

Commercial Property Insights

Insurance Challenges Facing Coastal Commercial Properties

Coastal environments refer to areas located on or within a few miles of shorelines. These environments are some of the most popular spaces for commercial real estate in the United States, primarily due to their economic benefits. Nevertheless, coastal environments also pose a range of unique risks, including natural disasters (e.g., hurricanes and floods), environmental issues (e.g., rising sea levels, saltwater corrosion and erosion), tourist-related liabilities, and heightened theft and vandalism concerns from heavy foot traffic. These risks have become more prevalent in recent years, resulting in widespread commercial property damage and emphasizing the need for coverage solutions.

Coastal businesses can utilize standard commercial property insurance to maintain financial protection against specific perils that could impact their buildings and other physical assets; however, this type of policy may exclude coverage for losses caused by coastal exposures. As such, a growing number of businesses have sought additional policies, such as wind insurance, flood insurance and environmental insurance. Yet, these policies have become more difficult to obtain. With coastal commercial property losses climbing, many insurance carriers have reduced their risk appetites and adjusted their coverage offerings, leaving businesses without ample protection.

In this evolving insurance landscape, it's important for coastal businesses to understand their coverage challenges and take steps to combat these concerns. This article provides more information on the latest commercial insurance market trends and factors impacting coverage costs and offers tips to help coastal businesses maintain adequate financial protection.

Commercial Insurance Market Trends

Despite the coverage offerings available to help coastal businesses address their particular risks, certain trends in the commercial insurance market could make it challenging for businesses to ensure sufficient financial protection and avoid coverage gaps. These trends include:

- **Limited options and capacity**—Because coastal exposures only apply to certain areas in the United States and can generate costly losses, a limited number of insurance carriers are willing to provide associated coverage offerings. Making matters worse, rising claim costs in the coastal commercial property insurance space have further detracted carriers from entering or remaining in the market. In particular, widespread property reinsurance complications brought on by surging natural disaster (CAT) losses have trickled down into the primary insurance market, prompting carriers to significantly reduce capacity for coastal risks in an effort to avoid large-scale payouts. In some areas (e.g., Florida, California and Louisiana), rising CAT losses and adverse market conditions have motivated many carriers to exit the coastal commercial property insurance space altogether, leaving businesses even more limited in their coverage options and capabilities.
- **Higher premiums and deductibles**—Pricing conditions are not ideal among the insurance carriers continuing to offer coverage for coastal exposures. Specifically, carriers are deploying consistent premium increases—often in the double digits—and higher deductibles to help stabilize their underwriting results and uphold profitability as claim costs rise. Due to high coverage demand and limited availability, most coastal businesses are unable to compare pricing or promote competition between carriers and have no choice but to keep



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paying these increasing rates to maintain protection.

- **Stricter underwriting standards**—In addition to hiking up premiums and deductibles, insurance carriers have begun implementing more stringent underwriting requirements for coastal businesses to limit the likelihood of large-scale payouts. These requirements may include ensuring buildings and other physical assets are correctly valued, as property undervaluation has become a growing concern, and clearly documenting any risk management measures to help minimize losses stemming from coastal exposures.
- **Regulatory concerns**—With natural disaster risks and other environmental issues on the rise, regulators and insurance carriers have started holding coastal businesses more accountable for their compliance with local building codes. These codes are guidelines that facilitate the safe construction of buildings and other structures within a particular state or municipality. Such codes are generally created with the intention of helping property owners protect their structures from common hazards within the area. For example, building codes in hurricane-prone areas might require properties to use certain beams and joists to stay structurally sound amid strong winds. Coastal businesses that fail to adhere to applicable building codes could experience more severe property damage when disasters strike and be subject to substantial regulatory penalties and litigation, exacerbating related losses. In these instances, coastal businesses could end up with rejected claims or, at the very least, higher out-of-pocket costs. They could even be dropped by their insurance carriers for their noncompliance.

Factors Affecting Coverage Costs

When purchasing coverage to combat their coastal exposures, businesses should be aware of the following factors that may impact their insurance costs:

- **Property location**—Buildings and structures that are closer to the shoreline are more likely to experience substantial property damage and

related losses from natural disasters and rising sea levels. Due to these elevated exposures, insurance carriers may require businesses with commercial properties directly along the coast (e.g., beachfront hotels and restaurants) to pay higher coverage costs than those located further inland.

- **Building construction and material costs**—Coastal commercial properties are constructed with different materials based on their size, industry, operations and applicable building codes. This means larger properties built with specialized components have higher material expenses. Additionally, building construction costs vary between locations. For instance, these costs are generally higher in California than in Florida. Since insurance can help pay to repair or replace property damaged by coastal exposures, these expenses play a role in determining coverage costs.
- **Elevation and flood zone designation**—Buildings and structures that are located in low-elevation areas and designated flood zones are more susceptible to severe property damage and associated losses stemming from storm surges, saltwater corrosion and erosion. Considering such risks, insurance carriers may require businesses with commercial properties in these environments to pay higher coverage costs than those in more elevated areas with reduced flood exposures.
- **Historical weather patterns**—Analyzing a given location's natural disaster data from the past few years can help insurance carriers better predict how vulnerable coastal commercial properties in this area will be to future disasters and estimate the extent of the damage. Businesses with properties in environments that have recorded more severe historical weather patterns could be subject to higher coverage costs than those that have experienced natural disasters less frequently.
- **Claims history**—Similar to reviewing natural disaster data from previous years, insurance carriers may assess the overall claims history for coastal businesses to determine their specific loss exposures and project the likelihood of future

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claims. Carriers will likely require businesses with poor claims history to pay higher coverage costs than those with relatively clean records.

Best Practices for Coastal Businesses

As adverse conditions in the commercial insurance market press on, there are several practices coastal businesses can implement to maintain adequate financial protection for their unique exposures. Best practices for businesses to consider include:

- **Document risk mitigation strategies.** Businesses should keep organized records of previous losses and related claims and document any steps being taken to reduce their coastal risks going forward (e.g., physical safeguards, landscaping techniques, routine property maintenance and adherence to applicable building codes). Doing so can help businesses demonstrate to insurance carriers that they take loss control seriously and are unlikely to be involved in future large-scale payouts, ultimately deeming them less risky to insure.
- **Bundle and enhance policies.** In some cases, businesses may be able to save money and expand their coverage capabilities for coastal exposures by bundling or enhancing their commercial policies. This may entail supplementing standard policies with certain endorsements or purchasing a commercial package or business owners policy, which are bundled insurance offerings featuring property and liability coverage.
- **Secure specialized coverage options.** Businesses can also utilize surplus lines insurance and parametric insurance to manage their coastal risks. Here's an overview of these options:
 - **Surplus lines insurance**—Businesses seeking financial protection unavailable to them in the standard insurance market may benefit from securing surplus lines insurance. Such a policy can typically be catered to nontraditional or extensive exposures that average insurance carriers are unwilling to take on, potentially remedying any ongoing coverage gaps posed by coastal risks.
 - **Parametric insurance**—Contrary to the reimbursement method of standard policies, parametric insurance offers financial protection based on a predetermined, measurable characteristic tied to a covered event. Under this coverage, the amount a business is compensated isn't decided by the exact cost of damages sustained but rather by the calculated intensity of the covered event itself. For instance, if a hurricane damaged a coastal commercial property, a parametric policy might reimburse a set dollar amount linked to the storm's wind speeds.
- **Explore alternative risk financing.** Apart from specialized coverage options, businesses can engage in alternative risk financing to navigate their coastal exposures. Resources such as captives and risk pools, for example, allow businesses to create insurance solutions tailored to their specific needs. With these approaches, premiums are based on a business's own loss experiences rather than those of insurance carriers or the market as a whole. This can lead to improved cash flow, greater pricing transparency and significant cost savings for businesses that incur below-average losses.
- **Advocate for government support.** Businesses should contact their state and local legislators regarding current insurance market challenges and encourage them to work with carriers to determine industry standards and legal requirements that will establish greater protection for coastal risks.
- **Stay informed.** As coastal exposures evolve, businesses can consult trusted insurance professionals to stay up to date on the latest market trends and adjust their coverage strategies accordingly.

Conclusion

Reviewing the insurance complications associated with coastal areas can equip businesses with the knowledge and resources needed to better manage their exposures and limit coverage gaps. Contact us today for more risk management guidance and coverage solutions.