



Understanding How Inflation & Supply Chain Affects Insurance

INFLATION AND SUPPLY CHAIN ISSUES HAVE DRAMATICALLY INCREASED THE SIZE OF INSURANCE CLAIMS

The current state of the economy has had a profound effect on insurance claim payments, compared to the same type of loss just 1 or 2 years ago. In simple terms...for the exact same event, **it costs more and takes longer to repair, replace or rebuild everything compared to before.** That also means most people no longer have enough coverage for large, long or total losses. Your \$40 million building now may cost \$50 million to rebuild...even though there was no change in its market value. Your \$2 million house might cost \$2.5 to rebuild. If it took 6 months to get back in business or to get back into your home before, it will take a lot longer now.

PROPERTY: Replacement Costs are significantly higher

- Buildings & Homes cost much more to replace today compared to 1 and 2 years ago. Lumber and petroleum products (roofs) are up significantly. Every material costs more. Labor is higher and harder to get. Now imagine you are one of hundreds affected in your area from a storm or natural disaster. Each of these costs skyrocket even further due to supply and demand.
- The same machinery, contents, raw materials, inventory will all cost more to replace.
- Your Personal Property will cost more to replace.
- Business interruption losses are higher because it will likely take longer to get back up and running.
- Hotel stays are longer when damage prevents people from living in their house.

“Why are Insurance Companies looking to raise my Property’s Replacement Cost limits when it’s the same building, contents or house as before?”

AUTOMOBILE

- Anyone who has needed a repair recently knows that repairs that used to take 1-3 days, now take 1-3 months. The car rental costs are often more than the damage!
- The cost of parts and labor is higher.
- If your car is totaled, the replacement could take weeks to months. Again, the car rental is longer.

WORKERS COMPENSATION

- Most people got larger raises last year. Therefore, claims for lost wages while out of work are also higher for the same amount of time missed.

SOCIAL INFLATION

- Shifting attitudes about social injustices, trends towards social responsibility and anti-corporate sentiment, for example, have resulted in far higher jury rewards. Whereas \$1 Million was considered a large number or let's say a "unit" to multiply by...now "a unit" is \$5 or 10 million, times X. General Liability, D&O, Employment Practices and other Professional Liability lines are affected.

THE BOTTOM LINE

All clients should carefully rethink their Replacement Cost calculations and other Exposures. For the aforementioned reasons, you may not have enough coverage in certain situations.

"Car repairs that used to take 1-3 days, now take 1-3 months. The car rental costs are often more than the damage!"

"2 AM is a lousy time to find out you chose the wrong insurance broker"

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