

Mid-Council Financial Network Meeting

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WHAT IS GOING ON IN THE PROPERTY INSURANCE MARKETPLACE?



Topics

1. Significant Weather-Related Events
2. Post-Covid Inflationary Pressure/Reinsurance Cost
3. What is a “Hard” Insurance/Reinsurance Market Anyway?
4. Outlook and What Can Churches Do?



1. Significant Weather-Related Events

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2016-Present

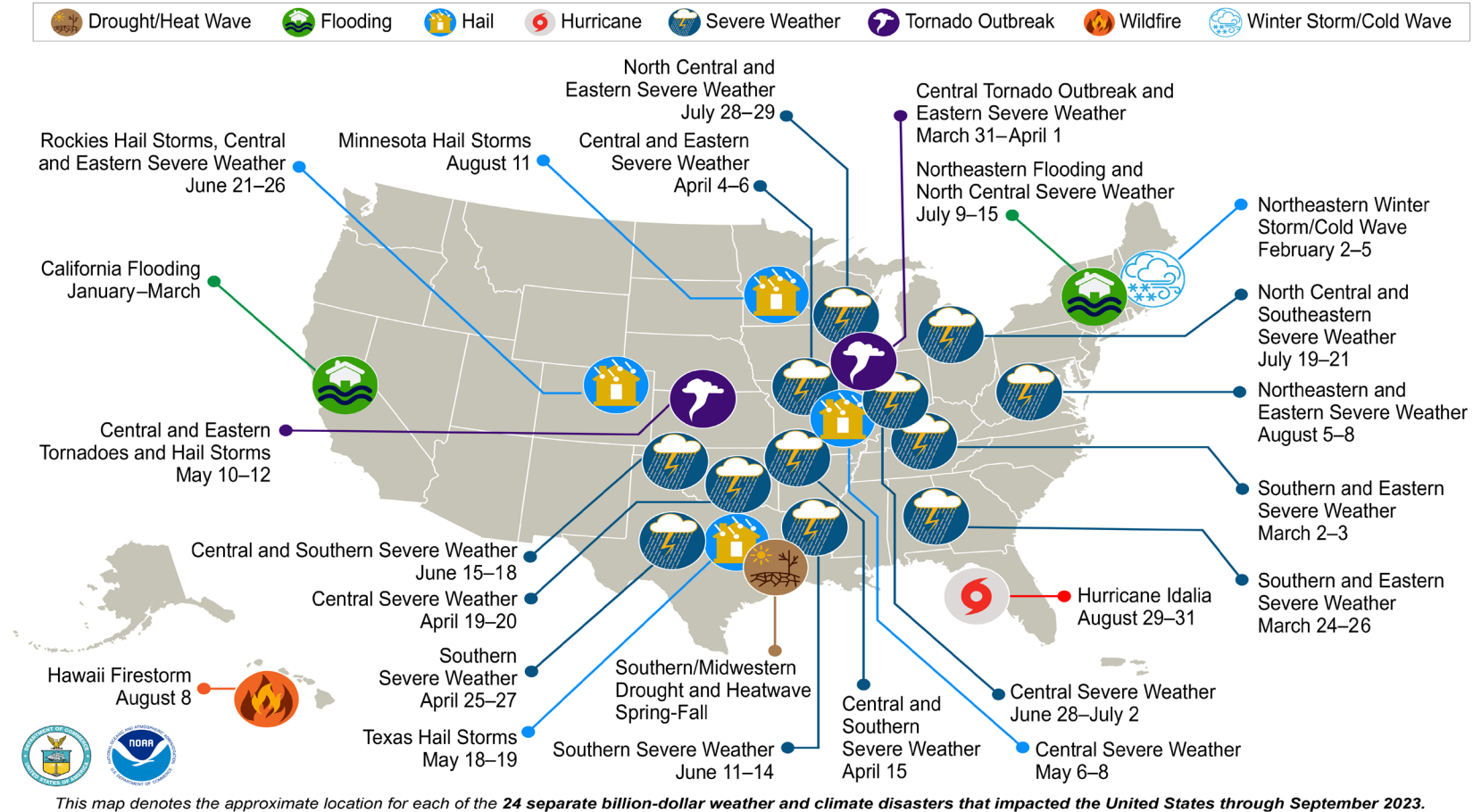
- 2016 – Hurricane Matthew
- 2017 – Hurricanes Harvey, Irma, Maria (costliest hurricane season)
- 2018 – Hurricanes Michael (Cat 5); Florence (record flooding)
- 2018 – Record California wildfires
- 2020 – Most active Atlantic hurricane season ever
- 2020 – Midwest Derecho (most expensive thunderstorm event in U.S. history)
- 2021 – Hurricane Ian (Cat 5)
- 2021 – Texas Freeze
- 2021 – December Tornadoes



- 2022 – December Storm (winter freeze event)
- 2022 – 75% of annual rainfall in one day – Death Valley, CA
- 2023 – Lahaina Wildfire
- 2023 – Great Vermont Flood
- 2023 – Most billion-dollar weather events ever recorded (through 8 months)
- 2023 – Year's worth of rainfall in one day – Death Valley, CA (Hurricane Hilary)

Many others including record Canadian wildfires, Alaska glacial flooding, Morocco earthquake, European flooding (Reinsurance is impacted by global events)

U.S. 2023 Billion-Dollar Weather and Climate Disasters

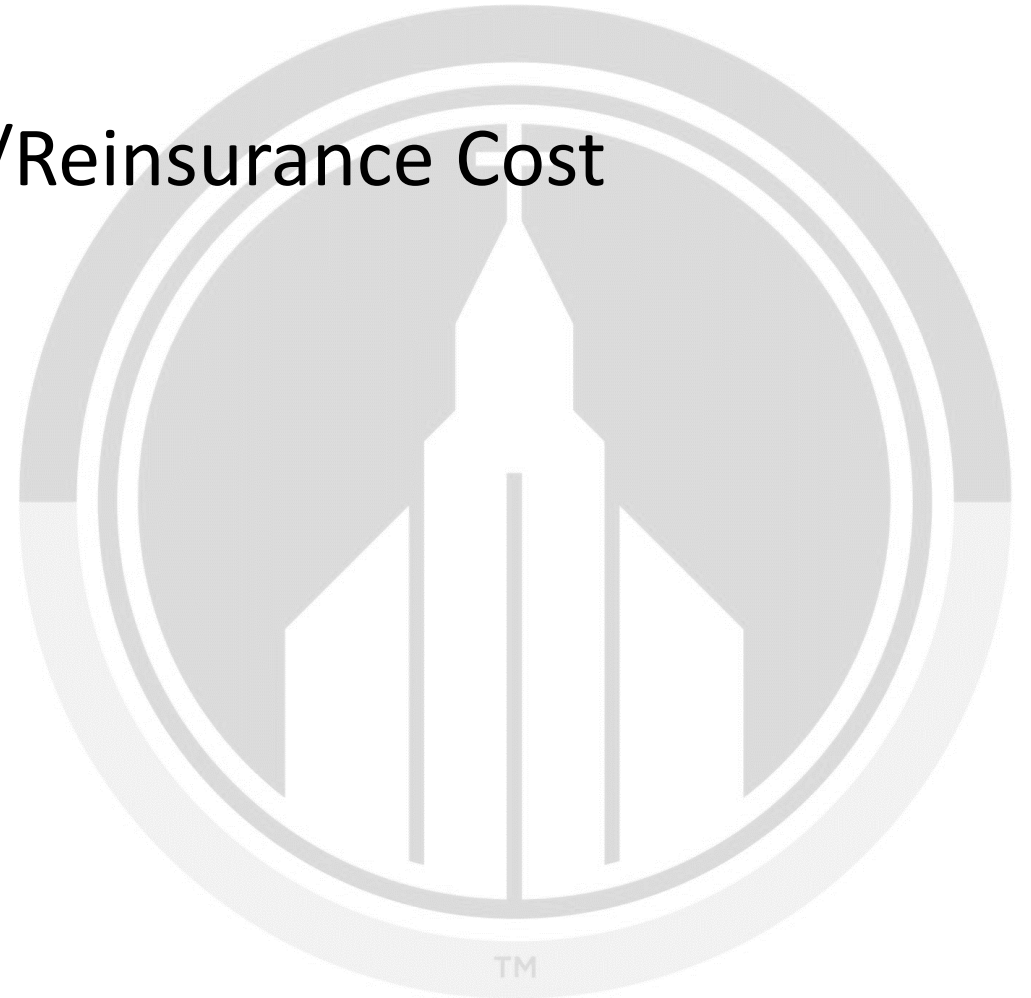


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Post-Covid materials cost inflation

- Building cost inflation up nearly 20% immediately after Covid due to supply chain shortages
- Losses previously retained by insurers leaking into reinsurance level due to undervaluation of properties

Hardened Property Reinsurance Marketplace

- Climate inspired severe weather events, globally, as well as property cost inflation contributed to reinsurers raising rates considerably

- Reinsurance is the insurance that insurance companies buy
- Since reinsurance is spread across the international insurance marketplace, impacts are felt globally
- High reinsurance rates mean higher premiums that insurers must pay which, in-turn, get passed on to consumers
- 2023 - Farmers announced it was limiting new business in California; State Farm announced it was not writing any new business in CA followed by Allstate Insurance (Such constriction of supply creates challenges for consumers seeking insurance)

“AM Best negative on US homeowners, says return to underwriting profit unlikely in 2023” –*Reinsurance News*

“Reinsurance rates to rise in 2024, soften in 2025, Fitch analyst says” –*Reuters*

“How Reinsurance Rates Are Contributing to the Hard Market” –*Big i*

“Conditions Are Challenging, Claims Are Elevated, but Reinsurers’ Profits Return:” –*Insurance Journal*

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Hard insurance reinsurance market cycle

- Significantly increased claims resulting in loss of insurer profit
- Insurer/reinsurer begins to aggressively raise premiums, require higher deductibles on business it keeps
- Insurer/reinsurer sheds business with claims issues or in disaster prone geographies (litigation prone areas for casualty business)
- Insurer/reinsurer profits begin to return
- Insurer/reinsurer premium rate increases begin to relent

First property hard reinsurance market in more than 15 years

- Hard property insurance market started just prior to Covid due to severe weather events
- The persistence of severe weather events and the convergence of property inflationary factors bled into the reinsurance sector
- Property insurance AND reinsurance market hardening provided a double-whammy
- We (Insurance Board) are providers AND buyers of insurance

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TRUE:

- ✓ Many of these events involve catastrophic (CAT) weather events
- ✓ Many of these events are inspired by changing climate
- ✓ These events are happening with far more frequency and severity than before

FALSE

- ✓ Consumers have little choice but to absorb these increases
- ✓ My loss experience doesn't impact others
- ✓ The condition of my property or other risk behaviors don't impact other churches

Quiz:

What is the most frequent property loss peril for Insurance Board (current and past 9 years)?



Answer:

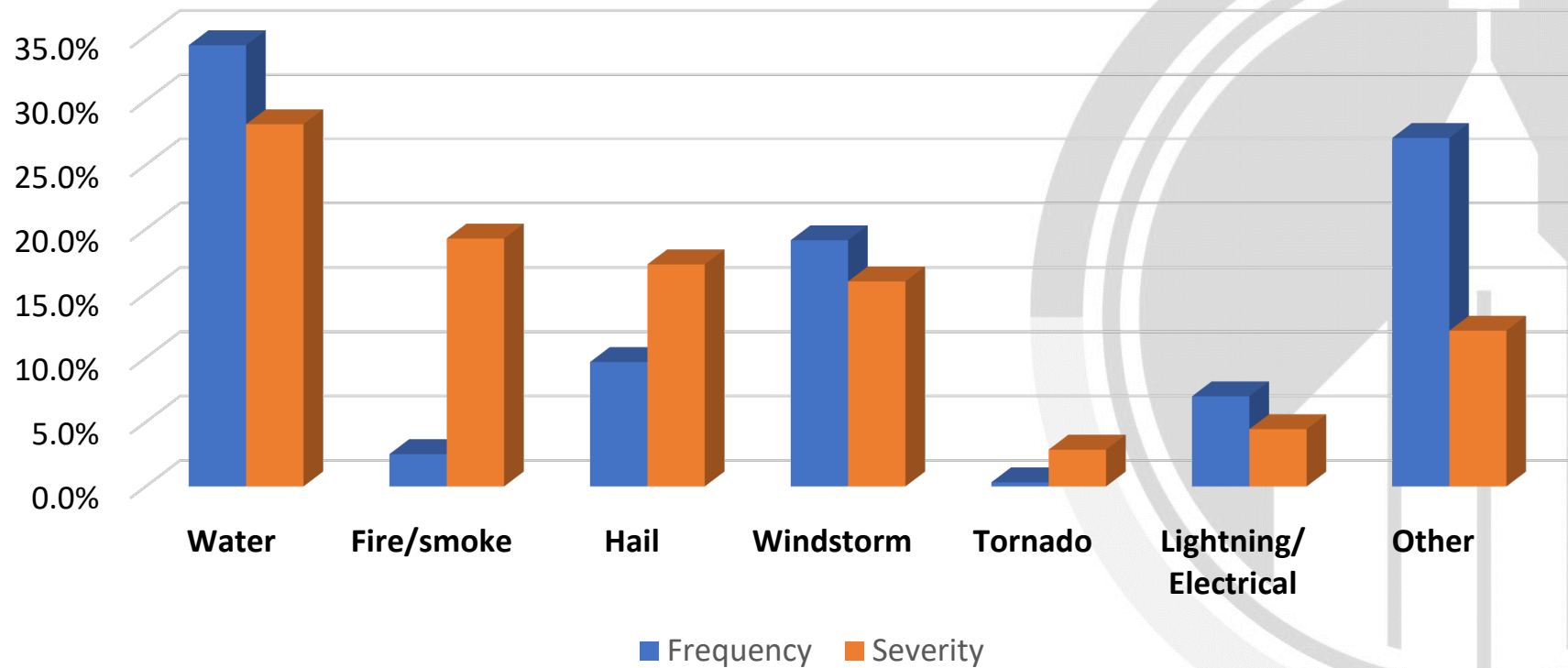
Water damage claims!

- Burst piping, sewer backups, broken supply tubes, broken appliances, leaking roofs, broken downspouts/gutters, etc.)
- These claims have added, on average, almost \$1,400/year to insurance premiums over 9 years, \$2,300/year in the past 2.5 years
- 34% of property claim frequency, 28.2% of cumulative claim dollars spent in past 9 years totaling more than \$50M.
- Mostly preventable, exacerbated by maintenance issues

Insurance Board - Top Property Perils Since 2015

Peril	Frequency	Severity
Water	34.3%	28.2%
Fire/smoke	2.5%	19.3%
Hail	9.7%	17.3%
Windstorm	19.1%	15.9%
Tornado	0.3%	2.9%
Lightning/Electrical	7.0%	4.4%
Other	<u>27.1%</u>	<u>12.1%</u>
TOTALS	100.0%	100.0%

Insurance Board Property Claims by Peril since 2015



- Churches must begin to invest in their buildings
 - Maintain
 - Repurpose
 - Sell
- Lack of and/or deferred maintenance is a persistent problem within the church arena
- Churches must view their real church property as “mission central”; otherwise, consider what to do with church property



- Lack of maintenance will begin to result in an availability problem for churches (churches may not be able to find insurance)
- The most expensive insurance is the insurance you don't have at the time of a loss
- Camps are becoming difficult to insure (lack of controls, staffing, unsupervised activities)
- Churches need to consider having more “skin in the game”; i.e. higher deductibles to reduce premium costs

- The “hard” insurance marketplace is likely to persist as climate events continue
- Churches must prepare for that eventuality and come up with creative ways to manage their risks while protecting their ministries
- Differentiation is important however **CHURCHES NEED TO WORK TOGETHER** (My brother’s keeper; encourage and support improving “church” including maintenance, internal controls, employment practices training for pastors [hiring, termination, etc.])

- To the extent the insurance marketplace perceives churches as bad risks to insure, insurance will be expensive or not available
- We have many free resources for churches at www.insuranceboard.org available whether or not you purchase insurance, and they are underutilized!
- Improving your risk does matter and Covenant is a two-way street (you do your part and others do theirs)!

Quiz:

What is the average premium/church or ministry for Insurance Board participants?



Answer:

\$18,200 (through 10/31/2023)

For robust property coverage

- \$2M/\$3M General Liability
- \$3M/\$4.5M Directors and Officers/EPL
- \$1M Crime
- \$7M SML Coverage
- Up to \$30M umbrella
- Others



Quiz:

Worst performing segment of church business?



Answer:

Camps

Large camp claims

- (2016 – PCUSA) - \$30M (liability claim involving a wildfire – CA)
- (2021 – PCUSA) - \$2.9M (windstorm) - CA
- (2017– PCUSA) - \$1,000,000 (deck collapse – we did not insure the camp) - MT



