

6

FORCES DRIVING EQUIPMENT BREAKDOWN INSURANCE COSTS

The changing risk landscape has put increased financial pressure on insurance carriers, which is contributing to the rising cost of equipment breakdown coverage. The driving forces are explained here.



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, particularly for electrical equipment such as transformers, 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.



5. EXTREME WEATHER EVENTS

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 for equipment such as air conditioners and generators. In the last four years, these events have caused annual insured losses of more than \$100 billion globally.⁴ In 2023, total insured losses globally were an overwhelming \$118 billion.⁵ Severe convective storms (SCS) represented **58%** of the losses globally, and in the U.S., six of the 10 most expensive events were SCS events.⁶



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. In fact, **69%** of employers struggle to fill positions requiring technical skills such as maintenance. Additionally, since 2020, the average number of maintenance recommendations has increased **54%**.¹ Fewer skilled workers and increased employee turnover can lead to higher equipment breakdown loss costs down the road.²



6. REINSURANCE

Although reinsurance capacity improved in 2023 and into 2024, the cost of available reinsurance capacity remains high. The continued impact of catastrophic events is a major factor driving up costs, along with the increasing cost of capital, financial market volatility and inflation. This is an expense carriers need to pass along to customers. Equipment breakdown, included in certain property reinsurance programs, follows the same trend, leading to higher costs for both treaty and facultative reinsurance.



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

After years of increased material and labor costs, insured property replacement values continue to lag.³ Just **43%** of business owners say they have increased their policy limits to accurately reflect what it would take to replace insured property now, for both their building contents and business income so they don't come up short after a loss, and premiums will reflect those higher values.

Contact your Travelers BoilerRe representative today.

¹Travelers Risk Control Data: Boiler & Machinery Inspections, 2020 vs. 2023.

²Workforce Survey Analysis, 2021, Associated General Contractors of America (AGC).

³Moody's Investors Service, (2023, January 10). Reinsurers defend against rising tide of natural catastrophe losses, for now. Moody's.

⁴<https://www.climate.gov/news-features/blogs/beyond-data/2023-historic-year-us-billion-dollar-weather-and-climate-disasters#:~:text=In%202023%2C%20the%20United%20States,2023%20disasters%20totalled%20%2492.9%20billion>

⁵<https://www.prnewswire.com/news-releases/number-of-billion-dollar-disasters-in-2023-highest-on-record-aon-report-302042061.html>

⁶<https://www.reinsurancene.ws/insured-nat-cat-losses-hit-123bn-in-record-setting-2023-gallagher-re/>