



# Guide to Property claims inflation and rate increases



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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, November 2021 headline findings state:

- The material price index for 'All Work' increased by 24.5% in October 2021 compared to October 2020 and by 1.0% compared to September 2021.
- Imports of construction materials increased by €532 million in Q3 2021 compared to the previous quarter, an increase of 10.7%.
- The quarterly trade deficit widened by €567 million to €3,687 million in Q3 2021 compared to the previous quarter, an increase of 18.2%.

## 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.
- The continuation of large government contracts – HS2 is deemed to be the biggest project in generations – is using already stretched resources.
- 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 will impact 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

- Flood Re's 'Build Back Better' is currently limited to domestic properties, but beyond 2022 attention may shift to commercial properties (with the possibility of reform of building regulations to make flood resilience mandatory in new build properties).

### 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

Vantage  
Made for the mid-market

- Claims experience – our desktop handling, using digital technology, facilitates a reduction in average cost, cycle times and loss adjuster fee spend.
- 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.
- Business resilience – we continue to have extensive interaction with our business resilience team on post loss causes and prevention. Proactive preventative measures with support from our team will assist clients with insurance costs.



# Property claims cost - what clients can help control

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## Underinsurance

Underinsurance can make claims more costly to deal with, as more specialist input is required to assess the level of underinsurance to agree the final output. This can also cause delays to the client trading their business. Some underinsurance is potentially devastating to a business and they may not survive the loss. There are several steps that can be taken to minimise the risk of this issue arising:

- 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 and business machinery and equipment is insured on a full loss value basis.
- Make sure your client is aware that RICS valuations will not include VAT. This is particularly relevant if the client has not opted to tax, as the valuation will not include this, and underinsurance could still be an issue.
- Mitigate the loss in the first instance by ensuring good risk management practices are in place, that your insurer's risk improvements have been completed, and any ongoing risk improvements are continuing to be reviewed e.g. waste removal, housekeeping, security practices and property maintenance.
- Ensure that indexation is applied to your client's policies – this is also a protection for you as an advisor and will assist with managing year-on-year cost increases.

## Making claims clear

Through our award-winning Making claims clear initiative we've developed a library of documents to help your clients better manage their risks.

There's a specific guide covering 'Escape of water', 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 claim cost. There is also information on the details we need to manage their claim.

To download any of the Making claims clear guides please visit the [Making claims clear](#) section on our broker website.



# Summary

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

Our clients will be facing increased costs to their business. We need to work closely with our brokers to support the messaging to our clients and to create solutions together to help alleviate those costs.

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

We also need your support to enable our business resilience team to help clients protect their business, as far as possible, from loss.

Clients need to consider the impact of cost increases on their insured values.

**“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



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