

Inflationary Issues

April 2022

We talked about disruption within global supply chains in our [previous updates](#), and Russia's invasion of Ukraine has significantly exacerbated this issue. Six weeks on, it's further impacting the production of semiconductors, cars, as well as the price of food and building materials. This, combined with the China-U.S. trade war, pandemic and climate-related events, is accelerating the rate of 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

- Prices have risen sharply in the UK in recent months with the [Consumer Price Index](#) reaching a 30 year high of 6.2% in February. Inflation is predicted to hit 8% in April and could go even higher later in the year. (Source: [Bank of England](#))
-

Supply chain disruption

- The war in Ukraine has compounded the motor industry's logistical problems at a time of reduced UK stockholding. (Source: [Reuters](#)) The sanctions on Russia and Belarus are likely to have a significant impact on the availability of building materials. (Source: [FMB](#))
- New Chinese lockdowns are impacting the supply of semiconductors, electronics and vehicle supplies. (Source: [Forbes](#)) The Shanghai lockdown, which began on 28 March, may cause further disruption. (Source: [BBC](#))
- Potential closer alignment of China and Russia could significantly influence the exchange of energy, raw materials, industrial parts, and goods between the Western world, China, and Russia. (Source: [Harvard Business Review](#))
- Increased cost of living and general inflation is expected to have a continued detrimental impact on vehicle damage repair costs. (Source: [DAC Beachcroft](#))
- In February, EU new car registrations fell further, down -6.7%, as a result of supply chain disruption. Only 719,465 units were sold across the EU, representing the weakest result in terms of volumes for the month of February since records began. (Source: [ACEA](#))

- The motor industry has seen significant increases in used vehicle prices. These prices are set to remain high in 2022 due to continued supply shortages. (Source: [MotorTrader.com](https://www.motortrader.com))

Insurance impacts

Vehicle repair challenges - the industry-wide repair backlog means customers may have to wait a little longer before their damaged vehicles are repaired.

Second hand car sales - motor dealerships will experience a significant uplift in the value of their second-hand vehicle stock. As businesses start to recover from the pandemic, it's more important than ever that they have the correct level of insurance in place to avoid being underinsured.

Delivery delays of building materials - delays in the delivery of materials could impact customers' ability to trade, causing periods of business interruption in construction projects.

Energy crisis

- Gas prices began rising last year because of a global shortage. This has had a knock-on-effect on the cost of electricity, as gas is one of the fuels used to generate electricity. (Source: [House of Commons](https://www.parliament.uk))
 - The war in Ukraine has driven up the costs of energy and fuel, causing the price of oil to jump to its highest level in almost 14 years and wholesale gas prices have more than doubled. (Source: [BBC](https://www.bbc.com))
 - The UK receives only 6% of its crude oil and 5% of its gas from Russia, but the EU sources nearly half of its gas from the country. If one country reliant on Russian supplies receives less gas, they'll have to replace it, impacting the supplies of gas for other countries. This is why British energy prices and bills are affected in a similar way to European ones. (Source: [BBC](https://www.bbc.com))
 - The surge in gas and power prices has put increasing pressure on energy-intensive industries, leading some UK fertiliser and metals producers to scale back production. Two key fertiliser plants in the UK had to shut temporarily last year, which led to a shortage in the supply of CO2 gas, a by-product of the production process. As well as being an ingredient of fizzy drinks, the gas is also used within the meat market, further inflating the cost of food. (Source: [The Guardian](https://www.theguardian.com))
-

The cost and shortages of food and supplies

- Exports of staples including wheat, sunflower oil and corn are expected to be affected by the war in Ukraine. Russia and Ukraine are some of the world's biggest producers in agriculture and food, exporting 80% of the world's sunflower oil, 30% wheat and 20% corn. (Source: [BBC](https://www.bbc.com))
- A leading food industry boss has warned that prices will spike as a result of the war in Ukraine and that the cost of living could rise by 15%. (Source: [BBC](https://www.bbc.com))

- Russia produces enormous amounts of nutrients, like potash and phosphate, which are key ingredients in crop fertilisers. The increased price of gas, used to heat greenhouses and to make fertiliser which is essential to food production, has soared. (Source: [BBC](#))

Insurance impacts

Businesses operating in wholesale, retail and hospitality industries may struggle to source some items and so be forced to pay inflated prices for them. This could potentially lead to business interruption, fluctuations in stock levels and their sums insured being inaccurate, resulting in their businesses being underinsured.

The cost of materials

As summarised in [October's update](#) the UK is experiencing a shortage of building materials as a result of pandemic and Brexit-related disruption. This has caused material, building and repair costs to substantially increase over the last few months, with the war in Ukraine aggravating the situation.

- Russia and Ukraine are critical suppliers of metals, raw materials, chemical products and machinery. In anticipation of access to and production of these being hindered, prices have increased with oil, steel, aluminium, timber and copper set to be some of the worst affected. (Source: [FMB](#))
- Russian sanctions have resulted in a rapid increase of the price of aluminium. In March, aluminium prices headed toward record highs with benchmark aluminium on the [London Metal Exchange](#) reaching \$3,984/t on 7 March. (Source: [Reuters](#))
- The Royal Institution of Chartered Surveyors (RICS) stated that prices of construction materials reached a 40 year high in November 2021. (Source: [RICS](#))
- The 'All Work' construction material price index increased by 21% in January 2022 compared to January 2021. (Source: [gov.uk](#))

Insurance impacts

Delays in the delivery of materials could impact customers' ability to trade, causing periods of business interruption. This combined with a shortage of skilled labour, as a result of Brexit, will also impact customers' ability to operate normally. In addition, if left unchecked, the values of their stock along with potential changes in buying patterns could result in underinsurance.

Personal Injury discount rate

- The Government Actuary's Department has set a new [Personal Injury Discount Rate for Northern Ireland](#) at - 1.5%. The rate came into effect on 22 March. This rate will next be reviewed in 2024. (Source: [justice-ni.gov.uk](#))
-

Further reading

Indexation - Price increases and inflation are inextricably linked to indexation or 'index linking' which is used by the insurance industry to help customers avoid the risk of underinsurance. In [this article](#) we look at factors influencing indexation and the importance of customers being adequately insured.

Sums insured/underinsurance - It's important for customers to routinely check that their sums insured reflect the fluctuating values of their property. We've pulled together information and guidance to help customers understand these issues.

Allianz claims inflation guides – These highlight how changing legislation, emerging technologies and social trends have impacted claims costs.

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