



Construction Inflation & Property Insurance

For most of us, the word of the year looks like it may be **inflation**, which measures how much more expensive a set of goods and services has become over a certain period, *usually* a year. When added to the complex matrix of property insurance, it is a word that can have far-reaching implications. From a property insurance perspective, inflation's impact on construction costs in the United States, combined with *climate change* leading to more extreme weather events (winter freeze-ups, floods, convective storms, wildfires, heatwaves, and hurricanes), is adding to headwinds in an already challenging environment for property insurers and insureds alike.

While many believe we are in unprecedented times regarding inflation, history tells a different story. If we were to hop into the *Flux Capacitor* for a brief 40-year ride to 1980, most of us were watching Dallas on TV when inflation peaked at 14.6% (almost double what it is today) after back-to-back years of double-digit increases. While no one knows how long the current inflationary period will persist, developing and executing a plan to address what could prove to be challenging times from a property insurance perspective is a prudent course of action.

Figure 1: Six episodes of post-WWII inflation



Source: Federal Reserve Economic Data (FRED), Haver Analytics, CEA Calculations.

In today's property insurance marketplace, having supportable property replacement costs and all of the required secondary underwriting data will benefit your organization when negotiating property insurance terms and premiums. Sophisticated property underwriting tools and methodologies can quickly determine if a property is undervalued and/or lacks the required underwriting data to rate the exposures effectively.

CPI December 2020 to December 2021

Steel Products.....	+127.2%
Plastic Construction Products.....	+34.0%
Aluminum	+29.8%
Copper & Brass.....	+ 23.4%
Gypsum Products.....	+20.7%
Lumber & Plywood.....	+17.6%
Architectural Coatings (Paint).....	+13.9%
Concrete.....	+8.5%
Petroleum	+54.9%
Labor.....	+5.8%

Accounting for inflation's impact on the replacement cost of the property your organization insures should be prioritized annually in the current economic environment. In addition, concerns about increased property values and the impact of insurance premiums should be secondary to making sure your organization is insured to value. When looking at material and labor costs increases over the past 12 months, keeping pace to ensure your property is insured to value is challenging.

[\(See chart\) Producer Price Index Home: U.S. Bureau of Labor Statistics \(bls.gov\)](#)

If your organization has delayed addressing its property values and collecting the requisite underwriting data, consider moving these tasks to the top of your to-do list for your next property renewal. Insureds who do not have their property values and data in order not only run the risk of paying more for insurance but could also face serious financial issues if they are underinsured or unable to secure property insurance.

If your insurer has property appraisal resources, be sure your organization takes advantage of those services. Insurer-funded or endorsed appraisal programs are usually designed to generate all the information required to meet that insurer's specific underwriting standards. This enables them to extend your organization the best possible coverage terms and favorable premiums. If appraisal resources are not available to your organization, be proactive and contact your insurance professionals to determine what they require for a comprehensive underwriting submission. This will help your organization secure the best terms and premium pricing. Once you have determined what is needed, consider engaging a professional appraisal firm to assist with developing current replacement costs and collecting the requisite underwriting data.

