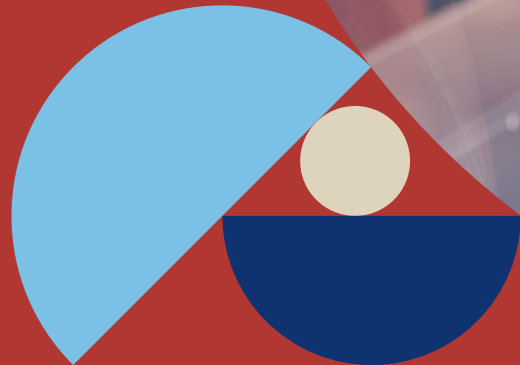


# Inflation and rising prices

What inflation and  
rising prices mean  
for property  
damage insurance





## An overview for Zurich customers

With recent price rises and ongoing media attention on the cost of living, inflation is having an effect on a number of industry sectors. So how much of an impact is it having on property and insurance? At Zurich, we have researched the figures to give you an insight into the current situation.

### The general picture

The war in Ukraine continues to put pressure on energy, food and commodity prices, leading to higher inflation across Europe and the US. Inflation and higher prices look set to stay in 2023, even though the pressures caused by the pandemic have diminished and the US shows some signs of lower inflation ahead.

#### Annual inflation rate

| Country     | Inflation rate            | Source  |
|-------------|---------------------------|---|
| US          | 8.2% as at September 2022 | <a href="#">U.S. Bureau of Labor Statistics</a>   |
| UK          | 9.9% as at August 2022    | <a href="#">Office for National Statistics</a>    |
| Eurozone    | 10% as at September 2022  | <a href="#">Eurostat</a>                          |
| Germany     | 10% as at September 2022  | <a href="#">DESTATIS, Statistisches Bundesamt</a> |
| Switzerland | 3.3% as at September 2022 | <a href="#">Federal Statistical Office</a>        |

Against this background, central banks including the US Fed, the European Central Bank, the Bank of England and the Swiss National Bank have taken aggressive measures with the aim to curb inflation. They are likely to raise interest rates further, which will slowly lower the value of assets including shares and property, and cool consumer and business spending too. This will take time to have an effect.

### What does this mean for our customers?

Inflation means that it is becoming more and more expensive to repair damaged properties. This can be a challenge for our customers who obviously want to know that the valuations they receive are accurate. The last thing they want to experience is to find out they are under-insured when they make a claim.

That's why we recommend that property customers have a program in place to continuously monitor their statements of value, so there will never be any surprises at the time of claim. This process should take into account the addition or removal of locations as well as the impacts of inflation.

Customers should consider the rising costs for everything that is involved in a rebuild or repair of a property, including materials, labor, new equipment and restoration of stock. When inflation is rising higher and higher, the impact on these costs can be substantial, so there is a real threat of becoming under-insured.

Of course, if a climate event or catastrophe damages a customer's facility, it is likely that other businesses in the same area will also be hit. This puts a strain on the construction and professional services within the area as everyone is looking for repairs at the same time. Consequently, prices can rise even further.

Customers need to take all these factors into account and have a process in place to monitor replacement costs annually in order to avoid the threat of being under-insured.



## Construction cost indices: an illustration of property damage inflation

We have looked at a range of indices that reflect business values, bringing them together to deliver insights for different markets.

### 1 Why the indices are relevant...

Construction cost indices show how the average prices for the construction industry are changing and so should reflect the costs for repairs and rebuilds. The insurance industry uses them to spot potential rises in claims.

We have included the most relevant index for each country. The indices vary from country to country. Some give a high level of detail, others are broader, for instance. In some countries, indices might only be available for residential construction, some might be monthly or quarterly and some may have more up-to-date figures than others. It's important to take all this into account when making any like-for-like comparison across countries.

### 2 How we made our calculations...

There are two main types of indices:

**A cost index:** this is the average amount that customers pay for the completion of the construction project;

**A producer price index:** this is the average amount that a contractor pays for materials used in the construction project.

We have used the below indicated indices to plot two graphs showing the change in prices. Each point on the graphs represents the latest index value divided by the index value from a common base period. We chose 2019 Q3 as the base period, as this is the earliest period when data was available for every country.

| Country     | Index used (see links for sources)  |
|-------------|---|
| US          | <a href="#">Average of three new building construction PPIs: industrial, warehouse &amp; office</a>         |
| Canada      | <a href="#">New non-residential building construction price index</a>                                       |
| UK          | <a href="#">Average of two new construction output price indices: pvt industrial &amp; pvt commercial</a>   |
| Germany     | <a href="#">Average of two new buildings construction price indices: industrial &amp; office</a>            |
| France      | <a href="#">Construction cost index</a>   |
| Italy       | <a href="#">Construction producer prices index: non-residential buildings</a>                               |
| Australia   | <a href="#">Construction output price index</a>   |
| Switzerland | <a href="#">New building construction price index</a>   |
| Netherlands | <a href="#">Total new building construction price index</a>   |
| Belgium     | <a href="#">Construction output price index</a>   |
| Spain       | <a href="#">Construction cost index: new residential buildings</a>  |
| Sweden      | <a href="#">Construction cost index for new residential buildings (including wage drift, excluding VAT)</a> |
| Brazil      | <a href="#">National Market Construction Cost Index – INCC/DI</a>   |
| Denmark     | <a href="#">PPI for construction of one-family dwellings</a>  |

### 3 Our key observations...

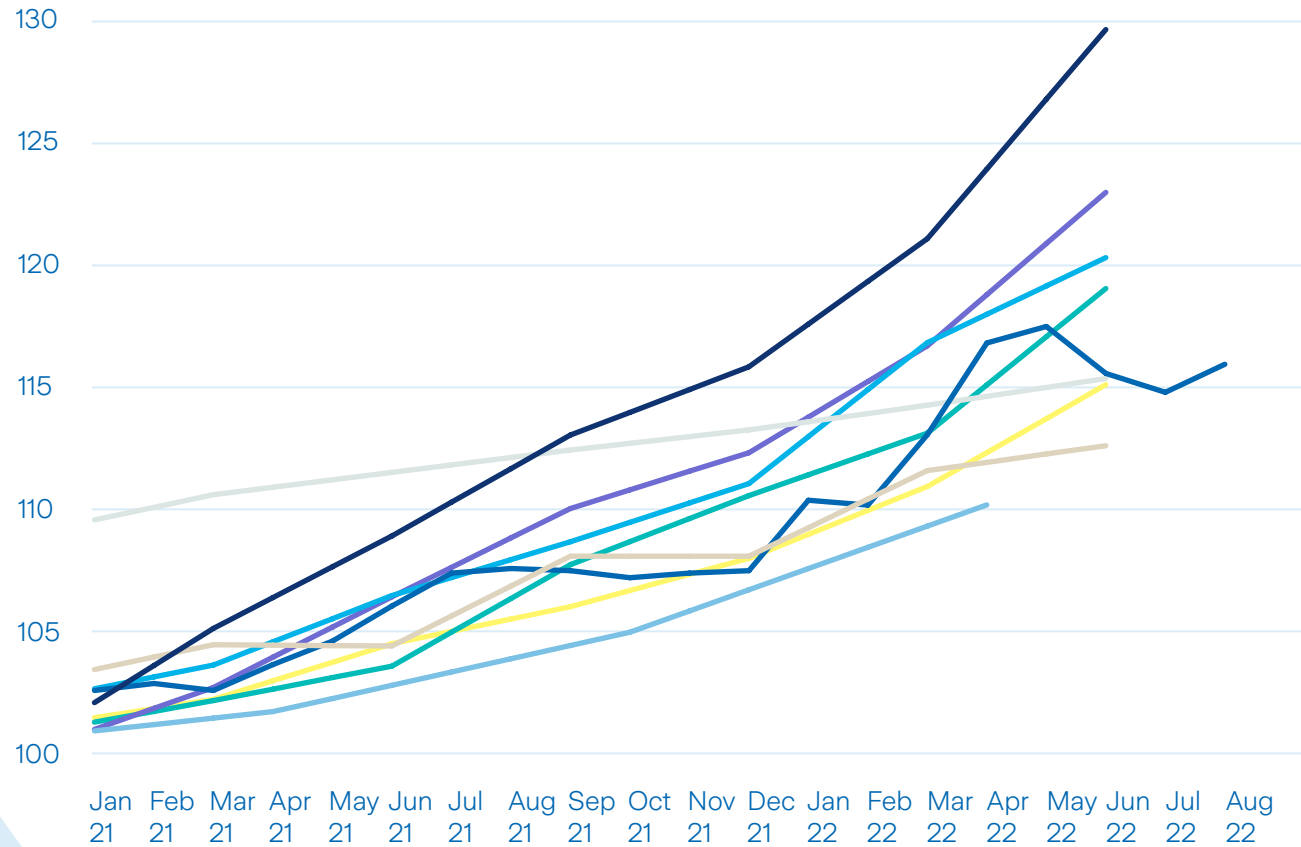
Both of the following graphs show that every country has seen rising costs over the last 12 to 18 months.

For those countries where we can draw on the most up-to-date data, such as Germany, US and Brazil, recent months show that this trend is set to continue.

### 4 Disclaimers

- While neither cost or producer price indices will be a perfect predictor of claims inflation, both offer insight into potential inflationary hotspots.
- In some cases, residential building indices have been used, for instance Spain, Sweden, Denmark, Belgium, Netherlands and France.

**Continental Europe:  
External Construction Cost Indices**  
Increase relative to Base Period (2019 Q3)

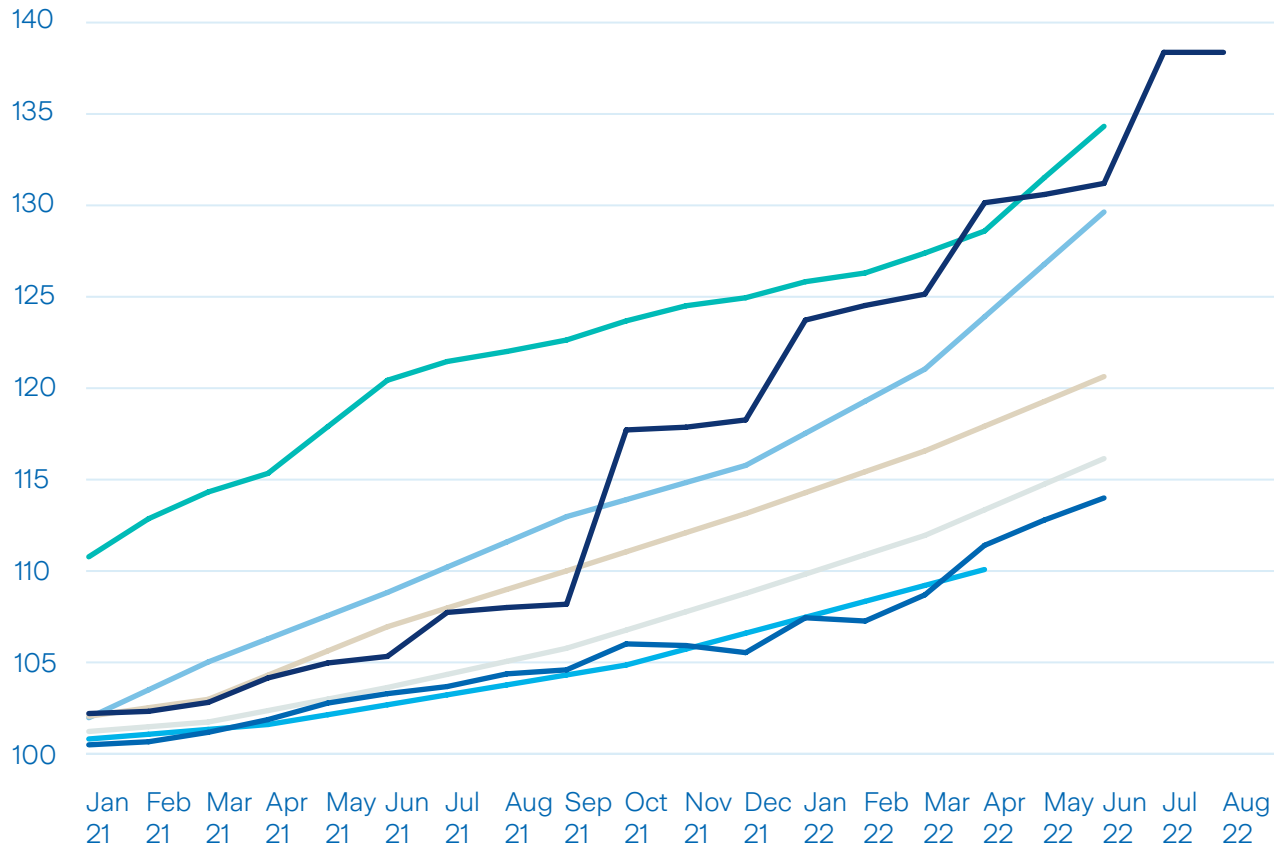


|                   | Germany | France | Italy | Switzerland | Netherlands | Belgium | Sweden | Denmark | Spain |
|-------------------|---------|--------|-------|-------------|-------------|---------|--------|---------|-------|
| 12 month increase | 19%     | 8%     | 9%    | 7%          | 4%          | 13%     | 15%    | 10%     | 16%   |

*Not actual index, current period expressed against a selected base period*

## External Construction Cost Indices

Increase relative to Base Period (2019 Q3)



|                   | US  | Canada | UK  | Germany | Australia | Switzerland | Brazil |
|-------------------|-----|--------|-----|---------|-----------|-------------|--------|
| 12 month increase | 25% | 13%    | 10% | 19%     | 12%       | 7%          | 12%    |

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*Not actual index, current period expressed against a selected base period*





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