# 2021 rate drivers
## Commercial Property

Our analysis of the commercial property rating environment points to a group of factors that are front of mind when we're looking at risk pricing. In practice the impact of each will vary on a case-by-case basis depending on, individual exposure, risk management, claims experience, risk presentation and our own risk appetite to name but a few.

Having said that, we want to be transparent with clients around the pricing realities necessary for market sustainability, and it can be very informative for broker and client conversations to pin-point and summarise these "rate drivers" along with an approximate indication of the importance of each on our pricing considerations.

### Overview of commercial property rate drivers

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| HIGH IMPACT | Natural Catastrophes; Attritional Losses |
| MEDIUM IMPACT | Reinsurance Costs; Macro Risk Factors; Loss Inflation; Large Non-Cat Events |
| MODEST IMPACT | Climate Change; Economic Landscape |

Analysis, continued...

## High impacts on rating considerations

### Natural Catastrophes[1]

Catastrophe events in Houston, Mexico, Florida, Caribbean and European losses and UK floods continue to exercise a substantial influence on property rates. Insurance pay outs in the UK from Storms Ciara and Dennis are set to top £360m. This figure includes 1,500 commercial property flood claims (£85m) and 9,000 commercial property windstorm damage claims (£61m).[2]

### Attritional Losses

Secondary perils such as wildfires and flood may not necessarily be expensive on their own but the cumulative effect can be costly if there are enough of them in one year. In 2020 they accounted for more than 50% of total insured losses. This in turn may impact on future pricing for the client and the price of reinsurance for the insurer as reinsurance/retro pricing is impacted by historical trends and future expectations and capital pools are globally interconnected.

## Medium impacts on rating considerations

### Reinsurance Costs

The combined cost of Irma, Harvey and Maria between $100bn and $190bn, wiped out one year's premium for the entire reinsurance industry. Attritional losses have also increased. All of which is constraining capacity and driving higher reinsurance costs. North American hurricane related pricing corrections will impact local premiums of many multinationals throughout the world.

### Loss Inflation

A general increase in claims costs has been driven by a variety of factors including loss creep, claims litigation, Assignment of Benefits (AOB), higher replacement costs or demand surge.

### Macro Risk Factors

Urbanization, increasing coastal populations, economic asset density and encroachment on wildland/urban interface, rapidly growing populations and property values in exposed areas have contributed to the increase in losses resulting from natural catastrophes globally, making past experience a less definite predictor for future losses.

### Large Non-Cat Events

Large single non catastrophic events have also contributed to losses in recent years. These include "unusual" events, with cyber losses; civil unrest impacting strikes, riots, and civil commotion (SRCC) coverages. While the protests after the death of George Floyd in 140 US cities over the spring, were mostly peaceful, the arson, vandalism and looting that occurred will cost insurers at least $1bn to $2bn in claims.

## Modest impacts on rating considerations

### Economic Landscape

The challenging economic environment and low interest rates, have adversely affected insurers investment income. Coupled with rate reductions over many quarters at the same time coverage and capacity has broadened while the cost of capacity remained stable, has impacted profitability.

### Climate Change

An ongoing concern and even the most ambitious targets of governments and global organisations for reducing carbon emissions and slowing global warming are still 20 to 30 years in the future. Insurers are also facing stricter regulatory scrutiny over their response to global warming, with shareholders expecting better disclosures and transparency on climate-related risks.

1 Weather, Climate & Catastrophe Insight 2020 – Aon
2 Insurance pay outs to help customers recover from Storms Ciara and Dennis set to top £360 million – ABI, 7 March 2020

# Working with AIG

Collectively these factors describe the requirement for an overall hardening of commercial property insurance terms.

Individually of course, none of them are new to AIG and we will continue to deploy our outstanding underwriting capabilities and full range of underwriting tools: risk rating, modelling, targeted deductibles, and risk engineering.

## To unlock and get the most out of our underwriting expertise:

- Start the renewals process early.
- Evaluate exposure, coverages and be open to alternative structure options presented by insurers
- Check the risk fits within AIG's underwriting sweet spots.
- Present the risk well, with a comprehensive submission, and be clear about what is required of AIG.
- Show risk management is something the client cares about. Demonstrate how the insured has made significant capital investments and commitments to improve, rebuild or fire-protect their premises.
- If there have been claims, show how the cause is being identified and the work being done to prevent it in the future.
- Educate clients, brokers and other interested parties about why rates are changing and where there are trade-offs around price and cover.



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