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# How Inflation Is Reshaping Energy Insurance Claims

and What the Industry Can Do About It

Inflation is a pervasive economic force that erodes purchasing power and distorts cost structures across all industries. For the energy sector — encompassing upstream oil and gas, midstream transportation, downstream refining and renewable power — its impact extends deeply into risk management and insurance. The sector’s capital-intensive nature, reliance on global supply chains, and exposure to complex physical assets make it particularly vulnerable to claims inflation. This phenomenon refers to the rise in the cost of insurance claims that outpaces general price indices, driven by specific factors like soaring material costs, skilled labor shortages and protracted supply chain delays.

This article examines the multifaceted impact of inflation on energy industry insurance claims. It details the direct and indirect consequences for insurers, insureds, and reinsurers and outlines a suite of strategic and operational solutions to mitigate these mounting pressures.



# 1 The Anatomy of Inflation's Impact on Energy Claims

The effect of inflation on energy insurance is not uniform but manifests through several critical channels, amplifying both the severity and complexity of claims.

## 1.1. Escalation of Repair, Replacement and Business Interruption Costs

Energy assets, from offshore platforms to wind turbines and refineries, require specialized materials (e.g., high-grade steel and composite blades) and highly skilled labor for repair. Global inflationary pressures have significantly increased these costs. When a loss occurs, the time required to procure materials and secure contractors has lengthened due to supply chain disruptions, thereby extending business interruption periods and exponentially increasing the total claim value.

## 1.2. Underinsurance and Adequacy of Sums Insured

Many energy asset values were set during periods of lower inflation. As replacement costs climb, previously adequate policy limits can quickly become insufficient, leading to underinsurance. In the event of a loss, coinsurance clauses may then be triggered, leaving the policyholder to bear a proportionate share of the loss. Insurers are now intensely focused on “the adequacy of sums insured and supply chain risks.” Failure to regularly update valuations creates a fundamental mismatch between the risk exposure and the coverage purchased.

## 1.3. Complications in Claims Reserving and Settlement

Inflation introduces significant uncertainty into the claims reserving process. Reserves set at the outset of a long-tail claim (common in major construction or liability losses) may prove grossly inadequate years later when the claim is finally settled. This “under-reserving” poses a direct threat to insurer profitability and balance sheet strength. Furthermore, rising costs can lead to disputes between primary insurers and their excess-of-loss reinsurers over attachment points and allocation of loss, complicating and delaying settlements.

## 1.4. Increased Frequency of Constructive Total Loss (CTL) Scenarios

An asset vessel is declared a constructive total loss when the cost of repair exceeds its insured value. With repair costs soaring, more incidents are likely to cross this threshold. This creates complex legal and procedural challenges, particularly if the CTL is declared long after the initial incident, raising questions about the validity of notices of abandonment and the causality of cost increases.

## 1.5. Pressures on Casualty and Liability Lines

Inflation is not confined to property damage. The energy casualty market, especially auto liability (AL) and general liability (GL), is experiencing pronounced claims inflation. This is driven by rising medical costs, higher litigation expenses and so-called social inflation — broader societal trends leading to larger jury awards. The excess liability market is similarly impacted, causing carriers to reduce capacity and impose more conservative terms.





## 2 Strategic Solutions for Mitigating Inflationary Risk

Combating claims inflation requires a proactive, multi-layered approach involving insurers, brokers and risk managers within energy companies.

### 2.1. Rigorous and Regular Asset Valuation Updates

The cornerstone of inflation defense is accurate asset valuation. Energy companies must institute, frequent (e.g., annual) revaluations of key assets, using independent appraisers who account for current replacement costs, regional construction inflation indices and logistical challenges. This practice is increasingly expected by the insurance market.

### 2.2. Policy Design Enhancements

- **Indexation/Inflation Guard Clauses:** Policies should include clauses that automatically adjust sums insured (and potentially limits) in line with a relevant industry-specific index (e.g., construction cost index for property and a medical cost index for liability).
- **Agreed Value and Functional Replacement Cost Provisions:** Moving away from actual cash value to agreed value or functional replacement cost coverage can provide greater certainty and avoid underinsurance disputes.
- **Review of Sublimits and Deductibles:** All policy sublimits (for BI, debris removal, etc.) and deductibles must be critically reviewed and **scaled up to remain meaningful and effective under inflated cost conditions.**

### 2.3. Strengthening Supply Chain Resilience and Claims Management

- **Pre-Negotiated Repair Agreements:** Establishing preferred vendor agreements with vetted contractors can lock in pricing tiers and ensure priority scheduling following a loss.

- **Strategic Spare Parts Inventory:** For critical components with long lead times, maintaining a strategic inventory can drastically reduce downtime. Identify the potential downtime and lead time for all important pieces of equipment. Know the daily business-interruption value the part represents.
- **Advanced Claims Scoping and Validation:** As outlined in claims management literature, controlling costs requires “defining clear scopes, separating mitigation from restoration, engaging appropriately certified professionals and challenging both methodologies and costs.” Implementing rigorous scope and cost validation teams is essential.

### 2.4. Exploring Alternative Risk Transfer (ART) Mechanisms

- **Parametric insurance:** For perils like hurricanes or earthquakes, parametric triggers based on independent indices (e.g., wind speed or seismic activity) with pre-agreed recovery amounts can provide swift, inflation-agnostic payouts, bypassing lengthy loss adjustment processes.
- **Captives and Finite Risk Programs:** For large, sophisticated energy players, captives allow for direct retention of inflationary risk and can be funded with investments that may hedge against inflation.
- **Insurance-Linked Securities (ILS):** Transferring risk to capital markets through catastrophe bonds or industry loss warranties can provide capacity that is less directly sensitive to traditional claims inflation cycles.

### 2.5. Contractual and Operational Risk Engineering

- **Contractual Risk Allocation:** Reviewing and tightening indemnity, limitation of liability and insurance requirements in contracts with contractors, suppliers and off-takers can prevent cost creep from being absorbed unnecessarily.
- **Enhanced Risk Engineering and Prevention:** Investing in predictive maintenance, digital twins, drone inspections and advanced safety programs can reduce the frequency and severity of losses, offering the most fundamental defense against rising claims costs.



Inflation has fundamentally altered the energy insurance landscape, transforming claims from straightforward indemnification events into complex financial challenges. The combined pressures of soaring material/labor costs, supply chain fragility and social inflation are driving claim severities upward, testing policy limits and straining the insurer-insured relationship.

Navigating this environment is not optional; it is a critical component of resilience. The path forward requires a disciplined, collaborative strategy. Energy risk managers must partner with their brokers and insurers to ensure valuations are current, policy wordings are robust and supply chains are resilient. Insurers, in turn, must refine their pricing models and claims handling protocols, and offer innovative products like parametric covers.

By adopting the solutions outlined — from technical fixes like indexation clauses to strategic shifts toward alternative risk transfer — the energy industry can build a more effective risk management framework capable of weathering the ongoing storm of inflation.

