

Inflationary Issues

July 2022

Inflation, the energy crisis and supply chain disruption were key themes in our [April Insights](#), and remain so three months on. Since then, there's been further major developments in the macroenvironment, including the UK Prime Minister's resignation, substantial disruption in the travel industry, from the RMT rail strike – the most significant in 30 years – to the chaos ensuing from the Europe-wide strikes and cancellations in the airline industry. Most recently, the UK has experienced record-breaking temperatures and the first ever red weather warning. Here we summarise the key issues, along with the relevant insurance implications that are likely to be affecting some customers.

Inflation and price indices

- In July, UK inflation rose to 9.4%, the highest rate in 40 years, driven by petrol, energy and food costs (Source: [BBC](#)). In response, the Bank of England raised interest rates from 0.1% to 1.25% (Source: [Bank of England](#)), making borrowing more expensive and saving more favourable. The Consumer Prices Index (CPI), which measures the average change in price of a typical basket of consumer goods, rose by 7.9%, up from 7.8% in April, resulting largely from increased prices for food and non-alcoholic beverages. (Source: [Office for National Statistics](#)).

Insurance impacts

Commercial property - Climbing interest rates have contributed to a rise in the number of UK property companies falling into insolvency (81 in Q1 2022). Among the most impacted are businesses who took out loans prior to the pandemic and commercial landlords whose premises were closed during the various lockdowns. (Source: [FT](#)). This could lead to an increase in Professional Indemnity (PI) insurance claims instigated by developers, sub-contractors and/or suppliers, aimed at accountants or contract administrators who are regarded to have overlooked potential signs of insolvency.

Construction - Project-specific coverages ('Construction All Risks' and 'Erection All Risks') are most likely to be affected by high inflation. Inflation increases a project's contract value meaning that construction companies are likely to see increased premiums. Where a project's cost increases, the sum insured may become insufficient, leading to underinsurance. (Source: [Lexology](#))

Motor - The rising cost of new and replacement car parts and labour continues to contribute to inflationary pressures across motor lines. Inflation for second-hand car prices is driving up claims costs and it's predicted that UK motor insurers will make a loss in 2022 with 113.8% Net Combined Ratio (NCR) in 2022 and 111.1% in 2023. (Source: [EY](#))

Supply chain disruption

- China is reportedly amending its zero-Covid-19 policy, which could help to restore manufacturing and logistics capacity and ease pressures on global supply chains following the 70-day lockdown in Shanghai. (Source: [East Asia Forum](#))
- The war in Ukraine continues to increase pressure on commodity and energy prices. (Source: [euronews](#)) Sanctions on commodities originating from or destined for Russia are complicating European trade flows.
- The heatwave sweeping Europe is threatening Britain's supply of commodities. This includes key chemicals; extremely low water levels along the Rhine – a key transportation channel – are causing shipping delays. (Source: [Telegraph](#))
- Whilst the construction industry continues to face issues with materials shortages, labour shortages continue to present the biggest challenge, with 244,000 fewer workers in the construction sector compared to 2019. (Source: [Homebuilding & Renovating](#))

Insurance impacts

Property - Supply chain disruption and the rising cost of building materials are affecting Britain's largest builders, with Berkeley predicting the number of new homes being built in London could halve in the next few years. (Source: [FT](#)) Competition for construction contracts in this sector could intensify, meaning insurers will need to find ways to remain competitive in a low supply/ high demand market.

Construction - Delays in sourcing building materials, which in turn delay construction projects, could lead to business interruption claims.

Motor - Supply shortages and delivery delays are impacting the UK new car market as new car registrations declined -20.6% in May. However, registrations of battery electric vehicles rose by 17.7%. (Source: [SMMT](#)). Customers continue to face longer repair times due to a shortage of vehicle parts and global supply chain challenges, contributing to claims inflation.

Energy crisis

- A study has shown that 83% of European consumers are concerned about energy price increases. (Source: [YouGov](#))

- The UK government has implemented an energy profits levy applying to profits arising on or after 26 May 2022; this is a new 25% surcharge on the profits being made by the oil and gas sector. Electricity generating firms are currently not included. (Source: [Gov.uk](#))
- Russia's invasion of Ukraine has already driven fossil fuel prices to record levels and now a potential upcoming full ban on Russian coal imports could drive prices up even further. European economies are using coal-fired power stations to cover the gas shortfall, heightening concerns around the energy crisis. (Source: [FT](#))
- Both UK domestic and commercial landlords are under tight deadlines to meet energy efficiency regulations with regard to minimum Energy Performance Certificates (EPCs) and Minimum Energy Efficiency Standards (MEES) by April 2023 (Source: [Lexology](#))

Insurance impacts

Renewables - As part of the commitment to net zero, insurers have opportunities in offering tailored renewable power products for commercial operators of wind, solar and hydro power. Brokers will also be able to benefit from a wider portfolio of solutions in the market and advise customers accordingly.

Construction, Energy & Environmental services - Insurers also have an opportunity to expand consultancy and risk management offerings which assist customers with meeting legal requirements and reducing energy usage and costs/ carbon footprint.

The cost and shortages of food and supplies

- The increased cost of living has led to more than one in ten consumers globally reporting they'd cut back on their insurance policies/ premiums (Source: [YouGov](#))
- The cost of some fresh foods, like cheese, are increasing due to the spiralling costs of fertiliser and animal feed. (Source: [inews](#))
- Average weekly pay has stagnated, meaning that people have fewer savings and are less able to cope with the current price increases. (Source: [BBC News](#))
- Nearly 80% of SMEs see the cost of living crisis as their biggest threat (Source: [Smallbusiness.co.uk](#))

Insurance impacts

During times of economic hardship, incidence of theft and fraud typically increases. This is compounded in the wake of the Covid-19 lockdowns and is linked to reports of increasing incidence of small business fraud. (Source: [Insurance Times](#))

Construction - Claims (such as tool thefts) are being inflated or falsified as customers attempt to mitigate economic pressures (Source: [Insurance Times](#))

Motor - The Insurance Fraud Bureau has warned drivers to be extra vigilant to 'cash for crash' claims along with naming the top 10 areas being particularly targeted. (Source: [Insurance Fraud Bureau](#)). This is linked to the rising cost of living and financial hardship.

SME - Smaller businesses with fewer cash resources may be tempted to save money on insurance policies, reducing indemnity periods or having insufficient sums insured. [Allianz's Guide designed with BIBA](#) provides more information.

The cost of materials

- The material price index for 'All Work' increased by 27.2% in May 2022 compared to the same month in 2021. (Source: [Gov.uk](#))
- Despite reports that the availability of building products has eased in recent weeks, price increases have averaged 23% so far in 2022. Further price increases are anticipated for cement, concrete and many steel products. Timber prices have largely stabilised. (Source: [The Construction Index](#))
- Paints and coatings continue to be affected by a lack of raw materials which were compounded by the lockdowns in China. (Source: [Homebuilding & Renovating](#))
- The price of fuel in the UK reached a record level on 3 July; the average cost of petrol rose to 191.53 pence per litre and diesel climbed to 199.03 pence per litre. (Source: [Guardian](#))

Insurance impacts

Construction - With construction costs continuing to soar, smaller construction firms are struggling to remain solvent; more than 3,400 smaller UK construction businesses went into administration in the year to April. (Source: [FT](#)) Delays or cancellation of building projects could result in business interruption claims.

Motor - The global semiconductor shortage is forecast to continue into 2023. (Source: [Reuters](#)) The shortage has occurred due a variety of factors, partly due to the increased demand for electronic devices as working from home has become more common, along with the labour shortages and availability of key raw materials in China and Taiwan. Car manufacturers are using semiconductors taken from washing machines, rewriting code to use less silicon and even shipping their products without some chips while promising to add them in later. (Source: [Bloomberg UK](#))

The cost of car repair remains high due to the inflated cost of parts, paint, labour and the cost of replacing the vehicle. This has contributed to claims inflation across motor lines.

Judicial College Guidelines

The Judicial College Guidelines (JCG) provide guidance on the amount of damages awarded for pain, suffering and loss of amenity in personal injury claims. The 16th edition, in early 2022, resulted in an average uplift of 6.56% across injury bandings. (Source: [The Law Society](#))

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's Chief Economist publishes a weekly update on Allianz markets, macro, sector, and insurance.