

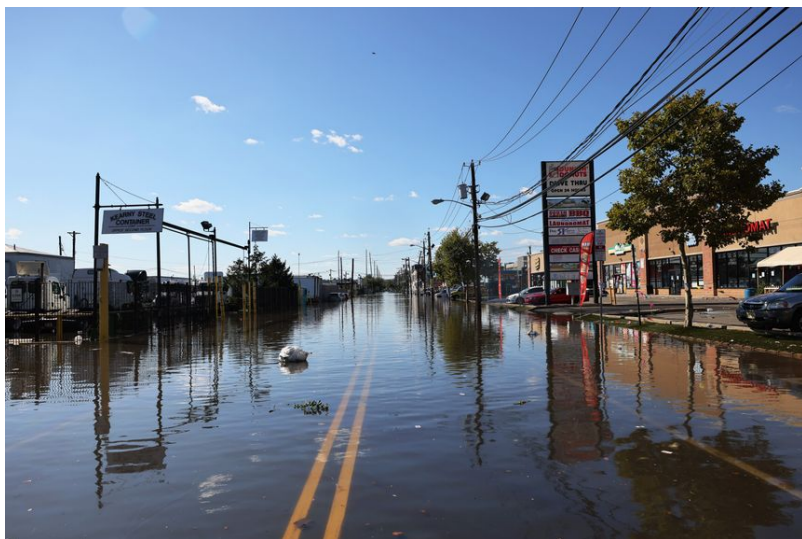
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MARKETSFINANCE

Inflation Is Latest Driver of Rise in Business Insurance Costs

Premiums have risen significantly in the past few years, though the pace of increases is now slowing



By *Leslie Scism* [Follow](#)

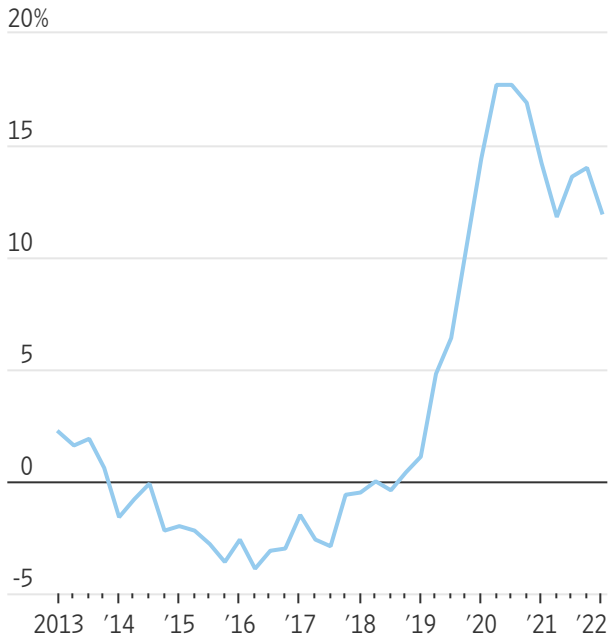
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U.S. businesses are paying more for insurance, but unlike other higher costs tied to inflation this has been going on for several years now. The good news is the price increases appear to be slowing.

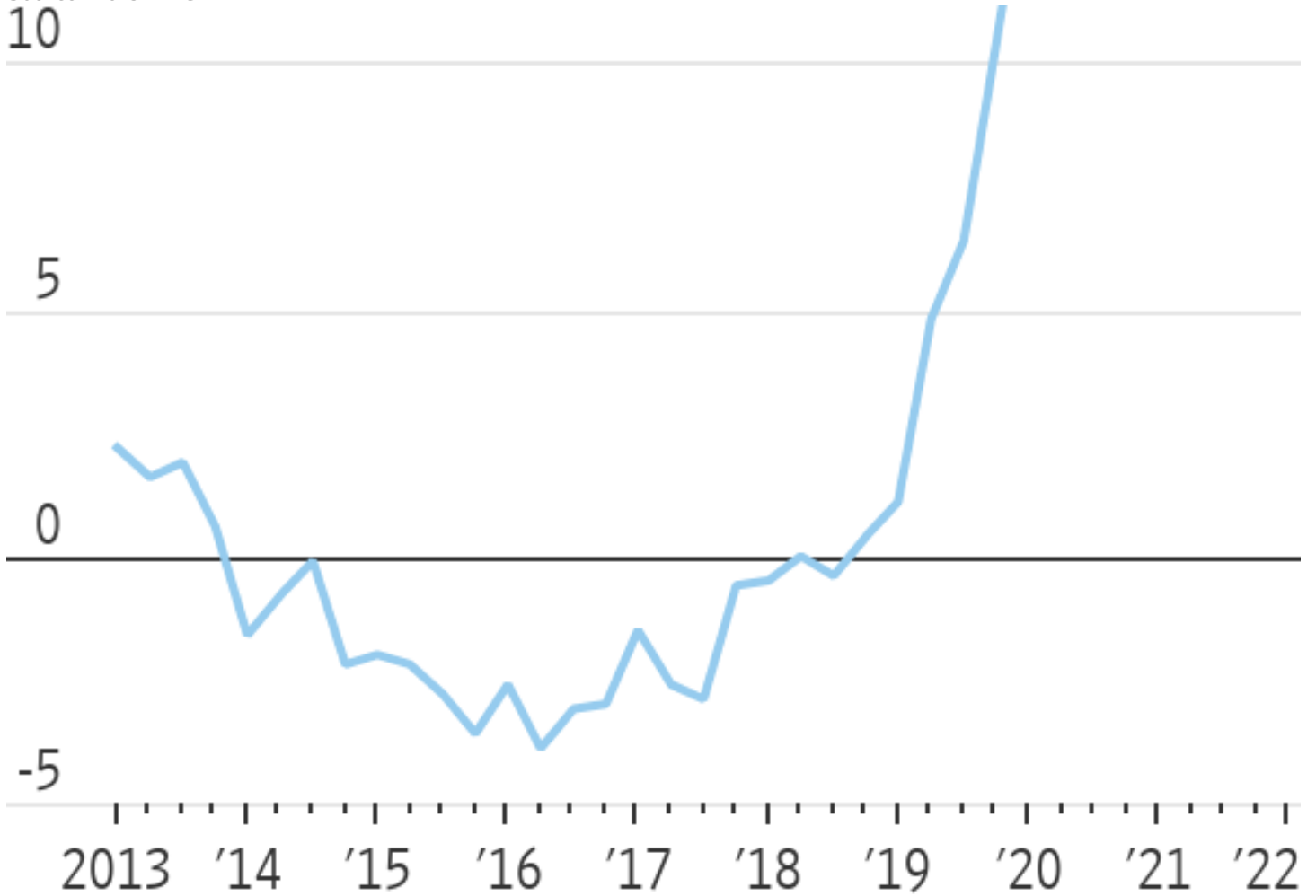
Commercial insurance prices in the U.S. rose 12% on average in this year's first quarter, compared with the year-earlier period, according to the Marsh brokerage unit of Marsh McLennan. Many businesses have faced double-digit annual rate increases since 2019, as insurers put a price war behind them.

“Our clients are very weary of the continued rate-increase environment,” said Christopher Lang, Global Placement Leader, US & Canada, for the Marsh unit. The cumulative increase since 2018 has been about 50%, he said.

U.S. composite business insurance price changes, year over year, by quarter



Source: Marsh LLC



Source: Marsh LLC

The good news for businesses is that “we’ve started to see a decrease in the rate of increase,” Mr. Lang said. Average year-over-year increases in the U.S. peaked in mid-2020 at nearly 18%.

Insurers are starting to compete for companies considered good risks that have no recent losses, giving them better prices and modestly enhanced coverage, Mr. Lang said.

But industry executives say there is little sign of large insurers going for market share by undercutting rivals that are holding the line on prices. Many analysts, brokers and executives anticipate year-over-year rate increases will continue at least into 2023.

David Arick, assistant treasurer and risk manager at International Paper Co. and a board director at professional association Risk and Insurance Management Society Inc., said many companies are seeking ways “to counteract some of the cost increases that insurers want to pass on.” Brokers said options include reducing coverage amounts, accepting higher deductibles and establishing “captive” insurance entities for providing some of their own insurance.

The price increases date back in large part to the hurricanes Harvey, Irma and Maria and California wildfires in 2017, which made the year one of worst ever for the global property-insurance industry. The next few years also had elevated levels of disasters, including a deep freeze in Texas and extensive European flooding.

Back in 2017, insurers were in a decadelong competitive frenzy, and rates had fallen in some years. The natural disasters raised concerns that many carriers had badly underpriced property policies, and that they needed to get tough on rates. Among worries is the frequency and severity of losses from intensifying wildfires and storms, as climate-change issues have grown. Industry players are continuing to refine models to incorporate developing data.

Insurers also had been jolted by a rise in “nuclear verdicts” in lawsuits against trucking companies. Such large verdicts are part of what insurers dub “social inflation,” a rising cost of claims from litigation.

By 2018, growing numbers of insurers were raising rates. Then inflation drove up costs for things like repairing or replacing wrecked vehicles, and rebuilding burned or storm-damaged factories.

“Inflation adds extra fuel” to the already rising premiums, said J. Patrick Gallagher, Jr., chairman, president and chief executive of insurance brokerage Gallagher. “Our job is to sit

down and say to your local plumber, ‘Here are your options, here is the core of what you need to buy.’ It’s very painful.”

Some of the biggest increases have hit cyber insurance, where prices were up an average 110% in the first quarter due to high claim costs, Marsh said. Even customers who protect their computer systems and are perceived as good risks face double-digit increases and higher deductibles, said Kristen Peed, director of corporate risk management at CBIZ Inc., which provides professional business services.

Inflation also drives up the amount of insurance that needs to be purchased. Twane Duckworth, managing director of risk management for the city of Garland, Tex., said it is difficult to make sure the city has sufficient coverage for its property. “My replacement cost isn’t static anymore, not even for a few months,” he said.

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