

# COVID-19 – CHANGING CLAIMS PATTERNS

The coronavirus outbreak has posed a unique test for commercial insurance claims. Historical patterns have been upended, while claims teams have had to maintain service levels during a period of significant operational challenges.

This report identifies some of the new claims trends that have materialized as a result of the virus, assesses the prospect for future notification activity and highlights how claims teams have responded in this new environment.

## VIEWPOINT

# “Many changes in society and business have accelerated”



**Thomas Sepp, Chief Claims Officer and Member of the Board of Management at Allianz Global Corporate & Specialty (AGCS)**

### **THE COVID-19 PANDEMIC HAS HAD A HUGE IMPACT ON THE COMMERCIAL AND SPECIALTY INSURANCE INDUSTRY. WHAT HAS BEEN THE IMPACT ON AGCS?**

**Thomas Sepp (TS):** The pandemic is certainly one of the worst loss events for the insurance industry in history – claims could be as high as \$110bn in 2020, according to Lloyd’s estimates. 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.

However, it’s not only the magnitude of Covid-19 losses, which is unprecedented, we also see changes in loss patterns and causes and expect this to continue. The pandemic has reduced risk in some areas while, at the same time, changing and heightening it in others. Together with climate change and global warming, the pandemic may be the prologue to more far-reaching and disruptive risk changes in years to come.

### **WHAT CHANGES IN CLAIMS TRENDS DID YOU OBSERVE DURING THE GLOBAL LOCKDOWN IN THE FIRST HALF OF 2020?**

**TS:** With the sharp fall in economic activity and prolonged social distancing measures, we have

witnessed material reductions in some lines of property and liability insurance, most notably in the aviation sector but also more generally with fewer accidents and injuries at work, on the roads and in public spaces.

The pandemic caused business closures and disruptions globally – which may be partly insured. It also impacted standard business interruption claims which were caused by property damage in different ways: On one hand, the cost of non-Covid-19 related business interruption, caused by events such as fire or extreme weather, fell in many cases, as many manufacturers, as well as their customers and suppliers, either shut down or scaled back their production. On the other hand, Covid-19 containment measures have led to longer disruptions and more costly claims in some cases. For example, a fire at a chemical plant in South Korea forced the closure of the facility. Restricted access due to the coronavirus lockdown prolonged the reinstatement period, increasing the overall cost of the standstill.

### **HOW IS CLAIMS SETTLEMENT PROGRESSING – IN LIGHT OF THE CHALLENGES POSED BY LOCKDOWNS AND REMOTE WORKING?**

**TS:** We received thousands of Covid-19 claims notifications and each one had to be evaluated on an individual basis to determine if there was insurance coverage due to the terms agreed in the policy. If coverage was clear, we have settled as quickly as possible. If not – and this was the

case for many notifications under business interruption policies in the US – we have had to work with brokers and clients to explain and clarify the terms of insurance. Obviously, at the same time, we also had to deal with claims which did not directly result from the pandemic, for example from the riots in the US or large fire and shipping incidents.

This has all contributed to a high workload for our claims experts, many of whom still continue to work remotely. Technology has played a crucial role in delivering an uninterrupted claims service throughout the pandemic. Remote claims inspections and assessments are now possible through satellite, drone or image capture technology and tools such as **MirrorMe** (see page 13). Meanwhile, our digital cloud-based claims platform has passed the test of the coronavirus. The trend towards using technology in claims will certainly accelerate.

#### **HOW ARE LOSS TRENDS EVOLVING AFTER CONTAINMENT AND SOCIAL DISTANCING MEASURES HAVE BEEN EASED IN MANY COUNTRIES?**

**TS:** What we have observed in many countries is that claims frequency is likely to pick up with activity. The resumption of business brings its own risks as plants and machinery are reactivated and with an expected rise of insolvencies and unemployment – for example, product liability and recall claims tend to follow economic activity. Opening factories and restarting production lines are stress situations and can heighten the risk of machinery breakdown and fire. However, most of our clients, often supported by insurance risk managers, have continued their maintenance routines through lockdown periods and have restarted with precaution and due care. Therefore, we have been largely spared from such claims to date.

The hibernation of some industries, such as the global aviation sector, does not mean that all loss exposures have equally disappeared, they just have changed, creating new risk accumulations. For example, large parts of the worldwide fleet are grounded in airports, many of which might be exposed to hurricanes, tornados or hailstorms. The risk of shunting or ground incidents when large aircraft fleets are parked temporarily also increases and can result in costly claims.

Covid-19 driven liability claims have been benign to date, but there is also the potential of claims yet to materialize from long-tail lines, such as claims against directors and officers (D&O) or professional liability, as well as workers' compensation, if any negligence or failures to

adequately protect against the coronavirus outbreak have been perceived. The pandemic could also trigger litigation against companies and their D&Os., particularly when insolvencies are involved, such as where boards have failed in their duty to prepare for a pandemic or for a longer disruption with prolonged periods of reduced income.

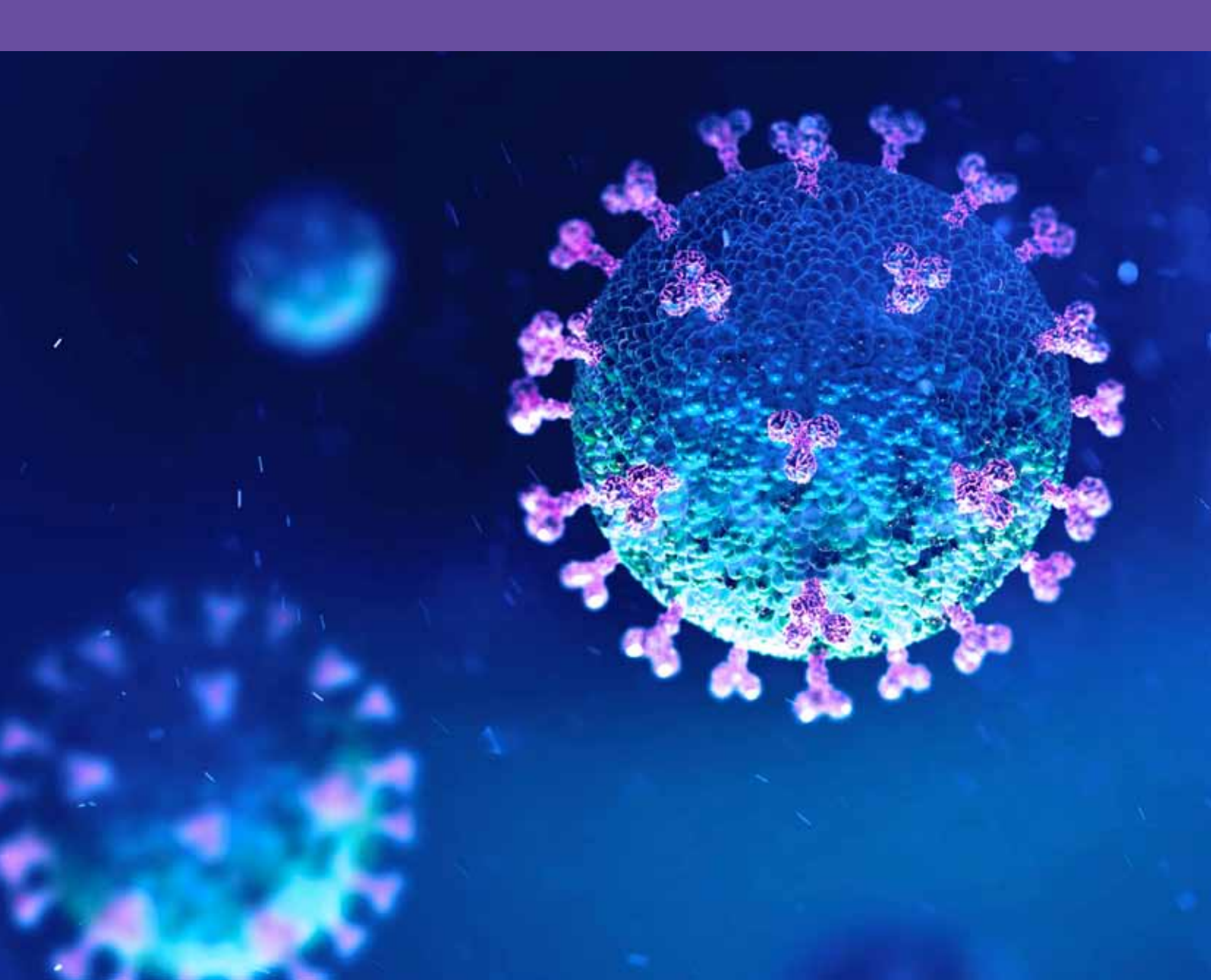
#### **AND WHAT DO YOU EXPECT IN RESPECT OF THE LONG-TERM IMPACT OF COVID-19 ON THE RISK LANDSCAPE?**

**TS:** This is difficult to predict, of course. Covid-19 has highlighted or accelerated many wider changes in business and society. McKinsey recently said that data showed the Covid-19 pandemic vaulted global business five years ahead in terms of digitalization in just an eight-week period.

A growing reliance on technology, the shift to homeworking for staff and the remote monitoring of industrial facilities could make companies more vulnerable to cyber-attacks, for example. Also, trends such as a reduction in air travel or investments in green energy and infrastructure would change the risk environment for companies and shape claims trends for insurers. There are many potential scenarios and only time will tell how trends will ultimately play out. For example, the dramatic increase in hygiene standards will positively impact quality issues in many industries, while any changes in production line processes because of social distancing could bring a higher margin of error.

Definitely, a topic to watch is the current rethinking and de-risking of global supply chains to achieve more operational resilience. Many companies are currently reviewing their supply chain strategies and are evaluating options such as parallel supply chains with more redundancies or some reshoring from low-cost countries back to more developed markets. This will have an important impact for insurers, both in terms of generating demand for new protection solutions, as well as new claims scenarios.





## OVERVIEW

### COVID-19 CLAIMS NOTIFICATIONS OUTWEIGH REDUCED ACTIVITY DURING LOCKDOWN

The coronavirus pandemic and resulting lockdowns have had a significant impact on commercial and specialty lines of insurance, both in terms of claims volumes and financial impact.

The rapid spread of Covid-19 in the first half of 2020 resulted in drastic lockdowns, forcing the closure of businesses, cancellation of events and a general curtailment of economic activity around the globe. In April, 3.9 billion people, almost half the world's population, were largely confined to their homes. Many markets experienced deep contractions during lockdowns – the UK economy shrank by almost a quarter while German exports shrank by 25%.

Estimates vary widely, but there have been reports that insurers could pay claims related to the coronavirus pandemic of around \$80bn in the US and the UK alone, comparable to the insured loss bill from hurricanes Harvey, Irma and Maria in the 2017 Atlantic hurricane season. Lloyd's puts this figure at as high as \$110bn in 2020<sup>1</sup> (\$203bn when investment losses are factored in), on par with some of the biggest major claims years for the insurance industry.

“With the reduction in economic activity, traditional property and casualty claims have been subdued. However, this was outweighed by an increase in Covid-19 related claims notifications, especially in the entertainment industry with the cancellation of live events and the interruption of movie and other film productions. Meanwhile, there is still the potential for traditional property damage and business interruption claims to occur as factories and businesses restart, and given the longer development patterns of third-party claims,” says **Philipp Cremer, Global Head of Claims at AGCS**.

<sup>1</sup> Lloyd's, Covid-19 will see historic losses across the global insurance industry, May 14, 2020



With Covid-19, the risk landscape changed, explains Cremer.

“The pandemic has reduced risk in some areas, while at the same time changing it in others. We have seen claims in some lines of business surge with Covid-19, and others decline. Considerable uncertainty for the development of claims remains, however,” says Cremer.

Overall, positive trends in claims for insurers have been outweighed by Covid-19 notifications.

“We have received thousands of Covid-19 related claims from the entertainment sector (where AGCS is a major provider of insurance to the film, TV and events industry) and the mid-corporate market, and these are only partially offset by a reduction in aviation and property casualty claims,” says **Ray Hogendoorn, Global Head of Short Term Claims at AGCS**. “Although many commercial property casualty claims notifications will not be covered losses due to the terms of the agreed coverage, they still have to be handled.”

Claims notifications often lag following an occurrence, especially for standard third-party claims, such as slips and falls, where it can be measured in months, explains Cremer. Initially, claims continued to be notified as normal, but then claims patterns began to change with lockdowns and government measures to combat the spread of coronavirus.

“Of course, not every sector went into hibernation,” says Cremer. “Many areas, such as food and online retail, for example, were largely unaffected.”

In addition to Covid-19 related claims, insurers have continued to face claims from risks that are not directly related to the pandemic. For example, this year has already seen large claims from riots in the US, storm damage in North America, as well as large fire and shipping incidents, contributing to an ongoing workload for claims teams.

There is also the potential for an uptick in fraudulent claims made by third-parties against policyholders.

“We might expect to see a spike in fraud. Third-parties are making claims against policyholders which on closer inspection are fraudulent – they claim to have suffered a loss that did not happen. In the current environment, we need to keep a watchful eye on third-party claims,” says **Joerg Ahrens, Global Head of Long-Tail Claims at AGCS**.

## IMPACT ON CLAIMS FREQUENCY

### THE CHANGING RISK LANDSCAPE

With sharp falls in economic activity during lockdowns, and with subsequent social distancing measures, there have been material reductions in claims for some lines of property and casualty insurance, most notably in the aviation sector, but also more generally with fewer accidents at work, on the roads and in public spaces.

Overall, there has been a slight reduction in traditional property and casualty claims in the mid-corporate sector compared with what would have been expected, with a more marked reduction in cargo and aviation claims. The cost of non-Covid-19 related business interruption claims has also fallen as many manufacturers and their supply chains went into hibernation, and are only gradually coming back on line.



## DEVELOPING SITUATIONS – NEAR- AND MID-TERM OUTLOOK

Claims trends in the near-term are difficult to predict, given uncertainty surrounding the pandemic and the lag in liability claims notifications. In the near term, claims frequency is likely to pick up with economic activity, while the resumption of business will bring its own risks, as plants and machinery are reactivated and with an expected rise in insolvencies and unemployment.

“There is a correlation between the health of the economy and claims trends, with fewer claims in some lines of business – such as fewer motor accidents, slip and falls, and workplace injuries – but relative increases in other areas, such as property, where production facilities are under stress and maintenance budgets under pressure. Overall, it is likely claims trends will continue to evolve as a result of the pandemic,” says Ahrens.

As businesses begin to restart and adapt to life with coronavirus, risks are likely to change. Opening factories and restarting production lines heighten risks of machinery breakdown and fire if appropriate maintenance and due care has not been deployed during a shutdown, while any changes to the workplace could increase the risk of human error. Returning workers might not be up to speed, while others could be required to take on roles they are not suited for. Organizations may also need to change business models, adhere to new rules, regulations and processes, and adapt to new ways of working.

There is also the potential for claims arising in the mid-term from liability-related lines, such as D&O and professional liability, as well as workers’ compensation, if any failures to adequately protect against the coronavirus outbreak have been perceived, according to Ahrens.

## LONG-TERM CHANGES

While the duration and extent of the pandemic is difficult to predict, claims trends in coming years could likely reflect wider changes in society and industry brought or accelerated by

## “CLAIMS TRENDS WILL LIKELY EVOLVE AS A RESULT OF THE PANDEMIC”

the pandemic. A growing reliance on technology and shift to remote working, reduction in air travel, investments in green energy and infrastructure, and a rethinking of global supply chains, would all shape claims for insurers.

“Claims trends will mostly return to their pre-Covid-19 patterns in the near-term, although there will be changes. Coronavirus is accelerating many pre-existing trends, such as the growing reliance on technology, and has drawn attention to vulnerabilities in global supply chains,” says Cremer.

The growth in online retail and increased use of technology could have implications for liability claims, such as employers’ liability and cyber. “The typical office environment is likely to change with the move to home working,” says Ahrens. “Companies could have lower property assets and fewer employees in the office, but there would be corresponding changes in cyber and workers’ compensation risks with a rise in home working.”

One positive trend could arise from a renewed focus on business continuity and business resilience, according to Cremer.

“Recent events could lead to a reduction in the complexity of global supply chains, which have had a huge impact on claims over the past decade and made businesses more vulnerable to local events, such as natural catastrophes or fire and explosion. Going forward, businesses have the opportunity to review supply chains and build in more resilience.

“Covid-19 has shown that pandemics are not just a theoretical scenario. The next time we face an infectious disease outbreak, the world should be better prepared,” says Cremer.

# SECTOR SPECIFICS

## ENTERTAINMENT:

### UNPRECEDENTED SURGE IN COMPLEX CANCELLATION CLAIMS



The entertainment and events industry is one of the hardest hit by the pandemic, with lockdowns and subsequent measures to curb the spread of Covid-19 causing the cancellation of live events and sporting fixtures, as well as the closure of theaters, cinemas and theme parks. Film and TV production has ground to a halt, while the threat of further outbreaks and social distancing measures make for a challenging environment as the industry looks for ways to restart.

The cancellation or postponement of events and productions is one of the largest sources of Covid-19 related losses for the global insurance industry, bringing a surge in claims. Unlike traditional lines of insurance, it was not uncommon for entertainment policies to write-back cover for infectious diseases, and AGCS has been working with its clients to settle these claims.

Entertainment insurance is a highly specialized market where claims are complex, requiring expert claims adjusters and managers, explains Cremer. "This was one of our greatest challenges. We have a small but dedicated claims team and had not anticipated a situation like this. Strong relationships with clients and the market, together with good communication, have allowed for a collaborative approach to settling entertainment claims during the pandemic."

Insurers and policyholders have faced difficult decisions about whether to wait, cancel or postpone events, given the uncertainties around the duration of the pandemic and social distancing rules. Organizers will want to do everything to keep the show on the road, but delaying the decision to cancel can drive up costs. The ongoing threat of further outbreaks and social distancing rules also makes decisions around postponement challenging.

"We insure the financial losses from the cancellation or the additional costs caused by delay," says Cremer. "Entertainment companies have faced difficult decisions, but we have worked closely with customers and always aim for an alignment of interests. The pandemic has demonstrated how close relationships and intimate knowledge of the entertainment industry enable us to understand and support right decisions."

## AVIATION:

### CLAIMS FALL DURING LOCKDOWN, BUT HUMAN ERROR AND ACCUMULATION RISKS ARE HEIGHTENED

With most of the world's commercial passenger fleet grounded at the start of the pandemic – global air traffic fell a record 94% in April 2020 (99% in Europe and 98% in the US), according to the International Air Transport Association (IATA)<sup>2</sup>, and was still down by 86% in June, – aviation insurance claims have experienced a significant reduction in frequency.

At the time of writing, the aviation insurance market has seen few claims directly related to Covid-19. The pandemic has led to a small number of notifications where passengers have looked to sue airlines for cancellation of or disruption to travel. In the US, a number of class actions have been filed against airlines by passengers seeking refunds or compensation for cancelled flights.

As airlines resume operations, they will need to adhere to stringent standards to protect passengers and crew from coronavirus infections. However, Covid-19 related claims against airlines are likely to be challenging for plaintiffs, with causation difficult to establish, explains Ahrens.

"To date, we have not seen a trend in Covid-19 liability claims in the aviation sector. There have been notifications under aviation liability policies for Covid-19 losses in the low double digit figures – mostly for flight cancellation related litigation. Liability cases are likely to face significant hurdles in terms of establishing causation. However, insurers still have a duty to defend such claims," says Ahrens.



<sup>2</sup> IATA, After April passenger demand trough, first signals of uptick, June 3, 2020

# “AIRLINES FACE CHANGES IN RISK AS THEY EMERGE FROM HIBERNATION”

While claims frequency initially declined, aviation is a volatile line of business and large or catastrophic claims can have a significant impact. A large proportion of the world’s airline fleet remains in storage, with aircraft, including high value wide-bodied jets, parked in airports, many of which might be exposed to hurricanes, hailstorms and tornadoes – more than 2,000 planes are thought to be idle in the US alone as of start of September 2020, with an estimated value of around \$70bn, according to Swiss Re<sup>3</sup>. The risk of shunting or ground incidents also increases when large aircraft fleets are parked temporarily on a runway. Such incidents could result in costly claims.

“With most of the world’s fleet grounded during lockdown, there were fewer accidents, and we saw a significant reduction in the frequency of claims. However, the accumulation risks of aircraft have increased, while we have also experienced a pursuit of older, dormant claims,” says Ahrens.

With ongoing restrictions on international travel and the continued threat of further Covid-19 outbreaks, demand for air travel is expected to be subdued for the next 12 to 24 months. In fact, IATA has predicted that it will not return to pre-Covid-19 levels until 2024. However, airlines are likely to face changes in risk as they emerge from hibernation and ramp-up operations. Airlines are operating under exceptionally difficult conditions and are now making deep cuts to their workforce, including the loss of experienced pilots, while many that remain will not have flown for months.

Human error remains a significant factor in airline claims and will be an important consideration as operations resume. An initial investigation into the crash of a Pakistan International Airlines Airbus A320 in May indicated pilot error was the likely cause of the incident, in which 98 people were killed. In June, two aircraft collided on the ground at Aberdeen airport as one was being prepared for take-off.

“It is too early to tell how claims trends could develop in the new operating environment at the moment, but there are likely to be increased accumulation risks – such as from hailstorms or tornadoes – as well as potential issues with human error,” says Ahrens.



## PROPERTY:

### RESTARTS BRING HEIGHTENED RISK

Property damage claims were largely unaffected by Covid-19, as many key loss drivers – namely weather and fire – are not directly correlated with the pandemic. However, Covid-19 could affect property claims trends going forward, as businesses restart and ramp up production, or where lockdowns affect emergency response and loss mitigation following a large or catastrophic event.

The closure of factories and mothballing of production facilities can heighten risk, according to Hogendoorn. As production lines restart and activity increases, it brings the risk of failure and damage, as well as a higher risk of fire and explosion.

“Restarting a factory or power plant is a moment of heightened risk. Once up and running, a plant typically operates smoothly. But restarting a plant represents a stress situation for operators. Experience has shown that holiday shutdown periods are typically followed by a spike in machinery breakdown and fire claims,” says Hogendoorn.

Factories in hibernation will not produce large business interruption claims but they do present a different risk profile, explains Cremer. With fewer people on site, inspections and maintenance might be delayed, while traditional loss incidents – such as a fire or escape of water – might go unnoticed at the beginning, increasing the severity of damage.

“We are far from the end of this. While business interruption claims following a fire or extreme weather initially decreased, this will have to be

<sup>3</sup> Insurance Insider, ‘Significant billions of dollars’ at risk from US grounded planes: Swiss Re, September 7, 2020



balanced against the risks of restarting equipment and production lines,” adds Cremer.

Covid-19 can have an influence on the severity of large claims if it has led to a higher cost of labor or materials, or caused delays in loss prevention or mitigation. For example, a fire and explosion at a chemical plant in South Korea in April forced the closure of the facility, causing disruption to supplies of a number of chemicals. Restricted access due to the coronavirus lockdown in the country at the time caused delays to loss mitigation and prolonged the reinstatement period, increasing the overall cost of business interruption.

In addition, lockdown measures in hurricane exposed US states could prevent businesses from securing property against wind or flood damage, restrict access for loss adjusters, or hamper repairs or reconstruction following an event.

## LIABILITY:

### SLIPS AND FALLS DECLINE, BUT OTHER CLAIMS MAY YET MATERIALIZE

With reduced economic activity during the pandemic, liability claims have experienced a number of positive trends. However, given the lag in reporting and uncertainty surrounding Covid-19, future claims cannot be ruled out. With people staying at home, and with the temporary closure of many shops, airports and businesses, slip and fall claims notifications have slowed. There has also been a positive impact in the US from the suspension of courts and trials. Some claimants and plaintiff attorneys have been more open to negotiated settlements, some of which have been on more favorable terms.

Where AGCS has seen liability claims notifications for Covid-19 related losses under liability policies, these are typically from US mid-sized corporates against general liability policies, including those made under pollution wording for Covid-19 infections. However, most claims will not be covered due to infectious disease exclusions.

“Covid-19 related general liability and workers’ compensation claim notifications number in the several hundred, mostly low value claims arising from the mid-corporate sector. For now, liability claims related to Covid-19 are relatively benign, but we do not know what might be around the corner,” says Ahrens.

A number of outbreaks of coronavirus have been linked to high-risk environments, such as gyms,

farms, care homes and cruise ships. Food processing plants, for example, in the UK, Germany, Brazil and the US, have closed after workers tested positive for coronavirus.

“There have been outbreaks of Covid-19 in workplaces, including a number of food processing plants in Europe and the US. Potentially, employees could sue employers if they have failed to provide a safe work environment, and, potentially, a series of large local or sector outbreaks could cause a spike in workers’ compensation claims,” says Ahrens.

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. However, the experience of past infectious disease outbreaks suggests insurers will see few successful claims under general liability policies due to exclusions and the fact that causation is hard to prove.

“Claims notifications are likely to be filed, but when and how many is uncertain at this time. However, with the SARS outbreak, insurers did not experience a notable spike in claims, and liability insurance lines were largely unaffected. The situation with Covid-19 is not too dissimilar and we would anticipate a liability claims experience in line with previous outbreaks like SARS,” says Ahrens.

The coronavirus pandemic has not yet negatively impacted product liability and recall claims – for example, there was a 77% reduction in automotive recalls in Europe, Middle East and Africa during Q2 2020 compared to a year earlier<sup>4</sup> and it is clear most of that can be attributed to the pandemic and a drop in production levels – although changes to production facilities due to social distancing and the economic impact of Covid-19 could shape claims going forward.



<sup>4</sup> Stericycle Expert Solutions, Recall Index Insight Report - Edition 2, August 2020

“Product liability and recall claims tend to follow economic activity, so there will most likely be an impact on claims with the economic downturn. Coronavirus also could affect claims through changes to hygiene and working practices, while restarting production after periods of hibernation may give rise to human error,” says Ahrens.

“Production lines may have to change because of social distancing, which could mean they are less effective. This could bring a higher margin of error, adding to existing pressures, which could result in quality control issues,” adds Hogendoorn. Covid-19 is likely to influence recall trends, with key sectors and supply chains under pressure, including automotive, food and beverage and pharmaceuticals, three of the most important sectors in terms of product recalls. Longer term, changes brought about in consumer behavior and supply chains by Covid-19 could also affect product recall claims.

There have already been a number of recalls in Europe for personal protective equipment (PPE) that has failed to meet standards or that was found to be defective. PPE – namely, face masks – are among the most recalled products in Europe in 2020, while a number of governments have rejected medical equipment and coronavirus testing kits deemed defective, according to Stericycle.

## FINANCIAL LINES:

### D&O, PROFESSIONAL LIABILITY AND CYBER ISSUES ON THE HORIZON?

Although it is still early in the process, the coronavirus outbreak could result in claims against D&O, consultants and professionals, as

investors and other stakeholders look to hold them accountable and seek to recoup losses.

Claims against D&O insurance related to Covid-19 have been a trickle, rather than a flood to date. A small number of securities class action lawsuits have been filed in the US – just 16 were filed as of July according to D&O Diary<sup>5</sup> – including suits against cruise ship lines that suffered Covid-19 outbreaks, as well as litigation regarding the business impact of the pandemic on companies’ financial performance or operations. Investors have also filed claims against firms that have made misrepresentations about coronavirus-related therapies, testing, or equipment.

Event-driven litigation has become an established trend in recent years, with plaintiff law firms ready to seize almost any opportunity to bring class actions or force a settlement. Against this backdrop, Covid-19 related D&O claims remain a distinct possibility as the economic consequences of the pandemic play out, says Ahrens.

“The pandemic could trigger litigation against companies and their D&O, such as where boards have failed in their duty to prepare for disruption or disclose risks. Event litigation has become a significant driver for D&O claims, and while there has been relatively few class actions related to Covid-19 to date, this will be an area to watch.”

Insolvency is another potential source for Covid-19 related D&O claims – it is historically a key cause of claims as insolvency practitioners look to recoup losses from directors.

“Economists are predicting a wave of company insolvencies as a consequence of the pandemic. There are a plethora of ways that stakeholders could go after directors following insolvency, such as alleging that boards failed to prepare for a pandemic or prolonged periods of reduced income,” says Ahrens.

Professional liability claims are also a possibility, in sectors such as insurance broking or healthcare. Previous economic downturns and catastrophic events have seen negligence claims against insurance brokers and financial advisors. The healthcare sector could also see negligence claims, for example, where a lack of PPE or a failure to meet standards has led to Covid-19 deaths.

“The economic consequences of the pandemic will likely cause a wave of insolvencies and rising unemployment. We have seen with previous



<sup>5</sup> D&O Diary, Covid-19 and D&O Insurance: The Latest Update, July 2020



downturns that people are forced to change careers and sometimes move into jobs that they may not be suited for, which can lead to an increase in professional indemnity and new liability claims,” says Ahrens.

Cyber claims have yet to be significantly affected by Covid-19. However, with many businesses distracted by the crisis, and with a rapid increase in home-working and internet sales, companies are more vulnerable to cyber-attacks, including phishing, ransomware, scams and business email compromise attacks, as well as a rise in human error incidents from staff. The World Economic Forum, predicted that the pandemic was likely to increase the risk of cyber-attacks as hackers targeted society’s growing dependence on digital communications and tools and a number of different reports have already noted a significant rise in incidents during the major lockdowns around the world.

“Cyber risk will come in different shapes and forms as companies increasingly digitalize, relying more on online sales and remote ways of working,” says Ahrens.

## **BUSINESS INTERRUPTION:**

### **LOCKDOWN REDUCES SEVERITY OF TRADITIONAL CLAIMS, BUT COVID-19 IS A DOUBLE-EDGED SWORD**

The coronavirus outbreak has had a significant impact on business interruption insurance. With many businesses shuttered or running at reduced capacity, traditional business interruption claims have seen a marked reduction. However, Covid-19 has also generated a wave of claims notifications for losses incurred due to government lockdowns.

AGCS has received thousands of claim notifications for business interruption losses related to Covid-19, mostly in the mid-sized corporate market. However, the vast majority of commercial property policies do not cover business interruption without physical damage.

“We have had notifications for business interruption caused by Covid-19, but typically the customer has notified the claim as a precaution and wants to establish if their property insurance will respond. Nonetheless, property insurance is intended to cover physical damage, and non-damage business interruption caused by Covid-19 would not typically be insured. So we have had to work with brokers and customers to explain the situation and clarify the terms of insurance,” says Cremer.

“There are exceptions, such as entertainment insurance and a small number of property policies that include non-damage cover for infectious diseases. Many of these have already been settled,” adds Hogendoorn. “However, such cover is not widely purchased and is typically sub-limited.”

At the same time, the cost of non-Covid-19 business interruption property damage has reduced, as many factories have either closed or scaled back production. During the height of the pandemic, a tornado caused extensive damage at an auto-parts manufacturer. The interruption was significantly mitigated as its customers had already scaled back production, giving the company more time to restore its operations. This resulted in a lower business interruption loss, compared to “normal circumstances”.



## THE CLAIMS RESPONSE

### GOOD COMMUNICATION:

#### CRITICAL TO AVOIDING DISPUTES

As with past major incidents, Covid-19 has given rise to complex policy interpretation issues, requiring a sympathetic and considered response to claims notifications.

AGCS has received several thousand claims under commercial property and casualty policies related to Covid-19, in particular for business interruption, but also liability. With the exception of entertainment policies and a small number of non-damage business interruption policies – where infectious disease cover was expressly included – the majority of policies do not, and are not intended to, cover pandemics.

“This presents a challenge for our claims handling teams, and how best to respond where there is no cover under the policy,” says Ahrens.

“As is the case with all claims, insurers have to think carefully how they respond and explain to customers how the policy works and what it is intended to cover. This is a reputational, as well as legal and regulatory issue, for insurers,” says Hogendoorn.

Covid-19 has seen a politicization of insurance claims. In the US, there have been legislative moves to make insurers retrospectively cover business interruption losses, although such attempts have so far made little headway. Policyholders in the US and Europe have turned to the courts to interpret policy wordings, while the UK’s Financial Conduct Authority intervened directly on behalf of small businesses, bringing a test case in the High Court.

“Insurers will follow the rule of law and pay claims according to policy wordings and, in applicable cases, according to individual court rulings,” says Hogendoorn.

### FUTURE PANDEMICS:

#### LEARNING FROM EXPERIENCE

With the outbreak of the coronavirus pandemic, insurers have sought to clarify wordings for infectious diseases, and inform policyholders of exclusions or the extent of cover, where it exists. This should help ensure that future pandemics or a resurgence of Covid-19 will lead to fewer notifications under traditional policies where cover does not exist.

“Over time, there may be a shift in policy wordings away from pandemic clauses. Coverage will be much clearer in terms of what is included and excluded for infectious disease outbreaks. Dealing with claims in the next pandemic will hopefully be much more straightforward,” says Hogendoorn.

As a known risk, Covid-19 is generally not considered insurable, although affirmative cover has historically been available for infectious diseases under specialist non-damage business interruption or entertainment policies. However, due to the size and global nature of pandemics, the industry is unable to cover business interruption for large infectious disease outbreaks, at least without government support. However, a number of government backed insurance solutions to protect businesses against pandemics are being considered in Europe and the US. Allianz is among those actively contributing to various initiatives to create such solutions.

“Specific cover for pandemics and infectious disease outbreaks is available in the insurance market but not widely purchased. However, Covid-19 has raised awareness of this risk and there will no-doubt be growing interest for such cover going forward,” says Ahrens.

## CLAIMS SERVICE:

### TECHNOLOGY AND WORKAROUNDS DELIVER UNINTERRUPTED SERVICE

Throughout the pandemic, insurers such as AGCS have had to maintain high levels of claims service, in part, due to recent investments in claims technology and software, but also through the dedication and flexibility of claims professionals.

The coronavirus outbreak has tested AGCS claims teams and systems, according to Cremer. “The past few months have shown just how well we can adapt to a new situation and keep claims operations up and running. For large losses, we have managed to get people onsite using local loss adjusters supported remotely by specialists. People have just made it work,” says Cremer.

“There will always be unexpected or large loss events that put claims service under pressure. The ability of an insurer to quickly understand the situation, their speed of response and communication is make-or-break for clients. Events like Covid-19 really test an insurer’s claims response, but this is equally true for a large industrial accident or natural catastrophe.”

Technology has played a crucial role in delivering an uninterrupted claims service throughout the pandemic. Recent years have seen AGCS’ claims function undergo a transformation, digitizing and automating claims processes and documentation. Remote claims inspections and assessments are now possible through satellite, drone and image capture technology. For example, the **MirrorMe** mobile app enables AGCS experts to review and assess premises remotely based on photo and video images captured by clients.

Covid-19 has further reinforced the need for digitalization of the claims process, says Cremer.

“AGCS’ cloud-based claims platform has passed the test of coronavirus. Our digital claims processes proved resilient throughout the lockdown, enabling our claims teams to deliver expert service without disruption. Just a few years ago, claims processes were mostly

manual and paper-based and many people could not have imagined handling claims remotely. While we haven’t yet abolished paper, the trend towards using technology in claims will continue, and now will most likely accelerate. There is no way back.”



### WHAT IS ‘MIRROR ME’?

AGCS risk consultants typically identify perils and recommend solutions to businesses during onsite risk surveys, but what if they can’t access the premises or want to reach multiple global locations in a fast, cost-efficient way? **MirrorMe**, an app-free solution that simplifies photo and video capture to allow risk experts to remotely review and assess premises, can help them evaluate potential exposures around a property or in a warehouse – across the street or around the world. Businesses can share images of facilities and operations or browse a library of risk mitigation materials without having anyone visit their facility, especially convenient in the challenging coronavirus environment, by reducing outside visits. The tool offers a safe, virtual and real-time loss control experience, allowing risk engineers to review exposures, gather information and offer real-time recommendations.

Find out more [www.agcs.allianz.com/news-and-insights/expert-risk-articles/remote-insurance.html](http://www.agcs.allianz.com/news-and-insights/expert-risk-articles/remote-insurance.html)

# CONTACT US

AGCS fields a dedicated team of claims experts, highly respected in the market. We have many years of experience and expertise in managing claims in all our lines of business.

Visit [www.agcs.allianz.com/claims.html](http://www.agcs.allianz.com/claims.html)

For more information contact your local Allianz Global Corporate & Specialty Communications team.

## AFRICA

Lesiba Sethoga  
lesiba.sethoga@allianz.com  
+27 11 214 7948

## NORTH AMERICA

Sabrina Glavan  
sabrina.glavan@agcs.allianz.com  
+1 973 876 3902

## ASIA PACIFIC

Wendy Koh  
wendy.koh@allianz.com  
+65 6395 3796

## UK, MIDDLE EAST, NORDICS

Ailsa Sayers  
ailsa.sayers@allianz.com  
+44 20 3451 3391

## CENTRAL AND EASTERN EUROPE

Daniel Aschoff  
daniel.aschoff@allianz.com  
+49 89 3800 18900

## GLOBAL

Hugo Kidston  
hugo.kidston@allianz.com  
+44 203 451 3891

## IBERO/LATAM

Camila Corsini  
camila.corsini@allianz.com  
+55 11 3527 0235

Heidi Polke-Markmann  
heidi.polke@allianz.com  
+49 89 3800 14303

## MEDITERRANEAN

Florence Claret  
florence.claret@allianz.com  
+33 158 858863

For more information contact  
[agcs.communication@allianz.com](mailto:agcs.communication@allianz.com)

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Allianz Global Corporate & Specialty SE  
Fritz-Schaeffer-Strasse 9, 81737 Munich, Germany  
Commercial Register: Munch HRB 208312

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