

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.

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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