

# NEWS BRIEF

Provided by: Mark Richard Insurance

## What high inflation means for your business insurance

**Annual inflation here in the UK is currently hovering just over 10 percent. Higher inflation means higher consumer prices, eroding most people's purchasing power. But how does high inflation affect business insurances and what can companies do to mitigate its effect?**

As inflation pushes up prices (such as the cost of building materials and labour), the baseline values of business assets erode over time. This may create serious underinsurance risks for your business insurance (and for personal insurances), with significant financial consequences if you have a claim. It's therefore vital to factor inflationary pressures into business insurance considerations so you remain adequately insured in a high-inflation environment.

### Key risk areas impacted by inflation

- **Commercial property**  
Construction costs are rising at the fastest pace on record, with the price of building new housing increasing compared with the same period last year. As prices skyrocket and labour and material shortages bite, property owners risk being underinsured if they do not account for higher rebuild costs in building sums insured.
- **Plant and equipment**  
The potential for underinsurance may also apply to machinery and plant, particularly as lead-in times for some parts or replacement equipment have increased over the past 12 months. Significant increases in shipping costs

are also inflating the costs of replacing plant and machinery. The amount the insurer will typically pay for a claim is the amount declared as the sum insured, which means the property owner will face a shortfall if the property's sum insured has been under declared.

- **Business interruption**  
The global supply chain for many industries has been severely impacted by rising inflation, the Covid-19 pandemic and the Ukraine conflict, causing substantial delays in obtaining some materials needed to repair or replace property following damage or loss. Delays mean businesses could be exposed to extended periods of reduced trading or incur additional costs when finding new ways to trade such as renting alternative premises.

In a high inflationary environment, it's important to check the insured value of property and other assets to ensure they are still accurate.

### Addressing inflationary impacts

In a high inflationary environment, reassessing the adequacy of cover, costs and time needed for repair work, together with the overall cost of your insurance programme, helps you determine which risks can be transferred via insurance and which risks you can retain. With our help, you can then evaluate the potential impact of retaining a



risk compared with its cost of insurance, helping to balance the expense of essential cover with budgetary requirements.

Areas for review include:

- **Coverage terms and conditions** - To ensure you are adequately covered, with you we can review your current coverage terms and conditions, particularly any exclusions, and verify your policy limits are sufficient to cover a loss.
- **Building sums insured** - Is your commercial property cover still aligned to current property rebuilding valuations? Is the replacement or repair value for your property in line with increases in construction costs? In view of the current inflationary environment, we recommend updating your property valuation at least every twelve months to make sure it reflects current costs for building rebuild and repair work.
- **Materials and labour availability** - It's important to consider both the cost and availability of materials and labour for property, motor and business interruption claims. You may need to factor extra time into your business interruption indemnity period (the time during which claims will be paid following a loss) and update your policy to reflect these conditions.

### How Mark Richard will help you

- As mentioned earlier, we can review your current insurance programme to assess whether your business has sufficient cover in the present economic environment.
- For companies with business interruption cover, we recommend

we/you review your current indemnity period with to evaluate adequacy. Business interruption losses are limited to the length of the indemnity period, irrespective of whether the business has fully recovered. If and when supply chain and labour issues ease, the indemnity period can be reviewed and possibly reduced.

- You may also benefit by reviewing your increased cost of working cover under your business interruption policy. With ongoing disruption to the supply chain, these costs can make all the difference in keeping the business trading by providing additional funds for things like renting alternative premises or outsourcing manufacture or storage to third parties. And if your business relies on a fleet of vehicles, look closely at the cover for loss of use, particularly if the vehicle is specialised or hard to replace.

**The overall impact of inflation may mean buying higher levels of insurance to ensure you remain adequately covered. As more insurance costs more in premiums, we can discuss options to help to mitigate additional costs for your business.**

Here's an example of what could happen if you are underinsured for say your buildings.

As mentioned above, you need to make sure that the sums you insure your property for are enough to cover any loss or damage. These are the maximum amounts that your insurer will pay out in the event of a claim, and that these may vary from policy to policy.

Most commercial insurance policies contain an "Average Clause". An Insurer can use this clause if you have not set your sums insured at the amount required to cover a total loss, referred to as "Underinsurance".

For example, if you have only insured for amounts 50% of the total value of property at risk, you will only receive 50% of the value of any claim.

- Total value at risk: £100,000
- You have set your Sum Insured as: £50,000
- Amount of your claim: £2,500
- Therefore, the Insurer will only pay: £1,250

If you are not sure your sums insured are enough, please contact us to discuss this further.