

WHITE PAPER

Insurance Outlook 2023



2022 was a standout year. Hurricane Ian in Florida exacerbated ongoing challenges in the geography, resulting in dozens of insurance carriers pulling out of the market all together. Many homeowners [didn't have flood insurance](#), or their coverage wasn't sufficient to protect them.

Climate change continued to slowly chip away at the way homes are built and insured, with late-season secondary perils like [11 billion-dollar severe storm events](#) and the December winter storm wreaking havoc across North America.

For those carriers who remained standing through these competing pressures, it continues to be difficult to stand out amongst the crowd. The deadly combination of insurability, climate, and customer experience are squeezing the marketplace — and carriers who manage to navigate the crush will prove to be the pioneers of the industry as it reinvents.

In this report, we'll outline three major trends that have continued to cause consternation in insurance — and three ways to move forward.

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SECTION 01

Insurability & Underinsurance

Current State: The Big Squeeze

Florida has long been at the epicenter of the question of insurability. In 1992, Hurricane Andrew swept through Florida, leaving a bleeding insurance industry in its wake. The storm, a Category 5 hurricane, remained [the costliest Atlantic hurricane](#) until Hurricane Katrina, over a decade later.

At the time, the insurance industry had a hard time grappling with the storm, not understanding enough about the degree of risk in advance, or how to measure or price that risk appropriately for extreme catastrophic scenarios. In the end, it was homeowners that were left to pay the price: as carriers went insolvent, insurance companies pulled out of Florida, leaving policyholders unprotected.

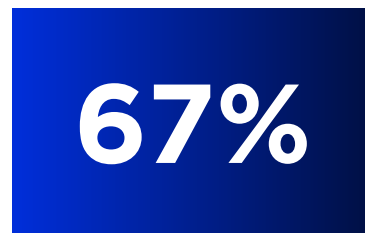
Much has changed in that time. Florida continues to thrive. Between 2021 and 2022, [320,000 Americans moved to Florida](#), attracted by the promise of sunny weather, beautiful beaches, and cheaper cost of living. Building codes have updated, construction materials have gotten more durable, and hurricane modeling has seen a [boom](#).

But in many ways, today's landscape is remarkably similar to that of 1992. Hurricanes have gotten wetter, windier, and more frequent in the past few years, leaving smaller regional carriers [to fold and exit the market](#). And with fraudulent activity and roofing schemes tying up carrier resources in long and drawn out court proceedings, margins are shrinking everyday.

For homeowners, the risk of underinsurance remains high. Guy Carpenter reported that between 2012 and 2021, nearly 70% of hurricane losses in the U.S. were [uninsured](#).

What is left in this wake is difficult, with governments, people, and insurance companies trying to answer the same moral, business, and technology question: how do you protect people fairly in Florida? Or in any other place?

Is it possible to do right by homeowners, make smart business decisions, and allow people the agency to live with financial protection wherever they wish?



**HURRICANE LOSSES IN
THE U.S. WERE
UNINSURED BETWEEN
2012 AND 2021**

—GUY CARPENTER

Future State: Out of Chaos, Innovation is Born

Many of these issues affect regional carriers differently than national or international ones. National or international carriers are better able to offset the very real insurability challenges by simply having greater geographic diversification. With smaller carriers carrying policies in the same areas, they, more than anyone, are tasked to lead the charge in innovating.

Technologies that offer greater insight and granularity into each property's individual risk profile can help carriers make highly informed choices. As opposed to broad-brush decisions resulting in exiting full geographies, you can carefully curate your portfolio. With more information, you can make more highly informed choices, going so far as to even offer competitive pricing and more appropriate products for a given customer's needs.

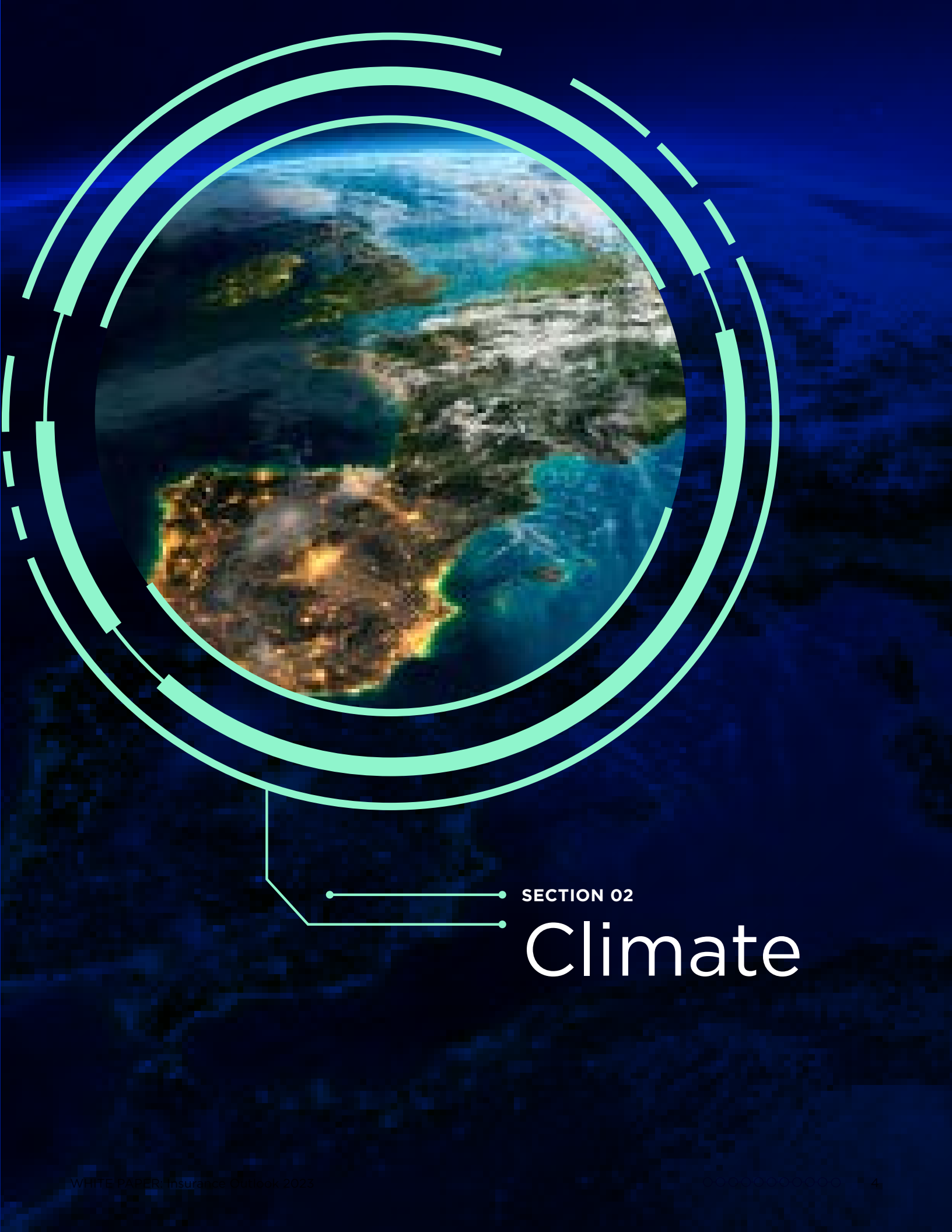
This kind of property analytics technology can also help insureds get adequate coverage — and education on how to better protect their homes. With a proactive approach in mind, carriers can identify risk characteristics, like yard debris, that they can recommend their policyholders clean up. With high enough wind speeds, unsecured lawn ornaments, fallen tree branches and the like can quickly become projectiles, threatening the integrity of the main structure and the people inside of it. By alerting policyholders in advance, this can effectively reduce the risk of a claim and keep homeowners safer. It also has the added benefit of improving customer experience and earning loyalty from policyholders who feel their carrier is looking out for them.

That said, as climate exacerbates risk, managing general agents, or MGAs, will likely become more important in the interim. The expertise of an MGA in handling catastrophic risks, risk selection, and underwriting is their edge: they can operate in a highly risky environment and reap great reward with smarter decision-making. Their active presence in these types of geographies will give them greater opportunity to carve out an indispensable corner of the market.

Like all great challenges, great solutions will rise in its wake. After Hurricane Andrew devastated Florida, the Florida Commission on Hurricane Loss Projection Methodology was formed, creating a regulatory body around the use of what, at the time, was a fairly newfangled concept: catastrophe models. Catastrophe models would go on to change the industry profoundly, creating clarity around the financial implications of major disasters and how to more effectively purchase reinsurance as a safeguard against that.

IN SHORT

Today's insurability challenge is no different. We are at the cusp of great change, and the hyper-growth insurtech scene will rush to fill and reinvent the space. 2023 will be a year to watch.



SECTION 02

Climate

Current State: Extremes Abound

To no one's great surprise, climate change continues to be a major challenge for the insurance industry. As the global average temperature ticks upwards, oceans have gotten hotter, resulting in more intense, prolonged and slow-moving water-forward hurricanes — among other more frequent and severe disasters.

In 2022, Hurricane Ian drenched Florida, with a catastrophic storm surge of 10-15 feet along with pouring rain. Some parts of Florida received up to 39 inches of rainfall, while Orlando received 14 inches of rain. With Hurricane Nicole following in November, the city went on to have their wettest [autumn on](#)

[record](#). This trend is one that we've continued to see year after year, with wetter storms like Hurricanes Harvey, Florence, and more proving the relevance of secondary perils like flooding.

Additionally, the winter season has continued to surprise. After 2021's great Texas Freeze, 2022 followed with the entire country plunging into earlier blizzard and freezing conditions, including much of the south where a hard freeze persisted for multiple days, testing the limits of building codes that weren't designed with unconventional weather in mind.



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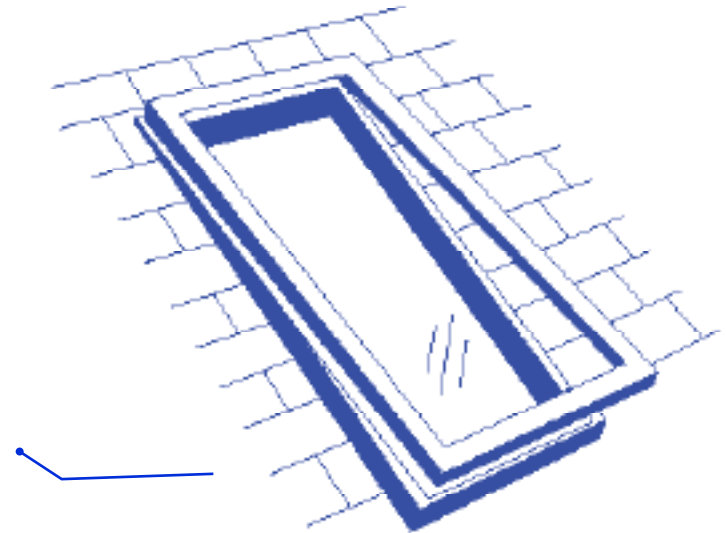
Future State: Make Smart

When it comes to preparing communities, policyholders, and carriers for the disasters to come, seismic retrofitting provides a great example to follow. In San Francisco, much of the building stock is historic and wasn't built for the realities of their seismically active state. But with some effort to install [braces and bolts](#), old houses can better withstand shaking.

Plate tectonics is certainly an area that is solidly outside of our ability to control as people, but even so, we can build more resilient communities to contend with the risk as we know it. We can choose where to build and what to build out of and define what small actions individuals can take that can make a big difference.

Earlier this year, Arturo released its first annual [Hurricane Exposure Report](#), which dove deep into the building materials and conditions along the Gulf coast. It revealed certain areas are just simply built differently. For instance, 5.7% of Florida homes have skylights. In a hurricane, rife with both projectiles flying in the wind and pouring rain, skylights present a serious risk to the interior of a home. Ensuring any skylights in a home are well-maintained and sealed is an important step in preventing water damage.

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Working hand-in-hand with policyholders to offer concrete recommendations and better understand the limitations of their policy can help. For instance, treating the question of climate as a community problem is key for both insurers and insureds. Understanding risk property-by-property is helpful, but seeing in aggregate what could be possible if all of your book made a simple change can be monumental. Similarly, one person working on clearing up their yard for defensible space does help some in reducing fire risk, but when we work together, the effect is exponentially more powerful.

When insurance companies and forums and builders and homeowners associations, with all of the people and neighbors and friends and leaders that comprise them, come together, that is how big and truly meaningful change is created, reducing everyone's risk by magnitudes and keeping each other safe.



SECTION 03

Customer Experience

Current State: More of the Same

Like it or not, today, property insurance is very much a commodity. People choose their insurance largely based on price, and with the rise in popularity of price comparison tools like The Zebra, this has only intensified the parity. Outside of logos and fun advertising, there is little differentiation understood between most carriers.

This is often why, when disaster does strike, it's so easy for a policyholder to churn based on a single poor claims experience: there was little interesting enough to keep them there in the first

place, and there are many other readily available comparable alternatives.

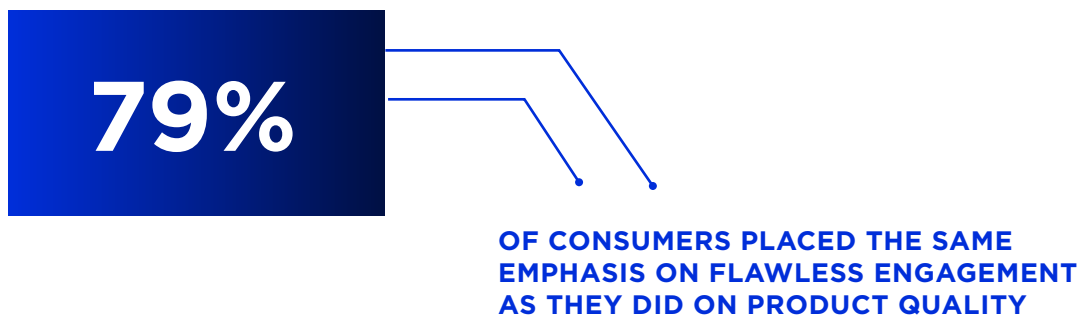
In conjunction with the lack of consumer understanding of what is included in their policy and general lack of policyholder education, when it comes time to file a claim, any difficulties in the process make it easy to create a poor experience. And in today's market, with policyholders being defrauded and caught between the litigation of their insurance company and [fraudulent roofers](#), there's a lot of bad experiences to be had.

Future State: Think Differently

When talking about improvements in customer experience, many of today's improvements have been focused on the actual user interface: clean website designs, modern look and feel, and streamlining quoting.

But fully tackling the customer experience problem requires more than just a mobile optimized website. It requires a fundamental rethinking of the customer journey.

According to Salesforce's [State of the Connected Consumer](#) report, which surveyed 12,000 consumers worldwide, 79% of consumers placed the same emphasis on flawless engagement as they did on product quality. This figure includes 83% of millennials; this is notable as the millennial demographic is reaching their [peak homebuying age](#) — and with home buying comes new homeowners' insurance policies. That's why thinking beyond just getting customers in the door is critical.



This kind of approach can even create a place to differentiate. Doing business differently or smarter, or harnessing different technologies, or choosing values that guide your business can all be differentiators, and those can help bring people in the door for more than just price. [Vave](#), an algorithmic underwriting MGA, sets themselves apart in their expertise and approach. [Lemonade](#), a property insurance carrier, runs a no-profit business with a focus on making business easy for consumers.

And once you're doing business with them, claims are an absolutely critical component of earning loyalty and trust. By setting expectations that you can meet, working

quickly with the help of remote-adjusting and claims triage solutions, and keeping close contact along the way, customers are more likely to stick around. To that end, according to McKinsey, satisfied customers are [80% more likely to renew their policies](#) than unsatisfied customers.

Additionally, technologies that can easily help you filter and target the right risks, help you offer better policyholder guidance and can help educate, all can form the basis of a strong, positive consumer experience. Those positive relationships can form the foundation of the “renewal solution,” allowing carriers to unlock the potential of their existing book to strengthen loss ratios.



SECTION 04

2023, Now

2023, Now

As we head off into the new year, we all have a part to play in defining our outlook and our future. Insurability, underinsurance, climate change, and customer experience are all daunting challenges.

But the insurance industry is hovering at the chasm, with more and more insuretechs and innovators popping up every day to help usher along a bigger solution. It will certainly take all of us doing our part to make big changes. Knowing what's right for each carrier, big or small, regional or international, and taking the first step is the progress that will move us into the future.

With the technology, people, and resources available today, 2023 will prove to be a year to watch.



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Decide with intelligence.