



# Guide to Property claims inflation

AXA Retail – July 2022







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# What is claims inflation?

In simple terms, claims inflation is the change in the average price of goods/ materials and services in relation to a portfolio of representative claims.

Over the last couple of years various factors have combined to drive up claims inflation.





# Market trends impacting Property claims inflation

## Brexit

### Supply chain disruption

- Introduction of new rules created cross-border trade challenges adding cost, complexity and delays.
- Some global suppliers (e.g. shipping) have downgraded the UK as a priority market.

### Skill shortages

- Many European drivers who went back to their home countries, or decided to work elsewhere, are unable to return due to changes in immigration laws.

### Regulatory

- New bureaucracy, and the decline in the value of the pound v euro since Brexit, have made working in the UK less attractive for EU nationals.

### Property claims cost impact

Monthly Statistics of Building Materials and Components Commentary, April 2022 headline findings state:

- The material price index for “All Work” increased by 24.5% in March 2022 compared to March 2021 and by 5% February 2022 to March 2022.
- Over the whole of 2021, imports of construction materials increased by 26.7% compared to 2020, from £16,144 million to £20,451 million.
- In 2021 the annual trade deficit widened by £3,891 million to £13,119 million, an increase of 42%.
- The Consumer Prices Index rose by 9% in the 12 months to April 2022, up from 7% in March.

## Covid

### Supply chain disruption

- Lockdowns, furlough and self-isolation reduced manufacturing capacity on a global scale.
- Lockdown created a mass surge in home DIY, adding unprecedented demand to the supply chain which has increased the cost of most materials.
- Supply chain challenges are expected to continue until at least July 2023.

### Property claims cost impact

- Repair/replacement delays due to material and labour shortages had a negative impact on cost containment.
- The most prevalent impact of the increase in costs is experienced through escape of water losses.





# Market trends impacting Property claims inflation

## Labour

- UK unemployment is low, with the resulting high vacancies driving competition and increased salaries.
- The pandemic led to many EU nationals returning home to be with their families during lockdown, adding to the existing labour shortage.
- The 6.6% minimum wage increase announced by the Chancellor of the Exchequer on 25th Oct 2021 has impacted all areas.

## Property claims cost impact

- Delays and lack of skilled labour required for construction, alteration or repair of buildings. When labour is secured it is more expensive, and often contractors are not willing to work as many hours due to the increase in wages.

## Global supply chain

- We're seeing record highs in the cost of petrol and diesel, driven by supply challenges.
- Freight shipping costs have doubled since March 2020 due to lockdown disruption (partial loads, ships in the wrong place, increased demand due to reduced air freight).
- Travel and transport restrictions have impeded supply.
- Machinery and plant have longer lead times, particularly items manufactured outside the UK.

## Property claims cost impact

- These factors will increase manufacturing and supply cost and create material shortages.
- Transportation costs are all part of the contract cost of repair and replacement.



# Market trends impacting Property claims inflation

## Legal and regulatory

- The Environment Act 2021 is likely to impact the ability of insurers to force local authorities to remove offending trees and vegetation, which could result in the need for more expensive root barrier and underpinning.
- The Renters Reform Bill 2022, which aims to better protect tenants of rented property, could result in increased rental rates and also reduce the amount of available rental properties, which in turn could increase the cost and availability of Alternative Accommodation.
- The Government's ambitious targets for new house building has resulted in an increase in the prevalence of so called modern methods of construction, such as timber frame and modular panels. This introduces new challenges to insurers in terms of properly understanding repairability and cost by comparison to more traditional methods.

## Property claims cost impact

- Potential increased cost of repairs to include resilient measures when a flood occurs.
- Green clauses and the possibility of planning regulators requiring replacement buildings to be to BREEAM standards before planning permission is granted.

## Climate change and technology

- Increasing storm and flood frequency.
- Increasing storm and flood severity due to construction methods leading to increased surface water run-off.
- Inadequate investment in the UK drainage infrastructure over several years.
- Modern methods of construction introduce new challenges.
- The shift to “renewables” (ground heat pumps, battery storage, more extensive use of solar panels etc.).

## Property claims cost impact

- Flood Re estimates that flooding will increase between 25% and 80% by 2050, depending on whether the temperature increase is 2 degrees or 4 degrees. The frequency of flood events in the last couple of years has already seen a rise in cost.
- Altered cost of building repairs for modern methods or green buildings.
- New green energy technology inclusion brings potentially higher repair costs and risks.





# Our approach to Property claims - what we can control

- Claims experience – our desktop handling of lower value building claims, using digital technology means we are able to remotely assess damage without using a supplier. This reduces fee spend, cycle times and provides a great customer experience.
- Cost containment – our established strategies focus on all areas of claims spend mitigation, without risking customer outcomes.
- Digital technology is used to triage claims and reduce claims process times.
- Escape of water – a claims pilot is under review with a focus on mitigation and rectification.
- Claims handling best practice – this is increasing efficiency and effectiveness aligned to triage and allocation routing.
- Fraud strategies – we’ve a dedicated team driving improved fraud results and identifying new areas of fraud.
- Proactive preventative measures with support from our team will assist clients with insurance costs.







# Russian invasion of Ukraine:

- Will add inflationary pressure to commodities such as metals (Russia are major producers of titanium, nickel, cobalt, lithium), plus the recent shortages of microchips (as an example) is likely to extend.
- Conflict has caused a surge in energy prices, which will inevitably impact cost of goods, services and distribution channels.
- Sanctions could further disrupt the supply chain.
- UK intake of Ukrainian nationals could have a positive impact on labour shortages in some sectors (low probability).
- The longer the conflict continues, the more of a ripple effect being felt across the economy/industry generally.
- Reduction of parts and increased pressure on existing supply issues.
- Fears of shortages pushing up prices of some metals (palladium, aluminium and nickel).
- Shipping and airfreight costs rising (due to re-routing with Russia closing its air space) further adding to the cost.
- Further elevation to oil and gas prices pushing up inflation.
- Potential for Russia to respond to sanctions with cyber-attacks against the UK and others (an all-out cyber war could impact the financial sector, the power grid as well as regular businesses and insurers).







# Property claims cost - what clients can help control

## What can my clients do?

Nobody wants to make a claim and often it's useful to have a quick reminder of a few things you can do to prevent a claim happening. There are several steps that your client can take to try and minimise the risk of needing to make a claim such as:

- Ensure that clients are aware of the unprecedented increase in building material, labour costs and labour skill shortage in the last 2 years in particular. To mitigate against this, they can get a RICS valuation done to ensure that their property is insured on a full loss basis.
- Property maintenance – ensuring your client is aware that they need to maintain their property to an adequate standard as gradual wear and tear is not something our insurance policies provide cover for.
- Security checks – for your clients' home safety, it's wise to check smoke alarms and CO2 detectors on a frequent basis. It's also a good idea to make sure that whilst they are away from the home, they make the property look like someone is at home to prevent becoming a potential theft target.
- It is important that sums insured are kept updated. Failure to do so can have serious consequences when it comes to settling any claim e.g if the sum insured is only 70% of the rebuild value and/or replacement value of contents then we will not pay more than 70% of the claim. Many individuals are wrongly still using the purchase price or their perception of the current market value as the basis of their sum insured. The sum insured should be based on the rebuilding or replacement cost.

## Making Claims Clear

Our Commercial Lines team have created some specific guides to support with different types of claims.

We think the 'Escape of Water' guide would be a great benefit for you, which is the highest frequency of claims for most insurers. It outlines practical steps your clients can take to help us reduce their Escape of Water claims cost.

[Take a look here.](#)





## Summary

Despite all the actions we take as a business to contain claim costs for our customers, it is not all within our control.

We need to work closely with our brokers to support the messaging to our clients and to create solutions together.

We need your support as a broker to communicate to clients that all the market trends we have outlined have a knock-on effect on different industries.

We need you to check with your clients ensuring the cover limits they have in place are suitable. We want to reduce the risk of underinsurance and the best way to do this is to check with your clients at new business and renewal that the sums insured limits meet your clients' needs.

**“ Over the last year and a half, the Covid-19 pandemic has dominated news headlines, policymakers’ attention and people’s daily lives. The many challenges resulting from the pandemic provide a stark warning about risk preparedness: we must be both more aware of other future risks and better prepared to deal with them as they emerge. ”**

AXA Future Risk Report 2021







# Guide to Property claims inflation AXA Retail – July 2022

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