



# The effects of inflation, underinsurance and business interruption

## What are the current conditions?

As consumers are experiencing everywhere, inflation is affecting everything we purchase. In July, the US Bureau of Labor Statistics reported the Consumer Price Index, a broad measure of everyday goods and services related to the cost of living, soared 9.1% from a year ago.<sup>1</sup>

Contractors have been experiencing record cost increases for numerous materials since shortly after the pandemic began. Construction bid prices (the prices quoted to complete a project) have also increased significantly but, unlike prior to the pandemic, have not kept pace with recent Producer Price Indexes (PPIs).<sup>2</sup>

Construction and commercial equipment costs have also been subject to significant increases over the past 36 months. The construction cost increases have been driven by fuel prices, material costs, labor shortages, and other supply chain issues.

Another factor is the increased cost of fuel. This is affecting almost everyone and every industry. The cost of getting materials to site is dramatically increasing. And this is having an impact on our construction. Contractors pay a huge amount for fuel to run their trucks, to run equipment. In the US, diesel fuel has reached an eight-year high.

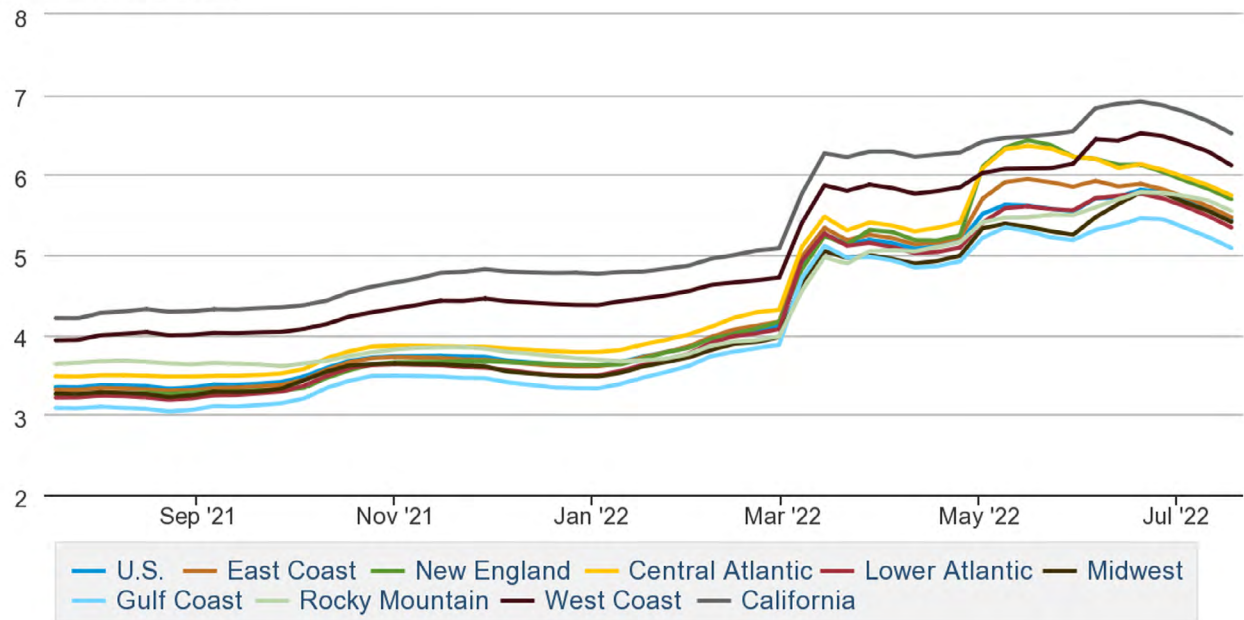
The current reality is that most commodities and services cost more today. As to whether these costs will come down — and if so by how much and when — that's unknown.

1. Source: U.S. Bureau of Labor and Statistics <https://www.bls.gov/news.release/cpi.nr0.htm>

2. Source: Associated General Contractors (AGC) of America "2022 Construction Inflation Alert," April 2022 [https://www.agc.org/sites/default/files/users/user21902/Construction%20Inflation%20Alert%20Cover\\_Apr2022\\_0.pdf](https://www.agc.org/sites/default/files/users/user21902/Construction%20Inflation%20Alert%20Cover_Apr2022_0.pdf)

## On-Highway Diesel Fuel Prices

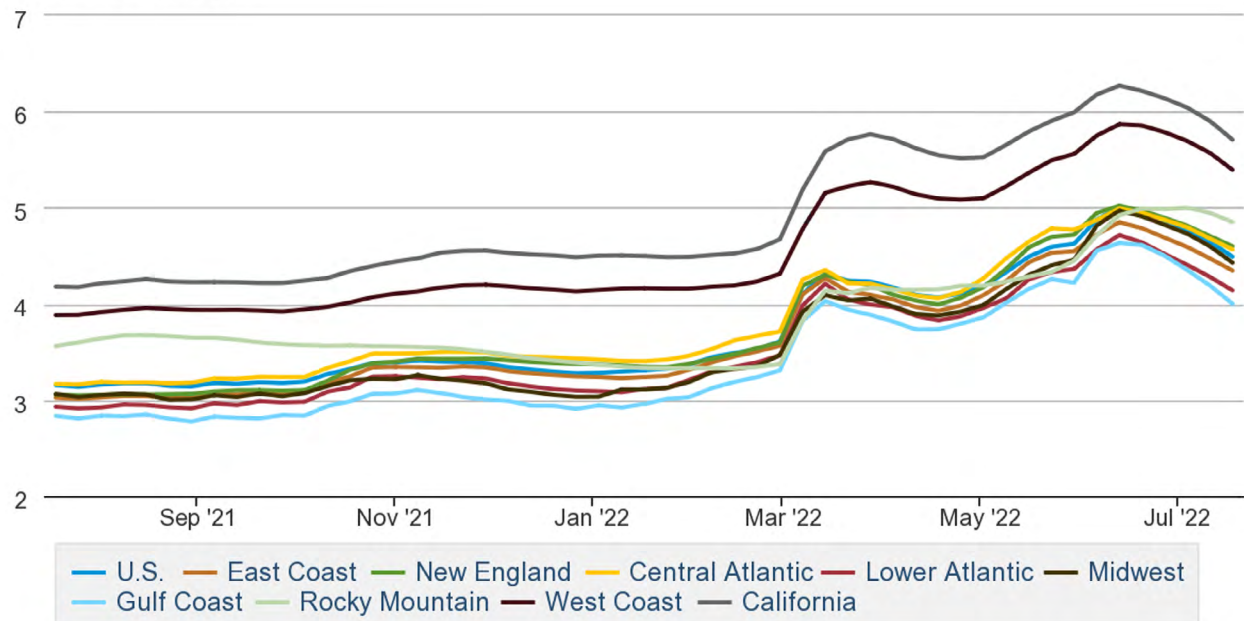
(dollars per gallon)



eia Data source: U.S. Energy Information Administration

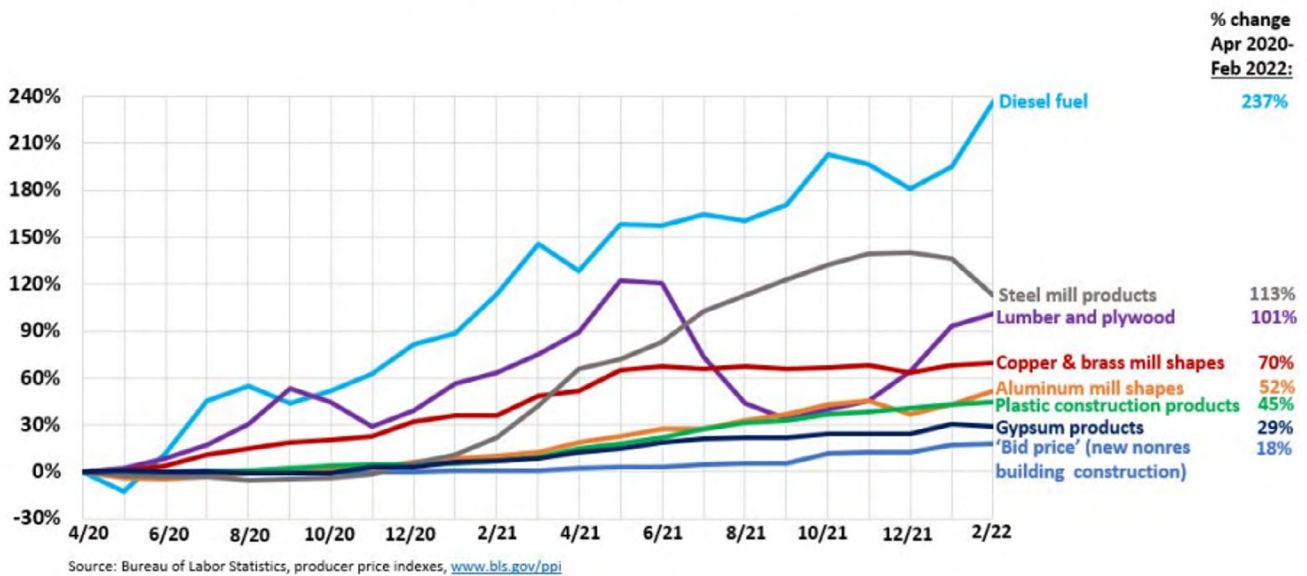
## Regular Gasoline Prices

(dollars per gallon)



eia Data source: U.S. Energy Information Administration

**PPIs for construction bid prices and selected inputs**  
cumulative change in PPIs, April 2020–February 2022, not seasonally adjusted



## What is the true cost of underinsurance?

No one likes to spend more money than they have to, especially when it comes to insurance. But, insurance is there to protect against unforeseen events, so reducing cover to lower insurance premiums could cost more in the long run. One of the consequences of trying to keep insurance costs down by not insuring the correct amount is underinsurance.

Underinsurance occurs when the declared values of assets (like property, building, and contents) and exposures fall below actual values. It has consequences for policy loss limits, applications of underinsurance restrictions, and adequacy of business interruption coverage. Many clients only find out they are underinsured when they need to make a claim.

## Questions to ask your clients to help prevent underinsurance

1. Did you use the market value of your property as the insurance value, or the replacement cost?
2. Did you get a bespoke insurance replacement valuation?
3. Have you reviewed the value of your property in the last two years?
4. Have you had any renovations or additions made since you last had your property valued?
5. Would there be additional complications to repairing your building? For example, is it situated in a conservation areas?
6. Does your insurance value fall in line with the buildings description within your policy?
7. Does your building have any technological or material specifications, such as solar panels or a unique construction material that would make it more expensive to repair?
8. Is the building constructed of modern methods of construction such as modular?

## Business interruption — adequacy of indemnity periods

Most business interruption policies have a maximum indemnity period. This is the maximum duration which insurers will pay business interruption losses following an insured event. These are usually set at 12, 18, 24, 30, or 36 months.

Delays resulting from damaged property not being reinstated before the expiry of the business interruption indemnity period may lead to uninsured extra costs and loss of revenue or profit. The indemnity period may run out before supplies can be obtained and rebuilding can commence. Added to this, many businesses have had suppressed trading over the pandemic, and are now returning to normal levels of activity while needing to increase their own prices to contend with payroll inflation. This volatility can result in a significant shortfall in the amount a business would have expected to receive in the event of a claim. Given global labor and supplies shortages, delays in shipments, and the potential for protracted construction projects, the length of business interruption indemnity periods should be reviewed.

## How you can respond

Inflation is not unprecedented and there are coverage strategies that can help protect your clients through this period of volatility.

Talk to your business development contact about how Victor can help.

Visit us at [victorinsuranceus.com](https://victorinsuranceus.com) to learn more.

This document is for illustrative purposes only and is not a contract. It is intended to provide a general overview of the program described. Please remember only the insurance policy can give actual terms, coverage, amounts, conditions and exclusions. Program availability and coverage are subject to individual underwriting criteria.

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