



Beyond insurance: Protecting property in unsettled times

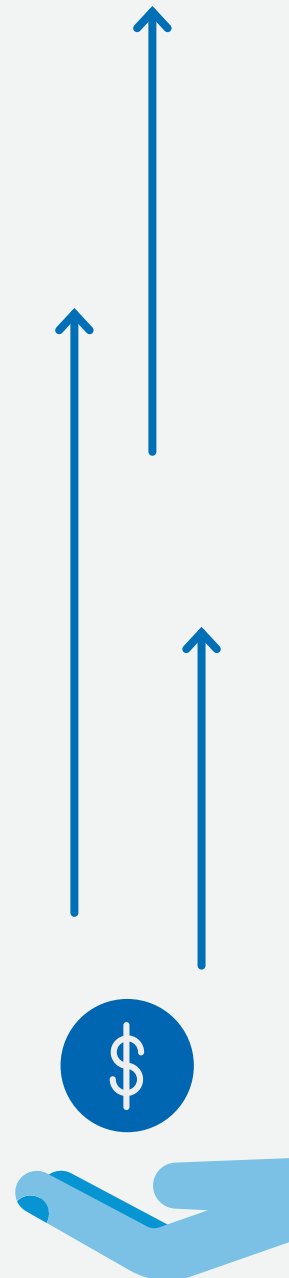
Customer and Broker webinar summary
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Global economic and political uncertainties, paired with an increasing severity and frequency of natural catastrophes, are challenging risk managers to create stability and predictability in their property insurance and loss prevention programs.

And, it takes a comprehensive approach that reaches well beyond insurance coverage to protect businesses and other organizations that are wrestling with a confluence of geopolitical and natural catastrophe risks rarely seen, experts at Zurich Insurance Company contend.

“It’s a big issue and the question is: What can you do to get to sustainable programs?” said **Ron Davis**, Global Head of Customer Management, Commercial Insurance with Zurich Insurance, and moderator of the webinar on property insurance capacity in the emerging risk landscape. “How do you access the capacity you are looking for, under the right terms? We believe there are a number of things you can do.”



What’s driving up claims costs and rates

The panelists pointed to a number of issues that have coalesced in recent years to affect the cost of claims and insurance, including inflation, increasing litigation, building code changes and supply chain delays. Rising loss trends have contributed to market hardening, beginning with reinsurers.

More frequent and severe climate-related events have driven property losses higher in recent years, helping push up coverage rates, said **Susan Fallon**, Zurich’s Global Head of Property, Commercial Insurance.

But losses aren’t driven by primary perils alone, Fallon said, and the threat of secondary perils cannot be overlooked when protecting property from natural catastrophe events.

She referred to figures that show economic losses have amounted to nearly \$2 trillion from tropical cyclones and around \$1 trillion from earthquakes – both primary perils – since the start of the century. “But what we’re also observing from this is how the secondary perils – flood, convective storms, winter weather, drought and wildfires – have been challenging those loss trends.”

Flooding, for example, has caused more than \$1.6 trillion in economic losses, and convective storms have caused losses of \$8.5 billion.

These trends, Fallon said, have caused the insurance industry to move to a multi-perils approach that considers primary and secondary perils and to review whether underlying values as well as assessments of the perils are adequate.

In the past, having a diversified book of business across geographies created a balance in risk-taking, Fallon said of insurers’ approach. But the growing risk of secondary perils, added to the primary perils of earthquake and tropical cyclones, is making that balance challenging, she added.

Areas that need increased attention as the threat of secondary perils grows include property valuation, changing building codes, and a focus on risk assessment and reduction measures, Fallon pointed out.

As valuations rise, so do claims costs

Inflation plays a part in rising claims costs as valuations have increased, Fallon noted. Accurate valuations are a critical, significant part of risk assessment, she said, “because that enables us as an insurance industry to price and offer capacity, and it provides the business the ability to understand and mitigate the risks in their value chain.”

Martin Clark, Global Head of Property and Energy Claims at Zurich, pointed out that inflation is at different levels around the world, which affects insurer behavior accordingly. “In certain jurisdictions, we’ve had to revisit our reserves halfway through the claim,” because of the effects of inflation, he said.

Building codes are another factor in claims inflation, as they can result in changes that create higher than expected costs for rebuilding or restoration, according to Clark.

When local codes call for enhancements when restoring damaged property, the sum insured may be inadequate, he explained, due to the (usually) more stringent requirements of newer building codes. Additional coverage may be available to cover the cost of enhancements or increased construction costs, Clark said. “But if it’s over and above that, then, from a claims professional standpoint, we haven’t got any other tools left under the policy.”

The trend towards sustainable building practices is also likely to bring changes to codes that could affect costs, Clark said.



Understand lead time

Risk managers need to reconsider the lead time it can take to receive critical equipment to ensure that their businesses can be up and running quickly after a loss and the indemnity period of coverage doesn’t expire, Clark said.

He referred to a company that was dependent upon a freezer to quickly freeze their products that were sold to its clients. The lead time was anticipated to be well in excess of the indemnity period of the policy. Fortunately, an alternative supplier closer to home was found, reducing what would have been a substantial uninsured economic loss. Such measures – identified through a holistic risk assessment – should be part of a business continuity plan.

Sharpen the value chain focus

According to **Amar Rahman**, Global Head Climate Change Resilience Services, getting proper coverage in place depends on accurate identification and assessment of property risks, and part of that process involves consideration of the interconnectivity of risks.

Increasing incidents of subsidence is an example of how interconnected risks can lead to unexpected problems, he said.

“There are multiple factors for subsidence,” including drought and high temperatures followed by intense rainfall “that turns the soil into a sponge,” Rahman said. Risk managers should also be aware of the risk of subsidence problems in areas of heavy urbanization, where extraction of groundwater has led to claims, he added. Subsidence can not only have an impact on existing buildings, but also on buried infrastructure.

Take a close look at your value chain, Rahman advised, and don’t focus entirely on threats at the location of the insured asset. “When you look at the entire value chain, the picture changes,” he said.

Rahman referred to a plant that relied on water and wastewater treatment plants, situated considerable distances from the insured asset, and are thus in different hazard zones. Even if the plant was not affected by a flood in the region, the treatment plants could be impacted and service to the insured could be disrupted.

“The same thing applies when we talk about the supply chain, as the risks over an even larger geographic area need to be considered,” Rahman said.

Hazard vs. risk: There's a big difference

Rahman warned that hazard levels should not be confused with risk. "You could have a very low hazard level but if you have a high exposure, i.e. high values at risk, with poor controls, then the risk is high," he said. "So, we shouldn't focus only on hazard levels, whether they are current or future ones."

Also consider where the critical pain points are within the entire value chain, Rahman advised.

"When we talk about climate change effects, it's not only the impact on the physical asset...but also other hazards that could potentially impact operations," he said "One example is heat – heat could impact workers. It could also impact the operation of equipment, and the availability of water."

As natural hazards evolve due to climate change, organizations are under more pressure to manage risks proactively, Rahman said. "We need to look at the entire definition of risk; that means not only the hazards but also the components of the value chain that we are trying to protect as well as the quality of the controls."

The webinar was the latest in a series hosted by Zurich Commercial Insurance examining timely risk management issues.



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