

Inflationary issues

June 2023

Three months on from our previous Economic Insights report published in [March](#), inflationary pressures continue to shape insurance trends and put pressure on customers.

While the global economy is expected to continue to recover in 2023, the pace of growth is anticipated to be slower than in previous years due to the ongoing challenges to supply chain disruptions and the rise in inflation.

The UK is set to be one of the worst performing economies in the world this year, according to the International Monetary Fund. This is due to high gas prices, rising interest rates and a sluggish trade performance. However, the Bank of England governor Andrew Bailey has stated that the UK is no longer heading into an immediate recession.

Here we summarise the key issues, along with the relevant insurance implications.

Also take a look at our [underinsurance hub](#), where you can find all of our insight articles, webinars, podcasts and guidance notes that can help address the risks of underinsurance.

Inflation and price indices

- The overall UK inflation rate stayed at 8.7% in May, the same as the April rate. It stops the downward trend in UK inflation figures, which had been falling after a peak of 11.1% last year. The Office for National Statistics says rising prices for “air travel, recreational and cultural goods” helped keep inflation high. (Source: [BBC News](#))
- The Bank of England raised interest rates in June from 4.5% to 5% - its highest level in 15 years and a bigger rise than most forecasters expected. (Source: [BBC News](#))

- The pace of property price increases is continuing to slow. Figures from the Office for National Statistics show the annual rate falling again in April to 3.5%, compared to 4.1% in March – the sixth consecutive monthly fall. It's expected that rising mortgage rates will continue to have a dampening effect on the housing market and property prices in the coming months. (Source: [Forbes](#))
- Consumer confidence continues to recover and increased 3 points to -27 in May, marking the fourth consecutive month of increase from January's score of -45. (Source: [Trading Economics](#))
- Due to ongoing economic uncertainty, businesses continue to avoid hiring, meaning that the number of job vacancies decreased by 47,000 to 1,105,000 in the first quarter of 2023. (Source: [FE News](#))
- Economic uncertainty continues to severely impact businesses: insolvencies rose 16% in March 2023 vs March 2022 – the highest monthly figure since records began in 2019. UK-listed firms issued 75 profit warnings in the first quarter of 2023, the highest first-quarter number since Covid-19 in 2020. (Source: [Credit Connect](#))
- While unemployment is at a near 50-year low, since the COVID-19 pandemic there has been a significant increase in the number of people neither in nor looking for work, with 6.7 million of the working age population economically inactive, excluding students. (Source: [Gov.UK](#))

Insurance Impacts

- The cost of living is at an all-time high and as a result we're seeing evidence of businesses either reducing their cover, or cutting it completely. All businesses are open to risk if they don't have the correct level of insurance for their needs, and may be at risk of financial hardship as a result of being either underinsured or uninsured. (Source: [Allianz article](#))
- While there are signs that prices are expected to ease in 2023, additional factors will mean that the impact of claims inflation will continue to be felt across all insurance lines in the year ahead. (Source: [Kennedy's Law](#))
- Despite economic challenges, the insurance industry has shown resilience in the face of shocks, acting as a buffer and providing stability during times of high inflation and low growth. (Source: [Allianz News](#))
- Insurance premiums are expected to increase over the next decade and technological advancements and challenges will reshape the industry. ([Allianz News](#))

Supply chain disruption

- Disruptions to supply chain operations are set to continue in 2023. (Source: [KPMG](#))
- Shipping costs continue to fall, and the sector is seeing cuts of between 55% and 85% when compared with 2022 costs. This is the largest year-on-year reduction in shipping costs for at least 7 years. (Source: [Hellenic Shipping News](#))

- In 2023, supply chains will face old and new challenges from the growing importance and need for sustainability efforts to achieve economic goals. According to the Confederation of Business Industry (CBI) forecast, the UK economy is expected to shrink in 2023, which will further disrupt supply chains. (Source: [Executive Freight Services](#))

Insurance Impacts

- Supply chain disruption intensifies demand for business interruption insurance coverage and so businesses need to ensure they have the proper insurance coverage to protect against supply chain failure.

Energy crisis

- The government is supporting investment in the energy system by launching Great British Nuclear to support new nuclear builds, making up to £20 billion available for Carbon Capture, Utilisation and Storage (CCUS), and extending the Climate Change Agreement scheme for a further two years to encourage energy efficiency. (Source: [Gov.uk](#))
- The government's Energy Price Guarantee (EPG) has reduced energy bills for millions, keeping inflation lower than it otherwise would be. (Source: [Gov.UK](#))

Insurance Impacts

- In recent years, there has been a surge in lawsuits filed by individuals, communities and organisations alleging that climate change is causing harm. This could have a significant impact on businesses and governments around the world, and in turn, their insurers. (Source: [Insurance Times](#))
- Prolonged economic weakness resulting from the energy crisis will impact overall demand for insurance and drive claims costs higher, according to analysts at the Swiss Re Institute. (Source: [Reinsurance News](#))

The cost and shortages of food and supplies

- The government is providing a total of £94 billion, equivalent to £3,300 per household on average, across this financial year and next, to support households with higher costs. (Source: [Gov.uk](#))
- Food prices in the UK continued to surge at the fastest rate in nearly 45 years, with staples like sugar, milk and pasta up sharply. (Source: [BBC News](#))
- The rate at which grocery prices rose slowed marginally in the year to April, but at 19.1% is close to record highs. (Source: [BBC News](#))
- Wholesale food prices have risen because the war in Ukraine has disrupted Ukraine's shipments of grains and sunflowers which are used in everything from bread and oil to animal feed. (Source: [BBC News](#))

- Extreme weather has also hit crops, including the beets used to make sugar as well as some vegetables. (Source: [BBC News](#))

Insurance Impacts

- As the cost of living continues to rise, around two-thirds (66%) of adults in Great Britain are spending less on non-essentials in response. (Source: [Office for National Statistics](#))
 - Nearly a quarter (23%) of adults in Great Britain reported borrowing more money or using more credit in the last month compared with a year ago. (Source: [Office for National Statistics](#))
 - The average quoted price of home insurance rose by 6.7% in the 12 months to April 2023 across the UK, this was the highest annual increase since 2018. (Source: [Insurance Times](#))
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The cost of materials

- 71% of global companies highlight raw material costs as their number one supply chain threat for 2023. (Source: [KPMG](#))
- The price and availability of commodities may fluctuate in 2023 - whether that be fuel/diesel, construction items like timber, steel and resin, or plastic for packaging. (Source: [KPMG](#))
- The material price index for 'All Work' increased by 8.7% in March 2023 compared to the same month the previous year. This followed an increase of 10.6% in February 2023 compared to February 2022. (Source: [Gov.UK](#))

Insurance Impacts

- The cost and demand of raw materials, parts and labour has increased significantly and so to address this claims inflation, insurers may increase customer insurance premiums to cover the rise. (Source: [Footman James](#))
 - Shortages in construction materials and labour may mean that insurers face delays when attempting to resolve claims. (Source: [PropertyCasualty360](#))
 - Despite surges in weather related claims and more expensive building materials, the average price of combined home buildings and contents insurance rose by less than the rate of inflation over the last year. (Source: [ABI](#))
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Construction

- Construction costs rose by 15% in 2022 over the previous year. Reasons for this rise include the war in Ukraine, leading to a surge in energy prices, and the continued fallout from the Covid pandemic with a shortage of raw materials resulting from factory closures during the lockdowns. (Source: [ABI](#))

- The availability of building materials in the UK is starting to return to pre-pandemic levels. (Source: [Homebuilding](#))
- The UK housebuilding industry was facing significant challenges due to ongoing shortages of raw materials, partially blamed on the ongoing conflict in Ukraine. (Source: [Homebuilding](#))
- It's predicted that construction output across the UK will fall by 3.9% in 2023 following a rise of 2.0% in 2022. (Source: [The Construction Index](#))
- 4,165 construction firms became insolvent between March 2022 and March 2023 as building firms struggle with high energy costs, inflation and having to repay Covid-era loans. (Source: [Construction News](#))

Insurance Impacts

- Companies going under, general interest rate rises, supply chain pressures and demand for labour are the highest risk for construction sector insurers in 2023. Delays or cessation of projects due to these factors could see a rise in disputes and losses. (Source: [RPC](#))
- The cost of construction claims in 2022 increased by 20% over the previous year, resulting in a general decrease in profitability for medium to long-term projects in the soft market. As a result, some markets have exited the sector, lowering competition and raising premium rates in 2023. (Source: [Servca](#))

Motor

- Allocations of new vehicles have been problematic and generally demand has exceeded supply. (Source: [Motor Trader](#))
- It's predicted that sales of used cars will dominate in 2023. (Source: [Motor Trader](#))
- The cost of motor fuel fell by 1.3% between March 2023 and April 2023, compared with a 1.9% increase in the equivalent time period last year. (Source: [Office for National Statistics](#))
- The government will spend over £5 billion maintaining fuel duty at current levels for the next 12 months, including keeping the 5p cut in place. (Source: [Gov.uk](#))

Insurance Impacts

- Insurers are doing all they can to offer competitive deals as cost pressures continue.
- The average price paid for motor insurance rose by 2% in the first quarter of 2023 to £478, as insurers faced above inflation cost increases. (Source: [ABI](#))
- Due to the rising costs of comprehensive motor insurance plans, it's predicted that the car insurance market will grow at a compound annual growth rate (CAGR) of 2.3% from £18.4 billion in 2021 to £20.6 billion in 2026. (Source: [U Switch](#))

- Higher raw material costs for vehicle repairs are reflected in rising motor insurance premiums. (Source: [ABI](#))
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Commercial Property

- The UK housing market is expected to slow in 2023 and 2024 due to higher mortgage rates and the cost of living crisis delaying property purchase, particularly first-time buyers. (Source: [Forbes](#))
- Annual private rental prices increased by 4.7% in England, 4.8% in Wales, and 5.2% in Scotland in the 12 months to April 2023. (Source: [Office for National Statistics](#))
- London's annual percentage change in private rental prices was 5.0% in the 12 months to April 2023, above the England average and its highest annual rate since November 2012. (Source: [Office for National Statistics](#))
- All commercially rented properties must now have a minimum energy performance rating of 'E' or above, which means that as of April 2023 landlords will not be able to let properties that do not meet this standard. (Source: [PKF Francis Clark](#))

Insurance Impacts

- Rent increase could affect landlords' premium and force them to seek cheaper options. Higher rents could also drive loss of rent claims up if some tenants are unable to meet higher monthly payments.
 - It's predicted that inflation will hit property casualty insurers the hardest because the claim costs for things like collision repair services are going up. (Source: [Silverline](#))
 - Insurance claim costs will put pressure on insurance companies because they will be taking a lot of costs and expenses out of the industry, which will reduce the ability to have as much capacity. (Source: [Silverline](#))
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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.