

Property insurance – Why 15%+ rate increases will happen in 2022

By Alan Chandler, Chartered Insurer

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- **I have trained more than 2,000 individuals to become ACII qualified**
- I have trained over 50% of the individuals in the last 8 years that have gone onto achieve the highest ACII pass in the whole of the UK.
- I train to a pass rate of more than 99% in all CII qualification levels. Certificate , Diploma and Advanced Diploma.
- I have delivered the Allianz and Zurich training programmes in both the UK and Ireland and I have been a Cii examiner.
- I have trained students who have won national prizes in almost all ACII subjects including Insurance Law (MO5), Liability (M96), Commercial Property and BI (M93), Personal Lines Insurance (P86), Business and Finance (M92), Underwriting Practice (M80), Advanced Underwriting (960), Claims Practice (M85), Advanced Claims (820), Marketing (945), Advanced Broking (930) and Advanced Risk Management (992).

Alan Chandler Webinar list that can be delivered to companies big or small

- Broker E&O claims - why they are increasing and how these can be mitigated.
- Builders Performance Bonds.
- Business Interruption insurance in plain English.
- Business Interruption insurance extensions.
- Business Interruption setting correct indemnity periods.
- Claims Handling in Commercial insurance.
- Commercial Package insurance.
- Commercial Property insurance. How to set correct sums insured.
- Commercial Property insurance - clauses and conditions.
- Commercial Property insurance - what is actually covered by and All Risks wording.
- Contractors (Construction) insurance.
- Company structures - understanding how policies should be correctly set up.

Alan Chandler Webinar list that can be delivered to companies big or small

- Directors and Officers insurance in a plain English nutshell.
- Engineering insurance and inspection.
- Examination Techniques workshop - can be done for all levels of Cii examinations.
- Financial awareness for account executives and handlers.
- GDPR/Data Protection Act training.
- Household insurance - dealing with under insurance.
- Household insurance - understanding policy wordings, endorsements, and conditions.
- Household claims handling.
- How liability can arise under the law of tort.
- How to set correct Commercial property sums insured
- How to set correct Business interruption sums insured.
- Introduction to insurance.

Alan Chandler Webinar list that can be delivered to companies big or small

- Leadership in insurance.
- Legal Principles of insurance.
- Liability insurance (Employers Liability, Public Liability and Products Liability).
- Liability insurance – How contract conditions can change liability at law.
- Motor insurance an overview.
- Motor Fleet insurance.
- Motor Trade insurance.
- Ogden rate understanding
- Personal lines claims handling.
- Policy wordings in Commercial insurance.
- Professional Indemnity insurance.
- Staff annual appraisals and target setting in the insurance industry.

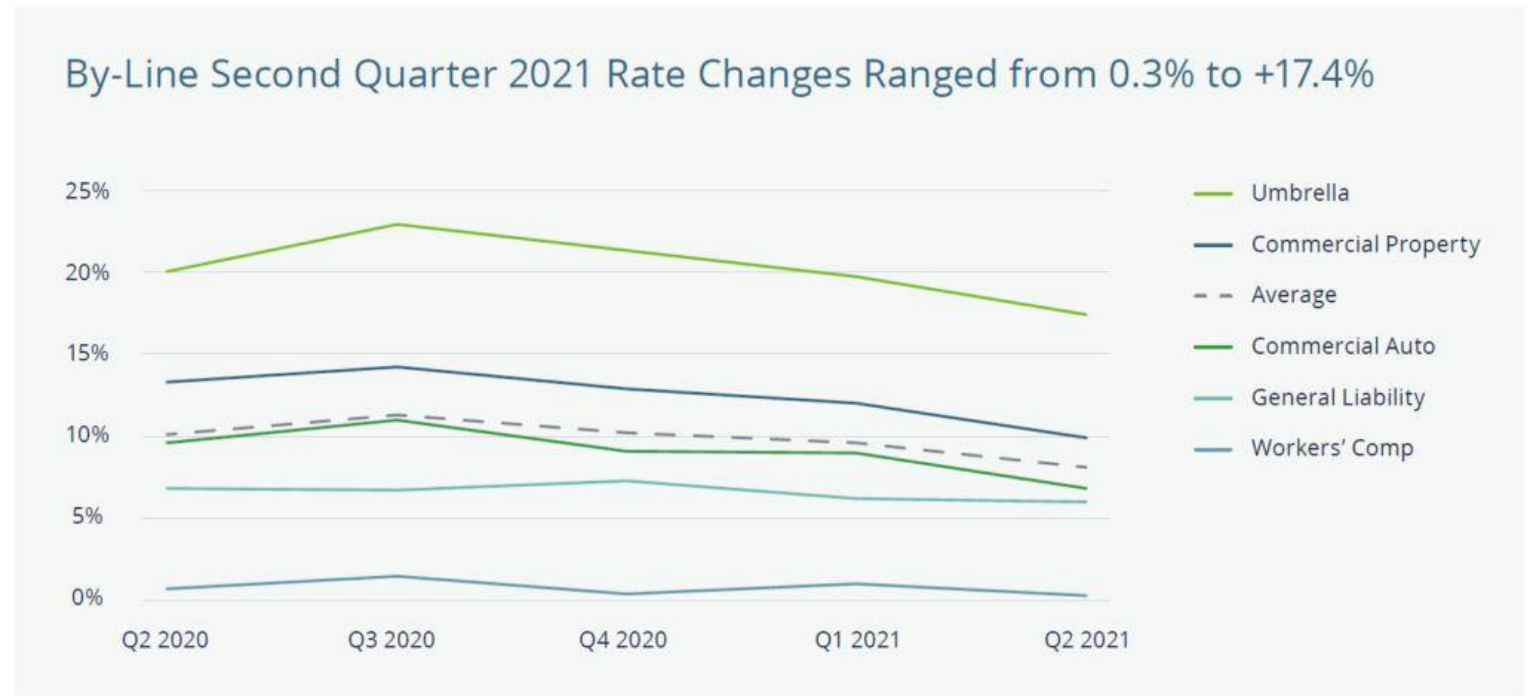
Alan Chandler Webinar list that can be delivered to companies big or small

- The missed opportunity on business leads – how UK employments trends are changing yet the financial services sector is lagging behind in its offerings.
- The perfect storm - Understanding how solvency margins and Ogden are changing your insurance marketplace.
- Vulnerable Customers
- **Training courses for CII Examinations**
- **At Certificate Level**
- IF1 Insurance legal and regulatory, IF2 General insurance products ,IF3 Insurance underwriting process, IF4 Insurance claims handling process, IF5 Motor insurance products, IF6 Household insurance products and IF8 Packaged commercial insurances
- **At Diploma Level**
- MO5 Insurance Law, M92 Insurance Business and Finance, M93 Commercial property and business interruption insurance, M96 Liability insurances, M80 Underwriting practice, M85 Claims practice and M86 Personal Lines insurance
- **At Advanced Diploma Level (ACII)**
- 530 Economics and business, 820 Advanced claims, 930 Advanced broking, 945 Marketing , insurance products and services 960 Advanced underwriting and 992 Advanced risk management

Learning Objectives

- **By the end of this webinar, delegates will be able to understand:**
 - Why property rebuild costs in the UK are increasing at 9.6% and why UK insurers still need rate strength on top of this.
 - What needs to be taken into account in respect of setting building sums insured.
 - The effects of under insurance for clients and how to aid them in mitigating their exposure to under insurance.

Property premium increases are a global challenge – double digit rebuild costs are a global issue

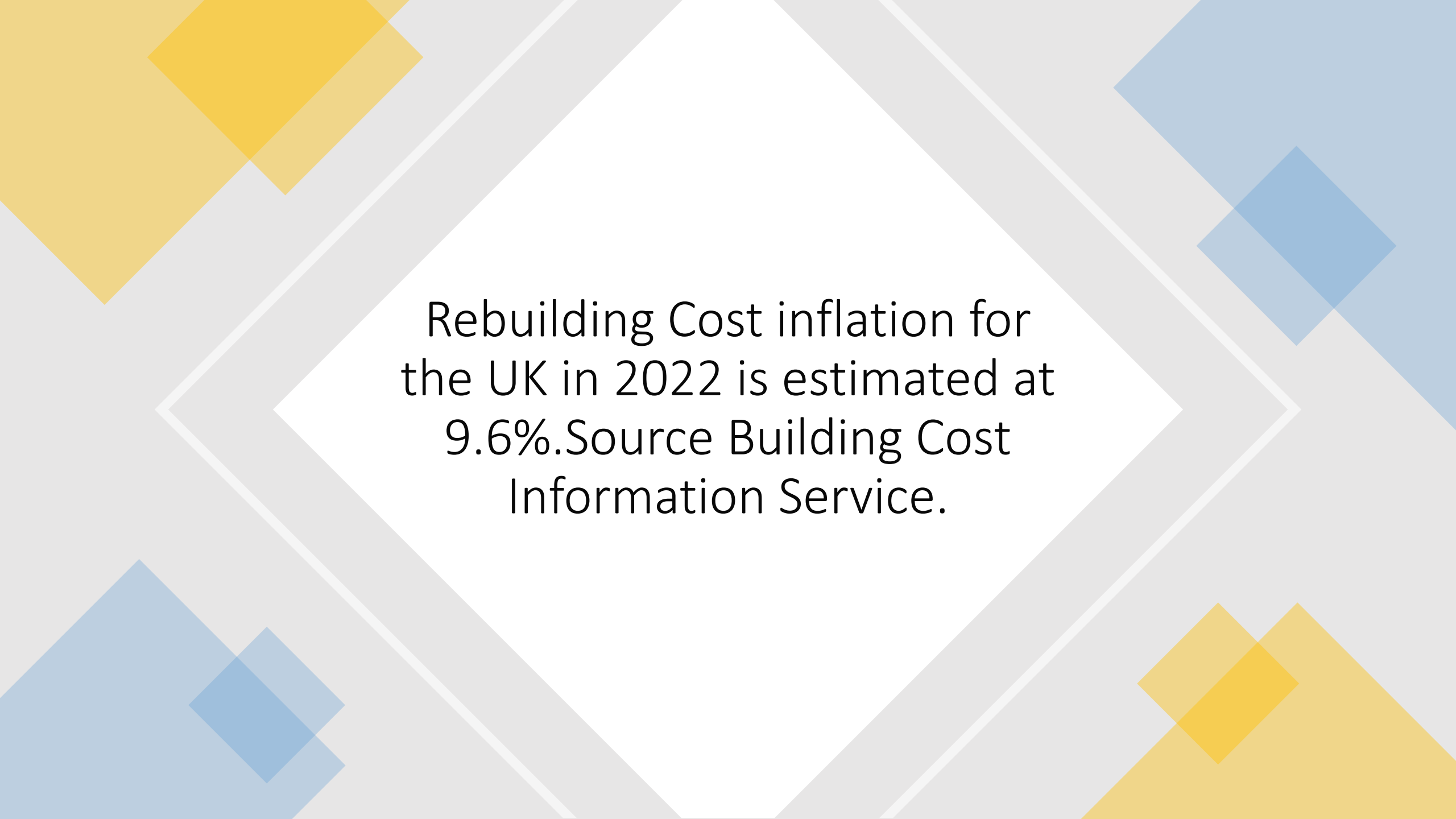


Source: The Council of Insurance Agents & Brokers

Building Cost Information Service (BCIS) index for the UK

BCIS Price Indices as at 23/11/21





Rebuilding Cost inflation for
the UK in 2022 is estimated at
9.6%. Source Building Cost
Information Service.

Clients need to understand the reasons why the 9.6% increase is happening

- Insurers cannot ignore rebuild cost inflation, their rates have to be set looking forward not back. The premium being paid has to cover 2022 and 2023 inflation – let's explore this statement.



UK construction costs have reached a **40 year high of 20.3% !!!**

Material shortages will continue to create problems, but this could reduce if Covid subsides (regrettably this is a big if!). So, the current 20.3% materials inflation rate could reduce to low single figure inflation if Covid gets under control globally.

Labour costs it is anticipated will continue to rise throughout 2022, but at a rate of less than 5%, but only if things come under control in respect of Covid, as skilled workers may feel more likely to return to the UK.

Some materials have seen massive increases: imported sawn wood (+73%) and steel sections (+60%) due to a global increase in construction plus supply issues caused by Covid.



Brokers MUST keep an eye on UK rebuilding cost inflation during 2022 – manage expectations going forward

- The **materials** index for the year to November 2021 was running at 20.3%, but this could reduce to 1 or 2% by the end of 2022, (the BCIS suggest the material aspect could be -0.8%) if the materials to the UK start to flow, if not then significant problems will remain.
- Brokers keep an eye on the supply chain and have meaningful conversations with underwriters, by the end of 2022 rebuild inflation could be a lot lower, Be up to date – keep up to date, be professional.



The first part of 2022 rebuild costs will continue to escalate – why?

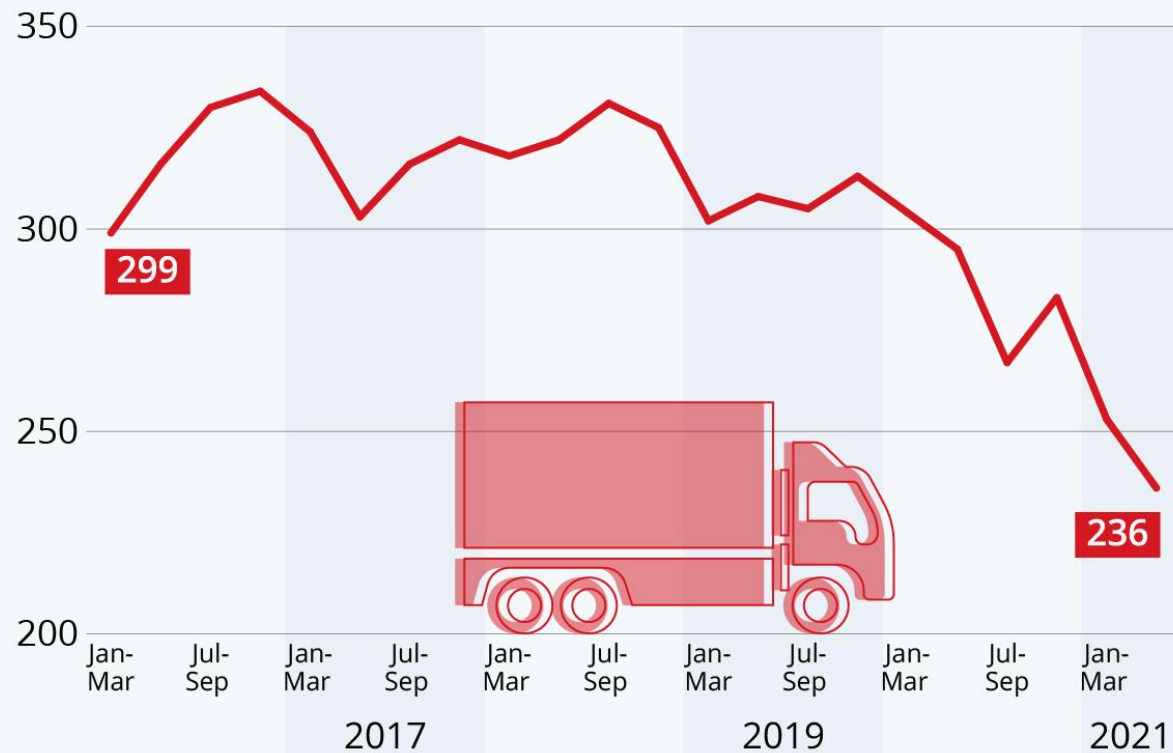


- First reason is driver shortage in the UK coupled with increased fuel prices– it is costing a lot more to transport good because of this shortage and the manufacturers have to factor this in on their price.

Why
property
prices are
increasing

The UK Lorry Driver Shortage

Quarterly estimated number of large goods vehicle drivers in the UK (in thousands)



Source: Office for National Statistics



Rising energy costs are also increasing rebuild costs



- Wood and steel as examples utilise significant energy costs in the production of these materials. Rising energy costs have to be passed on.
- British Steel are adding a £30 per tonne surcharge due to offset rising energy costs.

Reasons why rebuild cost inflation is increasing:
There is a Global increase in demand for construction, and this has been reflected in the UK, as seen on this table

2018 prices, seasonally adjusted

	All Work (£bn)	Annual Change
3Q2017	43.2	5.6%
3Q2018	43.6	0.8%
3Q2019	44.2	1.5%
3Q2020	38.9	-12.0%
3Q2021	42.7	9.7%



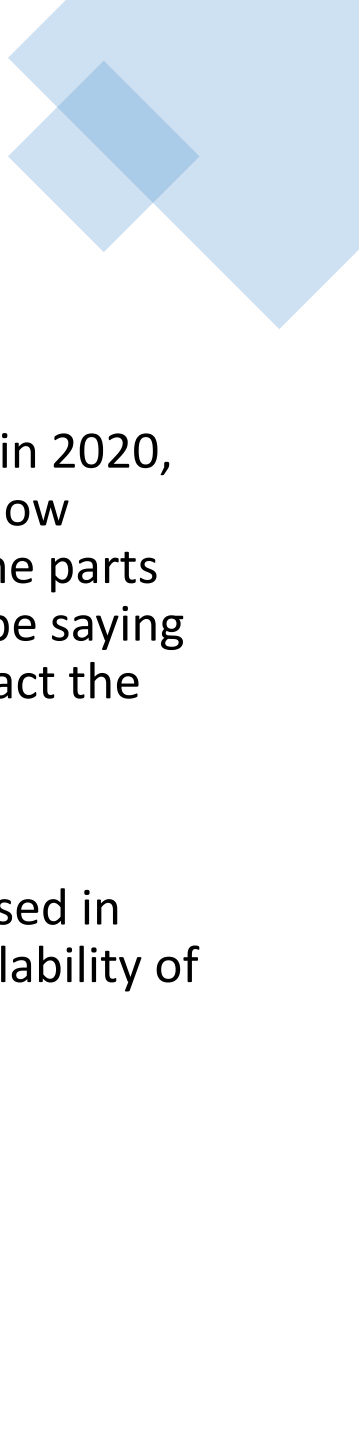
Source: ONS • Created with Datawrapper

Significant infra structure projects will continue to put pressure on the rebuilding cost inflation index. HS2 budget is £100B Hinkley Point £23B

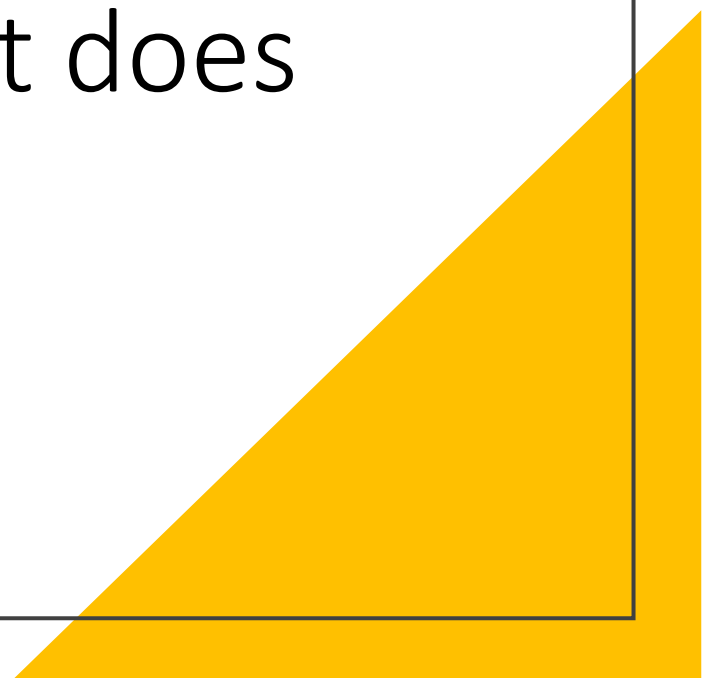




Shortage of labour in the construction industry

- Randstad stated that the average pay packet for construction workers in the UK increased by 14% in 2020, however keep an eye on this as labour costs are now dropping due to furlough ending. However in some parts of the UK construction firms are still reported to be saying they are paying 25% more for labour costs to attract the trades they need.
 - Increases in labour costs have been due to increased in demand for construction work as well as less availability of labour caused by Covid and other matters.
- 

So, going back to the fact that Rebuilding Cost inflation for the UK in 2022 is estimated at 9.6% what does that mean for Policyholders?



The Extent of Property Under-Insurance in the UK?

- The average degree of under insurance is ?
- VAT care on pension funds!

Policy Conditions - Average

- Average formula:

Sum Insured x Loss = Claim Paid

Correct Value

SI £200,000, correct value £400,000 claim of £2,000 and an excess of £1,000 insured gets what?

This is known as the pro rata condition of average and theoretically could apply to under insurance of 1%

Note for Buildings there maybe a 15% cushion

The values at risk – How should these be calculated?

What factors need to be taken into account when considering a sum insured for Buildings?

The Policyholder's Balance Sheet is not always helpful

- Why can a client's Balance sheet figures send the client off in the wrong direction when setting the correct sums insured?

The values at risk

- **Main Buildings plus what?**

Property Insurance

Removal of Debris includes

Knocking down or dismantling

Cost of shoring or propping up

Physical removal of debris

DO NOT FORGET TO ADD THIS TO STOCK AND CONTENTS AS WELL

Professional fees includes Architects, surveyors, consulting engineers and legal fee

Public Authorities Clause

Index linking is a must

- Royal Institute of Chartered Surveyors – General Building cost index
- Index applies throughout policy including throughout a claim until repair or replacement
- If the index is negative SI remain the same unless the insured advises otherwise.

Are your clients likely to get it right?

- Assessing rebuild costs are complicated – how can someone not qualified get it right?

The pain may
not stop at
9.6% for your
Policyholders
– let's explore
why



Seven reasons why there has been a hard market

1. Solvency II.
2. Ogden rate is for the foreseeable future going to be in negative territory. (not property related).
3. Coming into 2020 the property insurance market was already running at loss making rates.
4. Storms Dennis and Ciara could cost the industry in excess of £400M.
5. Covid -19 caused extensive losses to Insurers.
6. Reinsurance rates will be rising considerably.
7. Interest rates are at an all time low meaning investment income cannot be relied upon by Insurers.

Be market aware

- Insurers will in many cases be seeking 6% rate strength ON TOP of 9.6% rebuild inflation, potentially leading to in excess of 15% proposed premium increases on Commercial property insurance.
- Two things to remember though:
 - 1. Rebuild cost inflation is likely to reduce to 1.3% (BCIS) per annum in 2023 if the issues around Covid get resolved.
 - 2. Capacity may well start entering the market place during 2022 if Insurers start to return to profit on their Commercial Property accounts.

So discussions during 2022 will have to continue to evolve between broker and underwriter, and those who are up to date will prevail.

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