



# Global claims review 2022

Trends and developments in corporate insurance losses

# About AGCS

Allianz Global Corporate & Specialty (AGCS) is a leading global corporate insurance carrier and a key business unit of Allianz Group. We provide risk consultancy, Property-Casualty insurance solutions and alternative risk transfer for a wide spectrum of commercial, corporate and specialty risks across nine dedicated lines of business and six regional hubs.

Our customers are as diverse as business can be, ranging from Fortune Global 500 companies to small businesses. Among them are not only the world's largest consumer brands, tech companies and the global aviation and shipping industry, but also satellite operators or Hollywood film productions. They all look to AGCS for smart solutions and global programs to their largest and most complex risks in a dynamic, multinational business environment and trust us to deliver an outstanding claims experience.

Worldwide, AGCS operates with its own teams in more than 30 countries and through the Allianz Group network and partners in over 200 countries and territories, employing around 4,250 people. As one of the largest Property-Casualty units of Allianz Group, we are backed by strong and stable financial ratings. In 2021, AGCS generated a total of €9.5bn gross premium globally.

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## Scope of the report

This report focuses on global developments in corporate insurance claims over the period **January 1, 2017, to December 31, 2021**, identifying the top causes of loss and other trends across a number of different countries and regions.

The findings detailed in this report are based on the analysis of **534,456 corporate insurance claims from 207 countries and territories**. For reporting reasons all claims totals are presented in euros (€). The analyzed claims have a total value of approximately **€88.7bn**.

It is important to note that all claims figures quoted are 100% of the total loss – the dataset does not just include the AGCS share but also includes the share of other insurance companies involved on the particular risk (i.e. they represent the full payment made).

While the losses analyzed are not representative of the industry as whole, and also reflect risk appetite, they provide a strong indication of the major risks which dominate corporate insurance.

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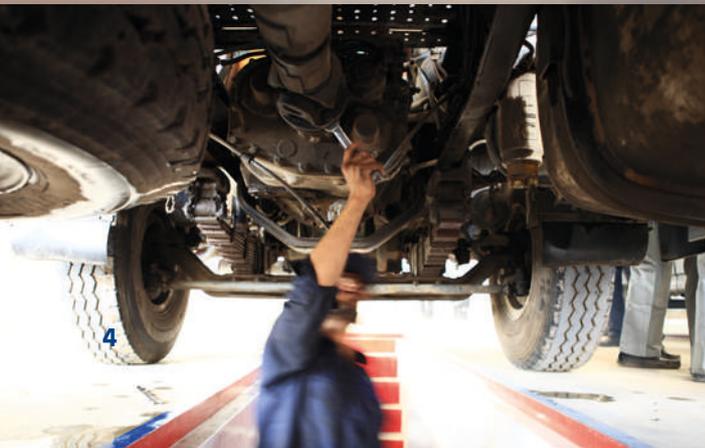
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# Executive summary

Businesses must navigate an increasingly complex risk landscape. As well as having to combat the threat posed by natural catastrophes and man-made hazards, companies must deal with the demands of a less forgiving regulatory and legal environment, emerging risks posed by our growing reliance on technology and, of course, the challenges that issues such as the Ukraine conflict and rising inflation bring. All of these factors can combine to impair successful running of operations. Insurers have a vital role to play in ensuring any disruption following a loss event is minimized.

This report examines global developments in corporate insurance claims, highlighting the top causes of loss for companies and other emerging trends to watch.

## Global claims trends

The report highlights the increasingly high values at risk in corporate insurance claims. AGCS has identified the top causes of loss and emerging trends from more than **530,000 insurance industry claims** in over 200 countries and territories with which it has been involved between 2017 and 2021. These claims have an approximate **value of €88.7bn**, which means that insurance companies have paid out – on average – **over €48mn every day** for five years to cover losses – outlining the important role the sector has to play in helping businesses manage and mitigate such perils.

Claims payments can vary enormously in scale reflecting the widespread nature of the risk landscape. Significant corporate insurance claims (>€100mn) such as those arising from fires, aviation crashes or shipping incidents for example, account for fewer than one per cent of claims by number, but for more than a quarter (€24.6bn) of the total value of all claims analyzed. Conversely, around 88% of claims are valued at or below €50,000, accounting for just three per cent of total value.

## The top 10 causes of loss

The analysis shows that almost 75% of financial losses arise from the top 10 causes of loss, while the top three causes account for close to half (45%) of the value. Despite improvements in risk management and fire prevention over the years, **fire/explosion** (excluding wildfires) is the largest single identified cause of corporate insurance losses, accounting for 21% of the value of all claims.

During the past five years such incidents have caused in excess of €18bn worth of insurance losses from over 12,000 claims and are responsible for 13 of the 20 largest non-natural catastrophe loss events analyzed. Even the average claim from such an incident totals almost €1.5mn. Claims are becoming more severe due to factors such as higher property and asset values, more complex supply chains and the growth in concentrations of exposures. Costs associated with the impact of business interruption following the aftermath of a fire can significantly add to the final loss total of an incident, given the time it can take to get production back up and running at a large manufacturing plant, while soaring inflation will only challenge claims costs further.

**Natural catastrophes** (15%) ranks as the second top cause of losses globally by value of claims. Losses continue to rise with climate change and changes to exposures (such as increasing economic activity in natural catastrophe zones).

Analysis of more than 20,000 claims around the world, with an approximate value of €13.7bn, shows that hurricanes/tornados are the most expensive cause of natural catastrophe loss, accounting for 29% of the value of all claims, driven by the fact that two Atlantic hurricane seasons out of the previous five (2017 and 2021) now rank among the top three most active and costliest seasons on record. Collectively, the top five causes of loss – hurricanes/tornados (29%); storm (19%); flood (14%); frost/ice/snow (9%) and earthquake/tsunami (6%) account for 77% of the value of all nat cat claims.

Insurers are also seeing new and more unusual loss scenarios. During 2021, the ‘Texas Big Freeze’ in the US and flooding in Germany stand out as events that were both large but had unexpected claims. For example, the ‘Texas Big Freeze’ in February caused huge disruption to infrastructure and manufacturing, with many companies forced into temporary shutdowns by widespread power outages, bringing some large contingent business interruption losses. The event is estimated to have caused economic losses up to \$150bn, while Winter Storm Uri caused \$15bn in insured losses nationwide.

**Faulty workmanship/maintenance** incidents are the third top cause of loss overall (accounting for 9% by value) and are also the second most frequent driver of claims (accounting for 7% by number). Costly incidents can include the collapse of building/structure/subsidence from faulty work, faulty manufacturing of products/components; or incorrect design.

**Aviation collision/crash** incidents (9%) are the fourth top cause of losses globally. There are many losses which fall within this category in addition to a major airplane crash however. These include damage to aircraft caused during ground handling incidents; over- and under-shooting runways; making an emergency or forced landing or even damage caused by a bird strike.

**Machinery breakdown (including engine failure)** ranks fifth with the top 10 causes of loss by value being completed by **defective product** (6), **shipping incidents (e.g. sinking, collision, etc.)** (7), **damaged goods (including handling/storage)** (8), **negligence/misadvice (professional indemnity claims)** (9) and **water damage** (10).

Losses involving **damaged goods**, which can result from a number of different causes including storage, handling, loading/unloading issues, or when in transit, are the most frequent drivers of claims for insurers, accounting for 11% of all claims by number around the world. However, such claims only equate to three per cent by value.

## Top 10 global causes of loss by value of claims



\* professional indemnity claims

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 534,456 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €88.7bn in value. "Other" causes of loss account for 26% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

## Top causes of loss by total value (selected countries)



**Key**

- Top cause of all losses by value in that country
- Top cause of natural catastrophe loss by value in that country

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 534,456 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €88.7bn in value. Claims total includes the share of other insurers in addition to AGCS.

# Outlook and claims issues to watch

## Inflation and underinsurance in the spotlight

Post-pandemic supply chain bottlenecks, higher energy and transport costs, and shortages of labor were already contributing to higher inflation at the start of 2022. Since then the war in Ukraine has further fueled pressures, causing price shocks for a wide range of commodities, including energy, food and materials.

The consequences of sharp increases in inflation will be felt across most lines of the insurance industry. Ultimately, inflation brings pressure on claims severity from multiple angles. For example, property and construction insurance claims are exposed to higher inflation, as rebuilds and repairs are linked to the cost of materials and labor, while shortages of materials and longer delivery times inflate business interruption values. In the aviation sector many companies have been experiencing supply chain issues with their rotables – aircraft components that need to be rotated at frequent intervals. Delays in repairs and replacement parts can impact the size of the final insurance claim as costs increase. Other lines of insurance, such as directors and officers (D&O), professional indemnity and general liability, are also susceptible to inflationary pressures through rising legal defense costs and higher settlements.

Insured values are a pressing concern for the insurance industry and are becoming a major point of discussion between insurers and insureds during 2022, as high inflation raises the risk of underinsurance for companies and mis-declared values for insurers. If companies fail to maintain accurate valuations of assets, replacement values and business interruption exposures, the prospect of being underinsured is more likely. Low valuations of insured assets could lead businesses to purchase insurance limits that fall below rising values or reinstatement costs. Insurers also risk underpricing exposures where they rely on declared values that do not truly reflect the reinstatement costs. The insurance market has already seen claims where there has been a significant gap between the insured's declared value and the actual replacement value. For example, in a claim for a commercial property destroyed in the 2021 Colorado wildfires the rebuild value was almost twice the declared value, due to a combination of inflation, demand surge and underinsurance.

## Specialist sectors impacted by Ukraine invasion

Outside of the human tragedy, the war in Ukraine is likely to result in a significant, yet manageable, loss for the global insurance industry. Total loss estimates currently range between \$10bn and \$35bn – comparable with a mid-sized natural catastrophe.

The largest exposure related to the conflict is likely to come from aviation insurance lines, in particular specialist war covers for aircraft leasing companies such as 'lessor contingent all risk' or 'contingent war'. Around 400 of the 500 commercial aircraft (valued at around \$10bn) leased by Russian airlines before the war remained in Russia at the beginning of May 2022. Notifications have been made to the insurance market by aircraft leasing companies, although such a complex situation could take years to resolve. The insurance market is also likely to pay sizable claims for political risk/political violence policies, as well as marine and cargo insurance, given the impact on merchant shipping.

Indirectly, the war in Ukraine has caused a spike in energy prices, which has further driven up inflation, in turn leading to higher repair and rebuilding costs for property claims and higher business interruption losses. High oil prices can also drive more expensive business interruption claims in the energy sector.

The war may also result in claims for other lines of business, such as D&O insurance. Companies that have written-off Russian assets could potentially face claims from investors at a later date, while the knock-on effects of the conflict create a heightened risk environment, such as through sanctions, disclosure and financial market volatility.

## Covid-19 losses settle but pandemic effects linger

Insurance industry losses from Covid-19 are estimated at around \$44bn, making the pandemic the third largest catastrophe loss behind Hurricane Katrina and the 9/11 attacks. The bulk of corporate claims have been from event cancellation insurance and business interruption claims from companies affected by lockdowns.



The economic environment in the aftermath of the pandemic does pose a heightened risk for D&O and professional indemnity insurance as the number of D&O claims typically rises during times of financial market volatility. Inflation and rising interest rates, together with the war in Ukraine, have already seen signs of volatility emerge in the markets, such as recent falls in the values of tech stocks, so-called Special Purpose Acquisition Companies (SPACs) – or blank-cheque companies – and cryptocurrencies.

## ESG risks emerging as a future driver of liability losses

Activity around environmental, social and governance (ESG) and sustainability issues is increasing as governments and citizens exert pressure on businesses to change their ways for the greater good. Climate change is already a top boardroom issue, as companies face an array of physical- and liability-related risks from a more extreme climate and from the transition to a low- or no-carbon economy. However, social issues are also a growing area of exposure, from diversity and inclusion through to an organization's impact on local communities and supply chains.

Climate change-related litigation is likely to become a significant source of liability exposure for companies and their directors in coming years. The D&O insurance market has already seen claims related to climate change, such as in the aftermath of the California wildfires in 2018, and companies increasingly face the prospect of litigation from activist shareholders seeking to influence company policy or compensation for alleged damage related to past pollution. Almost 2,000 climate change-related lawsuits have been launched to date – half of them in the past seven years.

Another potential exposure comes from claims of 'greenwashing', where a company is sued for unsubstantiated or misleading ESG claims, or its failure to match commitments with action. With growing reporting requirements, companies and their directors will face growing liability from climate-related disclosure and breach of fiduciary duty.

Environmental factors are also affecting product liability and construction claims. Extreme weather and unpredictable seasonal variations in climate can affect the quality and performance of building design and materials as the consequences of climate change intensify. AGCS has already seen a number of claims where products fail to meet performance expectations in changing environmental conditions, including adhesives used in the windows of high-speed trains being affected by UV light. Claims have also arisen from building cladding and paint finishes that failed to perform in extreme temperatures.

## CBI claims spike with global supply chain disruption

Contingent business interruption (CBI) claims reached a new level over the past year, with the number of claims far in excess of recent years. The sharp increase exemplified the growing interdependence and complexity of corporate supply chains, hit by a combination of pandemic-related disruptions, extreme weather, and the war in Ukraine. Many companies are reliant on a small number of key suppliers for materials, parts and services. Large business interruption and CBI claims are now a regular occurrence and loss events can cost \$1bn or more.

For example, the 'Texas Big Freeze' in the US during February 2021 caused massive disruption to infrastructure, resulting in a number of large CBI claims as companies took several months to ramp up production following initial power outages in the wake of record freezing temperatures. Around the same time, a fire at a semi-conductor plant in Japan added to the growing global shortage of microprocessors, sending a ripple effect through global supply chains, hitting production in the automotive and electronics industries. The number of CBI claims resulting from these two events more than tripled CBI claims from the previous three years. Meanwhile, the automotive sector was again hit with supply chain problems from the conflict in Ukraine, with the country being an important supplier of parts.

## Cyber claims stabilize, but threat remains elevated

Cyber insurance claims have increased significantly in recent years, driven by the rise of threats such as ransomware attacks, but also due to the growth of cyber insurance. AGCS has been involved in more than 1,000 cyber claims a year for the past two years, compared with fewer than 100 in 2016. Claims frequency has begun to stabilize however, albeit at elevated levels.

Ransomware remains a major concern – year-on-year attacks are reported to have increased by 13%, a jump greater than the past five years combined. Double extortion, where the ransomware attack is actually subterfuge for stealing data as well, is a trend that goes under the radar. In short, companies can get hit twice from the same incident. Supply chain issues are also impacting the cyber security landscape – more than 60% of intrusion incidents can come through an organization's partner, according to industry estimates and this can be an overlooked area of risk assessment. Such oversights can mean business interruption losses escalate.

Gone are the days when companies bought insurance against cyber-attacks instead of investing in attack protection technology themselves. The two go hand in hand. Companies need to think about disaster recovery planning, put their plans to the test and then continue to test them. Ultimately, if a company improves its cyber maturity level, it will likely obtain better cyber insurance as a result.

## Legal costs and derivative settlements continue to rise

D&O claims continue to be dominated by so-called "event-driven" losses, although accounting issues and insolvency remain an important driver for many claims. Recent years have seen large D&O claims arising from a wide range of events, including natural catastrophes, the Covid-19 pandemic, air crashes, emissions scandals, cyber-attacks and product liability. A number of trends are likely to keep loss activity elevated for the foreseeable future.

Although securities class action filings, historically a major driver for D&O claims, fell in 2021, they are still above historical levels, and there are even signs that the value of class action settlements may be increasing, while a growing number of jurisdictions are allowing class, and other forms of collective, actions, including China and Saudi Arabia. The growth of SPACs has also generated a number of losses for the D&O market. At least 25 companies that merged with SPACs between 2020 and 2021 have issued 'going-concern' warnings in recent months.

Over the past two and half years, a group of plaintiffs' firms filed more than 10 derivative lawsuits in New York state courts on behalf of shareholders of non-US companies, pointing to heightened US litigation risk for directors and officers of non-US domiciled companies. While the recent dismissal of two of these cases may serve to stem this trend, it should be noted that the same judge who dismissed one of these lawsuits earlier had denied a motion to dismiss another derivative suit involving a non-US domiciled company, so this risk trend is still one to watch. At the same time legal and defense costs continue to rise, a trend that will no doubt accelerate with inflationary pressures on salaries and fees. D&O insurers' defense costs increased by almost 40% in 2019 and by over 10% in 2020.

## Adhesives and quality issues increase cost of liability claims

The growing use of industrial adhesives in electronics and car manufacturing has led to a notable hike in the cost of product liability and recall claims. Recent years has seen a marked increase in the use of adhesives to bond components, making repairs more complex and expensive, often requiring the substitution of an entire unit or surrounding. Some repairs are at least 25% more expensive, if not more, due to the use of adhesives.

## Complex construction projects generate large professional indemnity claims

More innovative designs, new materials and methods of construction are creating fertile ground for large liability claims against architects, engineers, developers and construction companies. Large complex construction projects increasingly rely on input from external professionals that are highly specialized in producing technical expertise in their fields, such as water resources and environmental engineers, geologists, metallurgists or design architects. However, errors in data, statistical process control, detailed design and performance assessment or simply poor advice are leading to problems that are difficult and expensive to rectify.

In particular, the insurance market has seen claims relating to third party specialists, such as geologists used in designing highways, or specialist engineers for designing cladding, ventilation, heating and air-conditioning systems for hospitals and residential buildings.



Fire/explosion is the top cause of corporate insurance losses globally over the past five years

## Overview

# Drivers of the corporate loss landscape

The latest in the series of AGCS' **Global Claims Review** reports examines developments in corporate insurance claims through the years 2017 to 2021. Over this time period more than 530,000 claims from over 200 countries and territories were received by insurers including AGCS – providing an indication of the size of the risk landscape – the largest ever dataset we have analyzed. Causes of loss range from fires to cyber incidents to slips and falls in airports.

The corporate insurance claims analyzed for the latest edition of the **Global Claims Review** have an approximate value of €88.7bn. This means that insurance companies have paid out – on average – over €48mn every day for five years to cover losses – outlining the important role the sector has to play in helping businesses manage and mitigate such perils.

Claims payments can vary enormously in scale, reflecting the widespread nature of the risk landscape.

Significant corporate insurance claims (>€100mn) such as those arising from fires, aviation crashes or shipping incidents for example, account for fewer than one per cent of claims by number, but for more than a quarter (€24.6bn) of the total value of all claims analyzed. Conversely, around 88% of claims are valued at or below €50,000, accounting for just three per cent of total value.

Taking a deeper look at the most expensive causes of losses for businesses, fires and natural catastrophes continue to dominate loss activity, collectively accounting for more than a third (36%) of the value of all claims analyzed, driven by factors such as more extreme weather events, concentrations of exposure, and the interconnected nature of supply chains and business. Soaring inflation will only challenge claims costs further.

## Top 10 causes of loss explained\*



### 1 Fire/explosion

e.g. building/factory fire; electrical fire; gas explosion; vehicle fire etc.



### 2 Natural catastrophes

e.g. damage or disruption caused by hurricanes, tornados, storms, floods, wildfires, extreme weather etc.



### 3 Faulty workmanship/maintenance

e.g. collapse of building/structure/subsidence due to faulty work; faulty manufacturing of products/components; incorrect design; inadequate maintenance etc.



### 4 Aviation collision/crash

e.g. hard landing; runway/taxiway incursion/excursion; terrain strike; ground handling incident; collision with airport infrastructure; bird strikes



### 5 Machinery breakdown (including engine failure)

e.g. damage to industrial machine, factory hardware, ship/aircraft/vehicle engine etc.



### 6 Defective product

e.g. large product recall; cost of fixing defective automotive parts; lost business income due to premises closing because of defective goods; food contamination etc.



### 7 Shipping incidents (e.g. sinking, collision etc.)

e.g. collision with harbor wall; hull damage at sea; ship grounding; ship foundering; collision with another vessel etc.



### 8 Damaged goods (including handling/storage)

e.g. goods/technical equipment damaged; vehicles damaged in transit; power surge damaged an electricity generator; equipment lost on premises; container contents damaged etc.



### 9 Negligence/misadvice (professional indemnity claims)

e.g. misleading advice; improper trading; breach of trust/fiduciary duties; breach of confidentiality



### 10 Water damage

e.g. boiler leakage; flooding in basement; flooding due to burst pipes; general escape of water in commercial premises etc.

Despite improvements in risk management and fire prevention over the years, **fire/explosion** (excluding wildfire) is the top cause of corporate insurance losses globally, accounting for 21% of the value of all claims, according to the AGCS analysis. Such incidents are one of the biggest drivers of large claims, being responsible for 13 of the top 20 individual loss events analyzed over the past five years (excluding natural hazard events).

Claims are becoming more severe due to factors such as higher property and asset values, while costs associated with the impact of business interruption following the aftermath of a fire can significantly add to the final loss total, given the time it can take to get production back up and running at a large manufacturing plant for example. In today's ever more interconnected world, a fire in a semiconductor plant or on a large container ship can have significant repercussions around the world. Fires have resulted in more than €18bn worth of insurance claims over five years, according to the analysis.

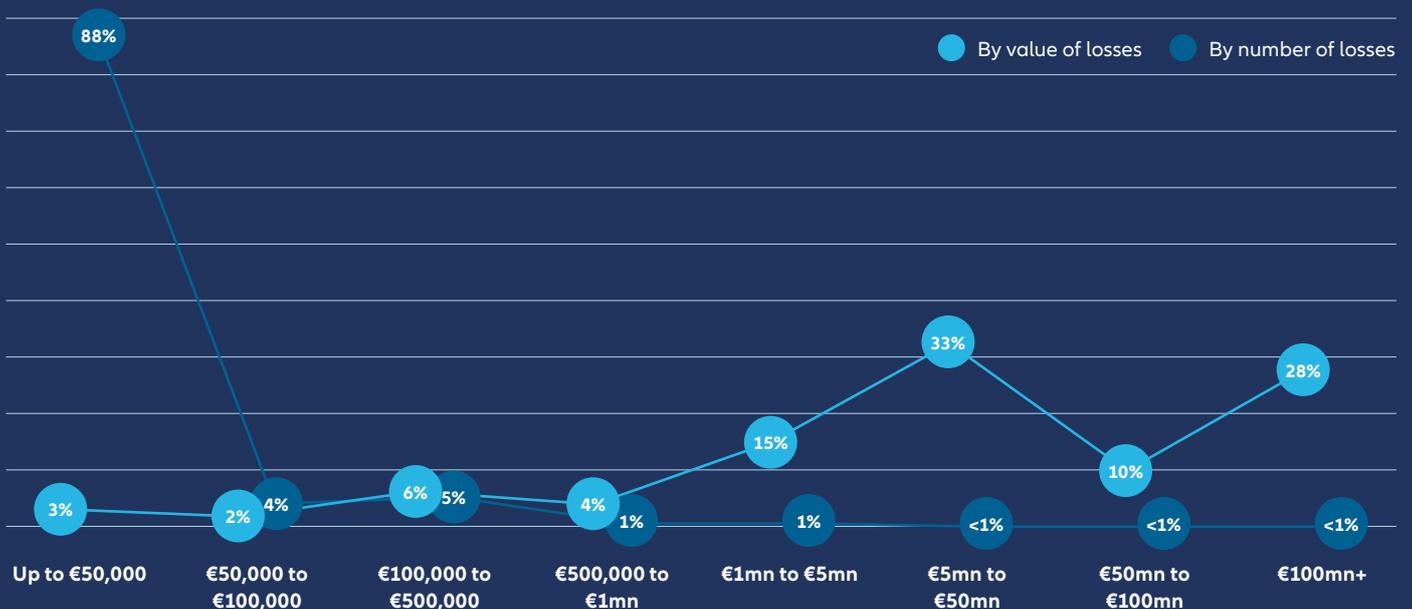
\*Examples of claims/loss scenarios



The Alamo, in San Antonio, where temperatures during the 'Texas Big Freeze' were lower than those in Alaska

**Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.)** are the second top cause of losses globally, accounting for 15% of the value of all claims. Losses continue to rise with climate change and changes to exposures (for example, increasing economic activity in natural catastrophe zones). Wildfires in the US and Australia, flooding in Europe and Asia and tornado and convective storm activity in the US are just some of the many recent loss activities to have made headlines around the world. At the same time, two Atlantic hurricane seasons out of the previous five (2017 and 2021) rank among the top three most active and costliest on record.

### How the numbers add up: distribution of loss payments



Source: Allianz Global Corporate & Specialty. Based on analysis of 534,456 claims between January 2017 and end of December 2021 worth approximately €88.7bn.

Insurers are also seeing new scenarios in the context of nat cat claims. In 2021, the 'Texas Big Freeze' in the US and flooding in Germany stand out as events that were both large but had unexpected claims. For example, the 'Texas Big Freeze' in the February caused huge disruption to infrastructure and manufacturing, with many companies forced into temporary shutdowns by widespread power outages and blackouts, bringing some large contingent business interruption losses. The event is estimated to have caused economic losses up to \$150bn, while Winter Storm Uri caused \$15bn in insured losses nationwide.

**Faulty workmanship/maintenance incidents** are the third top cause of loss overall (accounting for 9% of the value of all claims) and are also the second most frequent driver of claims (accounting for 7% by number), ranking behind only damaged goods (including handling/storage). Costly incidents can include collapse of building/structure/subsidence from faulty work, faulty manufacturing of products/components; or incorrect design.

The global airline industry may have experienced some of its safest years ever over the past five years (such as 2017 and 2019), swiftly followed by the sector being largely grounded by Covid 19 for much of 2020 and 2021, but aviation claims show no sign of abating. **Aviation collision/crash incidents** (9%) are the fourth top cause of losses globally. There are many kinds of losses which fall within this category in addition to a major airplane crash however. These include damage to aircraft caused during ground handling incidents; over- and under-shooting runways; making an emergency or forced landing or even damage caused by a bird strike.

**Machinery breakdown (including engine failure)** ranks fifth in the top 10 causes of loss by value, with the top 10 being completed by **defective product** (6), **shipping incidents (e.g. sinking, collision etc.)** (7), **damaged goods (including handling/storage)** (8), **negligence/misadvice (professional indemnity claims)** (9) and **water damage** (10). Collectively the top three causes of loss account for close to half (45%) of the value of all losses analyzed, while the top 10 causes of loss account for close to 75%.

Losses involving **damaged goods**, which can result from a number of different causes including storage, handling, loading and unloading issues, or when in transit, constitute the most frequent drivers of claims for insurers, accounting for 11% of all claims by number around the world. However, such claims only equate to three per cent by value.

The claims analysis also highlights the growing relevance of business interruption (BI) as a consequence of losses in property insurance. The average BI property insurance claim now totals in excess of €3.8mn compared with €3.1mn over the five-year analysis period ending in 2017. For large claims (>€5mn), the average property insurance claim which includes a BI component is more than double that of the average property damage claim.

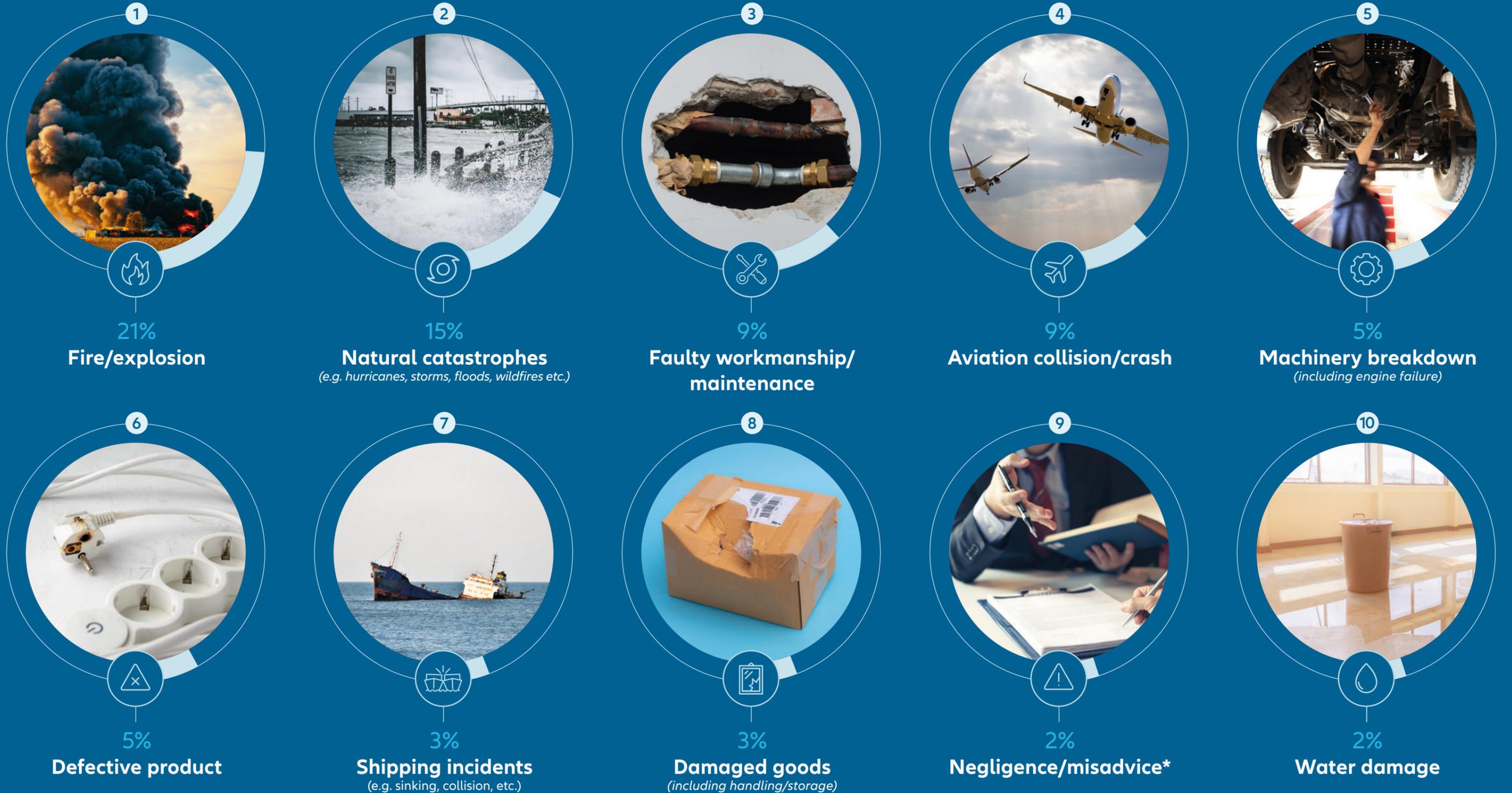
**Losses above €100mn account for fewer than one per cent of claims by number, but for more than a quarter of the total value of all claims analyzed (equating to €24.6bn).**

Data

# Top 10 global causes of loss by value of claims

\*professional indemnity claims

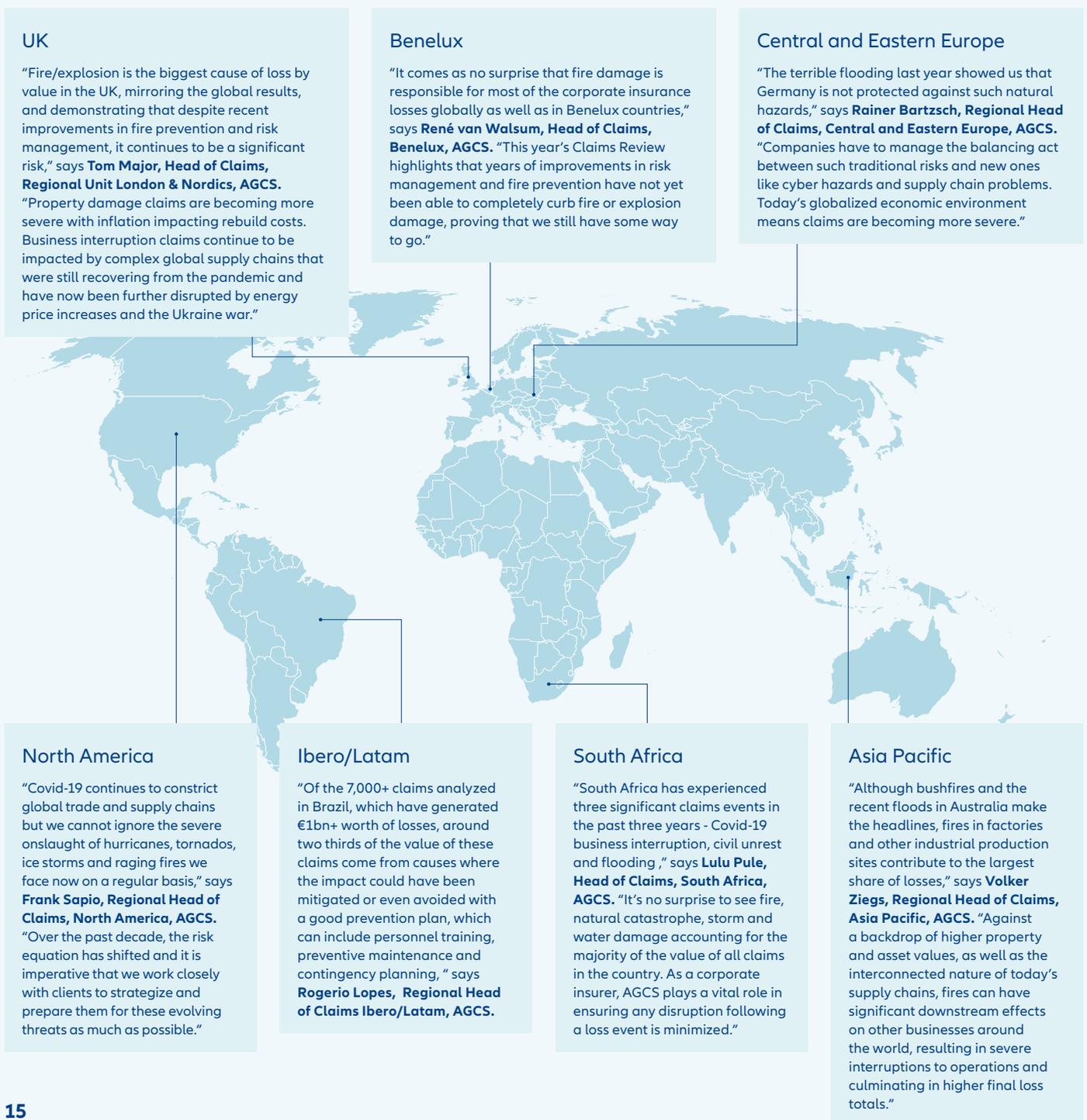
Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 534,456 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €88.7bn in value. "Other" causes of loss account for 26% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.



Data

# Top causes of loss by selected countries

by total value of claims





## Austria

1. Fire/explosion **40%**
2. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) **27%**
3. Faulty workmanship/maintenance **14%**
4. Defective product **7%**
5. Machinery breakdown (including engine failure) **3%**

### Top frequency driver: Faulty workmanship/maintenance

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 3,097 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €425mn in value. "Other" causes of loss account for 9% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Fires are the most expensive cause of loss for Austrian businesses, accounting for around 40% of the value of all claims analyzed.

In recent years, Austria has been hit by a series of extreme flood events, gravely impacting people and infrastructure, ensuring natural catastrophes ranks as the second top cause of loss.



## Australia

1. Negligence/misadvice\* **20%**
2. Fire/explosion **20%**
3. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) **15%**
4. Defective product **8%**
5. Damaged goods (including handling/storage) **6%**

### Top frequency driver: Damaged goods (including handling/storage)

\*professional indemnity claims

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 3,994 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €1.8bn in value. "Other" causes of loss account for 31% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Bushfire losses often dominate the news headlines in Australia, having caused billions of dollars' worth of damage to the economy in recent years, but it is actually non-nat cat-related fires that are the more expensive cause of loss for businesses, accounting for 20% of the value of all claims. Professional indemnity-related claims (e.g. negligence/misadvice) stemming from a number of corporate actions) also account for 20% of the value of all claims.

Damaged goods (including handling/storage) are the most frequent driver of insurance claims, responsible for around 10% by number.



## Brazil

- 1. Shipping incidents (e.g. sinking, collision etc.) **29%**
- 2. Fire/explosion **25%**
- 3. Machinery breakdown (including engine failure) **20%**
- 4. Defective product **10%**
- 5. Damaged goods (including handling/storage) **5%**

### Top frequency driver:

#### Damaged goods (including handling/storage)

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 7,405 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €1.1bn in value. "Other" causes of loss account for 11% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Shipping incidents such as the grounding, and then scuttling, of the ore carrier, the Stellar Banner in 2020, help ensure that this is the most expensive cause of claims in Brazil, closely followed by industrial fires and explosions.

Damaged goods (including handling/storage) is the most frequent cause of claims and is also the fifth most expensive cause of loss overall.



## Canada

- 1. Fire/explosion **38%**
- 2. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) **8%**
- 3. Faulty workmanship/maintenance **8%**
- 4. Aviation collision/crash **6%**
- 5. Defective product **6%**

### Top frequency driver:

#### Water damage

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 19,778 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €3.2bn in value. "Other" causes of loss account for 34% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Fire incidents account for close to 40% of the value of Canadian losses, while natural catastrophes (8%) are the second major driver of losses. Faulty workmanship/maintenance losses rank third.

Water damage incidents, such as the flooding of buildings from burst pipes, are the most frequent driver of claims, accounting for around a quarter by number but total less than four per cent by value.



## China

1. Fire/explosion **19%**
2. Defective product **13%**
3. Shipping incidents (e.g. sinking, collision etc.) **12%**
4. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) **11%**
5. Damaged goods (including handling/storage) **11%**

### Top frequency driver:

#### Damaged goods (including handling/storage)

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 5,032 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €531mn in value. "Other" causes of loss account for 34% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Large blazes which have impacted industrial sites such as chemical and pesticide plants in recent years ensure that fire is the major cause of loss, accounting for 19% of the value of all claims in China. Defective product ranks second (13%), driven by China's status as the world's largest manufacturer of goods.

Damaged goods (including handling/storage), such as cargo being lost or destroyed, ranks as the fifth top cause of loss according to value (11%) but is also the most frequent driver of claims, being the primary cause of loss for more than 40% of all analyzed claims.



## France

1. Fire/explosion **34%**
2. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) **7%**
3. Defective product **7%**
4. Faulty workmanship/maintenance **6%**
5. Shipping incidents (e.g. sinking, collision etc.) **6%**

### Top frequency driver:

#### Damaged goods (including handling/storage)

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 30,919 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €2.4bn in value. "Other" causes of loss account for 40% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Large industrial blazes at sites such as refineries are behind fire incidents ranking as the top causes of loss, accounting for around a third of claims by value. Natural catastrophes rank second (7%) with flooding and storms the costliest events.

Damaged goods (including handling/storage) is the most frequent driver of claims accounting for 16% by number but it only ranks as the seventh highest category according to value.



## Germany

- 1. Fire/explosion **37%**
- 2. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) **12%**
- 3. Faulty workmanship/maintenance **9%**
- 4. Defective product **6%**
- 5. Machinery breakdown (including engine failure) **4%**

### Top frequency driver: Faulty workmanship/maintenance

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 47,365 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €5.8bn in value. "Other" causes of loss account for 32% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Industrial fires and explosions are the major causes of corporate insurance losses in Germany, accounting for more than a third (37%) of the value of all losses. There have been several significant incidents in recent years, such as in the energy and pharmaceutical sectors, for example, which are among many industries with large risk exposures, given the value of the products/premises that can be disrupted or damaged. Business interruption costs can significantly add to the final loss total. Natural catastrophes rank second (12%) with flooding overwhelmingly the most expensive recent cause of nat cat loss.

Faulty workmanship/maintenance incidents are the most frequent driver of claims, accounting for 14% by number. It is also the third top cause of loss according to value of claims.



## Italy

- 1. Fire/explosion **50%**
- 2. Defective product **9%**
- 3. Faulty workmanship/maintenance **8%**
- 4. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) **6%**
- 5. Damaged goods (including handling/storage) **5%**

### Top frequency driver: Defective product

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 3,350 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €460mn in value. "Other" causes of loss account for 22% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Fires account for half of the value of corporate insurance claims in Italy with losses becoming more severe due to factors such as higher property and asset values and the impact of more complex supply chains.

Defective product incidents are the most frequent driver of claims for insurers over the past five years, accounting for 16% by number. They are also the second most expensive cause of loss, but only account for nine per cent of the value of claims analyzed.



## Netherlands

1. Fire/explosion **20%**
2. Defective product **13%**
3. Human/operating error **11%**
4. Machinery breakdown (including engine failure) **11%**
5. Faulty workmanship/maintenance **10%**

### Top frequency driver:

#### Damaged goods (including handling/storage)

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 2,245 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €489mn in value. "Other" causes of loss account for 35% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Fires are the biggest driver of corporate insurance losses, accounting for 20% of the value of all claims. Defective product incidents (13%) and human/operating error (11%) complete the top three rankings.

Damaged goods (including handling/storage) is the most frequent generator of insurance claims, accounting for more than 10% by number with losses stemming from a variety of different causes including poor storage, unloading, packaging and temperature variation.



## Singapore

1. Fire/explosion **24%**
2. Negligence/misadvice\* **18%**
3. Machinery breakdown (including engine failure) **16%**
4. Defective product **12%**
5. Faulty workmanship/maintenance **5%**

### Top frequency driver:

#### Damaged goods (including handling/storage)

\*professional indemnity claims

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 1,556 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €119mn in value. "Other" causes of loss account for 25% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Fires are the top cause of loss for businesses in Singapore, accounting for 24% of the value of all claims analyzed. Although uncommon, professional indemnity claims (e.g. negligence/misadvice) rank second, accounting for around 18%. Machinery breakdown (including engine failure) with 16% of the value of all claims completes the top three causes.

Damaged goods (including handling/storage) is the most frequent driver of claims, accounting for 24% by number. Fires may rank as the top loss driver by value but they don't rank highly on the frequency scale, accounting for around only four per cent of claims by number.



## South Africa

- 1. Fire/explosion 65%
- 2. Faulty workmanship/maintenance 20%
- 3. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) 3%
- 4. Damaged goods (including handling/storage) 3%
- 5. Defective product 3%

### Top frequency driver:

#### Water damage

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 3,972 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €858mn in value. "Other" causes of loss account for 6% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Fires generate the most expensive losses for South African businesses accounting for more than 60% of the value of all claims over the past five years. Faulty workmanship/maintenance incidents are another major cause of loss (20%) while natural catastrophes rank third, with storm losses the most frequent driver of these claims. Hailstorm events, while uncommon, can be costly when they do occur if one happens in a metropolitan area.

Water damage generates the highest number of corporate insurance claims in South Africa (30%+), although one in five claims also result from crime/wilful acts.



## Spain

- 1. Fire/explosion 21%
- 2. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) 13%
- 3. Machinery breakdown (including engine failure) 10%
- 4. Faulty workmanship/maintenance 6%
- 5. Shipping incidents (e.g. sinking, collision etc.) 6%

### Top frequency driver:

#### Damaged goods (including handling/storage)

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 11,189 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €431mn in value. "Other" causes of loss account for 44% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Fires are the main cause of insured losses for Spanish companies, accounting for 21% of the value of all claims. Natural catastrophes (13%) rank second. Surprisingly, hailstorm and snow feature among the most expensive causes of nat cat claims – in 2021, storm Filomena brought the heaviest snowfall in decades seen across central Spain, shutting businesses, damaging buildings and disrupting services.

Damaged goods (including handling/storage) is the most frequent driver of claims, accounting for 12% by number, but these tend to be low-value. It does not feature in the top 10 causes of loss according to value.



## Switzerland

1. Defective product **10%**
2. Aviation collision/crash **9%**
3. Faulty workmanship/maintenance **7%**
4. Damaged goods (including handling/storage) **7%**
5. Machinery breakdown (including engine failure) **5%**

### Top frequency driver: Defective product

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 2,808 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €244mn in value. "Other" causes of loss account for 60% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Defective product incidents are the most expensive cause of loss for companies in Switzerland, according to analysis of almost 3,000 business insurance claims. They are also a frequent driver of insurance claims activity, accounting for close to a third of claims analyzed by number.



## UK

1. Fire/explosion **24%**
2. Faulty workmanship/maintenance **24%**
3. Defective product **11%**
4. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) **9%**
5. Negligence/misadvice\* **7%**

### Top frequency driver: Negligence/misadvice (professional indemnity)

\*professional indemnity claims

Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 9,055 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €3.1bn in value. "Other" causes of loss account for 25% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Fires (24%) and faulty/workmanship incidents (24%) produce the most expensive corporate insurance losses in the UK, collectively accounting for almost half the value of all claims analyzed.

Professional indemnity-related claims (e.g. negligence/misadvice stemming from a number of corporate actions) are the most frequent cause of loss in the UK, collectively accounting for over a quarter (26%) of the number of claims.



## US

- 1. Natural catastrophes (e.g. hurricanes, storms, floods, wildfires etc.) **24%**
- 2. Fire/explosion **17%**
- 3. Faulty workmanship/maintenance **6%**
- 4. Shipping incidents (e.g. sinking, collision etc.) **5%**
- 5. Aviation collision/crash **4%**

### Top frequency driver:

#### Damaged goods (including handling/storage)

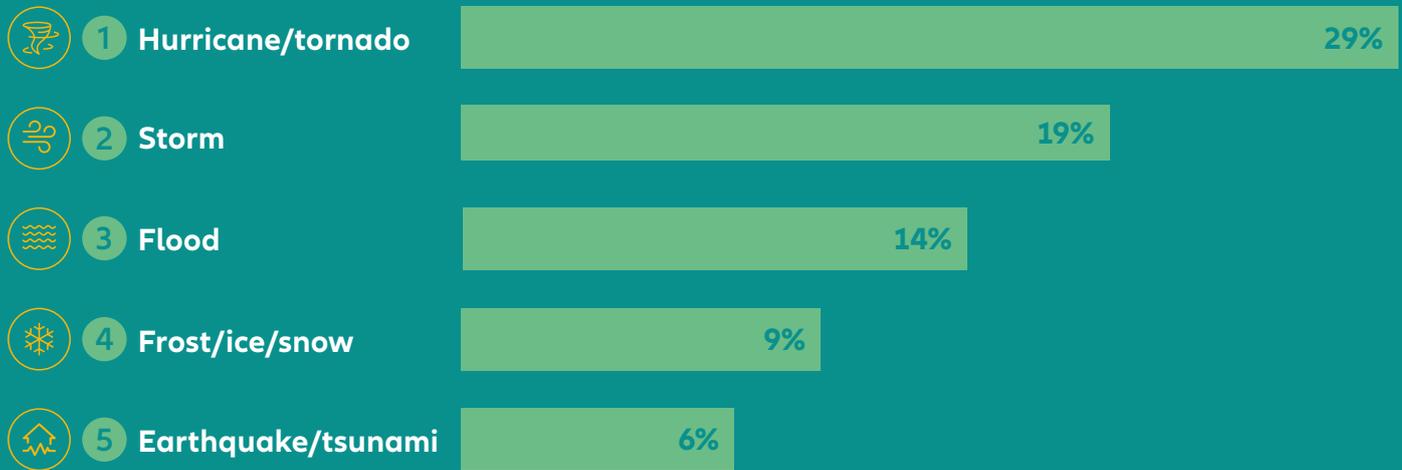
Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 162,839 business insurance claims between January 1, 2017, and December 31, 2021, worth approximately €32.9bn in value. "Other" causes of loss account for 44% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Natural catastrophes rank as the top cause of corporate losses accounting for almost a quarter of the value of all claims analyzed. Hurricane, tornado and wildfire losses have been among the most expensive nat cat claims in the US over the past five years, driven by the fact that two of the past five Atlantic hurricane seasons are among the three most active and costliest seasons on record and recent record-breaking tornado and wildfire activity.

Fires are the second top cause of loss accounting for 17% of the value of all claims, driven by a number of significant blazes in costly sectors such as oil and gas.

Data

Global: top causes of loss by total value of **natural catastrophe claims**



Source: Allianz Global Corporate & Specialty (AGCS). Based on analysis of 22,850 natural catastrophe claims between January 1, 2017, and December 31, 2021, worth approximately €13.7bn. "Other" causes of loss account for 23% of the value of all claims. Claims total includes the share of other insurers in addition to AGCS.

Top causes of loss by total value of **natural catastrophe claims (selected countries)**



Source: Allianz Global Corporate & Specialty (AGCS) Based on analysis of natural catastrophe claims between January 1, 2017, and December 31, 2021, in the following countries: Australia (373 claims worth €285mn); Brazil (117 claims worth €24mn); Canada (1,039 claims worth €276mn); China (431 claims worth €61mn); France (375 claims worth €178mn); Germany (1,897 claims worth €676mn); Italy (138 claims worth €30mn); Netherlands (162 claims worth €33mn); South Africa (409 claims worth €28mn); Spain (399 claims worth €57mn); UK (458 claims worth €297mn); and the US (10,881 claims worth €8bn). Claims total includes the share of other insurers in addition to AGCS.



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Inflation is at a 40-year high in many countries and regions

## Claims issues to watch

# Inflationary pressures to drive up claims costs and create underinsurance risk

The economic fallout from the pandemic and the war in Ukraine have combined to create an inflationary environment that threatens to drive up the cost of commercial insurance claims and puts the issue of undervaluation of insured assets firmly in the spotlight.

Post-pandemic supply chain bottlenecks, higher energy and transportation costs, and shortages of labor were already contributing to higher inflation at the start of 2022. Now the war in Ukraine has further fueled global inflationary and supply chain pressures, causing price shocks for a wide range of commodities, including energy, food and construction materials. In June 2022, inflation in the euro area hit its highest annual level since the creation of the euro currency in 1999, jumping to a record [8.6%](#)<sup>1</sup>. In the US, consumer price inflation reached 9.1% – [a 40-year high](#)<sup>2</sup>, while in the UK in May it was also at 9.1%, again [a 40-year high](#)<sup>3</sup>.

The consequences of such sharp increases in inflation will also be felt across most lines of the insurance industry in the short- to medium-term. Property and construction insurance claims, in particular, are exposed to higher inflation, as rebuilds and repairs are linked to the cost of materials and labor (claims in North America had already seen an inflation-driven claim cost increase in the upper single digits as of end 2021, prior to the Ukraine war), while shortages of materials and longer delivery times inflate business interruption values. Other lines of insurance, such as directors and officers, professional indemnity and general liability, are also susceptible to inflationary pressures through rising legal defense costs and higher settlements. Ultimately, inflation can bring pressure on claims severity from multiple angles.

<sup>1</sup> Eurostat, Euro area annual inflation up to 8.6%, July 13, 2022

<sup>2</sup> The Wall Street Journal, US inflation hits new four-decade high of 9.1%, July 13, 2022

<sup>3</sup> The Guardian, UK inflation rises to 9.1%, its highest rate in 40 years, June 22, 2022



The aviation sector is another that is being challenged by inflationary pressures

## Rebuild costs soar

Supply chain disruption and rising prices are driving up replacement and rebuilding costs for property and construction claims. The cost of construction materials, including cement, timber and steel, have risen dramatically. Steel, for example, is almost 50% more expensive than it was a year ago, according to valuation company [John Foord](#)<sup>4</sup>. Construction inflation is around 11% to 25% in the US, UK and Germany.

“Inflation has accelerated in 2022 and is now at levels not seen in a generation. We have to keep a watchful eye on this issue, as a high inflationary environment leads to higher claims costs for property and construction in particular and brings additional challenges when adjusting claims,” says **Scott Inglis, Head of Global Practice Group for Property and Business Interruption Claims at AGCS.**

Inflationary and supply chain pressures are particularly acute during post catastrophe ‘demand surges’, where national or local resources are insufficient to meet demand for repairs and building materials following major storms and wildfires. For example, property damage claims from the December 2021 Colorado wildfires were inflated by a local surge in demand for building materials, already in short supply due to a post-pandemic rise in building works. [Timber prices were almost triple their pre-pandemic prices](#)<sup>5</sup>.

## Supply disruption hits BI values

Global supply chain disruption, shipping delays and labor shortages are also impacting business interruption claims, with longer waiting periods for parts and materials.

<sup>4</sup> John Foord, Inflation and its impact on reinstatement cost, April 22, 2022

<sup>5</sup> Insurance Journal, AM Best says demand surge and inflation to amplify Colorado wildfire losses, January 12, 2022



## Rotable and repair issues in aviation

The aviation industry (and consequently, aviation hull insurance) is also feeling the impact of inflation and supply chain disruptions. AGCS has a number of clients who are experiencing supply chain issues with their rotables – aircraft components that need to be rotated at frequent intervals. Fewer repair shops and less competition is further restricting supply. With labor force shortages, what once would have been a repair situation can often turn into a replacement scenario. Delays in repairs and replacements can impact the size of the final claim. Another observable trend is the increased use of composite materials for new aircraft construction (versus aluminum/alloy) that further drives up the cost of repairs to such aircraft.

Ongoing Covid-shutdowns in China, port congestion and shortages of truck drivers have increased delivery and repair times. Shipping cargo turnaround by major carriers has risen up to 60 days from the normal [50 days](#)<sup>6</sup>, which means 20% more containers were ‘in shipment’ than was the case in 2019, while 20% of the world’s 9,000 active container ships are currently sitting in traffic jams outside congested ports. In addition, the average time that containers offloaded from ships sit on docks has risen to over seven days compared to the pre-pandemic two-day average.

The global energy crisis, made worse by the Ukraine conflict, is also driving up costs and disrupting supply chains, with power outages in China and temporary production stoppages for energy-intensive products like fertilizer, paper and aluminum. The price of gas in Europe, for example, is five times a year ago, while the price of jet fuel is [120% higher](#)<sup>7</sup>. The cost of shipping a container on the world’s transoceanic trade routes increased seven-fold in the 18 months following March 2020, while the cost of shipping bulk commodities spiked even more, according to the International Monetary Fund (IMF)<sup>8</sup>.

## Labor shortage adds to delays and costs

Tight labor markets are also driving increased claims severity for large claims. In what has been described as the ‘Great Resignation’, skilled and unskilled workers are in short supply as many have changed career or taken early retirement, just as demand soared after the pandemic. The American Trucking Association (ATA)<sup>9</sup> estimates that the US is short of 80,000 truck drivers. In the UK, job vacancies outpaced unemployment in the first quarter of 2022 for the first time on record.

Increased competition for workers and higher wages drives up repair costs, as well as the cost of defending legal claims. Annual US legal services inflation is already at [4% in 2022](#)<sup>10</sup>.

## Legal defense costs remain a key concern

Inflation is also a concern for liability claims, which are already experiencing rising defense costs and ‘social inflation’ in the US. Rising legal defense costs continue to inflate liability claims, including those for directors and officers, professional indemnity and product liability.

<sup>6</sup> Reuters, Hapag-Lloyd CEO says shipping still in the thick of supply chain disruptions, September 30, 2021

<sup>7</sup> International Air Transport Association, Jet Fuel Price Monitor

<sup>8</sup> International Monetary Fund, How soaring shipping costs raise prices around the world, March 28, 2022

<sup>9</sup> BBC, How will the US deal with a shortage of 80,000 truckers? November 8, 2021

<sup>10</sup> Legal services price inflation since 1986

“US inflation has hit a 40-year high. We have yet to see this filter through, but it is likely to influence future D&O claims through larger settlements and higher pre-judgement interest rates. It could also further drive up defense costs, with higher salaries and hourly rates,” says **Angela Sivilli, Co-Head of Global Practice Group for Commercial D&O and Financial Institutions Claims at AGCS.**

Increased litigation costs, fueled by for-profit litigation funders, higher jury awards for personal injury claims and shifting societal attitudes, already continue to drive ‘social inflation’ in the US, contributing to higher severity general liability and workers compensation claims. The average size of large awards in the US rose by 26% for general liability cases between 2010 and 2019, according to [Swiss Re<sup>11</sup>](#).

## Inflation puts underinsurance in the spotlight

Insured values are a pressing concern for the insurance industry and will become a major discussion point with insureds in 2022, as high inflation raises the risk of underinsurance for companies and mis-declared values for insurers. Claims values and insured limits will likely be under increasing scrutiny.

“Underinsurance and undervaluation of insured assets will be a topic of growing importance through the course of 2022,” explains **Philipp Cremer, Global Head of Claims Performance & Liaison at AGCS.** In a high inflationary environment, it is important that businesses regularly monitor the value of assets, as well as the implications for the costs of replacement or business interruption, Cremer notes.

“Inflation is reaching levels not seen for four decades in some countries, driven by supply chain disruption, higher energy costs and changes in the workforce,” says Cremer. There are many macro-economic variables at play, compounding monetary inflation and leading to higher costs of claims for property and casualty insurance.”

If companies fail to maintain accurate valuations of assets, replacement values and business interruption exposures, the prospect of being underinsured becomes more likely. Low valuations of insured assets could lead businesses to purchase limits that fall below rising values or reinstatement costs.

## Accurate declared values are key

Therefore, the accuracy and timeliness of valuations provided by companies when obtaining insurance – known as the declared value – is crucial. In a high inflation environment, and with the growing complexity of large losses, insurers also risk underpricing exposures where they rely on declared values that do not truly reflect the reinstatement costs.

The insurance market has already seen a number of claims where there has been a significant gap between the insured’s declared value and the replacement value paid by insurers. For example, in a claim for a commercial property destroyed in the 2021 Colorado wildfires the rebuild value was almost twice the declared value, due to a combination of inflation, demand surge and underinsurance. Meanwhile, for a marine insurance claim, the actual vessel value was 50% higher than the declared value.

Companies need to maintain accurate valuations of assets, replacement values and business interruption exposures

“Insurers have to make sure that we capture increased values at the point of pricing,” says Cremer.

There is also some discussion in the insurance market as to whether specific clauses addressing the risk of undervaluation should be brought back into wordings if asset values are not updated.

“AGCS will be working together with clients and brokers in the run up to renewals to update asset values and ensure clients have appropriate cover that is fit for purpose, understood and appropriately priced and financially monitored in our portfolio. Nobody wants a dispute about underinsurance after the loss. It’s much better for all parties to get the right value and charge the right premium in the first place,” says Cremer.



Underinsurance and undervaluation of insured assets is a topic of growing importance





Insured losses from the war are difficult to estimate

### Claims issues to watch

# Ukraine invasion: claims activity manageable, but uncertain

Outside of the human tragedy, the war in Ukraine is likely to result in a significant, yet manageable, loss for the global insurance industry. However, specialist sectors, such as aviation insurance, could suffer disproportionately, with significant uncertainty around how claims might develop or materialize going forward.



## Aviation and political risk to drive industry losses

The largest exposure related to the conflict is likely to come from aviation insurance lines, in particular special war covers for aircraft leasing companies such as 'lessor contingent all risk' or 'contingent war'. Around [400 of the 500<sup>14</sup>](#) commercial aircraft (valued at around \$10bn) leased by Russian airlines before the war remained in Russia at the beginning of May 2022. [Air Lease Corp<sup>15</sup>](#) said in April it would write off leased aircraft trapped in Russia valued at \$802mn, and that it would seek to recover losses from its insurers.

Notifications have been made to the insurance market by aircraft leasing companies, although this unprecedented situation is complex in terms of policy and legal interpretation and could take many years to resolve. AGCS does not have exposure as it withdrew from this niche segment some years ago. Potential claims will mainly affect Lloyd's insurers and the global reinsurance market. The insurance market is also likely to pay sizable claims for political risk/political violence policies, as well as for marine and cargo insurance due to the impact on merchant shipping.

## Future claims scenarios for D&O, cyber and CBI

The conflict could also result in claims for other lines of business, such as directors and officers (D&O) insurance. Companies that have written-off Russian assets could potentially face claims from investors at a later date, while the knock-on effects of the conflict create a heightened risk environment, such as through sanctions, disclosure and financial market volatility. The cyber insurance market, which is already experiencing elevated activity in recent years, could also see an uptick in claims should the war spill over into the cyber space, although this threat has yet to materialize.

Industry-wide insured losses from the war in Ukraine are currently difficult to estimate, although the conflict has the potential to become one of the largest man-made catastrophe losses in modern times. Property Claims Services (PCS) has predicted that aggregate industry insured losses from the war could exceed [\\$20bn<sup>12</sup>](#), while ratings agency Standard & Poor's predicted losses of up to [\\$35bn<sup>13</sup>](#).

From an AGCS perspective, as of the beginning of May 2022, currently around a dozen claims have been notified. "But this is only a snapshot as the war is still ongoing," explains **AGCS Chief Claims Officer and board member, Thomas Sepp**. "However, we do not expect a major wave of claims like those caused by the Covid pandemic. As tragic as the events in Ukraine are, with so many human lives and property assets being senselessly destroyed, our exposure as a corporate insurance carrier is limited."

<sup>12</sup> Reinsurance News, Ukraine conflict industry loss could exceed \$20bn: PCS, April 18, 2022

<sup>13</sup> Reuters, S&P Global says Russia-Ukraine insurance losses could reach \$35bn, March 31, 2022

<sup>14</sup> Reuters, Moscow says all foreign leased aircraft will remain in Russia, March 31, 2022

<sup>15</sup> US Securities and Exchange Commission Filing, April 19, 2022



Indirectly, the war in Ukraine has caused a spike in energy prices, which has further driven up inflation

The situation in Ukraine also gives rise to potential scenarios for contingent business interruption claims, although such losses are typically only covered when caused by insured property damage, such as from a fire or a flood. Many corporations around the world have production hubs or suppliers in Ukraine or are reliant on raw materials from Russia and Ukraine. Several automotive manufacturers temporarily halted production after car-part manufacturers in Ukraine shut down at the start of the war, while food manufacturers are having to substitute sunflower oil from Ukraine (the world's biggest exporter of sunflower oil) for other ingredients.

Indirectly, the war in Ukraine has caused a spike in energy prices, which has further driven up inflation, which could in turn lead to higher repair and rebuilding costs for property claims, as well as higher business interruption losses. For example, high oil prices can drive higher business interruption claims in the energy sector.

### Losses to fall on reinsurers and specialty markets

With total losses estimated at between \$10bn and \$35bn, the conflict would be a manageable event for the insurance industry, although it would be material for the sectors most affected.

PCS said that potential aviation losses are currently estimated at around \$7bn to \$10bn, which would make it the largest aviation insured loss event in history. Marine losses are said to be around \$5bn while energy claims are thought to be around \$2bn, with wind farms alone likely sustaining as much as \$850mn in losses.

“Current expected insured losses from the war in Ukraine are comparable with a mid-sized natural catastrophe, but for specialist markets like aviation, losses could become large indeed. However, overall, this is a manageable loss for the insurance industry, and one that is likely to fall to the reinsurance market, rather than impacting direct insurers,” says **Philipp Cremer, Global Head of Claims Performance & Liaison at AGCS.**

### War exclusions to limit exposures

Insurers’ exposure to the conflict are limited by war exclusions, which are standard in most property/casualty insurance contracts. Where affirmative war cover is offered – typically for aviation and shipping risks – AGCS withdrew this cover at the outbreak of the war, as is standard market practice, which assumes that insureds stop flying or shipping within the war zone as soon as possible. Insurers’ liability through affirmative war cover under political violence insurance is also capped by sub-limits and aggregate policy limits.

### Claims will be complex and uncertain

Managing claims related to the war is challenging, given the situation on the ground in Ukraine and the complex nature of claims. Loss adjusters are unable to make site visits in Ukraine, although AGCS is using publicly available satellite imagery and remote claims assessment tools to assess claims. Each claim is assessed on an individual basis and resolution is subject to policy wordings, including exclusions for war and sanctions. AGCS, which handles some 140,000 claims each year, has a number of claims related to Russian individuals and businesses where payments are currently prohibited under international sanctions.



## Managing claims related to the war is challenging, given the situation on the ground in Ukraine

The duration and outcome of the conflict is also a key factor shaping insured losses. Many policies with potential exposure remain on risk, and where claims are notified, losses may not yet have crystalized. Longer term, insurers could see further claims for property damage and business interruption, either directly related to the war or indirectly.

For example, over [100 ships<sup>16</sup>](#) were trapped in Ukrainian ports as of May, many without crew. In addition to physical damage related to the conflict, trapped ships could suffer damage – from grounding, collision or a machinery breakdown – where a lack of maintenance or crew is a contributing factor. It is also conceivable that vessels trapped indefinitely could be declared a total loss, depending on coverage terms and conditions.

“We can assume that the settlement of claims from a war that will last at least for many months, if not longer, will raise some new questions for the insurance industry,” Sepp concludes.

<sup>16</sup> ISWAN, 500 seafarers remain trapped on vessels stuck in Ukrainian ports, 1,500 evacuated since March, May 6, 2022

## Claims issues to watch

# Covid-19 losses settle, but pandemic effects linger

The pandemic has resulted in one of the costliest and most complex loss events ever for the insurance industry and its legacy continues to affect claims.

Insurance industry losses from Covid-19 are estimated at around [\\$44bn to date<sup>17</sup>](#), making the pandemic the third largest catastrophe loss behind Hurricane Katrina and the 9/11 attacks, according to insurance broker Howden. While sizable, the figure is far below estimates made in the initial stages of the pandemic, which predicted losses in excess of \$100bn.

“The pandemic was a significant event for the insurance industry and for AGCS, which is a leading insurer in the film and entertainment sector. Basically, all film, production and live events policies issued around the world were triggered by the pandemic,” says **Philipp Cremer, Global Head of Claims Performance & Liaison at AGCS**.

## Evolving situation for business interruption claims

The bulk of Covid-19 related claims were from event cancellation insurance and business interruption claims from companies affected by lockdowns. There have also been a small number of professional indemnity claims made against advisors, including insurance brokers related to business interruption cover.

In some instances, pandemic-related claims have yet to be fully resolved. Covid-19 business interruption claims have been subject to policy interpretation and court decisions in several countries, notably the UK, Australia and South Africa.

“Some £1bn of business interruption claims related to the pandemic have already been paid, but a number of important cases are being litigated in the UK and elsewhere, so this is still very much an ongoing issue. We might still see even new claims being brought forward possibly as late as next year,” says Cremer.

## Heightened risk for financial lines

Covid-19 liability claims under general liability and workers compensation insurance have so far been limited, although historically such claims take several years to materialize. However, the economic environment in the aftermath of the pandemic does pose a heightened risk for directors and officers (D&O) and professional indemnity insurance.

“Certainly we have received reports of claims and circumstances related to Covid, but for financial lines they have yet to make a significant impact,” says **David Ackerman, Co-Head of Global Practice Group for Commercial D&O and Financial Institutions Claims at AGCS**. “However, as the pandemic moves on, and the impact of Covid-19 evolves, it becomes an issue that is hard-baked into economic change, impacting everything from financial insolvencies to pharmaceutical development to supply chain disruption and inflationary pressures. We have always had to deal with a changing risk environment in financial lines insurance.”



The pandemic has had knock-on effects that ultimately impact claims, most notably heightened inflation and supply chain disruption

The number of D&O claims typically rises during times of financial market volatility, explains Ackerman. Inflation and rising interest rates, together with the war in Ukraine, have seen signs of volatility in markets, with recent falls in the values of tech stocks, Special Purpose Acquisition Companies (SPACs) and cryptocurrencies. The NDXT index of the 100 largest tech firms on the Nasdaq exchange is down by a third since its peak in November [last year](#)<sup>18</sup> while an [index tracking the value of large SPAC transactions](#)<sup>19</sup> is down 52% this year.

“There have been big movements in tech stocks, and we have not seen inflation rise to these levels in the past 30 years,” says Ackerman. “It is difficult to know how this will impact claims activity, but we see the potential for an increase in financial institutions and professional indemnity claims, in particular with regard to investment managers. But we do not know how persistent inflation will be or how impactful to the financial lines claims experience, at this stage.”

## Ripple effect to continue

The pandemic has had knock-on effects that ultimately impact claims, most notably heightened inflation and supply chain disruption. Supply chain disruption, and surges in demand for certain materials and components post Covid-19 lockdowns, are contributing to rising costs of property claims, according to **Scott Inglis, Head of Global Practice Group for Property and Business Interruption Claims at AGCS**. Shortages and/or delays in the supply of materials and components has resulted in longer restoration times and business interruption.

Covid-19 related shutdowns and disruption in China continue to cause delays to supply chains and shipping times. Rolling lockdowns in major cities, factory closures, port restrictions, as well as a shortage of truck drivers, have led to a sharp decline in [China’s export growth](#)<sup>20</sup>. In mid-April 2022, 506 vessels were waiting outside Shanghai’s port, according to [Windward](#)<sup>21</sup>, a shipping-analytics firm, almost twice the number in February.

Covid has also affected the labor market, prompting a number of people to change careers, take early retirement or seek a different work-life balance. The insurance industry has not been immune to these changes, with intense competition for skilled and experienced risk professions, including those working in claims.

“During the soft insurance market, investment in talent within the insurance industry declined and head counts reduced. Now we see increased competition for skilled specialists, driven by growth in the insurance market and new entrants at a time flexible working is opening up new opportunities for insurers for hiring, including in the claims function, where a significant part of the workforce work remotely,” says Cremer.

“A potential talent crisis is on the horizon, with growing competition for claims professionals. Future shortages could put pressure on claims costs and service,” adds Inglis.

<sup>18</sup> The Economist, Tech bubbles are bursting all over the place, May 14, 2022

<sup>19</sup> The Economist, SPACs raised billions. As mergers dry up, we follow the money, May 19, 2022

<sup>20</sup> Reuters, China’s exports growth hits 2 year-low as virus curbs hit factories, May 9, 2022

<sup>21</sup> The Economist, China’s extraordinary export boom comes to an end, May 14, 2022



Climate change is now a top boardroom issue

## Claims issues to watch

# ESG risks emerging as a future driver of liability losses

Claims activity around environmental, social and governance (ESG) and sustainability issues is increasing.

ESG-related risks are increasing, as governments and citizens exert pressure on businesses to change their ways for the greater good. Climate change is already a top boardroom issue, as companies face an array of physical- and liability-related risks from a more extreme climate and from the transition to a low- or no-carbon economy. However, social issues are also a growing area of exposure, from diversity and inclusion through to an organization's impact on local communities and supply chains.

## Climate change litigation on the rise

Climate change-related litigation is on the rise and is likely to become a significant source of liability exposure for companies and their directors in coming years. The directors and officers (D&O) insurance market has already seen claims related to climate change. California wildfires in 2018, for example, sparked climate change-related securities class action lawsuits. Companies increasingly face the prospect of litigation from activist shareholders seeking to influence company policy or compensation for alleged damage related to past pollution.

In a landmark case last year, a Dutch court ordered Royal Dutch Shell to cut its emissions by 45% [by 2030](#)<sup>22</sup> after an environmental group argued the energy company's fossil fuels activities threaten the human rights of future generations (Shell is appealing the ruling). Almost 2,000 climate change-related lawsuits have been launched around the world to date, of which around half have been filed in the past seven years, according to London's [Grantham Research](#)<sup>23</sup> Institute on Climate Change and the Environment.

## D&O insurers brace for ESG claims

Another potential exposure comes from claims of 'greenwashing' or 'climate-washing' litigation, where a company is sued by investors for unsubstantiated or misleading ESG claims, or the failure to match Net Zero commitments with action. With growing ESG and climate change reporting requirements, as well as changing public and investor attitudes to global warming, companies and their directors will face growing liability from climate-related disclosure and breach of fiduciary duty.

In May 2022, KLM made the headlines after environmental campaigners said they were suing the Dutch airline over 'greenwashing' adverts. Lawyers from ClientEarth are supporting Fossielvrij NL, a Netherlands-based campaign group, to bring a claim that KLM's ad campaigns give a false impression of the sustainability of its flights and its plans to address its impact on the [climate](#)<sup>24</sup>.

The implementation of proposed ESG reporting requirements in Europe and the US will make it easier to hold directors to account for the impact of their organizations on the environment and society, as well as adding a further level of reporting and disclosure.

"In D&O and other financial lines we see increased claims activity around ESG issues," explains **David Ackerman, Co-Head of Global Practice Group for Commercial D&O and Financial Institutions Claims at AGCS**. "For example, in the US and Europe we see growing environmental and biodiversity regulation, including reporting requirements. This has not led to large losses yet but may well do so in the future."

ESG is likely to become a significant source of liability exposure in the future, Ackerman adds. "We would expect to see more frequency of ESG-related claims for financial lines and D&O, although particularly around social issues, it's always difficult to foresee the issues, movements or trends that may drive claims activity in the future. We are very focused on analyzing and monitoring ESG risks and better understanding how they may evolve and translate to severity."

D&O exposures from ESG continue to grow, adds **Angela Sivilli, Co-Head of Global Practice Group for Commercial D&O and Financial Institutions Claims at AGCS**.

"Younger generations will not allow companies to continue investing in fossil fuels and carbon-intensive activities and will seek to hold companies and directors to account for their actions related to climate change, including claims for greenwashing. And while the focus of ESG is currently on climate change and board diversity, there are a host of potential topics for the future, such as biodiversity, sustainability and the wider impact of an organization on society."

## Environmental factors generate product liability claims

Environmental factors are also beginning to affect product liability and construction claims, according to **Birgit Vosper, Head of Global Practice Group for General Liability Claims at AGCS**. Extreme weather and unpredictable seasonal variations in climate could affect the quality and performance of building design and materials as the consequences of climate change intensify.

AGCS has been involved with a number of claims where products fail to meet performance expectations in changing environmental conditions. For example, AGCS has seen large claims where adhesives used in the windows of high-speed trains were affected by UV light, while claims have arisen from building cladding and paint finishes that failed to perform in extreme or unseasonal temperatures.

<sup>22</sup> The Guardian, Court orders Royal Dutch Shell to cut carbon emissions by 45% by 2030, May 26, 2021

<sup>23</sup> London School of Economics And Political Science / Grantham Research Institute on Climate Change and the Environment., Global trends in climate litigation: 2021 snapshot

<sup>24</sup> The Guardian, Climate group sues Dutch airline KLM over 'greenwashing' adverts, May 24, 2022

Ships wait to gain access to the port of Singapore during the Covid-19 lockdowns



## Claims issues to watch

# CBI claims spike with global supply chain disruption

2021 was the year of the contingent business interruption (CBI) claim, as global supply chains were buffeted by storms, fires and the pandemic.

Contingent business interruption (CBI) claims reached a new level over the past year, with the number of claims far in excess of recent years, according to **Scott Inglis, Head of Global Practice Group for Property and Business Interruption Claims at AGCS**.

The sharp increase exemplified the growing interdependence and complexity of corporate supply chains, which were hit by a combination of pandemic-related disruptions, extreme weather, and, more recently, the war in Ukraine.

For example, the 'Texas Big Freeze' in the US during February 2021 caused massive disruption to infrastructure, with many companies forced into temporary shutdowns by widespread power outages. Record freezing temperatures caused by Winter Storm Uri had cascading effects on companies and services reliant upon power, including water, transport and medical services. The event is estimated to have caused economic losses up to [\\$150bn](#)<sup>25</sup>, while Uri caused [\\$15bn](#)<sup>26</sup> in insured losses nationwide.

Less than a month later, a fire at a semi-conductor plant in Japan added to the growing global shortage of microprocessors, sending a ripple effect through global supply chains, hitting production in the automotive and electronics industries. The automotive sector was again hit with supply chain problems from the conflict in Ukraine, with the country being an important supplier of parts.

Global supply chains are creating opaque and complex exposures, with many companies reliant on a small number of key suppliers for materials, parts and services, explains Inglis. The interconnectivity of supply chains results in more CBI exposures and can have a substantial impact on various industries, sometimes in excess of \$1bn or more.

Fires, natural catastrophes, cyber-attacks and conflicts have added to existing strains on supply chains caused by the pandemic, with shutdowns at manufacturing plants and ports in China, delays to shipping and labor shortages. The 'Texas Big Freeze' in particular led to a number of large CBI claims that AGCS was involved with, as companies took several months to ramp up production following initial power outages.

The number of claims from this event and the large loss in the semi-conductor manufacturing sector more than tripled the number of CBI claims in the previous three years – overall CBI claims have increased in number year-on-year for the past five years.

"The corporate world is now so interconnected and complex, businesses rely on each other for goods, services and infrastructure," says Inglis. "Underwriters need to understand accumulations of exposures within corporate distribution and value chains, as well as the impact of disruption and actions taken to mitigate them."

<sup>25</sup> AccuWeather, Damages from Feb. winter storms could be as high as \$155bn, March 6, 2021

<sup>26</sup> Swiss Re, Global insured catastrophe losses rise to USD 112 billion in 2021, the fourth highest on record, Swiss Re Institute estimates, December 14, 2021

## Claims issues to watch

# Cyber claims stabilize, but remain elevated

Cyber insurance claims remain at elevated levels, given the ongoing threats posed by ransomware and supply chain attacks but there are some encouraging signs that improved cyber security and resilience measures are helping to contain losses.

Cyber insurance claims have increased significantly in recent years, driven by the rise of threats such as ransomware attacks, but also due to the uptake in cyber insurance. AGCS has been involved in more than 1,000 cyber claims a year for the past two years, compared with fewer than 100 in 2016. Cyber claims frequency has begun to stabilize however, albeit at elevated levels, according to **Joerg Ahrens, Head of Global Practice Group for Cyber Claims at AGCS.**

Recent years have seen criminals become more organized and better resourced; a development recognized in this year's [Allianz Risk Barometer](#) survey, where cyber was ranked as the top threat for companies by more than 2,600 risk management experts around the world. Ransomware was highlighted as the most concerning peril within this category by respondents – year-on-year attacks increased by 13%, a jump greater than the past five years combined, according to the [Verizon Business 2022 Data Breach Investigations Report](#)<sup>27</sup>. A ransomware trend that often goes under the radar is double extortion, where the ransomware attack is actually subterfuge for stealing data as well. In short, companies can get hit twice from the same incident.

For many businesses, the past couple of years have also been dominated by supply chain issues, and this trend is reflected across the cyber security landscape – more than 60% of system intrusion incidents come through an organization's partner, according to the Verizon report.

Firms often take cyber security actions, but widely overlook their vendors or digital supply chains, with only 43% saying they had conducted a risk assessment of their vendor or supply chain, according to [Marsh and Microsoft's](#)<sup>28</sup> latest annual global cyber risk survey, which quizzed over 1,000 respondents. Such oversights mean business interruption losses can escalate, particularly when larger companies and their digital supply chains are targeted.

"We have seen a number of concerning supply chain cyber-attacks in recent years (although these have not resulted in significant claims for AGCS)," says Ahrens. "Compromising the right partner can be a powerful weapon in the cyber criminal's arsenal and highlights the difficulties that many organizations face in securing their digital supply chains. AGCS has been working with its customers to prepare and invest in the resources necessary to react to these and other huge cyber threats."

Gone are the days when companies bought insurance against cyber-attacks instead of investing in attack protection technology themselves. The two have to go hand in hand.

"We've also seen a lot of investment over the past 12 months by our customers, and generally in the marketplace of organizations improving their cyber maturity levels, because of the heightened risks that now exist," says Ahrens. "Companies really need to think about disaster recovery planning, put their plans to the test and then regularly test them. Ultimately, if the cyber maturity levels are there, they're going to be able to obtain better cyber insurance coverage as a result and that is where the partnership between insurer and insured really comes to the fore."

PASSWORD  
ATTACK  
DANGER  
SOBND  
BUG  
GHNSO



Companies need to  
prioritize their disaster  
recovery planning



A number of trends are likely to keep D&O claims elevated for the foreseeable future

## Claims issues to watch

# Legal costs and derivative settlements continue to rise

Inflationary pressures and higher severity shareholder derivative actions are among a number of trends driving elevated directors and officers insurance claims.

US securities class action filings, historically a major driver for directors and officers (D&O) insurance claims globally fell in 2021, and were well below the elevated levels seen between 2017 and 2019, in large part due to the decline in merger objection lawsuits. However, a number of trends are likely to keep D&O claims elevated for the foreseeable future.

Despite a reduction in 2021, securities class action filings are still above historical levels, and there are even signs that the value of class action settlements may be increasing, while a growing number of jurisdictions are allowing class, and other forms of collective, actions, including China and Saudi Arabia. The growth of so-called Special Purpose Acquisition Companies (SPACs) – also known as blank-cheque companies – has also generated a number of losses for the D&O market. At least 25 companies that merged with SPACs between 2020 and 2021 have issued so-called going-concern warnings in recent months, according to research firm, [Audit Analytics](#)<sup>29</sup>.

According to **Angela Sivilli, Co-Head of Global Practice Group for Commercial D&O and Financial Institutions Claims at AGCS**, higher settlements for shareholder derivative actions and rising defense and containment costs are two notable trends driving the cost of D&O claims.

“Claims severity has gone up. For example, shareholder derivative lawsuits typically result in small settlements or corporate therapeutics, like changes to the board. Now we see these cases settle for several hundreds of millions of dollars. We are also seeing larger settlements for cases in arbitration,” says Sivilli.

Litigation risk continues to be a top D&O concern, according to **David Ackerman, Co-Head of Global Practice Group for Commercial D&O and Financial Institutions Claims at AGCS**. Over the past two and half years, a group of plaintiffs’ firms filed more than 10 derivative lawsuits in New York state courts on behalf of shareholders of non-US companies pointing to heightened US litigation risk for directors and officers of non-US domiciled companies. While the recent dismissal of two of these cases may serve to stem this trend, it should be noted that the same judge who dismissed one of these lawsuits earlier had denied a motion to dismiss another derivative suit involving a non-US domiciled company. At the very least, this risk bears watching, Ackerman notes.

Legal and defense costs continue to rise, a trend that will no doubt accelerate with inflationary pressures on salaries and fees. D&O insurers’ defense costs increased 39% in 2019 and 14% in 2020, falling back to just 4% in 2021, although this may have reflected delays in court cases during the pandemic, according to [AM Best](#)<sup>30</sup>.

“Attorney fees continue to rise, and we have seen big increases in hourly rates at leading firms. Partners’ fees can be as high as \$1,800 per hour, compared with \$1,000 just five years ago. With the US inflation rate now at over 8%, legal costs are likely to rise further,” says Sivilli.

D&O losses continue to be dominated by so-called event-driven claims, although accounting issues and insolvency remain an important driver for many claims. Recent years have seen large D&O claims arising from a wide range of events, including natural catastrophes, the Covid-19 pandemic, air crashes, emissions scandals, cyber-attacks and product liability. “Almost every D&O claim is now driven by an event or a merger,” says Sivilli.

<sup>29</sup> The Wall Street Journal, SPACs are warning they may go bust, May 27, 2022

<sup>30</sup> AM Best, Best’s Special Report: U.S. Directors and Officers Insurance Market Posts Best Results Since 2014, May 9, 2022

## Claims issues to watch

# Adhesives and quality issues increase cost of liability claims

Modern manufacturing methods and quality issues are driving up the cost of certain liability claims. Defective products are one of the most expensive causes of business insurance claims over the past five years, AGCS analysis shows.

The growing use of industrial adhesives in electronics and car manufacturing has led to a notable hike in the cost of product liability and recall claims, according to **Birgit Vosper, Head of Global Practice Group for General Liability Claims at AGCS**. Recent years have seen a marked increase in the use of adhesives to bond components, making repairs more complex and expensive, often requiring the substitution of an entire unit or surrounding.

“As more manufacturers have reverted to the use of glue and industrial adhesives, we have noticed a significant increase in repair costs over the past 18 months. Some repairs are at least 25% more expensive, if not more, due to the use of adhesives,” says Vosper.

The cost of construction liability claims is also rising with quality issues related to products manufactured in some parts of Asia. In particular, a number of construction projects have been delayed due to Chinese steel that failed to meet local quality standards. Companies and insurers often must bear the cost of quality issues as litigation and subrogation claims against product manufacturers in China are difficult to pursue successfully.

“The location of production can be a big factor in claims costs,” says Vosper. “We recently had a claim for a €300mn infrastructure construction project in Germany where the steel from a supplier in China was not fit for purpose. This is an issue we see more and more often.”

The growing use of industrial adhesives in electronics and car manufacturing has led to a hike in the cost of product liability and recall claims





More innovative designs, new materials and construction methods are creating fertile ground for large liability claims

## Claims issues to watch

# Complex construction projects generate large PI claims

Construction professional indemnity (PI) insurance claims have been rising with the growing complexity of projects.

More innovative designs, new materials and methods of construction are creating fertile ground for large liability claims against architects, engineers, developers and construction companies. Large complex construction projects increasingly rely on input from external professionals that are highly specialized in providing technical expertise in their fields, such as water resources and environmental engineers, geologists, metallurgists or design architects. However, errors in data, statistical process control, detailed design and performance assessment or simply poor advice are leading to problems that are difficult and expensive to rectify.

AGCS, and other insurers, have experienced an increase in the frequency and severity of large construction-related professional liability claims, both for project-based cover and annual contracts, explains **Diego Assef, Head of Global Practice Group for Professional Indemnity Claims at AGCS.**

“Complex projects – where new technology, materials and innovative building designs are pushing boundaries – are where we see the biggest and most complex claims against professionals and construction companies for design work and supervision of works. In particular, we have seen claims relating to third party specialists, such as geologists used in designing highways, or specialist engineers for designing cladding, ventilation, heating and air-conditioning systems for hospitals and residential buildings,” says Assef.

The construction industry has seen large claims related to the use of external cladding on high-rise buildings, which has led to a number of fires, including the Grenfell Tower fire of 2017 in the UK, in which 72 people tragically lost their lives. Similar fires have occurred in the Middle East, Asia, Australia and Europe, leading to calls to remove unsafe cladding from residential buildings.

“Cladding related liability claims are complex, involving many parties, including developers, design architects and engineers, contractors and manufacturers. Establishing liability is not always possible, and recoveries are complex. For instance, many small firms have since become insolvent and larger ones might be heading towards the same fate depending on the changes in legislation that are forthcoming in different jurisdictions around the globe,” says Assef.

In response, the [UK<sup>31</sup>](#) has proposed the retroactive extension of the limitation period – for building owners and occupiers to seek compensation for defective work or material – from six to 30 years. Similar measures to extend the limitation period have been introduced [in Australia<sup>32</sup>](#). Extending the limitation period could result in new claims being filed against professionals and manufacturers related to defective cladding, according to Assef.

“The proposed changes to UK building law would extend the limitation period and possibly shift the burden of defective cladding claims to developers, which could initiate a domino effect on all other involved specialists in the construction project such as architects and engineers, leading to a second wave of cladding-related claims for the insurance industry,” Assef concludes.

<sup>31</sup> Gov.UK, Redress: factsheet, April 5, 2022

<sup>32</sup> Urban Lawyers, Limitation period for combustible cladding claims extended to 15 years, March 27, 2022

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