

# Press release

## Allianz: Companies face five liability risk trends in the face of the coronavirus pandemic

- Rising litigation, larger court verdicts and collective redress in the US but also other jurisdictions; more costly recalls in automotive and food industries; impact of civil unrest and riots in an increasing number of countries; and the increased potential for mold and legionella claims after Covid-19 shutdowns are key challenges.
- Social inflation, adverse claims trends and an uncertain economic and pandemic outlook create a challenging market for liability insurers.
- Analysis shows defective products is top cause of liability claims over past five years but Covid-19 pandemic impacting loss scenarios in different ways.

**Johannesburg/London/Munich/New York/Paris/Sao Paulo/Singapore – September 09, 2020** – Liability exposures for companies around the world are increasing. Factors such as rising litigation, collective redress and large court verdicts, costly and frequent recalls in the automotive and food sectors, the disruptive impact of civil unrest and riots in a growing number of countries, and environmental concerns such as indoor air quality and higher fines and remediation standards will likely impact businesses and their insurers in future – all in the face of a challenging global pandemic, according to a new report from Allianz Global Corporate & Specialty (AGCS) which highlights five trends for the sector.

“Pricing in the liability insurance market may have turned in recent months, however social inflation trends and large court verdicts continue in the United States. This combined with expanded exposures for non-US companies doing business in the US and an increase in automotive part recalls are putting pressure on liability insurers,” says Ciara Brady, Global Head of Liability at AGCS. “Overlay this with the uncertain economic outlook, political instability and unknown impacts from coronavirus and this is creating a challenging market for clients, brokers and insurers alike. While we have to react to new loss trends in underwriting, AGCS remains committed to supporting our clients with solid risk transfer solutions and capacity to address today’s liability exposures.”

### **Liability trend 1: Social inflation in the US and rise of collective redress globally**

Social inflation is a phenomenon especially prevalent in the US, driven by the growing emergence of litigation funders, higher jury awards, more liberal workers’ compensation claims, as well as new tort and negligence concepts. The median settlement amount of the top 50 US verdicts from 2014 to 2018 nearly doubled from \$28mn to \$54mn.

Litigation funding is not only on the rise in the US, but also in Europe and elsewhere around the world, contributing to a growing trend of collective redress as hurdles for consumers are lowered to embark on class actions. Countries that may not be historically associated with this development, such as Saudi Arabia and South Africa, are classified as being “medium

risk” that a company may face a collective action in these jurisdictions, according to AGCS’ **litigation funding country guide**.

Another factor influencing the size of settlements in the US is the increasing sophistication of the plaintiff’s bar with specialist consultants and psychologists being deployed to influence the jury’s decision. The legal system in the US has seen a deterioration in consumer confidence towards corporations. This lack of confidence is driving an anger by individuals or classes of individuals toward perceived “greedy corporates” that is resulting in so-called “nuclear” verdicts.

According to AGCS experts, it’s too early to identify a reverse trend, but court closures due to the Covid-19 pandemic may slow down social inflation as plaintiffs realize that it could take years before their case is tried before a jury and therefore may be more willing to settle outside court.

### **Liability trend 2: Rising automotive repair and recall costs**

In recent years there has been a growing number of recalls in the automotive industry in both the US and Europe. In the US, there were 966 safety recalls affecting well over 50 million vehicles in 2019 – more than two every day. In Europe, the number of recalls reached 475 for 2019 – the highest figure for a single year in the 2010s and up 11% year-on-year. In many cases, components can be produced by one of a handful of suppliers that services the entire industry, which can make it prone to accumulation risks – as a result, recalls have become larger and more costly over time. For example, an airbag or an engine could be recalled due to a defect, affecting many companies and models.

The increasing complexity of technology is another significant driver of industry losses, due to factors such as increased time and labor rates to make repairs, more specialized training for mechanics and other repairers, and the increasing price of parts.

### **Liability trend 3: Costly food safety risks and recalls**

Food recalls are on the rise globally due to factors such as global manufacturing, fewer suppliers in complex supply chains, enhanced regulatory scrutiny, as well as improved technology which allows for better traceability and pathogen detection. Manufacturers need to recognize these factors and be diligent about who their suppliers are and conduct regular audits. The coronavirus pandemic could have a significant impact on – and pose special challenges for – food recalls in future: On one hand, hygiene standards have dramatically increased, which could reduce contamination risks which are a major cause of food and beverage recalls. On the other hand, with new operations, temporarily closed and restarted factories, remote workforces, decreases in regulatory visits and erratic supply chains, risk exposures could also swell moving forward, according to AGCS experts.

### **Liability trend 4: Riots and civil unrest threaten beyond physical damage**

The “yellow vest” protests in France, civil unrest in Chile, Hong Kong and Bolivia and most recently the racially-charged riots in the United States are high-profile examples of the rise of civil unrest globally: Political violence increasingly causes property damage, disruption and loss of attraction and revenues to many businesses. For example, civil disorder in the wake of the death of George Floyd in many US cities is expected to have caused losses of more than \$1bn. There are numerous insurance claims notified under strikes, riots and civil commotion or looting insurance coverages. According to AGCS experts, the coronavirus

outbreak may have temporarily suppressed civil unrest in some countries, but the underlying social issues have not been solved, and further protests will likely occur in the near future.

**Liability trend 5: Indoor air quality after coronavirus**

Environmental pollution incidents can have damaging consequences for a business – two risks are particularly paramount: indoor air quality concerns with legionella and mold growth and, secondly the increasing risk of environmentally-driven prosecutions, fines and remedial actions, as public awareness for pollution and natural capital depletion grows.

Mold and legionella risks have been exacerbated by the coronavirus shutdown of commercial buildings or hotels: When certain air quality or water installation systems are dormant for a while they are more susceptible to contamination by bacteria. On top of that, continued, undetected mold growth may result from real estate companies delaying planned maintenance or renovation activities. Another interesting development is the increased use of so-called enforcement undertakings in the UK: As an alternative to prosecution and penalties for environmental offenses, companies are made to repair or clean-up sites, or provide similar remedies to absolve any penalties.

**Major causes of liability claims and potential coronavirus impacts**

The report also analyzes some of the major causes of insurance industry liability claims over the past five years – defective product incidents account for half of the value of all claims – and looks at how the coronavirus outbreak is already impacting the insurance sector. With more people staying at home through the pandemic, and with the temporary closure of many shops, airports and businesses, notifications of slip and fall incidents, which are one of the major causes of liability claims, have slowed. However, the market could see claims brought by third-parties for injury or property damage due to failure to adequately protect against the coronavirus, as well as employee action against employers who did not appropriately protect them. Product liability and recall claims tend to follow economic activity, so there could be an impact in these areas with the economic downturn. Meanwhile, restarting production after periods of hibernation may give rise to human error incidents.

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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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