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# Inflation, climate change impact to residential property insurance



**Lockton has spoken with high-net-worth specialist insurers to gauge the state of the household residential insurance market in 2023, and the effect it may have on premiums.**

Fuelled by inflation, insurance rates for property and contents have risen significantly as we move into 2023 and may continue to rise throughout 2023. Awareness of claims trends and the effect of climate change and evidence of effective and consistent risk management processes are now crucial to lessen the potential increase in renewal terms.

All insurers indicated that they expect to see the cost for buildings and contents insurance rising from the early part of 2023. However, the precise extent of this increase varies depending on insurer, insurance category and claims history.

Overall, the range of the premium increase for buildings and contents is likely to be between 10% and 15% in 2023. The bulk of the increase is driven by inflation, which is adding between 9% and 14% to buildings sums insured and between 7% and 9% to contents sums insured.

## UK Consumer Prices Index including owner occupiers' housing costs (CPIH)



Source: [Office for National Statistics](#)

Inflation has taken a more prominent role in insurance pricing. In 2022 property insurance indices accounting for inflation were running at circa 7% and for contents at circa 4%.

In addition to inflation adjustments, insurers may require a further premium rate increase of between 3% and 6% to account for recent or expected losses, such as the impact of Hurricane Ian.

## The impact of inflation on insurance

Despite recent easing of global supply chain delays, insurers cite the cost of building and building materials as one of the chief factors driving the latest indexation increase. The impact of Brexit, meanwhile, continues to manifest in the higher cost of imported goods from the EU.

An ongoing labour shortage throughout the construction industry is also introducing new challenges. Insurers noted that delays in securing tradesman were adding to the complexity of claims settlement. Related factors such as an increase in alternative accommodation costs, and the growing prevalence of complex plumbing and electrical systems within contemporary homes are also having an impact. As property owners respond to rising mortgage rates by capitalising on their assets, the short-term rental market is undergoing significant growth, further driving up the volume of risk associated with such properties.

## Climate change implications

Insurers are monitoring the impact a diverse range of climatic factors is having on property risks. Recent decades have seen a notable increase in the frequency of high-risk weather events in the UK, with little expectation of future decline. Patterns of rivers bursting banks and surface water following rainstorms are changing. Flood damage is an increasing source of new claims. More than £100 million of [insurance losses](#) were experienced in the Summer of 2021, following 3 major rainfall events.

While the likelihood of major weather events taking place in the UK was seen as 1/50 years it is now perceived as a 1/25 years' event, and could go down to 1/10 years.

The risk of coastal erosion is on insurers' agendas and subsidence is also a growing concern, although much of the risk in these areas is yet to be priced in by insurers. 75% of London is built on clay. Shrinkage and swelling following long dry spells could affect building structures. Related to weather events, insurers are also closely watching the proximity of trees to properties as weather patterns change.

Furthermore, the South of England has suffered from a high incidence of wildfires in recent years, with built-up areas close to arable land bearing the highest risk. In 2022, this was reportedly akin to that observed in southern France. In July 2022, London's firefighters [reportedly](#) had their busiest day "since the Second World War" as Britain ignited on its hottest day in history.

### New claims triggers to watch

- Solar Panel fires
- Overheating of electric car chargers
- Fire risk of poorly managed biomass boilers, particularly when installed near residential areas

### Traditional claims drivers

- **Escape/ingress of water:** While water related claims are usually a matter of high severity but low frequency, they are now accounting for up to 50% of some insurers' loss profiles.

Losses are rising due to:

- High value finishes, kitchens, flooring etc.
- Increases in alternative accommodation costs, rising rental market costs and agents requiring minimum of 12 months even though remediation works might require only four months. Increased mortgages are reflecting on the rental costs.
- More expensive basement flooding losses due to higher quality of basement build. Insurers are wanting to see water flow monitors installed (shut off devices) also in secondary properties that are less often occupied.
- Most losses have been found on lower ground floor properties where there is drainage blockage with direct access to outside gardens.
- Topography of street has major impact including inadequacy of street drainage not coping, resulting in ground & lower ground claims – potential recourse starting against water companies.
- Average water damage claims are now in excess of £18,000.

The role of technology:

- Water leak detection technology and shut off devices have improved and become cheaper.
- Clients are becoming more aware of the technology available and their benefits.
- Insurers will require detection systems to be installed during renovation.
- Lack of maintenance of detectors, water pumps is causing large losses.

Theft:

- Increasing country wide aggravated burglaries, with particular interest in watch collections

### Recommendations

- Consider a revaluation of properties if you disagree with the current sums insured and there is an opportunity to mitigate the indexation increase imposed by insurers. The same applies to contents. Fine art/antiques can be classified in a separate section on most policies which can result in lower premium rate.
- Consider looking at raising your deductibles to counter the insurers' general increase in premium rate.
- Assess potential criminal and fire security improvements as this will reflect in the outcome of negotiations with insurers.
- Reassess electrical systems to obtain up to date certificates that insurers can take into account.
- Consider installing water leak detection and shut off systems when renovating properties as these can result in a 5-10% rate reduction and perform regular maintenance checks.
- Consider adding small flood defences on garden doors or stairs leading down to gardens.
- Consider installing non-return/shut off valves as part of the overall build cost when adding a basement to your property or redesigning ground and lower ground floors as a precaution against flooding risk.
- Assess all trees within proximity of your home to mitigate potential risks.

For further information, please contact your account manager

