

# Press release

## Allianz: 7 trends making engineering and construction projects bigger and costlier than ever

- Projects are increasingly complex, often with values in the tens of billions of dollars, and can run for decades.
- Fire and explosion incidents most expensive losses globally. Defective product and business interruption claims rising. Trade disputes growing concern.
- New tech such as drones, satellite imagery and laser scanning helping to better identify risks, cause of loss, and speed up claims.

**Johannesburg/London/Munich/New York/Paris/Sao Paulo/Singapore – August 20, 2019:**

Large engineering and construction projects have changed beyond recognition in recent decades. Whether it is an airport, a power plant or a car manufacturing complex, sites are now much larger, more complex and more expensive, meaning more is at stake if things go wrong.

Analysis by [Allianz Global Corporate & Specialty](#) (AGCS) of more than [13,000 engineering insurance claims](#) over the last five years has identified seven major trends in engineering and construction projects, driving some of the largest losses ever, according to a [new report by the insurer](#). The report also examines how new technologies, such as drones, satellites, lasers, and computer modeling, are increasingly being used to speed up claims and mitigate risks:

### 1. Higher values bring bigger loss impact

Construction sites today are much larger than in the past and projects can run for many years. The expansion of the Al Maktoum International Airport in Dubai, for example, will not be completed until 2030 and is expected to cost around US\$36bn. “As a result, sums insured are now much larger – projects with values of \$5bn to \$10bn are not unusual, meaning claims can be in the tens of millions of dollars,” says **Raymond Hogendoorn, Global Head of Property and Engineering Claims at AGCS**. Flooding of the Hidroituango hydropower dam in Colombia in 2018 during construction is estimated to cost insurers around \$1.4bn, one of the largest engineering claims in history.

→ Read more in the [Engineering And Construction Claims And Insurance Trends report](#)

### 2. Fire/Explosion top cause of losses. Nat Cats most serious risk concern

Fire is the biggest cause of loss for engineering claims, accounting for over a quarter (27%) of losses by value, based on analysis of more than 13,000 claims around the world worth almost €8bn (\$8.8bn). Fire has caused in excess of €2.1bn (\$2.35bn) of insurance losses in five years.

Natural catastrophes are another source of large claims. For example, storm damage is the second biggest cause of loss by number, accounting for one in 10 claims. Natural catastrophes also rank as the top concern for construction firms in the [Allianz Risk Barometer 2019<sup>1</sup>](#).

→ Read more in the [report](#)

### 3. Defective product and quality control losses on the rise

Defective products are the single biggest source of engineering claims by frequency, and the second largest by severity, according to AGCS claims analysis. There are almost three times as many defective products claims as storm claims, the next largest cause of claims by frequency. “We are seeing an increase in claims related to defects and quality control across the board,” says **Martin Eckel, Senior General Adjuster at AGCS**. For example, two major power generation claims — \$200mn events — were caused by defective welding.

→ Read more in the [report](#)

### 4. Greater supply chain complexity increasing size and cost of claims

In the past, an airport or a power plant would most likely have been built by a national contractor using local suppliers. Today, it is more likely to involve multiple parties with machinery, equipment and other components sourced and transported from around the world. “Technology is becoming more sophisticated and specialized, which can increase the costs to repair or replace machinery and equipment. If a turbine coming from China is damaged in transport, it might take as long as 18 months for a repair,” says **Eckel**.

→ Read more in the [report](#)

### 5. Number of business interruption/delay in start-up claims growing

Construction and engineering firms ranked business interruption (BI) as the second most concerning risk in the [Allianz Risk Barometer 2019](#). Growing awareness of BI exposures has seen an increase in firms buying BI covers, in particular delay in start-up (DSU) insurance, which covers delays to construction or engineering projects following physical damage. DSU claims are usually expensive – indemnity for delay in start-up has increased over time from around \$200,000 per day to up to \$500,000 per day.

→ Read more in the [report](#)

### 6. Political risk and sanctions a growing concern for long-term projects

Large construction projects can take as long as five to 10 years to complete and involve contractors and suppliers from around the world, making them vulnerable to sanctions and trade disputes. For example, sudden and large increases in US import tariffs can add millions of dollars to claims for plant equipment and machinery imported from countries such as China.

---

<sup>1</sup> The Allianz Risk Barometer surveys more than 2,400 global risk experts about the major threats to their business.

→ Read more in the [report](#)

## 7. Growth of renewable energy projects brings challenges as well as benefits

As the demand for green energy has increased, solar and wind projects have become larger, the locations more remote and wind turbines much bigger – with blades as long as a football pitch. In 2018 alone, there were 409 new offshore wind turbines across 18 projects in the EU. Offshore wind can be a particularly challenging area for claims, as turbines can be difficult to access.

→ Read more in the [report](#)

## Increasing roles of drones and new technology in risk and claims assessment

As large engineering and construction projects have become more complex, assessing risks and claims and establishing the ultimate cause of loss has become much more difficult. However, insurers have an increasing array of new technology at their disposal to offer support:

- AGCS recently utilized drones, laser scanning, and computer modeling to determine the root cause of a machinery explosion at an inaccessible site. Drones and satellite imagery were also used to assess engineering claims after record wildfires in California and Hurricane Florence in 2018.
- AGCS is coupling 3D topographical data from drones with hydrogeological modeling software and rainfall simulation data to predict flash flooding risk on construction sites.
- Satellite technology offers high resolution images of a site within 24 hours of a loss, even at remote or hazardous locations. It can also be used to combat exaggerated or fraudulent claims.

→ Read more in the [report](#)

“Technology will create more certainty for engineering claims,” says **Hogendoorn**. “There are so many parties on a site at one time, and so many activities happening simultaneously, it can be extremely difficult to understand the sequence of a loss event. However, we can increasingly use technology to access data and information to better understand the root cause of loss and speed up the claims process.”

\*\*\*

### Press contacts

Johannesburg: Lesiba Sethoga	+27112147948	lesiba.sethoga@allianz.com
London: Michael Burns	+44 203 451 3549	michael.burns@allianz.com
Munich: Heidi Polke	+49 89 3800 14303	heidi.polke@allianz.com
Daniel Aschoff	+49 89 3800 18900	daniel.aschoff@allianz.com
New York: Sabrina Glavan	+1 646 472 1510	sabrina.glavan@agcs.allianz.com
Paris: Florence Claret	+33.0158 85 88 63	florence.claret@allianz.com
Sao Paulo: Camila Corsini	+55 11 3527 0235	camila.corsini@allianz.com
Singapore: Wendy Koh	+65 6395 3796	wendy.koh@allianz.com

## **About Allianz Global Corporate & Specialty**

Allianz Global Corporate & Specialty (AGCS) is 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 12 dedicated lines of business.

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 34 countries and through the Allianz Group network and partners in over 200 countries and territories, employing over 4,400 people. As one of the largest Property-Casualty units of Allianz Group, we are backed by strong and stable [financial ratings](#). In 2018, AGCS generated a total of €8.2 billion gross premium globally.

### **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.

### **No duty to update**

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, contained herein, save for any information required to be disclosed by law.