

Brace for Impact: Motor Claims Inflation Reaccelerates



The specialist
motor insurer



Introduction

Motor claims inflation has traditionally tracked above Consumer Price Index (CPI) and remains one of the most acute pressures facing the UK retail insurance market. Inflation rose exponentially post-COVID but had begun to stabilise over the last 12 months as disruption to the supply chain eased and market conditions began to normalise. In the UK retail motor market, the average private car insurance premiums dropped by 10% during 2025 as the market priced in expected claims severity and frequency benefits ahead of their full realisation.

However, motor inflation is highly susceptible to economic shocks with the supply chain remaining vulnerable and dependent on geo-political stability. In recent months we have seen issues relating to production of semi-conductors, and the impact from the licencing of rare earth materials, which are used in Electric Vehicle (EV) batteries and other parts. Those issues have largely improved through political solutions with no extraordinary impact on pricing.



The recent conflict in Iran has already caused oil and energy prices to rise significantly with the International Energy Agency predicting that the energy shock will be greater than all previous oil crises combined. The attack on the Qatari Liquid Natural Gas facility will take 3 to 5 years to repair and is so significant that it is expected to elevate global gas prices into the medium term regardless of how quickly the current conflict is resolved.

We consider the Iran conflict will have a profound impact on claims inflation and now expect that to be between 8 and 10% in 2026. This may deteriorate further depending on the duration of the conflict and the nature of any agreement to re-open the Strait of Hormuz.

Declan O'Mahony

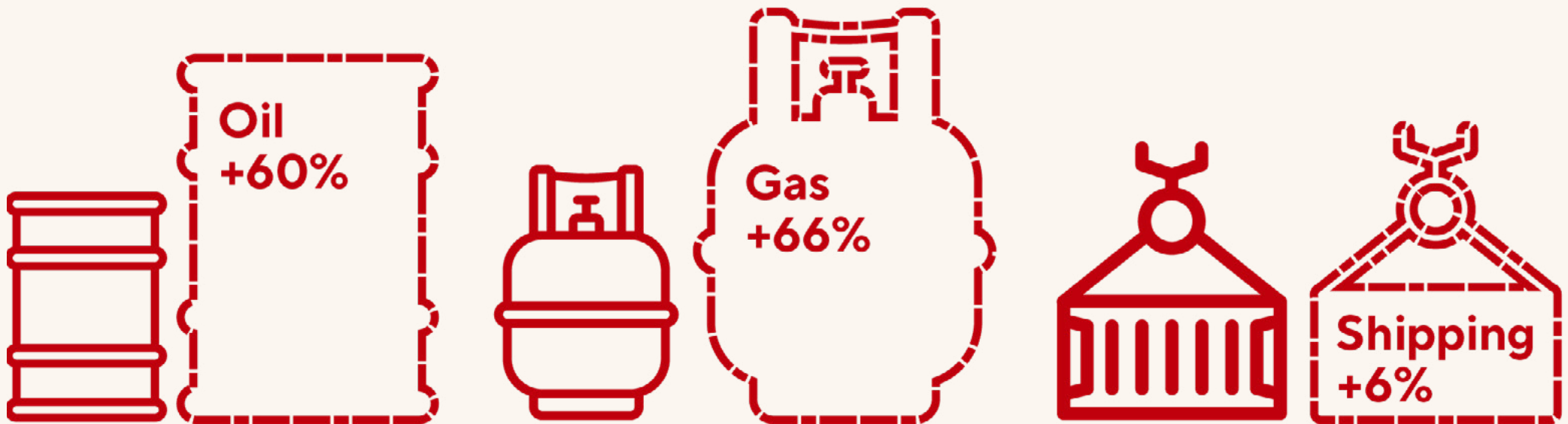
Declan O'Mahony

Head of Claims

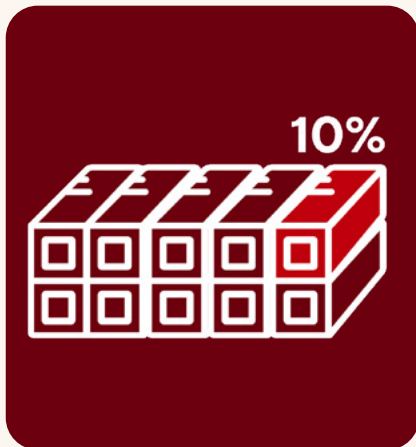
New car production and prices

Oil prices have increased by 60%, gas by 66% and shipping by 6% since the start of the conflict with the closure of the Strait of Hormuz and infrastructure attacks in Qatar likely to have long term consequences.

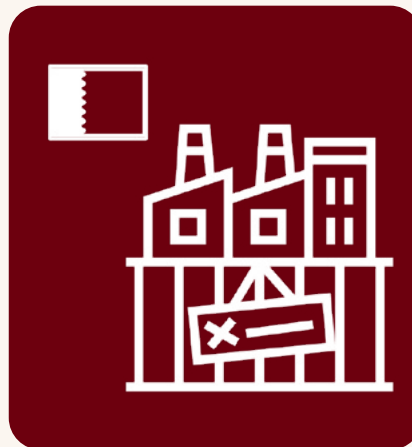
The increase in energy prices will impact every stage of manufacturing and distribution processes and, since they are uniform in application, we expect them to be passed onto the customer. We have already seen steel manufacturers impose surcharges of 30% to cover additional costs.



Outside of energy costs, one of the areas of greatest concern for vehicle manufacturing costs is the potential disruption to the supply of aluminium. This is used in the body and suspension components of most vehicles.



The Gulf States currently account for nearly 10% of global aluminium production.



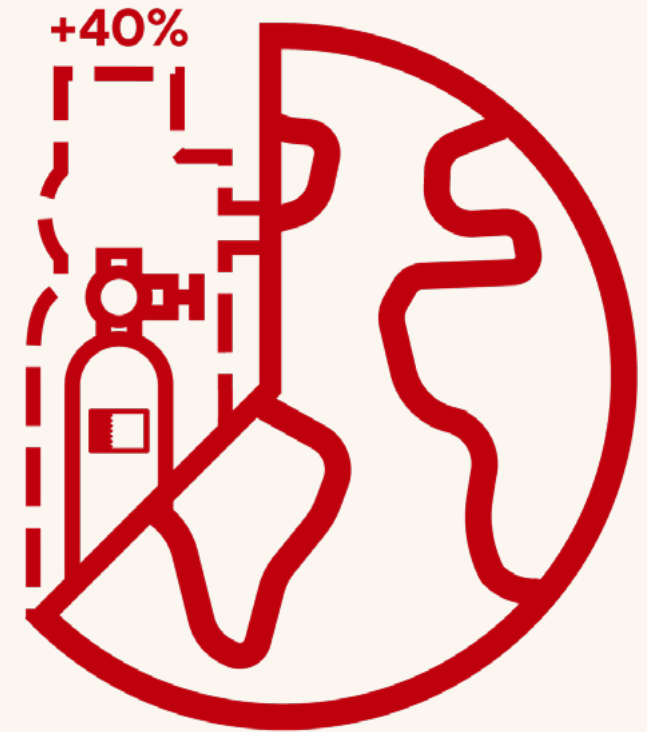
The recent attack on energy infrastructure in Qatar resulted in a closing down of some aluminium production with capacity now curtailed.



Aluminium prices has increased and remain 30% above pre-conflict levels along with the cost of polypropylene which is used in the manufacture of parts including bumpers and trims and is directly affected by the cost of oil.

Qatar also produces one third of the worlds helium which is essential to produce of microchips. Following the outbreak of the conflict, the price of helium rose by 40% due to disruption to Qatari production. The increased cost of helium will almost certainly lead to an increase in the cost of producing microchips. There is no doubt that demand for microchips is increasing across the industry, due to the proliferation of Advanced Driver Assistance Systems (ADAS) and electronic controls within vehicles. Although there is no evidence the inventory of microchips is close to exhaustion, manufacturers will be watching this closely, given the impact of a reduction of supply on new vehicle production observed after the start of the Russia - Ukraine war.

Production schedules will change in response to the increased cost and reduced availability of raw materials and to reflect the inevitable weakening in consumer confidence. We have already seen manufacturers, including Toyota, cutting production due to shipping and energy risks linked to the Iran conflict. If manufacturers begin to operate in concert, altering new vehicle output, this would significantly impact the second-hand car market.



Summary

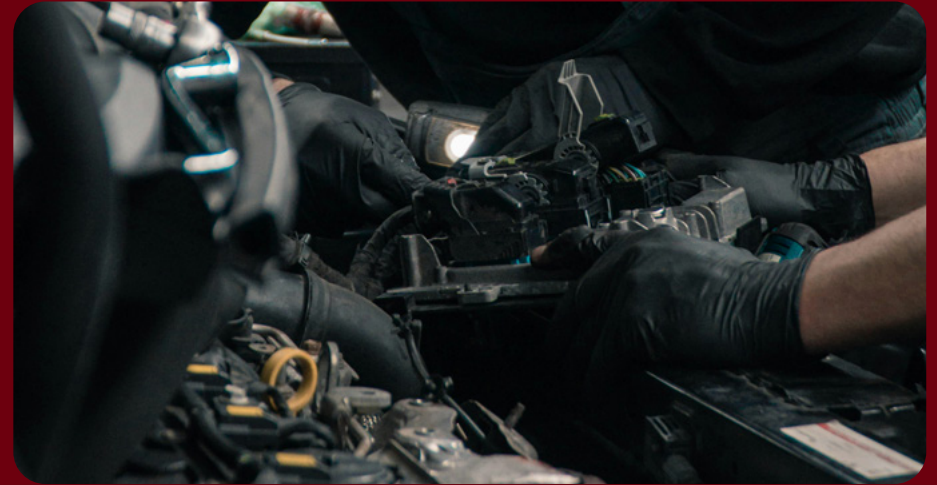
In the short term, we would expect manufacturers to try and absorb increased energy costs through reduced margins, but that is not a sustainable medium-term position and our view is those costs will be passed on through higher pricing.

Impact on total loss

Higher manufacturing costs will impact total loss values once passed on.



Fuel price rises may accelerate the conversion to electric vehicles which the government has long sought, with demand increasing since the conflict began and customers increasingly viewing battery power as a safeguard against the volatility of future shocks. However, electric vehicles are more expensive than internal combustion vehicles, and any acceleration of demand will result in a corresponding impact on claims settlement values.

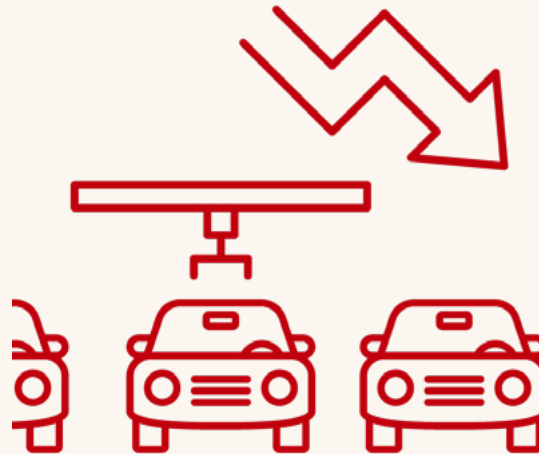


Parts supply will be impacted as costs rise, production schedules will be altered and manufacturers will prioritise the supply of new vehicles. Where parts prove to be unattainable within a reasonable period, there will be a higher incidence of total loss settlements as insurer's look to protect customers from the paralysis caused by industry delays. Assuming this position eventuates, claims severity will be impacted with total loss claims becoming more expensive than repair.

Second Hand car prices



Post-COVID, second-hand car prices increased by around 30% as Fleet operators and private consumers looked to the second-hand car market to fill the void created by the reduction in the manufacture of new vehicles. Despite some rebalancing of pricing as new car production increased, second-hand car values remain significantly above pre-COVID levels.



The market conditions are different, but it is reasonable to assume the increased costs of delivery and reduction in the supply of raw materials will impact new car production and re-orientate demand into the second-hand car market. This will inevitably heap pressure onto the second-hand car market where vehicles were already increasing in value as the reduction in supply post covid impacts availability.



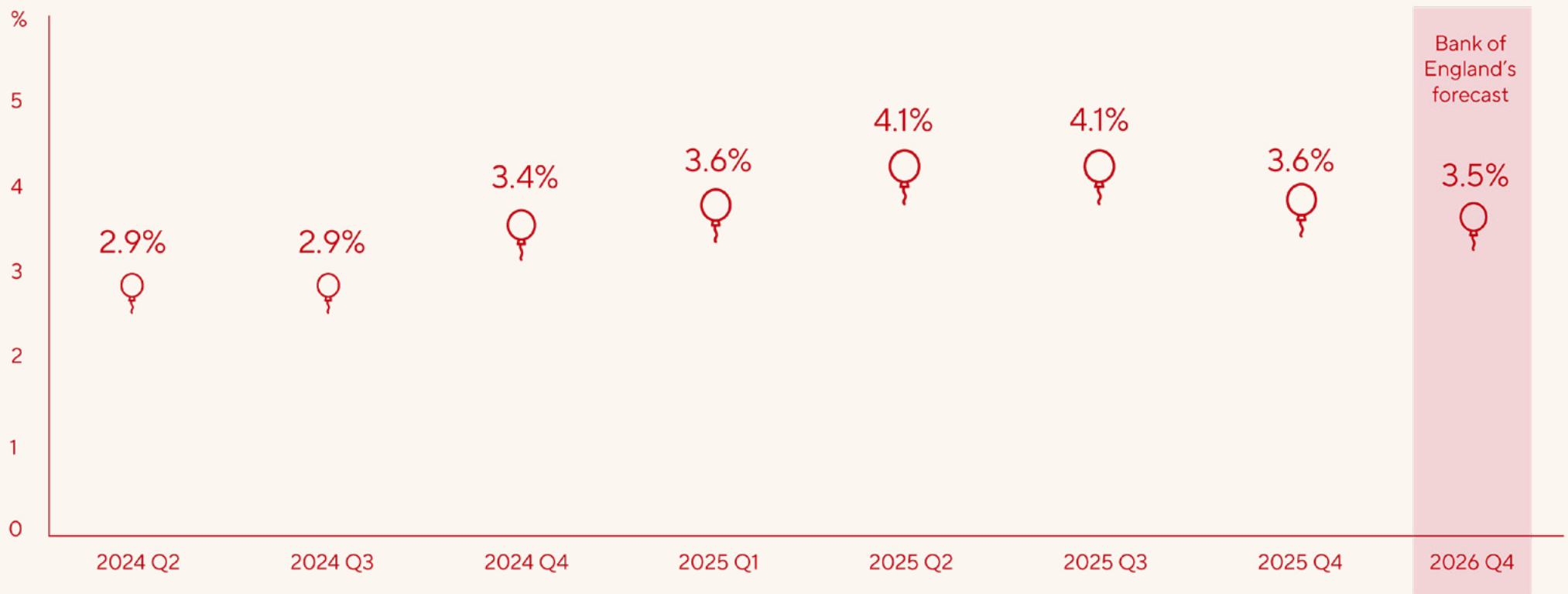
Correlating to the reduced demand for new vehicles, we would also expect to see an increase in demand for second-hand cars driven by changing consumer sentiment on the economy.

Repair impact

CPI inflation has remained sticky post-COVID with the Bank of England forecasting it will now increase to 3.5% in Q4 2026 before falling back during 2027. However, it is worth pointing out historic forecasts have generally erred on the side of optimism.

We expect CPI inflation to flow through into wages with the cost passed onto consumers as the repair industry targets the retention of skilled workers as it resets to the complexity of repairing electrified vehicles.

CPI ANNUAL RATE



Rising fuel costs



Rising fuel costs will impact the cost of parts including glass, materials and lubricants. The increased cost of freight and operations and are also expected to be passed on. The National Body Repair Association has already recommended a £35 charge added as an extraordinary item to repair bills to cover energy costs.

Supply of parts



Post-COVID, the 'just in case' model for parts acquisition unravelled but it has largely reconfigured in similar shape. However, the uncertainty of inventories means there is a high risk the market will still experience delays in procuring parts into the future.

Delays in delivery



Delays in the delivery of parts and consumables will inevitably result in poorer customer outcomes with increased lead and repair times along with a higher risk of re-scheduling of jobs when parts deliveries fail to materialise. Consequently, complaints are likely to rise, adding to the cost of claims.

Credit Hire

For the reasons set out previously, high energy prices coupled with supply chain delays will lead to an increase in parts lead times and repair delays, resulting in longer hire durations and increased credit hire costs. Post-COVID, and during the semi-conductor shortage, the length of rental increased by over 50% caused by the disruption to the supply chain.

Whilst we do not expect to see a similar outcome in the short term, there is every reason to believe the length of hire will be materially impacted and that impact will increase the longer the current crisis endures.

+50%



Wage inflation

Despite the Bank of England's forecasts, we believe that wage inflation will be closer to 4.2% in 2026. This will impact operating costs across the UK supply chain and increase the cost of care provision in large injury claims where care makes up the most significant component of future losses.



Conclusion

The entire motor supply chain will be impacted by the current Iran war which is likely to have a significant impact on claims inflation. Although efforts have been made to diversify some aspects of the supply chain since the Russia – Ukraine war, those efforts are likely to have only a small impact in offsetting the considerable inflationary challenges facing the industry because of the current conflict.

Before the Iran war unfolded, consultancy firm EY predicted the UK motor market was likely to run at a loss with an average combined operating ratio of 110%. We consider those predictions will prove to be optimistic due to the impact of claims inflation which we are forecasting will run close to double digits for 2026, providing there is no wider degradation to infrastructure.

The longer the conflict endures the greater the risk of a higher inflationary impact extending into future years.



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