

Inflation and Insurance

Inflation affects all of us, including our insurance. Claim expenses and premiums rise, and costs to repair and replace property and vehicles also increase. Helping clients understand how inflation impacts their insurance, and provide ways to cope with the changes, is another value-added service of the professional insurance agent.

The insurance industry is impacted by economic forces, including higher prices for materials and parts, and supply chain disruptions. Replacement cost is the default coverage provision for many property policies. It is determined not only by the cost of materials, but also the labor needed to do the work. Annual review of the property's valuation is essential to avoid being underinsured.

Proper valuation has always been a crucial component of insurance policies. Especially during times of inflation, in the event of a loss, policy limits may not be enough to cover the increased labor and materials costs. Many personal and commercial insurance policies include an inflation guard provision - typically 4-8% per year. This means that coverage limits automatically rise over the term of the policy. However, during times of high and rapid inflation, these increases will probably be inadequate.

Guaranteed replacement cost is also available under some policies. This coverage provides enough funds to replace the building regardless of the coverage limit. While this can bring peace of mind for policyholders, insurers who do not include regular reviews of their clients' property valuations can be left with policy premiums far too low for the actual exposure. Proper and current valuation helps prevent underpricing the coverage. Guaranteed replacement cost may not address costs to upgrade to comply with building codes, and it may not be available for older homes or commercial buildings. Extended replacement cost is another option. This provides a buffer of 10-50% above the Coverage A (Building) coverage limit.

Proper recovery after a loss may also hinge on adequate records. Faster claims settlement can occur when accurate inventories are maintained. This includes buildings, other structures, contents (either business or personal property), equipment, and machinery. Records should be kept in a safe, fire and weather-proof location, with updated backups. After a catastrophic loss, access to the insured property location may not be possible for some time.

Commercial property owners and developers may partner with specialized appraisal teams or construction companies to conduct inspections and create an accurate valuation of the property. New technologies such as drones can also be used to further determine values.



Business Income and Additional Living Expenses should not be overlooked when discussing inflation's impact on insurance. Especially after a catastrophic event, delays caused by lack of workers or supply chain issues may extend the period of time such supplemental payments are needed. When determining these values, it is important to consider a worst case scenario, such as a disaster, when access to the property or repair services could be delayed extensively.

No one wants to find out after a loss that their coverage is inadequate. Setting proper limits requires work beforehand to more accurately determine replacement cost. Helping clients understand the role inflation plays in insurance coverage limits, and offering advice on how to ensure adequate protection is available, is another sign of the true insurance professional.

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