PROPERTY CLAIMS TRENDS

Changes in corporate risk and demand for broader coverage to support the impact of innovative technologies are driving a trend towards increasing volatility in property claims, with larger claims, as well as supply chain and cyber losses.

1 INCREASING VOLATILITY AND SEVERITY

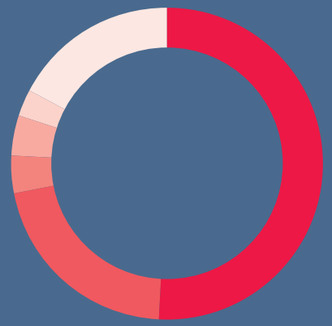
Analysis of AGCS claims shows an increase in the size of large losses, reflecting huge changes in how many sectors now operate. Globalization and the development of integrated supply chains are leading to much higher concentrations of insured values, both in terms of assets and business interruption (BI) exposures.

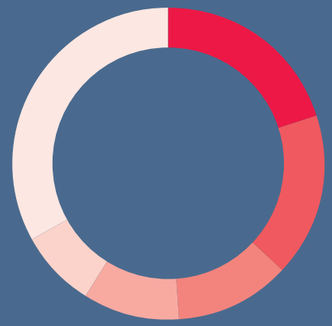
"In general, claims values are higher with inflation and greater concentrations in value," explains **Raymond Hogendoorn, Property and Engineering Claims Specialist at AGCS**. "For example, as manufacturing clients have become more efficient, the values per square meter have risen exponentially. Fire and flood claims are now much more expensive per square meter than even a decade ago."

One area where property claims have shown increasing volatility has been in natural catastrophes. Following a period of benign claims, 2017 brought a record year, marked by storms, wildfires and earthquake activity. After a quiet start, 2018 saw some large losses – Hurricane Florence resulted in unprecedented flooding in North and South Carolina, while California witnessed some of its biggest and deadliest wildfires on record.

"Top of the bill for largest losses were the storms and wildfires in the US in 2017 and 2018, although there have also been a number of large man-made losses, including dam breaches and industrial fires that will generate costly claims for insurers," says Hogendoorn. Although the frequency of natural catastrophe claims has not increased, the long term trend towards increased severity and volatility continues, in large part due to the steady increase in insured assets in catastrophe-exposed regions worldwide. Natural catastrophe claims in so-called emerging markets, for example, are becoming more costly with higher insurance penetration and economic activity. **Asia**, in particular, has seen an increase in large claims, especially **Japan**, but exposures are also increasing in other countries. In 2018, typhoons Mangkhut and Jebi caused extensive damage through wind, storm surge and flood in China, Hong Kong and the Philippines.

"Natural catastrophe losses in Asia are becoming more relevant as businesses invest in regions with significant exposures to storms, flooding and earthquakes, and as insurers like AGCS follow their clients into these markets," says Hogendoorn.





TOP CAUSES OF LOSS:
PROPERTY CLAIMS

Source: Allianz Global Corporate & Specialty. Based on analysis of **19,305** insurance industry claims between July 2013 and July 2018.

By value of claims

Fire/explosion	51%
Storm	21%
Flood	4%
Machinery breakdown/ failure	4%
Water damage	3%
Other	17%

By number of claims

Crime/disorder	20%
Water damage	17%
Storm	12%
Fire/explosion	10%
Machinery breakdown/ failure	8%
Other	33%

Fire accounts for over half of the value of all property insurance losses (51%).

Insurance claims resulting from crime/disorder incidents are the most frequently received, accounting for one claim in five. Such claims also include disruption caused by incidents such as strikes or civil commotions.

2 THE INNOVATION EFFECT

As companies have adopted new business models, with a greater reliance on technology and extended supply chains, insurers have responded with broader property insurance coverage. Natural catastrophe and geopolitical risks have also become an increasingly important factor as companies operate in a growing number of markets, or source products, components or ingredients from around the world.

Broader coverage has led to an increase in attritional claims (under €500,000 [$560,000]) for large commercial clients, as well as new types of covered losses. "Insurers are responding to the needs of customers by underwriting and affirmatively covering a broader array of perils, such as a BI loss arising out of a cyber event," says Hogendoorn. As a result, we see an increase in the number – and different types of claims – we now get claims that we would not have seen in the past, such as BI following loss of data."

3 LARGER AND MORE COMPLEX BI AND CBI ACTIVITY

Globalization and global supply chains has increased demand for contingent business interruption (CBI) cover, which can pay loss of revenues or profit arising from an insured event (such as a fire or flood) at a supplier's or customer's property.

"CBI claims are now more relevant as supply chains become leaner and with greater concentration on a smaller number of suppliers, particularly in industries like automotive, electronics and pharmaceutical. A small fire in these industries can cause huge CBI losses," explains Hogendoorn.

For example, in May 2018, a number of car manufacturers experienced disruption after an explosion and fire shutdown at a magnesium foundry in Michigan, USA, resulting in an estimated claim "in the higher three digit millions" for insurers. In 2017, a fire at a plant in the Czech Republic – which makes vehicle

Industrial fire claims are much more expensive per square meter than even a decade ago.
Photo: Adobe Stock

instrument and door panels – caused some car manufacturers to halt production of certain models, resulting in a similar value of claim.

In addition to an increase in CBI claims, there has been a general shift towards BI claims in general, which are typically more complex and lengthy to settle. This reflects the potential increased impact of property damage on a business and its supply chains, as well as the trend towards buying higher limits of BI cover.

"If you look at the larger claims on my desk, the ratio is gradually moving towards bigger BI claims. A few years ago the split was 50:50 property damage to BI, but now the proportion of the latter has grown further," says Hogendoorn.

4 NEW LOSS SCENARIOS

With changes in business models, the insurance needs of large corporates are also changing. In addition to protecting physical assets, companies are also seeking coverage for perils such as non-physical damage BI, for example. The corresponding evolution in insurance is resulting in new types of loss scenarios and claims for property insurers, according to Hogendoorn.

"As wordings have broadened the range of loss scenarios has increased. For example, we have seen a large BI claim from recent civil unrest in Vietnam. Companies become more prone to such risks as they operate in a growing number of countries where such incidents can occur," says Hogendoorn.

5 THE CYBER EFFECT

Incidents of cyber-related property damage, BI and CBI are growing. For example, semi-conductor maker Taiwan Semiconductor Manufacturing Company, a key supplier to Apple, lost over a day of production after a virus infected machinery at plants in Taiwan in August, 2018. The virus was a variant of **WannaCry**, the ransomware that affected multiple companies in 2017 and affected a production facility at Boeing in March this year.

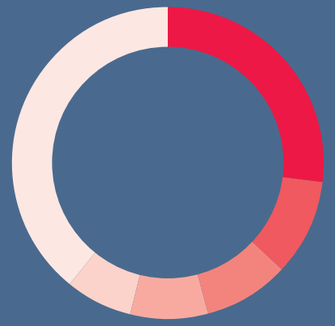
"Connected machinery and the Internet of Things are beginning to play an important role in our clients' businesses, but they open these companies up to the risks of hacking, outages, technology-related malfunctions and human error," says Hogendoorn.

The greater use of technology has resulted in the emergence of cyber-related claims for property insurers, in particular in North America where companies are more inclined to purchase cyber cover. In particular, property insurers have seen an increase in BI claims resulting from cyber-attacks, according to Hogendoorn.

"We have seen a number of property damage and BI claims triggered by cyber incidents, with claims that exceed one hundred million dollars. This increase is, among others things, related to the growing number of policies with cyber exposure," says Hogendoorn.

6 INSURTECH IMPROVES CLAIMS PROCESS

Insurers are now working with and testing a range of new technologies, from drones to robotics, to speed up the claims process and improve service.



TOP CAUSES OF LOSS:

ENGINEERING CLAIMS

Source: Allianz Global Corporate & Specialty. Based on analysis of **13,599** insurance industry claims between July 2013 and July 2018.

By value of claims

Fire/explosion	**27%**
Defective products	**17%**
Faulty workmanship/ maintenance	**15%**
Storm	**10%**
Water damage	**4%**
Other	**27%**

By number of claims

Defective products	**27%**
Storm	**10%**
Faulty workmanship/ maintenance	**9%**
Water damage	**8%**
Fire	**7%**
Other	**39%**

Fire is responsible for more than a quarter (27%) of the value of all engineering insurance losses.

Together, defective products and faulty workmanship account for more than a third (35%) of all engineering claims.

AGCS has been employing machine learning and examining robotics in order to improve the claims process for low-value, high-frequency commercial claims. According to Hogendoorn, somewhere between 60% to 70% of claims AGCS sees are under €10,000 ($11,300) in value. Robotics can speed up repetitive and labor-intensive tasks, such as reading emails or documents, collecting and processing claims data, as well as automating certain tasks, like claims authorization or payment.

Potentially, straightforward claims could be paid within a day, rather than the current industry average "of weeks", explains Hogendoorn. More efficient settlement of smaller claims will improve service and free up claims management resources for larger more complex claims.

Insurers have also been using satellite imagery and drones to assess damage, such as following a major catastrophe or an industrial disaster. Drones and satellite imagery were used to assess damage from recent storms in Europe and hurricanes in the US, providing faster loss estimates that enabled insurers to better allocate resources and potentially make earlier claims payments.

However, complex and large claims will continue to require the human touch, although technology should help improve communication. Big data and analytics will also play a part, enabling insurers to gain more insights into claims statistics and feed information and advice back to clients. "The challenge is to reduce the high cost of claims handling in our industry," says Hogendoorn. "We need to keep our customers happy, while at the same time deal with a growing compliance burden."

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