Executive Summary

Modern corporate liability exposures can arise from many sources including third parties, products, the environment, as well as a host of other emerging risks, driven by increasing global interconnectivity and ever-growing reliance on new technology. While improvements in risk management and safety regulation are leading towards a gradual reduction in everyday incidents such as slips and falls, accidents and workplace injuries in developed markets, there is increasing potential for larger liability claims to become more expensive, complex and international, demonstrating the pervasive and long-term nature of liability losses.

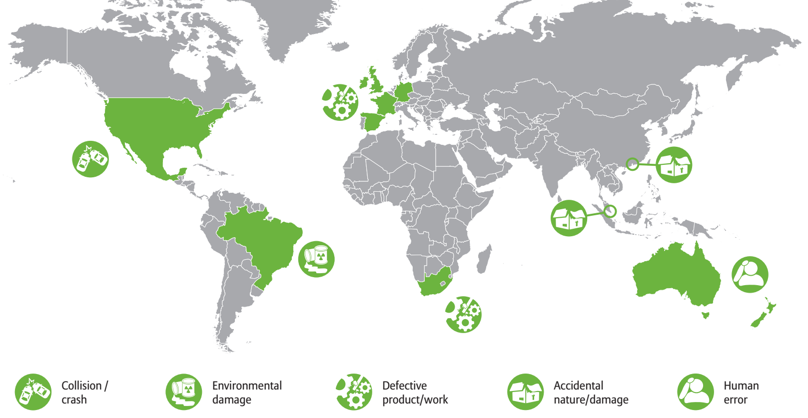
Top causes of liability loss analysis

Defective product/work incidents are the top cause of liability losses for businesses globally, based on analysis of more than 100,000 claims from 100+ countries over five years. These account for almost a quarter (23%) of the value of all claims received. The number of incidents has been rising, while today's complex global supply chains can result in larger claims, which are more challenging to settle.

Safety improvements have led to a recent reduction in the number of **collision/crash** incidents overall. However, the impact of such events is still a major driver of liability loss, accounting for over a fifth (22%) of the value of all claims.

Human error is the third top cause of liability loss (19%), although it accounts for around just 1% of all claims received by insurers. While this loss category focuses on the impact of everyday employee errors in the workplace it also includes the effect of much larger events where human error has been a factor, such as in aviation or shipping accidents.

Top causes of liability loss for businesses around the world*



*according to value of claims. Total number of claims analyzed 100,073. Analysis does not include financial lines claims. Source: Allianz Global Corporate & Specialty

Top 10 causes of liability loss by total value of claims (2011-2016*):

1	Defective product/work	23%
2	Collision/crash	22%
3	Human error	19%
4	Accidental nature/damage	6%
5	Slips/falls/falling objects	6%
6	Water/fire/smoke damage	3%
7	Environmental damage	3%
8	Natural hazards	2%
9	Vandalism/terrorism	1%
10	Property damage	1%

*Causes of loss detailed above include awards for cases of bodily injury/death. Analysis does not include financial lines claims. Source: Allianz Global Corporate & Specialty

100,073
Total number of claims analyzed

€8.85bn
Total value of claims analyzed

€88,408
Average value of liability claim

€2,712
Median value of liability claim

100+
countries in which claims arose

80%+
of the value of all losses can be attributed to 10 causes

Liability claims trends

Impact of collision/crash and **slips/falls/falling objects** are the most frequent liability claims for insurers, accounting for almost half (48%) of all claims by number. However, the frequency of these claims has been declining in many major casualty markets, a reflection of improvements in risk management and better safety regulation, as well as a shift away from heavy industry.

Conversely, there is increasing potential for large liability claims to become more expensive, complex and international. Industrial, environmental, product liability and financial lines claims in excess of $1bn[1] are more commonplace and are no longer confined to just the US and Europe.

The emissions testing issues in the automotive industry are an example of just how complex liability losses can become, giving rise to multi-jurisdictional regulatory investigations and litigation. While very large liability losses can impact individual companies, they also can trigger systemic risks that can affect many companies within a given sector.

Regulators around the world have become tougher, making corporations and their directors more accountable, while investor activism has been on the rise. At the same time, consumer protection laws have been strengthened in many countries and US-style litigation continues to spread around the globe. There is now greater awareness among consumers of compensation in countries such as China, Singapore and Japan. Meanwhile, liability claims for specialist insurance such as cyber risk and environmental liability are expected to increase in Asia as such coverages become more widely purchased.

Large environmental liability claims, such as pollution, are increasing, particularly from the mining and construction sectors. Such claims can be complex, costly and take a long time to settle. They can be particularly challenging in emerging markets, given cultural differences, language and legal systems that may be different to US and European courts.

Global class actions will become more significant. Although class actions by consumers and investors remain a largely US affair, collective redress is taking on a more international dimension, including in Europe.

Liability losses can range from everyday occurrences to the major disaster events which make global headlines. However, they can also incorporate more unusual events. For example, almost 2% of liability claims analyzed involve animals. Deer are the most dangerous due to collisions with vehicles, while bedbugs are an increasing bugbear for insurers with the number of incidents increasing.

Future influencers

New technology will drive a big shift in liability claims. Broadly speaking, the frequency of claims is expected to decline, although this will be accompanied by new threats, such as increasing cyber and product liabilities and recall risks. Business models in the digital economy are more complex and without borders, making liability harder to apportion and claims more complex to settle. Automation is likely to lead to increased product liability for machinery and component manufacturers and software providers in particular.

The rise of **autonomous driving** will have a number of implications for insurers. Technology is likely to contribute towards a decline in car ownership in favor of motor fleets, car-sharing and driverless taxis. This could see insurers move away from providing millions of single annual motor insurance policies to drivers, instead providing large policies purchased by manufacturers and fleet owners and operators. The shift to product liability will require insurers to develop technical expertise and not rely on historic data and driver profiling for pricing. Meanwhile, new manufacturing techniques such as **3D printing** could play a positive role in addressing rising business interruption exposures, but could also make it harder to trace products through the supply chain.

The growing **"sharing economy"** raises new questions for liability. For example, a road traffic accident featuring an autonomous car share vehicle could involve the vehicle manufacturer, software provider and the fleet operator, as well as third parties involved in the accident, again making liability potentially more challenging to apportion.

With liability claims becoming more complex and technical, investing in claims expertise and knowledge is just as important for liability lines as it is for property and specialty lines. As businesses grow ever more sophisticated and connected, insurers need to ensure that their claims handling processes stay up-to-date. For example, a road traffic accident involving a vehicle with advanced driver assistance technology requires claims handlers to understand sensors and algorithms to determine the cause of an accident. In the pharmaceutical space, legal requirements and regulation for drugs are becoming more complex, requiring more research to assess liability.

1 The Global Insurance Market Opportunities, Tenth edition, 2015 study by Aon identified 86 corporate liability losses in excess of $1bn since 1989.