

Press release

Allianz: How Covid-19 is changing claims trends and risk exposures for companies and their insurers

- AGCS report: traditional property and liability claims have been subdued during lockdowns but this was more than outweighed by a surge in Covid-19 related claims notifications, particularly from the entertainment industry.
- Impact of the pandemic will shape future loss trends for companies in the mid- and long-term with changes to working environments, travelling habits and supply chain networks.
- Detailed Covid-19-driven loss trend analysis for Property/Business Interruption, Liability, Financial Lines and Aviation insurance.

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The Covid-19 pandemic is one of the largest economic loss events in history for companies and insurers alike. However, it's not only the magnitude of the impact which is unprecedented. Claims trends and risk exposures are likely to evolve in both the mid- and long-term as a result of the pandemic. With the reduction in economic activity during lockdown phases, traditional property and liability claims have been subdued, most notably in the aviation and cargo sector, but also in many other industries with fewer accidents at work, on the roads and in public spaces, according to a new report [Covid-19 – Changing Claims Patterns](#) from Allianz Global Corporate & Specialty (AGCS).

“The coronavirus outbreak has reduced risk in some areas while, at the same time, changing and heightening it in others. The wider changes in society and industry brought about and accelerated by the pandemic are likely to have a long-term impact on claims patterns and loss trends in the corporate insurance sector,” says AGCS Chief Claims Officer Thomas Sepp [in an interview on AGCS' website](#). “The growing reliance on technology, shift to remote working, reduction in air travel, expansion of green energy and infrastructure and a rethinking of global supply chains will all shape future loss trends for companies and their insurers.”

Estimates vary, but the insurance industry is currently expected to pay claims related to the pandemic of as much as \$110bn in 2020 according to Lloyd's. AGCS alone has [reserved about €488mn \(US\\$571mn\) for expected Covid-19 related claims](#), especially for the cancellation of live events and the disruption of movie or film productions in the entertainment industry.

Surged and subdued

“We have seen claims in some lines of business, such as entertainment insurance, surge during Covid-19, while traditional property and liability claims have been subdued during lockdown periods,” says AGCS Global Head of Claims, Philipp Cremer. “There is still the potential for claims to occur as factories and businesses restart after periods of hibernation, and given the longer development patterns for third-party claims in casualty lines.”

Claims notifications from motor accidents, slips and falls or workplace injuries slowed as more people stayed at home, and with the temporary closure of many shops, airports and businesses during lockdowns across the world. AGCS also noticed a positive impact on US

claims settlement from the suspension of courts and trials. Some claimants and plaintiffs have been more open to negotiating settlements out of court rather than opting to wait a long time until their case is scheduled – a trend also highlighted in another recent [AGCS publication on liability loss trends](#). In general, claims activity is likely to pick up again following resumption of economic activity.

The AGCS report identifies the impact of the pandemic on claims trends in different lines of insurance and how they might evolve in future:

Property/Business interruption

Property damage claims were not significantly impacted by Covid-19 as loss drivers such as weather are not correlated. However, as production lines restart and ramp up, this can exacerbate the risk of machinery breakdown and damage and even fire and explosion. “Restarting a factory is a stress test. We have already seen a few claims related to ramp-ups in the past few months – and there may be more to come”, says Raymond Hogendoorn, Global Head of Short-Tail Claims, AGCS. In addition, with fewer people potentially onsite, inspections and maintenance may be delayed or loss incidents such as a fire or escape of water may be noticed too late, increasing the severity of damage.

Covid-19 has caused business closures and disruptions globally – which often may not be covered in the absence of physical damage as trigger of coverage. However, the pandemic has impacted the settlement of standard business interruption (BI) claims in different ways. On one hand, factories in hibernation will not produce large BI claims, as many manufacturers, their customers and suppliers, either shut down or scale back production. When a US automotive supplier was hit by a tornado in spring, the resulting business interruption loss was lower than it would have been during normal operations. Conversely, containment measures during lockdowns can lead to longer and more costly disruptions as access restrictions prevent effective loss mitigation and prolong the reinstatement period, as a fire and explosion at a chemical plant in South Korea demonstrated.

Liability and Directors & Officers (D&O) Insurance

To date, AGCS has only seen a few liability claims which are Covid-19 related. However, liability claims are typically long-tail with a lag in reporting, so general liability and workers’ compensation claims related to Covid-19 may yet materialize. A number of outbreaks of coronavirus have been linked to high-risk environments such as gyms, casinos, care homes, cruise ships or food/meat processing plants.

A wave of insolvencies, as well as event-driven litigation, could be potential sources of D&O claims. To date, only a relatively small number of securities class action lawsuits related to Covid-19 have been filed in the United States, including suits against cruise ship lines that suffered outbreaks. The pandemic could trigger further litigation against companies and their directors and officers, if it is perceived boards failed to prepare adequately for a pandemic or prolonged periods of reduced income.

Aviation

The aviation industry has seen few claims directly related to the pandemic to date. In a small number of liability notifications, passengers have sued airlines for cancellations or

disruptions. Slip and fall accidents at airports – traditionally one of the most frequent causes of [aviation claims](#) – have declined with the massive reduction in global air traffic, which fell by a record 94% year-on-year in April 2020.

“Although a large proportion of the world’s airline fleet have been grounded loss exposures do not just disappear. Instead they change and can create new risk accumulations,” says Joerg Ahrens, Global Head of Long-Tail Claims at AGCS. For example, grounded aircraft might be exposed to damage from hurricanes, tornados or hailstorms. The risk of shunting or ground incidents also increases and can result in costly claims.

Long-term claims trends

Covid-19 is accelerating many trends such as a growing reliance on technology and rising awareness of the vulnerabilities of complex global supply chains. Going forward, many businesses are expected to review and de-risk their supply chains and build in more resilience. This could involve some reshoring of critical production areas because of disruption caused by the pandemic. Such a move would likely impact frequency of claims and the costs of any future business interruptions.

Meanwhile, the growth of home working means that companies may have lower property assets and fewer employees on site in future, but there would be corresponding changes in workers` compensation and cyber risks. During the pandemic cyber risk exposures have heightened, with reports of the number of ransomware and business email compromise attacks increasing. To date, AGCS has only seen a small number of cyber claims which are Covid-19 related however.

Digital claims handling

Covid-19 has also reinforced the need for digitalization of claims handling. Remote claims inspections and assessments for tornados, floods or major industry accidents are now possible through satellite, drone or image capture technology and tools such as [MirrorMe](#). “Just a few years ago, claims processes were mostly manual and paper-based and many people could not have imagined handling claims remotely,” says Cremer. “Now technology plays a key role. AGCS’ cloud-based claims platform has passed the test of the coronavirus with our digital claims processes proving resilient throughout the lockdown. This, together with a strongly collaborative approach from our clients and brokers, has enabled our claims teams to handle a surge in claims and deliver expert service without disruption while working remotely.”

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Our customers are as diverse as business can be, ranging from Fortune Global 500 companies to small businesses, and private individuals. Among them are not only the world's largest consumer brands, tech companies and the global aviation and shipping industry, but also wineries, satellite operators or Hollywood film productions. They all look to AGCS for smart answers 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 32 countries and through the Allianz Group network and partners in over 200 countries and territories, employing over 4,450 people. As one of the largest Property-Casualty units of Allianz Group, we are backed by strong and stable financial ratings. In 2019, AGCS generated a total of €9.1 billion gross premium globally.

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