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The Inflation Effect : How and Why Rising Inflation Impacts Commercial Insurance Premiums

Unfortunately, commercial insurance rates are not immune to the effects of inflation. In this article we discuss the numerous ways commercial insurance premiums have been impacted by the sudden and dramatic increase in interest rates that began last summer. We expect the current 'hard market' to continue as global and domestic insurers and reinsurers wrestle with higher rates and higher input costs.

Inflation and the Cost of Claims

Inflation refers to the general increase in the price of goods and services over time, which can have a significant impact on the cost of commercial insurance.

One of the main ways that inflation affects commercial insurance is by increasing the cost of claims. As the cost of goods and services goes up, the cost of replacing or repairing damaged property also increases. This can lead to higher claims payouts for insurance companies, which can in turn lead to higher premiums for policyholders.

In addition to increasing the cost of claims, inflation can also lead to higher administrative costs for insurance companies. As the cost of goods and services increases, so do the costs of running a business, such as wages and office expenses. This can lead to higher overhead costs for insurance companies, which is typically passed through in the form of higher premiums.

Inflation's Impact on Hard Assets and the Cost of Capital

Another way inflation can impact commercial insurance is by affecting the value of assets. When inflation is high, the value of assets such as real estate and investment portfolios may decrease, which can lead to lower investment returns for insurance companies. This can make it more difficult for insurance companies to maintain their financial covenants and solvency ratios which can lead them to increase their rates.

Inflation will also negatively impact commercial insurance because of the increase in the cost of capital. As inflation rises, interest rates often increase as well, which makes it more expensive for insurance companies to borrow money.

Planning for the Future

The current high inflation environment impacts commercial insurance buyers by making it more difficult for businesses to plan for the future. As the cost of goods and services increase, it can be harder for businesses to predict what their expenses will be in the future, thereby making it more difficult for them to budget for insurance coverage.

In the event of a serious loss a business may find themselves under insured due to the recent increase in building materials and services. Now is the time to review your insurance limits with your advisors in order to confirm that they have kept pace with the rise in inflation.

Conclusion

In conclusion, inflation can have a significant impact on the cost of commercial insurance. It will increase the cost of claims, administrative costs, and make it more difficult for businesses to plan for the future. All of these factors lead to higher premiums.

Commercial policyholders can mitigate some of the impact of inflation by regularly reviewing and adjusting their insurance coverage, creating an accurate budget and maintaining a risk management plan.

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About Signature Risk Partners Inc.

Signature Risk Partners Inc. offers superior commercial insurance programs for select niche industries across Canada.

Based in Toronto, Signature Risk works with global insurance experts in Canada, the United States and London, U.K. who are leaders in commercial programs, risk management and underwriting. The Signature suite of commercial programs are available across the country via independent insurance brokers.

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