Allianz Global Corporate & Specialty

Press

Japan one year on: record claims for business and supply chain interruptions

- Companies enhance risk management for global supply chains
- AGCS introduces insurance solution for new types of business interruption risks without physical damage

London/New York/Munich, March 6, 2012 – A year ago, Japan was hit by a triple disaster – an earthquake, a tsunami and a nuclear crisis that left the affected areas devastated. But the effects were also felt around the world. Production stoppages at Japanese suppliers and destroyed logistics infrastructure caused interruptions in global supply chains that were felt around the world. “More than half of our insurance losses from the Japan disaster were the result of business and supply chain interruptions – that’s a new dimension,” says Andreas Shell, Global Head of Property Claims at Allianz Global Corporate & Specialty (AGCS), the industrial insurance division of the Allianz Group.

Many companies’ supply chains have become more global in recent years; at the same time, inventories have been scaled back amid the focus on just-in-time production. In addition, companies have outsourced larger shares of their operations and reduced the number of individual component suppliers in an increasing drive for competitiveness. The disasters in Japan and, even more so, the extensive flooding in Thailand late in 2011 showed companies and insurers just how vulnerable global supply chains are. The electronics and automotive industries, in particular, were faced with bottlenecks or even production outages around the world through so-called ‘contingent business interruptions’ where suppliers were unable to deliver as planned, impacting production in these industries directly.

Rising risk awareness
A recent Allianz survey revealed that many companies view disruptions in the supply chain and business interruptions as a major business risk. Many are undertaking systematic efforts to make their supply chain risks more transparent

Allianz Global Corporate & Speciality
Media Relations
81737 München

and limit their risks. “For cost reasons, many companies will still be forced to source their components from just a few suppliers or even a single one in the future. But risk awareness is growing,” observes AGCS risk consultant Ralf Dumke. Companies are taking an increasingly professional approach to addressing specific risks by listing key suppliers and their production locations, running through catastrophe scenarios applying geocoding and developing business contingency plans. However, companies should not merely professionalize their own risk management, but also engage their suppliers in this process: “Even the suppliers’ suppliers must be involved,” Dumke stresses.

Going beyond proprietary risk management systems, many companies are also preparing for business interruptions by taking the necessary insurance cover. “While we had to deal with a high claims burden as a result of the large number of natural disasters last year, we continue to provide sufficient cover for business and supply chain interruptions. But we expect companies to allow us insight into their risk management approach and also into their supplier structures, particularly when loss exposures are high,” explains Volker Muench, Head of Corporate Underwriting Property at AGCS.

No off-the-shelf product
Conventional business interruption policies are triggered only by physical damage, for example, when either a company or its suppliers are unable to produce due to accidents such as a fire or an earthquake. Many companies, however, also seek cover for business interruptions that are due to such things as strikes or power blackouts, that is, when there is no actual physical damage. AGCS will offer its clients this type of policy in the future, but it won’t be an off-the-shelf product: “We don’t have enough historical data for risk modeling. In addition, we are looking at potentially high cumulative totals because entire sectors or regions could be affected,” Muench explains, adding that, in a first step, AGCS would therefore cooperate with select clients and offer them a customized product.

Media contact:

Hugo Kidston
Global Head of Communications
+44 (0) 203 451 3891
hugo.kidston@allianz.com

Jonathan Tilburn
Communications Officer UK
+ 44 (0) 203 451 3128
jonathan.tilburn@allianz.com

Jacqueline Maher
Head of Marketing & Communications, Americas & Global Specialty
+ 1 646 472 1479
jacqueline.maher@allianz.com

About Allianz Global Corporate & Specialty

Allianz Global Corporate & Specialty (AGCS) is Allianz SE's dedicated brand for corporate and specialty insurance customers. AGCS provides insurance and risk management consultancy across the whole spectrum of marine, aviation and corporate business, including Energy, Engineering, Financial Lines (incl. D&O), Liability and Property insurance, including International Insurance Programs.

Worldwide, Allianz Global Corporate & Specialty operates in over 150 countries through the Allianz Group network and through network partners. It employs more than 3,000 people and provides insurance solutions to more than half of the Fortune Global 500 companies, writing a total of €4.9 billion gross premium worldwide annually (2011).

Allianz Global Corporate & Specialty has a Financial Strength Rating of AA ('Very Strong') from Standard & Poor's and of A+ ('Superior') from A.M. Best.

For more information please visit our website www.agcs.allianz.com

Cautionary Note Regarding Forward-Looking Statements

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements.

Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures, and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

The matters discussed herein may also be affected by risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The company assumes no obligation to update any forward-looking statement.