Travelers BOILERRe®

6 FORCES DRIVING EQUIPMENT BREAKDOWN INSURANCE COSTS

The changing risk landscape and the impact of inflation are contributing to the rising costs of equipment breakdown coverage. Below are several factors to consider.

1. SUPPLY CHAIN DISRUPTION

Equipment repair and replacement costs are increasing due to the rising cost of goods and longer delivery times resulting from supply shortages. With equipment and parts harder to come by, increased equipment downtime can lead to shutdowns or higher interim equipment rental costs. As a result, Business Income and Extra Expense coverage claims can also increase, another contributor to the rising cost of insurance.

2. SKILLED LABOR SHORTAGE

Technological advances have increased the complexity of machinery and equipment design, which often means that more specialized technicians are required to diagnose and make repairs. Additionally, since 2020, the average number of maintenance recommendations has increased **56%**.[1] Fewer skilled workers and increased employee turnover can lead to higher equipment breakdown loss costs down the road.[2]

3. AGING INFRASTRUCTURE

As the public and private electrical infrastructure in the United States continues to age, there will be increased exposures to breakdowns. For example, aging electrical equipment can become less reliable due to degradation of insulation over time. This can lead to additional electrical line disturbances with the potential to damage large and small electrical components. In many cases, repairs to older infrastructure components are no longer permitted by modern code requirements or are otherwise not technically feasible.

4. UNDERINSURANCE

While recent inflation has driven up the costs of materials and services, only **43%** of business owners say they have increased their policy limits to accurately reflect what it would take to replace insured property now.[3] Customers must have accurate valuations for their assets so they don't come up short after a loss, and premiums will reflect those higher values.

5. CATASTROPHE LOSSES

Increased frequency and severity of extreme weather events continues to drive catastrophe losses higher. Loss or damage caused by severe thunderstorms, tornadoes, hail, floods, wildfires, hurricanes and winter storms can greatly affect electrical reliability and increase the frequency of equipment breakdown claims. Over the past five years, natural catastrophe losses have averaged about **$100 billion** globally.[4] In 2022, total insured losses globally were estimated at a staggering **$140 billion**.[5]

6. REINSURANCE

Catastrophic events are a major factor driving up the cost of reinsurance – an expense primary carriers need to pass along to customers. At the same time, inflation and the economic environment have been making reinsurers more selective.[6] In early 2023, the gap between reinsurance supply and demand was estimated at **$60 billion**, three times what it was the previous fall.[7] Equipment breakdown, included in certain property reinsurance programs, follows the same trend, leading to higher costs for both treaty and facultative reinsurance.

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[1] Travelers Risk Control Data: Boiler & Machinery Inspections, 1/1/2014 – 3/15/2020 vs. 7/1/2021 – 12/31/2022. [2] Workforce Survey Analysis, 2021. Associated General Contractors of America (AGC). [3] Selective Insurance Group, Inc. (2022, May 10). Selective Insurance Study Finds Less Than Half of Business Owners Have Increased Insurance Limits to Account for Inflation. The Harris Poll. [4] Moody's Investors Service. (2023, January 10). Reinsurers defend against rising tide of natural catastrophe losses, for now. Moody's. [5] Gallin, L. (2023, Jan. 30). Global insured losses from natural catastrophes in 2022 seen at $140bn by Gallagher Re. Reinsurance News. [6] Monaghan, J. (2023, January). Reinsurance Market Dynamics. Aon. [7] Evans, S. (2002, Dec. 29). Renewals: Some elevated appetites seen, but property cat gap writ large. Artemis.

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