Global Claims Review 2022

Trends and developments in corporate insurance losses
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Our expert AGCS Chief Claims Officer Thomas Sepp

Dr. Thomas Sepp
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Allianz Global Corporate & Specialty
Allianz Global Corporate & Specialty at a glance

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.

More than 4,250 employees worldwide of some 80 nationalities in more than 30 countries.

Diversified risk portfolio and capital efficiency offers long-term stability.

Managing some 2,400+ lead programs for international insurance solutions.

Market leading capacity – to handle the largest risks.
Our claims approach

Understanding Your Needs
At Allianz Global Corporate & Specialty (AGCS), our Claims philosophy is solution-oriented.

We’re committed to finding preferred solutions with big picture thinking in respect of large and complex policies, building trusting relationships with you based on continuity of experience:
• We value an honest dialogue
• Transparency of communication
• Consistency, speed and ease of service delivery

Capabilities
600+ Claims handlers
6 regional units
16 Global Practice Groups providing top experts in specific claims categories

Attitude
Our Claims philosophy is solution-oriented and prioritizing a ‘no surprises’ culture.

Settlement Experience
Our Claims settlement process is based on upfront and regular communication.
For specific customer requirements we offer Claims Protocols for a transparent experience

Value-added Services for Key Clients
Claims Scenario Testing
Regular stewardship and review meetings
Claims insights and trend updates
Customer & Broker feedback

### AGCS annual customer survey

**Net Promoter Scores**

- **AGCS:**
  - NPS Overall: -20
  - NPS with Claims Experience: -10

- **Competitor 1:**
  - NPS Overall: -20
  - NPS with Claims Experience: -10

- **Competitor 2:**
  - NPS Overall: 0
  - NPS with Claims Experience: 0

- **Competitor 3:**
  - NPS Overall: 10
  - NPS with Claims Experience: 10

- **Competitor 4:**
  - NPS Overall: 20
  - NPS with Claims Experience: 20

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### Claims to claims broker feedback from global broker

**How do you score the AGCS claims team you work with? (Average)**

- **Behavioral:** 3.8
- **Technical:** 4

**I would recommend AGCS as your lead insurer because ...**

- 32.50%: Yes
- 62.30%: Maybe
- 5.20%: No

**... if you have a claim, AGCS’ claims is not looking to find reasons to not pay**

- 31.20%: Yes
- 61.00%: Maybe
- 7.80%: No

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1) Net Promoter Score (NPS) = (% of promoters) – (% of detractors). It is based on a scale of -100 to +100

2) Based on > 120 responses
This report focuses on global developments in corporate insurance claims over the period January 1, 2017, to December 31, 2021.

Findings are based on the analysis of 534,456 corporate insurance claims from 207 countries and territories.

Total value of claims is €88.7bn – almost €48mn every day for five years to cover losses.

Claims figures quoted are 100% of the total loss and include shares of other insurers.

Almost 75% of all financial losses arise from just 10 causes.
Top causes of loss
A lot has happened in the past five years....
...but sound risk management remains essential

Top 10 causes of corporate insurance claims

- Fire/explosion: 21%
- Natural catastrophes: 15%
- Faulty workmanship/maintenance: 9%
- Aviation collision/crash: 9%
- Machinery breakdown: 5%
- Defective product: 5%
- Shipping incidents: 3%
- Damaged goods: 3%
- Negligence/misadvice*: 2%
- Water damage: 2%

* 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)

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 €681.7bn in value. Claims total includes the share of other insurers in addition to AGCS.
Top risks in focus
Fire and explosion is the top cause of losses

- Despite improvements in risk management and fire prevention, fire/explosion (exc. wildfire) is the top cause of corporate insurance losses globally, accounting for 21% of the value of all claims. Fires are responsible for 13 of the top 20 loss events analyzed (exc. natural hazard events).
- On Fires Insurance companies have paid out more than €18bn worth of insurance claims in five years.
- 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. Soaring inflation will only challenge claims costs further.
Natural catastrophes - losses continue to rise

• Natural catastrophes (15%) ranks as the second top cause of loss globally. Collectively, the top five causes are hurricanes/tornados (29%); storm (19%); flood (14%); frost/ice/snow (9%); and earthquake/tsunami (6%).

• During 2021, the ‘Texas Big Freeze’ in the US and flooding in Germany stood out as events that were both large but had unexpected claims.

• Growing relevance of business interruption in property insurance. The average BI property insurance claim now totals €3.8mn+ compared with €3.1mn over the five-year analysis period ending in 2017.
Faulty workmanship/maintenance incidents are the third top cause of loss

- Faulty workmanship/maintenance incidents are the third top cause of loss (9%). Costly incidents include the collapse of building/structure/subsidence from faulty work, faulty manufacturing of products/components; or incorrect design.
- Losses involving damaged goods, which can result from storage, handling, loading/unloading issues, or when in transit, are the most frequent driver of claims, accounting for 11% by number.
Current loss scenarios and risk trends

- ESG
- Inflation
- Supply chains
- Cyber
- Ukraine
- Legal costs
Inflation drives loss amount

1. Inflationary trends affecting the average loss amount:
   - Increased construction costs due to higher raw material prices
   - Longer repair and construction times due to lack of materials
   - Longer business interruptions due to disrupted supply chains
   - Rising costs from professional services

   - Construction Cost Index\(^1\)
     - Q2 2021: 6.4%
     - Q2 2022: 17.6%

   - 20% of the world’s active container ships are tied up in traffic
   - China accounts for 30% of this (impact of pandemic)
   - 60 days: Current cargo turnaround time (usually 50 days)
   - 7 days: Average time for unloading containers (2 days in 2019)

   - Price inflation for legal services\(^2\)
     - 2019: 1.0%
     - 2020: 1.1%
     - 2021: 1.5%
     - 2022: 4.0%

2. Undervaluation of insured assets
   - In the insurance market, the first examples are known that confirm an undervaluation:
     - MidCorp USA: Hotel bushfire
     - Ship Hull: Vessel value
     - Property: Warehouse

   - Companies need to adjust the valuation of their assets for insurance contracts.
   - Insurance industry discusses (re)introduction of special clauses against undervaluation.

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1) Source: destatis.de Construction prices for residential buildings in Germany
2) Figures are indicative for the U.S. market, based on the U.S. Bureau of Labor Statistics
CBI claims spike with global supply chain disruption

- The number of contingent business interruption (CBI) claims has increased year-on-year for the past five years, exemplifying the growing interdependence and complexity of corporate supply chains.
- The automotive industry alone has seen several CBI events during this period, with the overall growth in CBI claims exacerbated in the last two years by a large loss in the semiconductor manufacturing sector and the ‘Texas Big Freeze’ event.
- The claims from these two events more than tripled the number of CBI claims in the previous three years.
- Loss events can have a substantial impact, sometimes in excess of $1bn or more. Many companies are still reliant on a small number of key suppliers and are having to rethink their supply chains.
Cyber loss events at a persistently high level

Development of cyber insurance claims 2016 to 2021

* Source: AGCS Cyber Risk Trends Report 2021
Ukraine invasion impact

- Outside of the human tragedy, Russia’s invasion of Ukraine is likely to result in a significant, yet manageable, loss for the global insurance industry.
- Still significant uncertainty around how some claims might develop going forward but insurers’ exposure to the conflict is limited by war exclusions, which are standard.
- Specialist markets like aviation insurance could yet suffer disproportionately.
ESG risks a future driver of liability losses

- Claims activity around environmental, social and governance (ESG) and sustainability issues is increasing.
- Climate change-related litigation is on the rise and is likely to become a significant source of liability exposure for companies and their directors.
- Another potential exposure comes from claims of ‘greenwashing’ where a company is sued by investors for unsubstantiated or misleading ESG claims.
- Environmental factors are also affecting product liability and construction claims. Extreme weather can affect the quality and performance of building design and materials.
Legal costs and derivative settlements continue to rise

- Inflationary pressures and higher severity shareholder derivative actions are among the trends driving elevated D&O claims.
- The growth of special purpose acquisition companies (SPACs) has also generated a number of losses for the D&O market.
- Litigation risk continues to be a key D&O concern, including US risk for non-US domiciled companies.
- Legal and defense costs continue to rise, a trend that may accelerate with inflationary pressures on salaries and fees.
Conclusions for clients
Conclusions for our clients

Good, old risk management continues to matter
• Protection of assets against fire and impact of natural perils
• Testing and quality control of products and services delivered

Inflation will have an impact, update your insured values and BI assumptions

Supply chains need attention
• More diversification (where possible) and increased risks of delayed deliveries
• Contingent Business interruptions will become harder to manage and more difficult to insure

Cyber security needs more and continued attention

Don’t underestimate new trends in particular in ESG and corporate responsibility for supply chain
Thank you!