

REINSTATEMENT COSTS IN 2026: what insurance professionals need to know

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THE PANEL



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AGENDA

Reinstatement costs in 2026: what insurance professionals need to know

- What's driving reinstatement cost movement?
- What causes underinsurance, how does it fall through the cracks, and what are the consequences?
- How can indexation/index-linking help, and when can it be problematic?
- Reinstatement costs and carbon: what do insurance professionals need to be aware of in 2026?
- What are the challenges of communicating these key issues to clients/customers, and what practical guidance can BCIS offer?
- Q&A

RISK PERCEPTION

How do different parties consider the sum insured?

- “What can I reasonably pay?”
- “What will stand up if there’s a dispute?”
- “What is the true liability we’re taking on?”
- “What happens when this number meets reality?”
- “How does this risk stack up across the book?”
- “What would it genuinely cost to rebuild this?”
- “Is the security protected if something goes wrong?”
- “Is this process producing foreseeable harm?”



KEY DRIVERS OF REINSTATEMENT COSTS

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Rebuilding costs for insurance purposes refer to the costs of:

- Demolishing and clearing away the existing structures including substructures
- Rebuilding the structures to the original design
- Rebuilding to a standard equal to the existing property, and in accordance with current Building Regulations and other statutory requirements

Includes:

- Temporarily making safe the damaged or adjoining structure
- Professional fees payable in connection with the rebuilding of the property
- VAT where applicable (professional fees and for works not directly connected to the use of the dwelling)

KEY DRIVERS OF REINSTATEMENT COSTS

BCIS ProtX package includes:

- Residential Rebuild
 - Based on cost models – over 1,200 dwellings and 650 ancillary models
 - Priced using current input costs – more than 12,500 supply prices, labour, plant and specialist rates
 - Adjusted for market conditions
 - Costs reflect current design practice, modern methods and materials with allowances for period features
 - Includes demolition costs, supporting adjoining structures and fees
 - Responds immediately to changes in statutory regulations
- Non-Residential – Average prices
 - Based on analysed accepted tenders received from the industry - over 30,000 analysed projects
 - Represent average costs of building similar facilities
 - Costs reflect current design practice, modern methods and materials
 - Lag in reflecting effect of regulatory changes
 - BCIS All-in Tender Price Index also commonly used in reinstatement cost assessments

KEY DRIVERS OF REINSTATEMENT COSTS

Current and future drivers

- Elevated materials costs
- Labour market pressures
- Demand pressures from retrofit and energy-efficiency work
- Regulatory and compliance uplift
- Growth of specialist and proprietary building systems
- Rising preliminaries, plant and professional fees
- Climate-related severity and complexity of damage

KEY DRIVERS OF REINSTATEMENT COSTS

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£95 million budget increase and delayed completion

KEY DRIVERS OF REINSTATEMENT COSTS

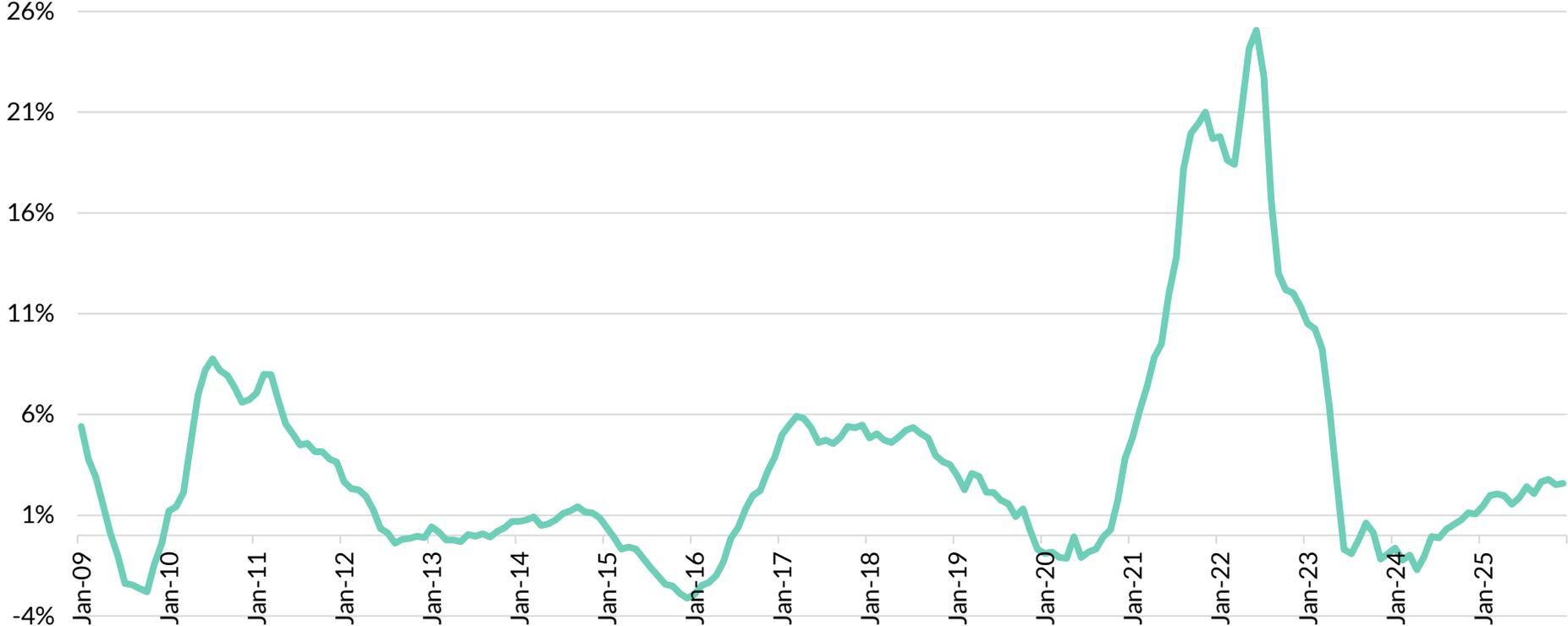
Issues cited:

- Pandemic
- Volatile economic climate
- War in Ukraine
- Unprecedented materials and labour cost inflation
- Shortage of specialist labour capacity in the supply chain
- Cost of labour growing at 4-6% since October 2024
- Three contractors on project have gone into administration in the last six months
- Ongoing discovery of construction challenges
- Minor obstructions and quirks from the original Victorian build
- Issues with the supply of materials (which under strict heritage rules need to closely match)
- Quarry from which approved stone being sourced ceasing to supply construction industry in bulk – caused delay as alternative source found
- Delay to one element has knock-on impact on many others

KEY DRIVERS OF REINSTATEMENT COSTS

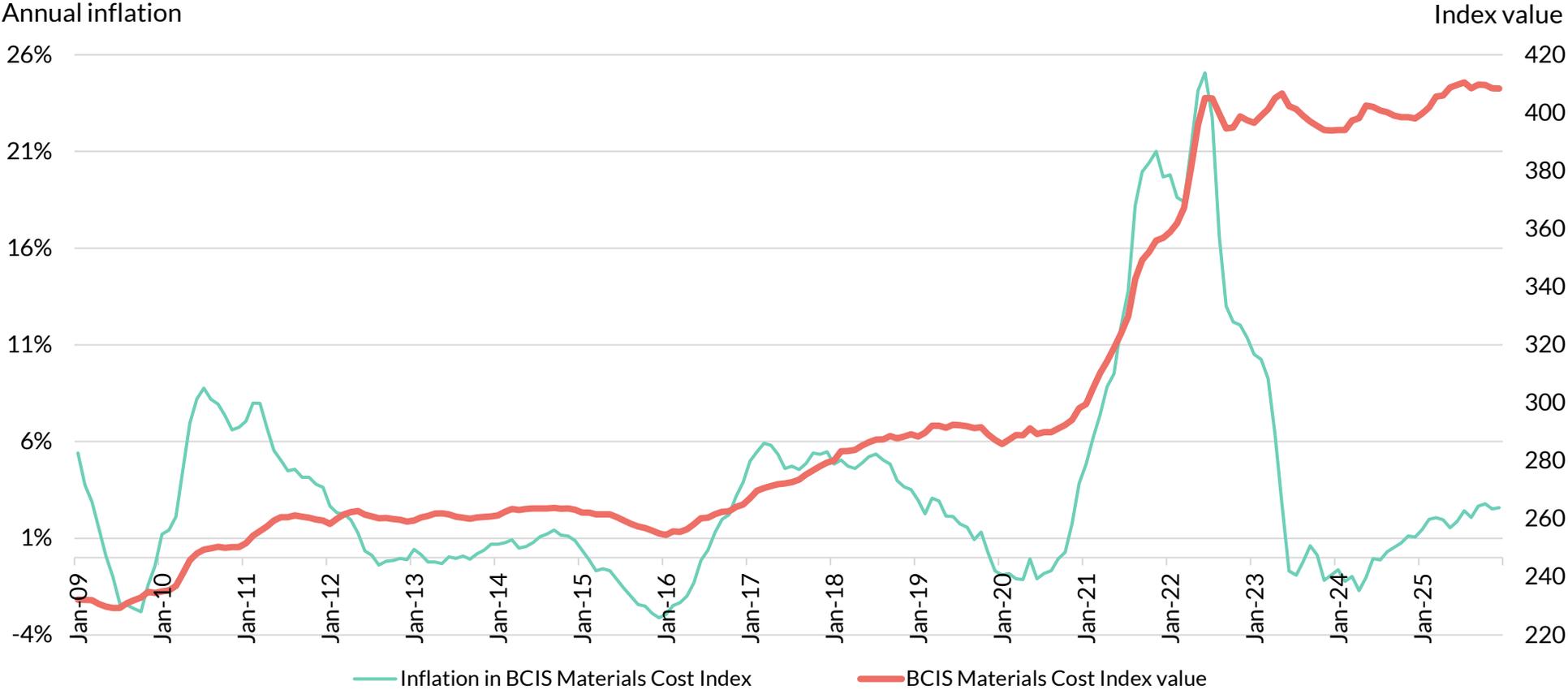
BCIS Materials Cost Index

Annual inflation



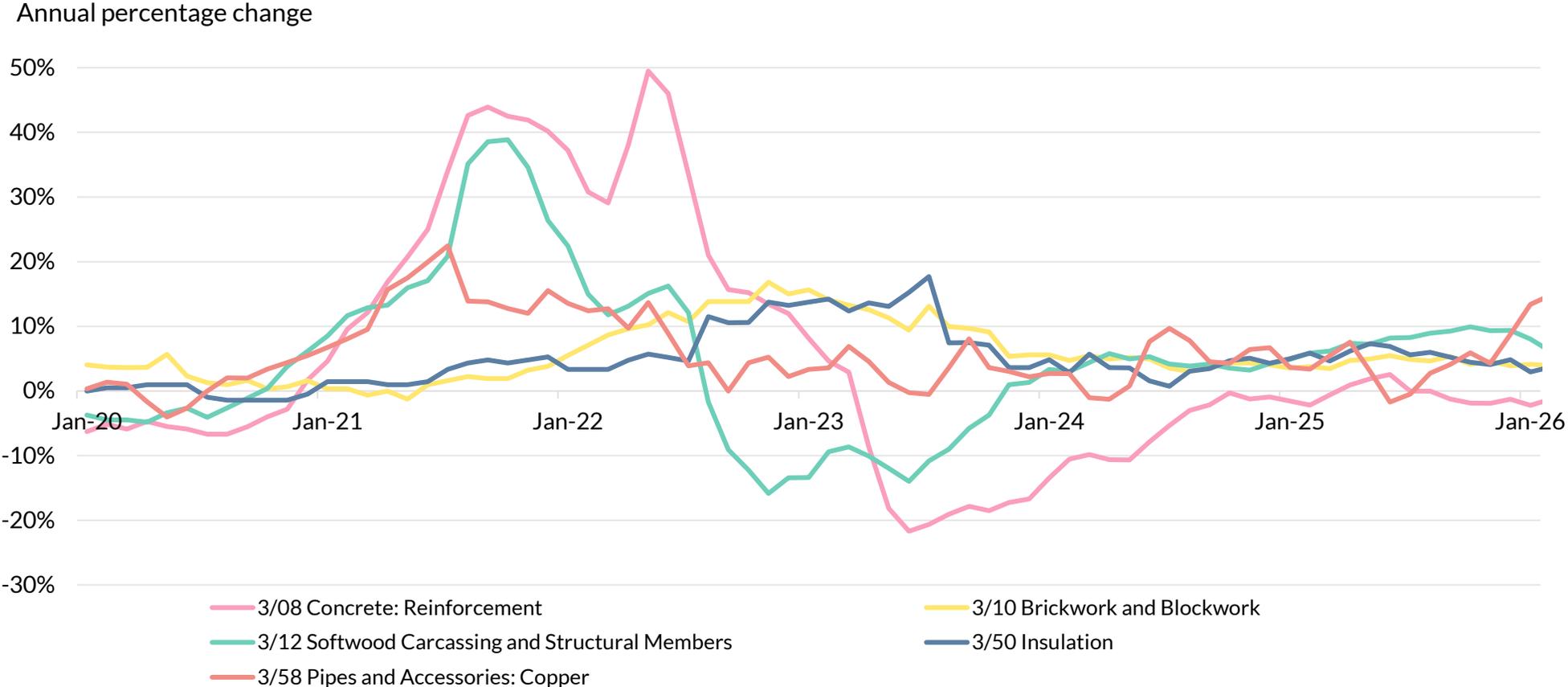
KEY DRIVERS OF REINSTATEMENT COSTS

BCIS Materials Cost Index



KEY DRIVERS OF REINSTATEMENT COSTS

Inflation in BCIS Price Adjustment Formulae Indices (Building) Series 3 work categories



KEY DRIVERS OF REINSTATEMENT COSTS

Price Adjustment Formulae Indices (Building) Series 3 indices with >10% annual movement

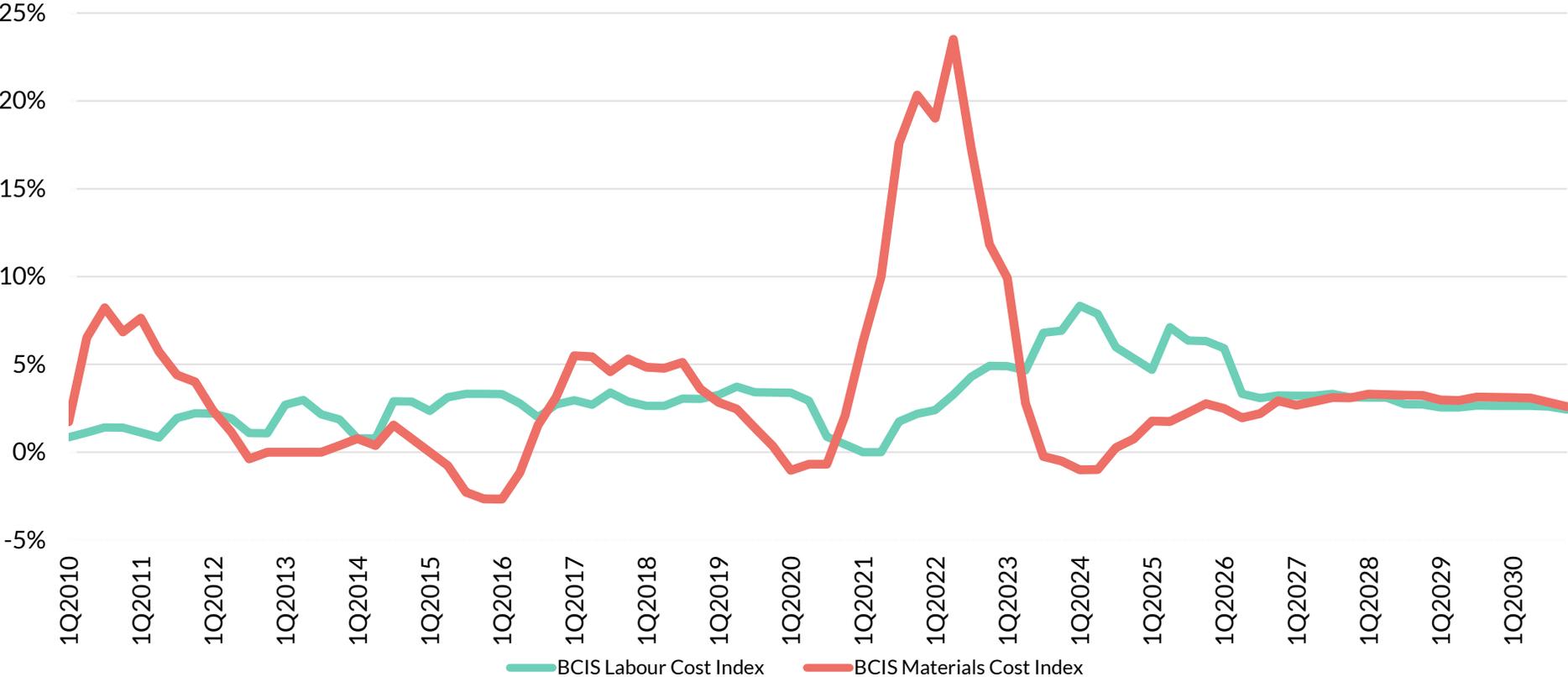
PAFI index	Peak inflation in last 12 months	Data status
3/23 Cladding and Covering: Copper	14.7%	Provisional
3/24 Cladding and Covering: Zinc	12.1%	Firm
3/38 Windows and Doors: Aluminium	13.3%	Firm
3/58 Pipes and Accessories: Copper	13.4%	Provisional
App/2 Scaffolding: Materials Only	16.2%	Firm

39 x indices with >5% annual movement

KEY DRIVERS OF REINSTATEMENT COSTS

BCIS 5-year forecasts of labour and materials cost inflation

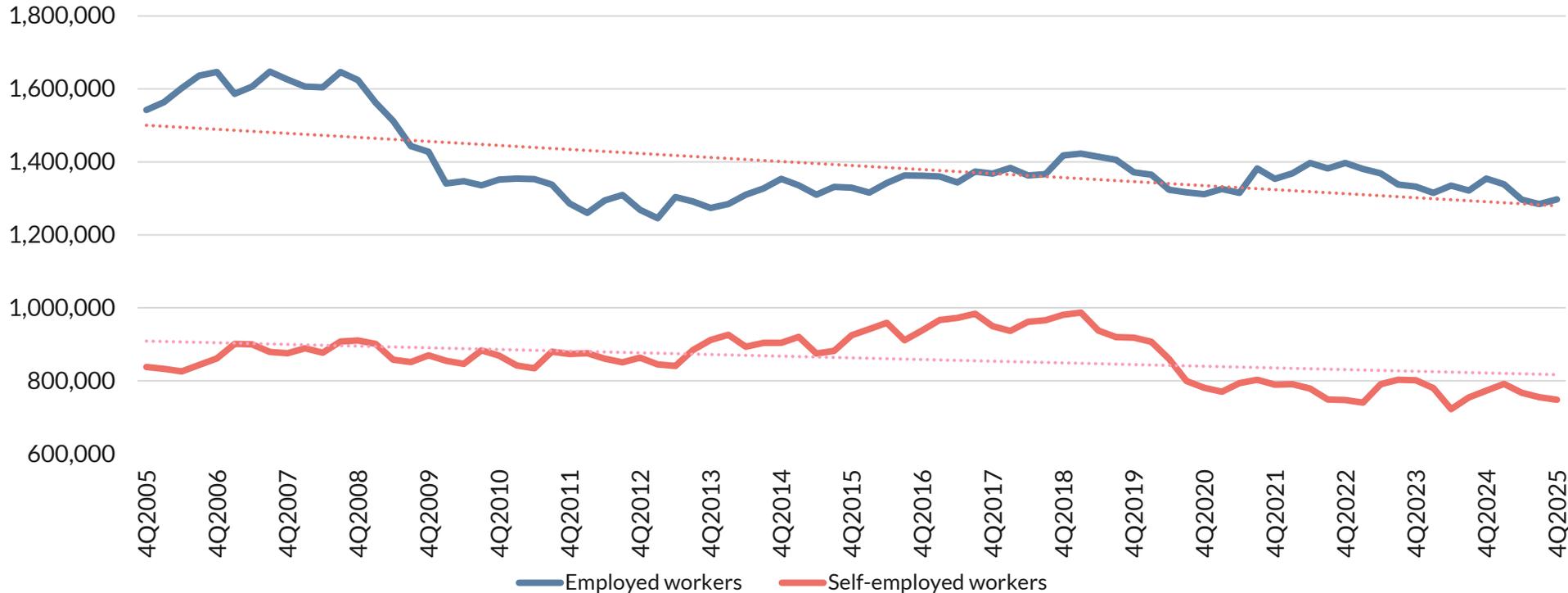
Annual percentage change, as at 4Q2025



KEY DRIVERS OF REINSTATEMENT COSTS

The total UK construction workforce has declined by more than 300,000 workers in the last 20 years

Estimated number of employed and self-employed workers, not seasonally adjusted



KEY DRIVERS OF REINSTATEMENT COSTS

Analysis of responses provided by the BCIS Tender Price Index Panel

- On contracts where the contractor is required to declare Profit and Overheads, what is the current average expressed as a percentage of the contract sum to which it applies?
 - Mean % reported quarterly from 1Q2022 to 4Q2025 ranged between 5.1% and 5.7%
 - BCIS All-in Tender Price Index increased by 16.6% between 1Q2022 and 4Q2025

KEY DRIVERS OF REINSTATEMENT COSTS

Key issues in 2026

- Positive signs of growth – push up inflation
- Stabilisation of input costs
- Shrinking workforce

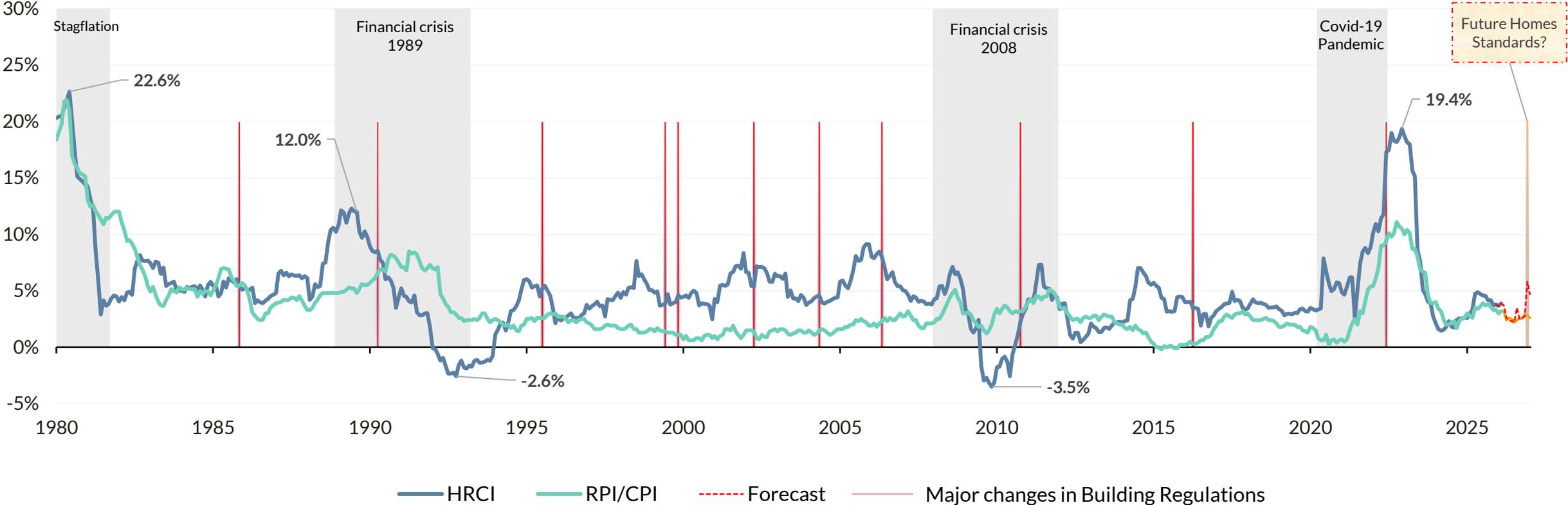
- Ageing housing stock
- Extreme weather conditions
- Partial loss

- Regulatory changes
- Future Homes Standards

REGULATORY AND COMPLIANCE UPLIFT

ABI/BCIS HRCI and RPI/CPI

Long Term Percentage change: Year on year





CAUSES AND CONSEQUENCES OF UNDERINSURANCE

CAUSES OF UNDERINSURANCE

Wrong starting point

CAUSES OF UNDERINSURANCE

Drift over time – cost movement outpaces review cycles

CAUSES OF UNDERINSURANCE

Inappropriate use of indexation and index-linking

CAUSES OF UNDERINSURANCE

Weak asset data – incomplete or outdated property information

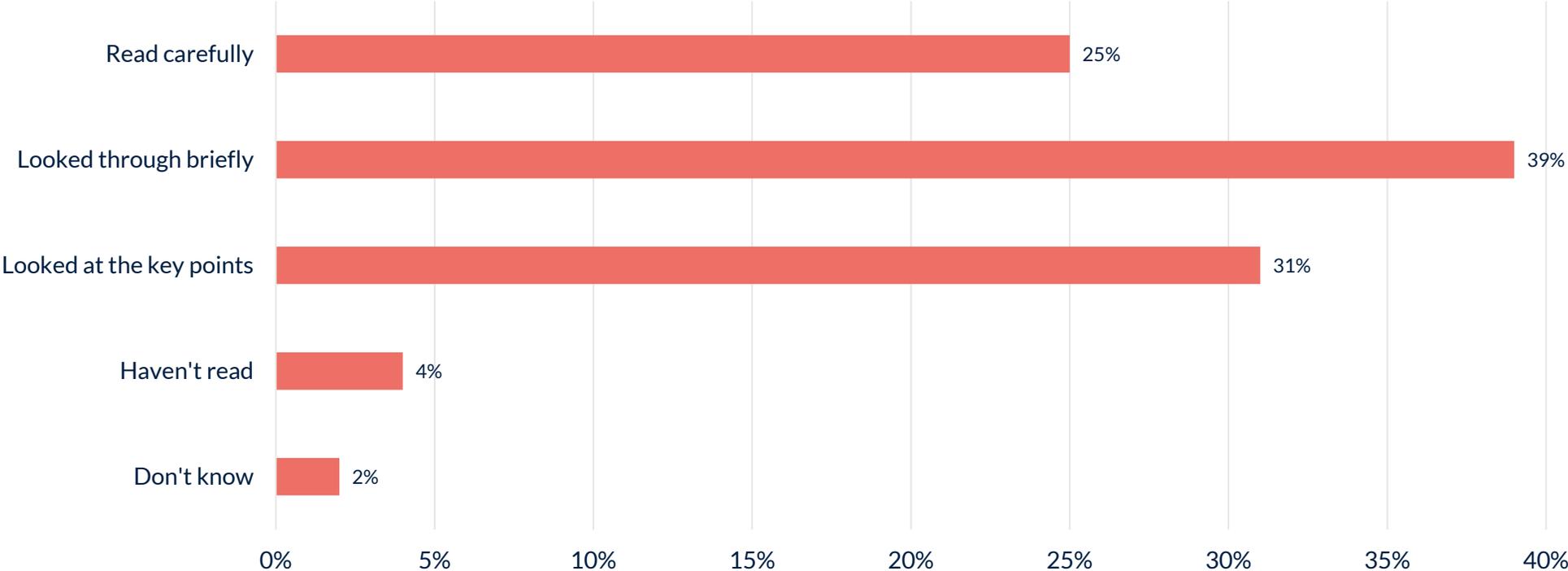
CAUSES OF UNDERINSURANCE

Policyholder behaviour – price pressures and risk perception

UNDERINSURANCE

The Financial Conduct Authority's Financial Lives survey found potential gaps in policyholders' comprehension of documentation

When you took out/renewed your insurance or protection product most recently, which of the following best describes how you read the policy documentation?

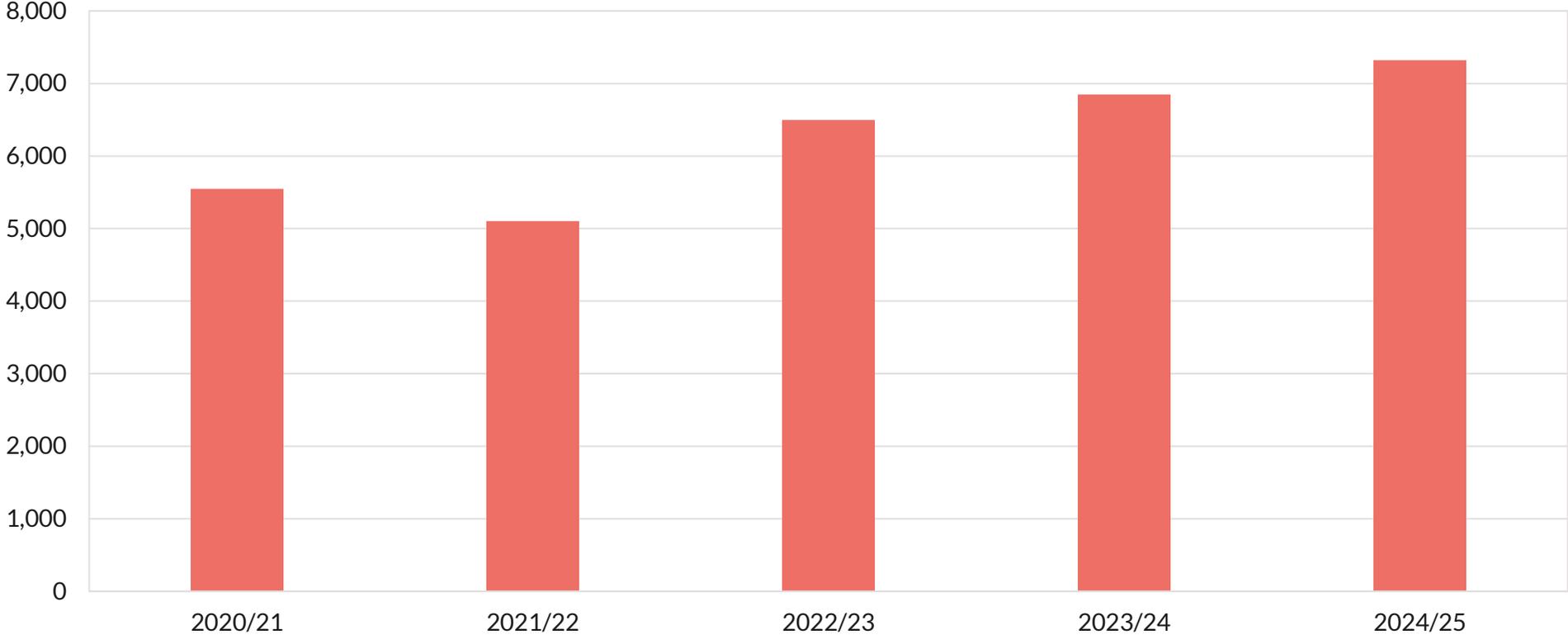


Notes - Base: All UK adults with home insurance - contents and buildings combined, which was taken out, renewed, switched less than 3 years ago. Weighted sample - 508.

UNDERINSURANCE

Building insurance complaints have increased for the past three years

Annual number of cases taken on by the Financial Ombudsman Service by financial year





INDEXATION AND INDEX-LINKING

INDEXATION / INDEX-LINKING

Applying the 6 BCIS golden rules for choosing an index:



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4. Understand the methodology

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4. Understand the methodology
5. Read the notes and definitions

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3. Ensure frequency and contractual suitability
4. Understand the methodology
5. Read the notes and definitions
6. Never choose an index based on past performance

INDEXATION / INDEX-LINKING

ABI/BCIS House Rebuilding Cost Index (HRCI)

- Bespoke, insurance-specific cost index designed to update residential rebuild costs between assessments.
- Not a substitute for regular reassessment of the sum insured.
- Measures changes in the cost of reinstating a typical house at current market rates. It reflects not only movements in labour and materials, but also:
 - Changes in legislation and statutory charges
 - Impact of changes to Building Regulations and Standards
 - Market conditions, as reflected in contractors' preliminaries, overheads and profit
 - Professional fees and design costs associated with reinstatement

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BCIS All-in Tender Price Index (TPI)

- Tracks quarterly changes in contractors' pricing levels in accepted tenders at commit to construct.
- Reflects how labour, materials, preliminaries, overheads, profit and prevailing market conditions are priced within accepted tenders.
- Commonly used to update non-residential rebuild costs between professional reinstatement assessments, but is not a substitute for periodic full reassessment.

INDEXATION / INDEX-LINKING

Good practice

- Clear separation between valuation and index-linking
- Use of an index that matches the exposure (residential - HRCI, commercial - TPI), with documented rationale
- Transparent communication with policyholders / clear policy wording and disclosure of uplift mechanism
- Sound governance around revisions and discontinuation
- Ongoing monitoring and recognition of abnormal conditions

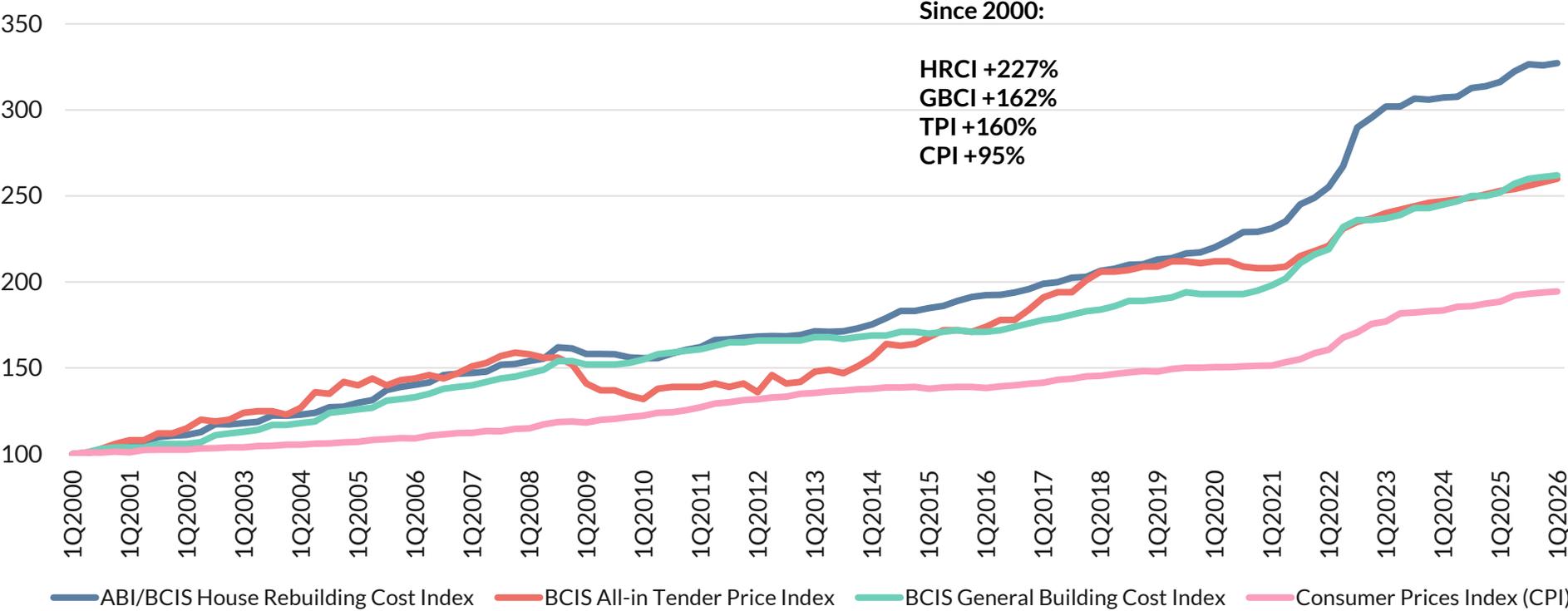
Poor practice

- Index-linking used over a long period in place of reassessment
- Using outdated indices or that do not reflect actual reinstatement
- Index selection based on premium sensitivity
- Misalignment between index scope and sum insured scope
- 'Set and forget' approach with no review
- Implying index-linking guarantees adequacy of cover

INDEXATION / INDEX-LINKING

Growth in house rebuilding costs, tender prices, general building costs and consumer prices since 2000

Index number, rebased to 1Q2000





REINSTATEMENT COSTS AND CARBON

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Reinstatement is not simple like-for-like

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Energy transition is introducing cost volatility into reinstatement

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Climate risk modelling and resilience are reshaping build-back decisions

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The insurance industry's evolving role in supporting innovation

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Whole life carbon, regulation and ESG are changing the rules



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