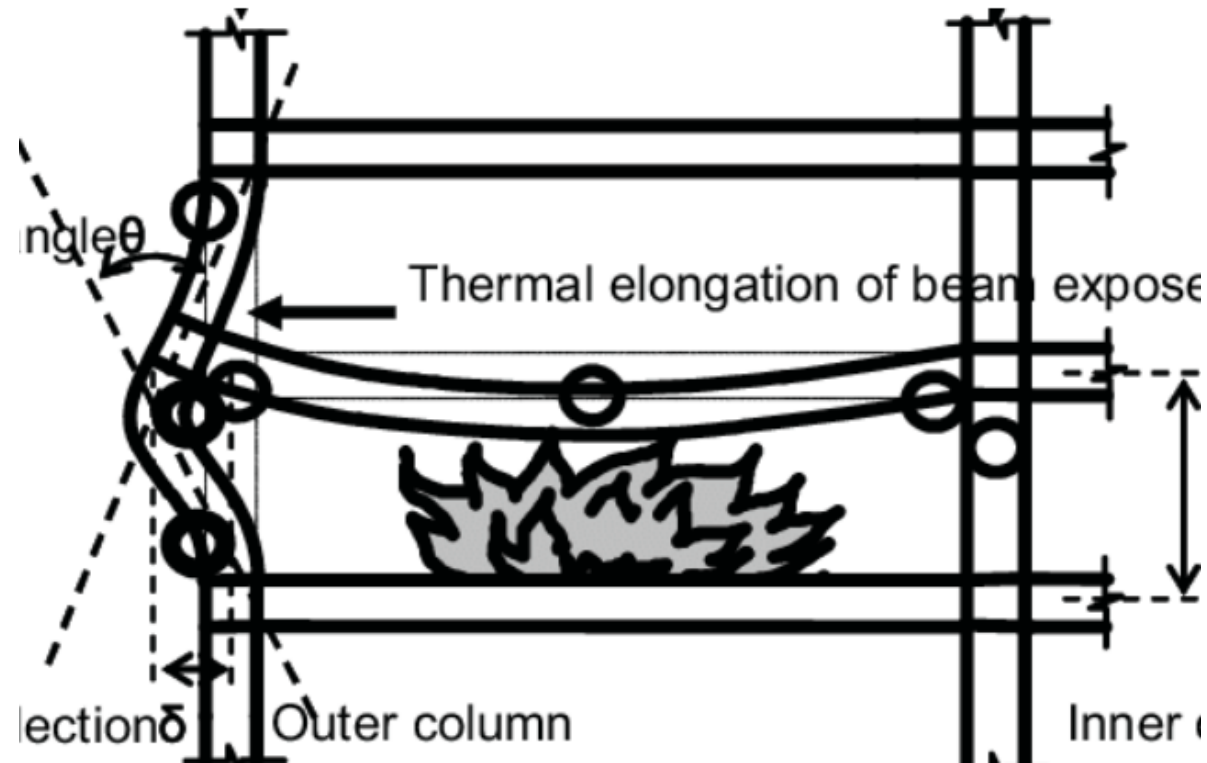
November 30, 2022

Wildfires

June 16, 2022

Buildings – Risk /Cost - Wood vs. Steel

Each component has risks / Cost Benefits



Wood - Basis for Double Insurance Rates



WOOD BURNS.
Steel and concrete don't.

That's one of the reasons insurance rates for wood buildings are double that of steel buildings.

So why is the U.S. Department of Agriculture promoting wood construction with your tax dollars?

Learn more about this boondoggle and see a list of recent major wood fires at www.aisc.org/woodburns.

 There's always a solution in steel.™
American Institute of Steel Construction
812.870.2400 www.aisc.org

Wood, Steel, Concrete???



Uncommon ground: At 18 floors, Vancouver's Brock Commons will be the world's tallest wood-framed structure in 2017.

Green concepts steer towards wood, but there are costs associated including insurance premiums

Move over, steel and concrete. Believe it or not, a small but growing chorus of industry practitioners around the world is now heralding the 21st century as the “era of the tall wood building.”

Wood? Yes, thanks to tech advancements that have yielded modernized components and techniques that allow heavy timber to rival or outperform steel and concrete framing in lightness, strength, cost, insulative properties, and speed of construction. Much of that speed is due to extensive pre-fabrication of structural components, a practice more prevalent by the day.

However, the movement also is gaining greater momentum because of heavy timber’s potential to take sustainable structural components to new heights. While concrete and steel both emit CO₂ during the manufacturing process, CO₂ collected by timber during photosynthesis remains sequestered. So, the differences in carbon footprints are stark, with cement emitting one ton of carbon dioxide per ton produced, according to the [United Nations Environment Programme \(UNEP\)](#).



Concrete failure – Often hold but need to be replaced



What to choose??

- So many variables come into play when choosing the best structure for a multi-story building. What are the budget constraints? Are there environmental factors to consider? What type of building is being erected? The answers to these questions will inevitably point the contractor to one of the “big three” materials: wood, concrete, or steel.

Site to address some aspects of Wood vs. Other building components

- <https://builtworlds.com/news/industry-sizes-up-prospects-for-tall-wood-buildings/>
- <https://www.popularmechanics.com/science/environment/a64093044/climate-change-sea-sponge/>

Concrete Block Walls – Paint or clean no paint



Interior Drains for water overflows



Hurricane Irma - Cyprus Wood (No Longer available)

Pre-Storm Aerial Photograph dated December 11, 2014



Location on south side of Islamorada, heavily damaged – Notice sand brought in by waves

Post-Storm Aerial Photograph dated September 14, 2017



Docks destroyed



Post storm view of subject property's dock.

As seen in the show.



Pre-Repairs



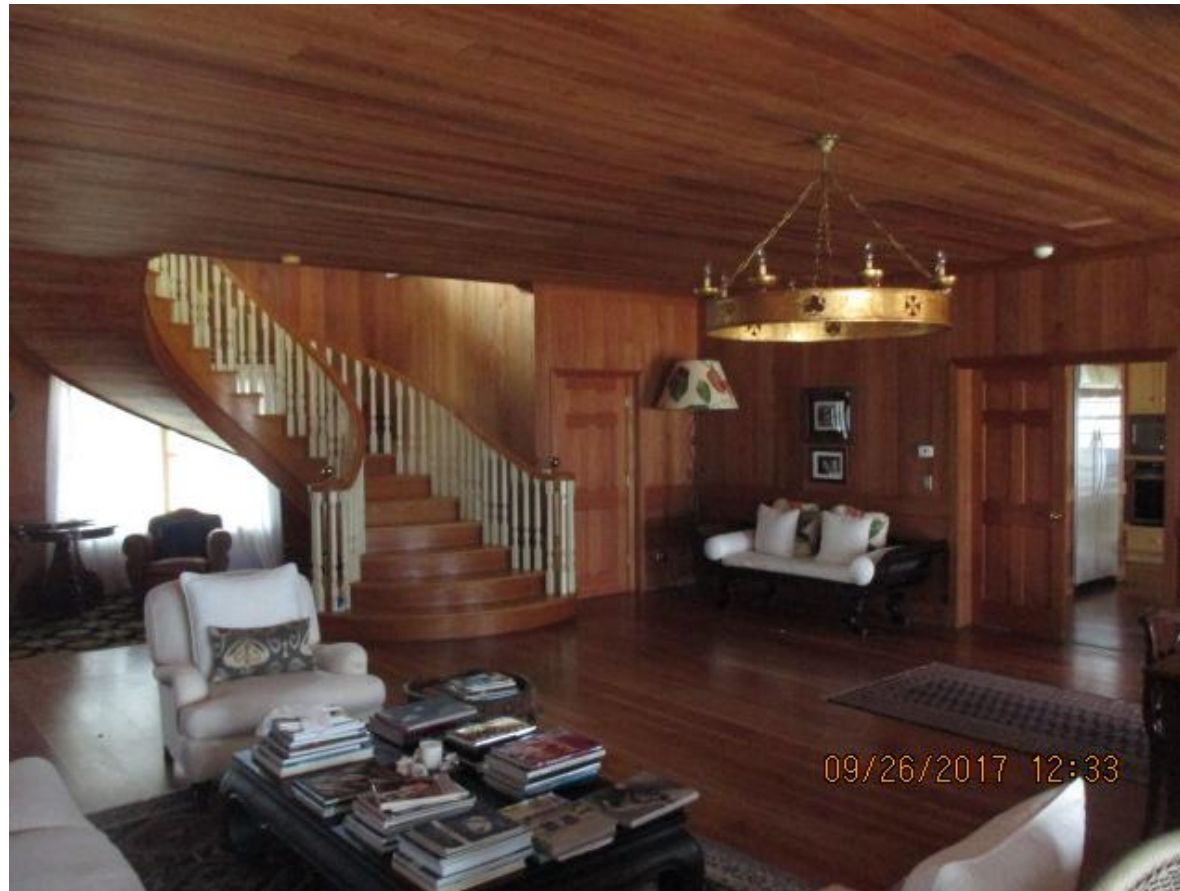
Siding Removed as wind driven rain pushed through the materials Roof on this house stayed



More water came up through floor from wave action



Materials – Cyprus solid and mold resistant



Wind driven rain came through, however wood was determined to be best o sand and refinish (Owner also wanted this)



Famous Tree for Swimsuit Photos – No Longer there...
The beach has been more susceptible to water action
likely from rising seas and more severe weather.

