FEEL A FINANCIAL PINCH?

Higher Replacement Costs, Higher Premiums

The more it costs to repair or rebuild your home after damage, the more it costs to protect it.

Most people are feeling this financial pinch today. By now, you may be exasperated by hearing how the cost of resources, like building materials and raw goods to fix a home is rising — especially in the wake of a natural disaster damaging your property. And you may often ask, will replacement costs become any less expensive any time soon?

The last few years of inflation and the post-pandemic reboot sent the economy into a tizzy, causing unprecedented disruptions in supply chains. However, a glimmer of hope is on the horizon—price increases this year so far are significantly less steep than in 2022. The reason is the supply chains that make goods or provide a service to help you repair your home are becoming more stable.

Still, a lot of economic data show supply chain or inflation problems aren't over yet. **Because homeowners who repair their homes experience a domino effect that begins with higher replacement costs and ends with increased insurance premiums, you must stay on top of what's happening.**

BEHIND THE SCENES

Materials prices have not moved in unison and can fluctuate, as patterns show since the start of the pandemic in 2020. Since then, general trends indicate the overall cost of construction materials, automobile components, and manufactured goods is likely to continue to increase through 2023.

Labor shortages in industries, like manufacturing, construction, and transportation are likely to persist. In fact, experts say it may worsen. These industries are increasing wages to attract workers, which increases their operational costs, and this gets passed along to customers.

HOW BAD IS IT?

- The American Trucking Association estimates the US trucking sector was **78,000 drivers short last year**
- The U.S. Bureau of Labor Statistics estimated that the U.S. **construction industry was short 412,000 workers**
- The **manufacturing sector was short 694,000 workers**, also an estimate by The U.S. Bureau of Labor Statistics

AHT INSURANCE
A BALDWIN RISK PARTNER

Overall, many businesses now have higher operational costs. And because of inflation and extreme weather events, insurance companies are no exception. Insurers are hyper-focusing on their underwriting results and zeroing in on replacement costs and an insured's asset valuations.

HIGHER REPLACEMENT COSTS, HIGHER PREMIUMS

With this economic backdrop, we hope to see stabilizing of labor shortages, material demands, and inflation over the next year so the rate increases caused by these factors become less relevant.

So, it's more expensive to rebuild and replace a home, and insurers know this. They also are feeling a financial pinch because they are left to cover greater losses. In fact, property insurer replacement costs are projected to increase between 4.5% and 6.5% in 2023.

Higher replacement costs make it difficult for insurers to properly price coverage, resulting in significant losses year over year. Traditionally, insurers look to asset valuation, which can be challenging. In a hard insurance market, it's painful for all involved — here's where carriers maintain control to obtain coverage, so expect them to zero in on the valuation of assets during the underwriting process.

WHAT NEXT?

You don't have approach this alone, especially since today's insurance market is characterized by greater underwriting scrutiny. Our experienced private risk management team can support you with navigating a hard market and understanding the underwriting process. Now more than ever, it is important that your personal risk portfolio adequately represent your tolerance for risk and desired protection for your personal assets.

Contact us to learn how we can help.