

Allianz Insights

July 2026

Since we published our [March Insights](#), the global economy has faced renewed tests as the war in the Middle East continues to disrupt growth and disinflation. Global growth is projected to slow in 2026 and 2027.

Global supply chains remain fragile after new Red Sea disruptions have pushed shipping costs higher. Wage pressures and conflict-driven commodity spikes are likely to continue into 2027 and beyond.

UK borrowing costs have reached a new 18-year high and the pound has fallen due to UK political uncertainty. The Bank of England has warned that interest rates could rise as the war fuels inflation.

Here we summarise the key issues, along with the relevant insurance implications, that are likely to be affecting some customers.

Inflation and price indices

- The Bank of England's base rate is currently 3.75%, and the inflation rate is 2.8% with a target of 2%. (Source: [Bank of England](#))
- The Bank of England is expected to hold interest rates into 2027. (Source: [Financial Reporter](#))
- UK growth is expected to cool in 2026 as earlier policy-driven boosts fade. (Source: [Allianz](#))
- GDP growth is forecast to pick up slightly in 2027, but the economy has limited capacity to grow above +1.5%. (Source: [Allianz](#))

ECONOMIC INSIGHTS

- UK mortgage rates for 2026 – 2027 are expected to remain elevated, shaped by inflation pressures, geopolitical shocks and Bank of England policy. (Source: [Home Owners Alliance](#))
- In April 2026, the UK National Living Wage (21+) increased to £12.71 per hour. This will benefit 2.7 million low paid workers but could result in hiring freezes from some businesses. (Source: [BBC](#))
- Business insolvencies are still above pre-pandemic averages but are expected to decline through 2027 thanks to looser monetary and financial conditions, as well as easing wage and price pressures. (Source: [Allianz](#))

Insurance impacts

- The cost-of-living crisis has increased the financial pressure on households and businesses, so people are less able to self-fund repairs or replacements, leading to increased insurance claims and overall claims inflation.
 - Insurance claim inflation remains elevated across all sectors, and 58% of insurers have seen a rise in claim cost and complexity over the past year. (Source: [Gallagher Bassett](#))
 - UK insurers in 2026 face rising claims costs, softening rates, regulatory pressure, and intensified competition. These pressures are expected to persist or intensify into 2027.
 - During times of economic stress, insurance regulators are focusing on fair value, particularly for vulnerable consumers.
 - Insurers continue to face rising claims costs, driven by increasing claim complexity, regulatory scrutiny, and climate-driven risk. (Source: [Gallagher Bassett](#))
-

Supply chain disruption

- 38% of businesses are concerned about international conflict impacting supply chains next year. (Source: [Office for National Statistics](#))
- Conflicts in the Middle East, Ukraine, and tensions involving the US and China are increasing supply chain volatility and unpredictability. (Source: [Allianz](#))
- The rerouting of container ships around the Cape of Good Hope due to Red Sea insecurity has added weeks to transit times. (Source: [Logistics Handling](#))
- 44% of businesses saw higher import costs in March 2026 vs. March 2025. (Source: [Office for National Statistics](#))
- Supply chain paralysis was viewed as the biggest risk to businesses in the next 5 years. (Source: [Allianz](#))

Insurance impacts

- Rising cyber-attacks targeting suppliers create increased insurance risks.
 - There is an increasing demand for businesses to have supply chain risk cover.
 - Supply chain delays and lack of materials extend the time it takes to rebuild or repair damaged property leading to increased business interruption claims.
 - Supply chain disruption is a persistent driver of claims inflation. (Source: [MGAA](#))
-

Energy crisis

- The UK's household energy bills remain +35% above pre-crisis levels in 2026, and forecasts show further rises in late 2026 and early 2027 due to Middle East conflict and high wholesale gas prices. (Source: [House of Commons Library](#))
- Sanctions on Russian energy imports will remain in place through 2026, keeping markets tight. (Source: [Total Energies](#))
- Energy-related supply chain disruption is a top global business risk. (Source: [Allianz](#))
- Electricity demand is rising sharply driven by the increasing use of electric vehicles, heat pumps and data centres and AI workloads. (Source: [Electric Insights](#))
- Electricity demand has risen for two consecutive years for the first time in over 20 years. This increases pressure on prices, especially during peak periods. (Source: [Electric Insights](#))
- Firms are scaling back their sustainability ambitions in 2026, focussing on supply chain measures. (Source: [Allianz](#))

Insurance impacts

- The shift away from fossil fuels and the volatility caused by the energy crisis requires insurers to tighten underwriting for carbon-intensive industries, reassess risk models for energy-dependent sectors and increase scrutiny on clients' transition plans. (Source: [Allianz](#))
 - Businesses are adapting or increasing their insurance protection to address sustainability risks. (Source: [Allianz](#))
-

The cost and shortages of food and supplies

- Food prices are on track to be 50% higher in November 2026 than at the start of the cost-of-living crisis in 2021. (Source: [The Guardian](#))

ECONOMIC INSIGHTS

- The Food and Drink Federation now expects food inflation to hit 9-10% by late 2026. This is driven by Middle East conflict, energy costs and shipping disruption. (Source: [The Food and Drink Federation](#))
- The UK could face food shortages, including chicken and pork, by the summer if the Middle East conflict continues. (Source: [BBC](#))
- UK farmers have seen fertiliser costs rise by up to 70% due to the Strait of Hormuz blockade. (Source: [Independent](#))

Insurance impacts

- UK insurers can expect to see rising claims costs as inflation in feed, fertiliser and fuel pushes up the replacement costs of insured goods.
 - Economic stress often leads to increased opportunistic fraud or deliberate loss events as businesses struggle financially.
-

The cost of materials

- 60% of firms are worried about supply chain disruption and rising energy and commodity prices. (Source: [Allianz](#))
- 95% of construction professionals expected material costs to rise over the next 12 months. (Source: [BCIS](#))

Insurance impacts

- Ongoing construction material inflation requires more frequent cost reassessments and updated rebuild evaluations.
 - Supply chain disruptions continue to amplify cost uncertainty, increasing the risk of underinsurance and driving claims inflation.
-

Construction

- Building costs are forecast to rise 15% over the next five years. (Source: [BCIS](#))
- There is strong demand for net-zero compliant office retrofits. (Source: [The Green Register](#))
- Construction continues to face one of the most acute labour shortages of any UK sector. (Source: [Construction Industry Training Board](#))
- Rising wage costs are now the primary driver of construction cost inflation. (Source: [Construction Management](#))

- Stronger forecasting and contingency planning are now essential across the construction and property sectors. (Source: [Construction Owners](#))

Insurance impacts

- Labour shortages increase both repair times and costs per hour, feeding directly into claims inflation.
 - New construction methods and innovations in sustainability require insurers to update their underwriting models.
 - Property claims inflation remains elevated due to volatile construction material prices.
 - Key building materials such as timber, steel, glass, plasterboard and insulation have risen sharply since 2021, pushing up rebuild costs and increasing the risk of underinsurance. (Source: [Specification Online](#))
 - Construction inflation, driven by elevated material and labour costs, is expected to remain a key driver of claims severity into 2027. (Source: [Allianz](#))
-

Motor

- UK petrol and diesel costs are already elevated and subject to volatility due to geopolitical tensions. This is likely to continue into 2027. (Source: [What Car?](#))
- The average cost of filling a 55-litre family car with petrol has increased by £14 since the start of the Middle East conflict, with diesel up by £27. (Source: [BBC News](#))
- UK automotive output is strongly impacted by trade tensions over the new US tariff framework as export-oriented output declined in 2025. (Source: [Allianz](#))
- The 2026 outlook for automakers remains under pressure due to profitability concerns, uncertain trade conditions and new competition coming from China. (Source: [Allianz](#))
- Modern vehicles increasingly rely on ADAS (lane assist, emergency braking, sensors) which makes repairs more costly, driving insurance claims inflation.

Insurance impacts

- Electric vehicles cost on average 25% more to repair and 20% more to settle as losses, pushing up average insurance claim severity. (Source: [Insurance Business Magazine](#))
- Claims costs are expected to rise faster than premiums, driven by expensive vehicle technology, elevated parts prices, and broader economic pressures.
- Claims inflation has significantly outpaced general economic inflation, creating sustained pressure on insurers and consumers.
- Labour shortages in the motor repair sector are leading to higher insurance costs. (Source: [Car Aftermarket Trader](#))

Commercial property

- The Renters' Rights Act came into force on 1 May 2026. This aims to give more stability and security to people who rent from private landlords. (Source: [Gov.UK](#))
- Under the Renters' Rights Act landlords are now required to have a valid legal reason to evict a tenant. Some landlords have warned they could leave the market because of the changes. (Source: [BBC News](#))
- Mortgage rates remain high by pre 2022 standards, keeping housing demand subdued. (Source: [Financial Reporter](#))
- About 53% of UK mortgage holders are expected to see their payments rise, but around 25% of those who fixed at higher rates should see their payments fall, despite recent increases in rates. (Source: [BBC News](#))

Insurance impacts

- Claims severity has increased, and will continue to increase, as repairs take longer and cost more. (Source: [Procurato](#))
- Commercial property claims inflation is being pushed up by high construction costs, supply chain disruption, labour and materials inflation, and underinsurance.

Further reading

[Allianz Economic Research](#) - Allianz global research analysing economic and industrial developments.

[Underinsurance](#) - Resources, information and guidance to help customers understand the issue of underinsurance.

[Ludonomics](#) - Ludovic Subran, Allianz Group's Chief Economist, publishes a weekly update on Allianz markets, macro, sector and insurance.