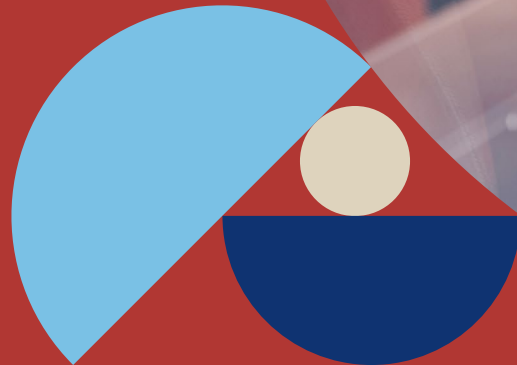


Inflation and rising prices

What inflation and
rising prices mean
for property
damage insurance





An overview for Zurich customers

Although inflation is generally falling, it is still 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

Inflation is finally falling, as we are seeing lower prices for energy, goods and food. However, it may not be falling as fast as governments would like, as the costs of services are still rising at a rapid pace. The general picture reflects imbalances in the economy, where manufacturing and construction are under pressure while the services sector has been doing well, boosted by consumers' desire to spend on leisure and travel following the pandemic and lock-down. While governments are seeing weaker inflation as good news, the level of inflation is still too high.

Annual inflation rate

Country	Inflation rate	Source
US	3.2% as at July 2023	U.S. Bureau of Labor Statistics
UK	6.4% as at July 2023	Office for National Statistics
Eurozone	5.3% as at July 2023	Eurostat
Germany	6.2% as at July 2023	DESTATIS, Statistisches Bundesamt
Switzerland	1.6% as at July 2023)	Federal Statistical Office

Central banks have continued to focus on inflation, despite other challenges and concerns, and will take a more aggressive stance if inflation continues. We are probably going to see a pause in rate hikes in some regions, as central banks will take stock to monitor the effects of earlier rises.

What does this mean for our customers?

Despite the falling inflation, it is still 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	Average of three new building construction PPIs: industrial , warehouse & office
Canada	New non-residential building construction price index
UK	Average of two new construction output price indices: pvt industrial & pvt commercial
Germany	Average of two new buildings construction price indices: industrial & office
France	Construction cost index
Italy	Construction producer prices index: non-residential buildings
Australia	Construction output price index
Switzerland	New building construction price index
Netherlands	Total new building construction price index
Belgium	Construction output price index
Spain	Construction cost index: new residential buildings
Sweden	Construction cost index for new residential buildings (including wage drift, excluding VAT)
Denmark	PPI for construction of one-family dwellings

3 Our key observations...

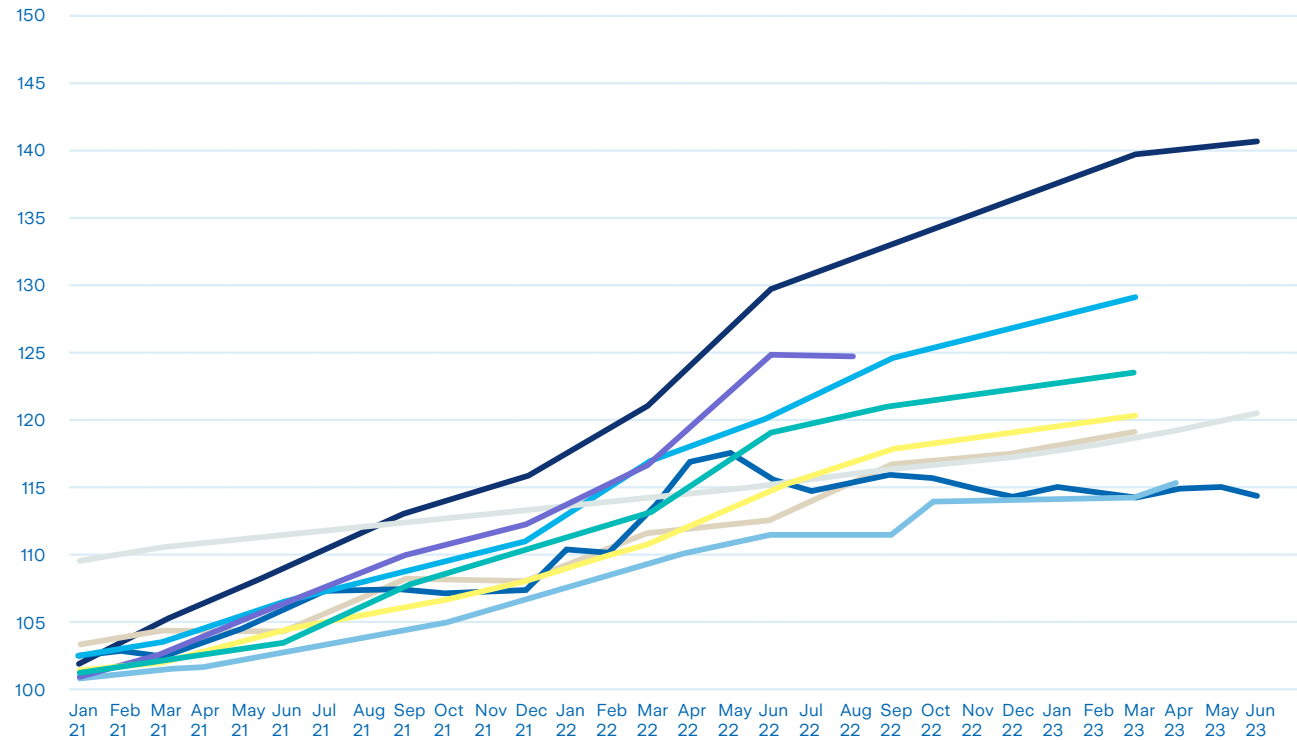
Both of the following graphs show that every country has seen rising costs over the last 12 to 18 months.

The latest data shows that while rates continue to increase, they are doing so at a lower pace.

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)



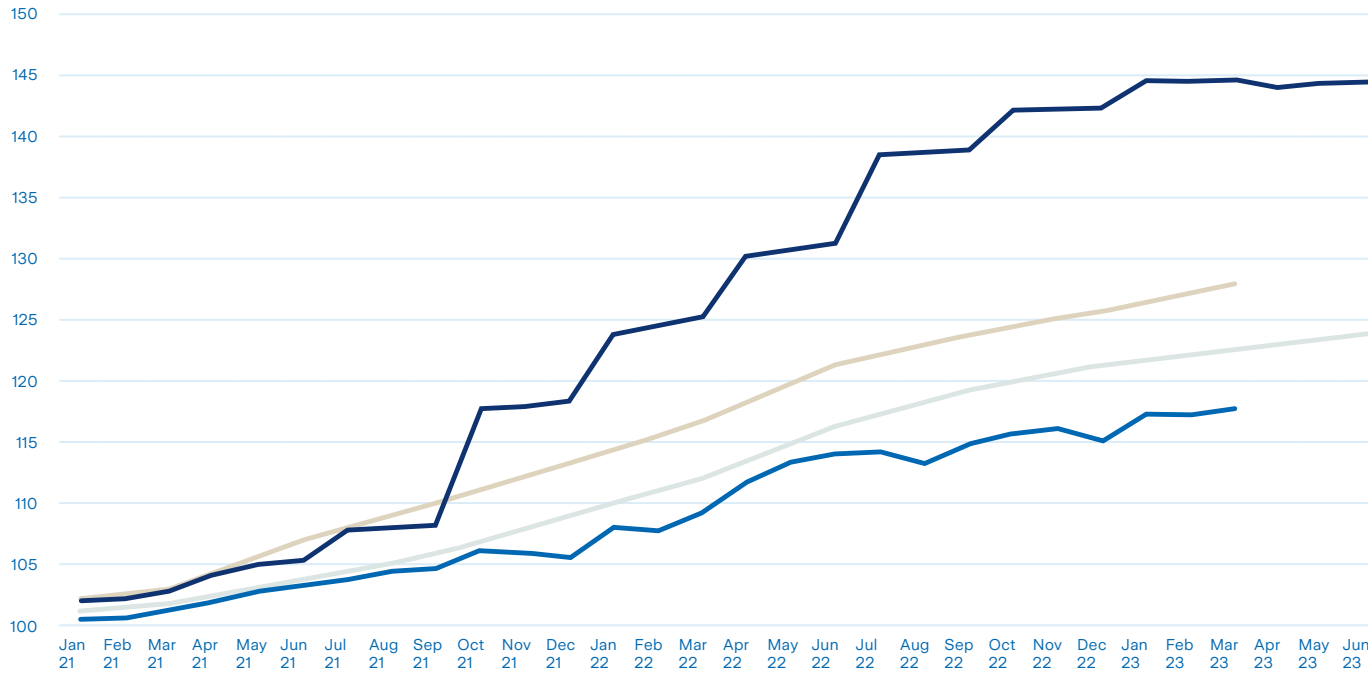
12 month increase

Germany	France	Italy	Switzerland	Netherlands	Belgium	Sweden	Denmark	Spain
9%	7%	-1%	5%	5%	11%	9%	9%	8%

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	Australia
12 month increase	10%	10%	8%	6%

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

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