



## Global Industry Solutions Outlook Q&A

# Construction

Risk trends and future opportunities

# Trends Q&A

## **Blanca Berruguete, Global Industry Solutions Director for Construction at Allianz Global Corporate & Specialty (AGCS)**

looks at the future growth drivers for the sector, including some of the opportunities presented by the drive to net zero, and discusses some of the main factors and loss trends behind the industry's top risks as ranked by **Allianz Risk Barometer** respondents.



## How do you view the outlook for the construction sector? What are some of the opportunities and challenges AGCS sees for it in the years to come?

The global construction market is set for a sustained period of strong growth in future years, driven by factors such as a surge in government spending on infrastructure, rising populations, rapid urbanization in emerging markets and the global drive towards a more sustainable world. For example, Oxford Economics expects to see growth of US\$4.2trn in construction over the 15-year period from 2022 to 2037 – representing growth of over 40% in the size of the global market.<sup>1</sup>

The transition to the net zero economy will require significant investment in alternative forms of energy, as well as power storage, transmission and supporting services. The International Energy Agency (IEA) says that pursuing net zero will create a market for wind turbines, solar panels, lithium-ion batteries, electrolyzers and fuel cells of well over \$1trn a year by 2050,<sup>2</sup> comparable in size to the current oil market. The shift to electric transport will require investment in new plants and battery manufacturing facilities, as well as charging infrastructure and power generation.

Climate change adaption and mitigation will also give rise to opportunities with new coastal and flood defenses required, as well as sewage and drainage systems. Commercial buildings and plants will need upgrading to protect assets from storms and floods. Ageing infrastructure will need to be upgraded to cope with more extreme weather events.

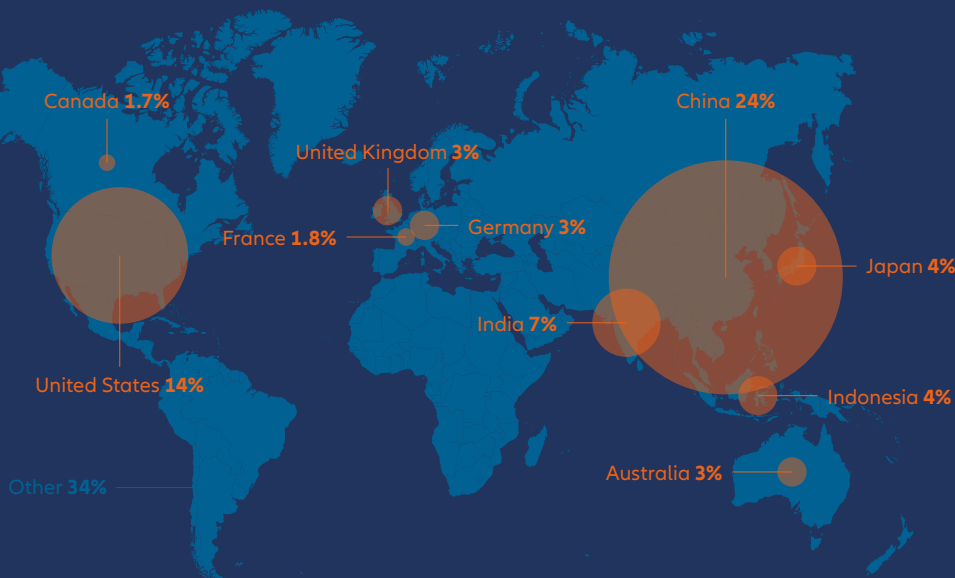
The long-term future outlook is positive. Having said that, the industry is also facing a number of short- and long-term challenges such as the prospect of recession, the shortage, and rising cost, of key equipment and materials given recent high inflation, a spike in procurement costs, ongoing shortage of skilled labor, as well as longer lead times, schedules, and cost overruns, compromised supply chains, ever-changing workplace protocols, and increased competition.

<sup>1</sup> Oxford Economics, A global forecast for the construction industry to 2037

<sup>2</sup> International Energy Agency, World Energy Outlook 2021 Shows a New Energy Economy is Emerging – But Not Yet Quickly Enough to Reach Net Zero by 2050, October 13, 2021



### Top 10 global construction markets 2030



Global top 10 construction markets see continued shift to emerging markets, with China and US clear leaders in 2030.

These 10 markets are expected to represent two-thirds of global output in 2030.

Source: Oxford Economics/Haver Analytics, Future of Construction, Marsh & Guy Carpenter.

Graphic: Allianz Global Corporate & Specialty

## Business interruption/supply chain disruption and natural catastrophes rank as the top two risks in the **Allianz Risk Barometer** for the engineering and construction sectors. What are some of the factors behind these concerns?

# 27%

Fire accounts for 27% of the value of construction claims over five years


Simply put, larger values are at risk for companies. Construction costs are soaring in many countries because of the higher prices for energy and raw materials. Replacement is costing more and taking longer. Materials are not only significantly more expensive – the cost of cement, timber, steel, glass and paint have all increased over the last year, in some cases by around 50%, while construction inflation was in the range of 11% to 25% in countries such as the US, UK and Germany – but can often be simply unavailable due to logistics, shipping and supply-chain bottlenecks. The end result is that any property damage and business interruption losses are now likely to be significantly higher than they were before Covid-19.

Our analysis of construction and engineering insurance industry claims around the world shows that natural hazards is already the second most expensive cause of loss, accounting for 20% of the value of claims in five years (see graphic) – second only to fire and explosion. With climate change increasing the frequency and severity of extreme weather events such as hurricanes, floods, and wildfires this means that the costs of property damage and business interruption from these events are expected to escalate. It is now much more expensive to repair or rebuild damaged property and therefore it is important that businesses work with insurers to ensure they have accurate and up-to-date valuations of their assets in order to ensure they are fully reimbursed in the event of any loss.



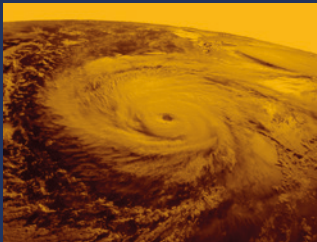
### Top 5 risks in engineering and construction 2023

**1**  
39%  
→  
2022: 1 (43%)



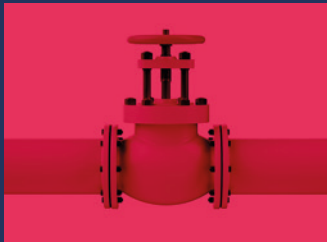
**Business interruption**  
(incl. supply chain disruption)

**2**  
34%  
→  
2022: 2 (42%)



**Natural catastrophes**  
(e.g. storm, flood, earthquake, wildfire, extreme weather events)

**3**  
24%  
↑  
NEW



**Energy crisis**  
(e.g. supply shortage/outage, price fluctuations)

**4**  
23%  
↑  
2022: 5 (21%)



**Shortage of skilled workforce**

**5**  
20%  
↑  
NEW



**Macroeconomic developments**  
(e.g. inflation, deflation, monetary policies, austerity programs)

Source: Allianz Global Corporate & Specialty

Figures represent how often a risk was selected as a percentage of all responses for that industry sector. Respondents: 161. Figures don't add up to 100% as up to three risks could be selected

## Infrastructure spending boon

Infrastructure spending will require both private and public capital for various industries, depending on the needs and recovery strategies of different countries. Areas set to benefit include:



### Energy

(focus on climate change and the transition to renewables)



### Telecommunications

(demand for data and online connectivity has significantly increased)



### Healthcare

(the pandemic has illuminated the urgent need for increased investment in healthcare infrastructure in many countries)



### Transportation

(repairing/upgrading of ageing infrastructure, new air / rail / road links between global, national and regional freight and passenger transportation hubs)



### Infrastructure dedicated to promote climate change resilience

(for example, storm water management projects)



### Water treatment and supply distribution

## How is the drive to net zero changing the construction sector? What does this mean for its risk profile and for insurance?

The construction sector has reached a critical juncture. Between new technologies, innovative delivery methods and the explosion of greener, leaner practices, the industry is poised to embrace and benefit from more sustainable approaches. Such innovation is necessary in the face of mounting pressures. Not only are investors and consumers voicing louder concerns about environmental, social, and governance (ESG) issues, but legislation, regulation and reporting requirements are also evolving quickly in many jurisdictions around the world.

The switch to sustainable energy and the adoption of modern building methods will transform the risk landscape, with radical changes in design, materials and construction processes and the introduction of innovative technologies. In order to meet carbon reduction targets, rapid adoption will likely be required meaning close co-operation between underwriting, claims and risk engineering, as well between insurers, brokers and clients, to share data and experiences to help underwrite what can be prototypical risks. In any industry, deployment of new technologies can also bring new risk scenarios such as potential defects or unexpected safety or environmental consequences, as well as benefits. For example, modular construction can mean less construction waste, shorter timelines and reduced disruption to the environment. However, it also raises risk concerns about repetitive loss scenarios.

From AGCS continued risk monitoring and management controls will be key. Design reviews and on-site quality controls are essential to safeguard cost-effective project execution and delivery outcomes.

To transform successfully, sector players must be bold in traversing challenges, confidently overcoming uncertainty and laying the foundations for future success and sustainability. AGCS is committed to supporting all clients who set out on the transformation journey and implement a clear plan to diversify their businesses away from hydrocarbons by 2050. Collaboration is key when it comes to exposure and innovation and we have capacity, engineering expertise and underwriting experience to apply to transition activities, whether this is supporting green hydrogen facilities, sustainable construction projects or offshore wind farms.

“ The industry is poised to embrace and benefit from more sustainable practices

## Construction loss trends: top causes of claims

Fire and explosion is the most expensive cause of loss in the construction sector, accounting for 27% of the value of claims analyzed by AGCS over a five-year period. Despite significant improvements in risk management and fire prevention, fire will always remain a significant hazard because of the nature of the work in the sector, which often involves open flames, such as welding, the application of heat with equipment like hot tar boilers or the generation of sparks during leadwork and grinding. Undertaking these activities in the vicinity of combustible materials, which are plentiful on construction sites, only increases the potential for a loss event.

Regularly assessing and updating prudent fire mitigation practices, including preventative and extinguishing measures and methods, and contingency planning, are essential to lower the risk of loss from an incident.

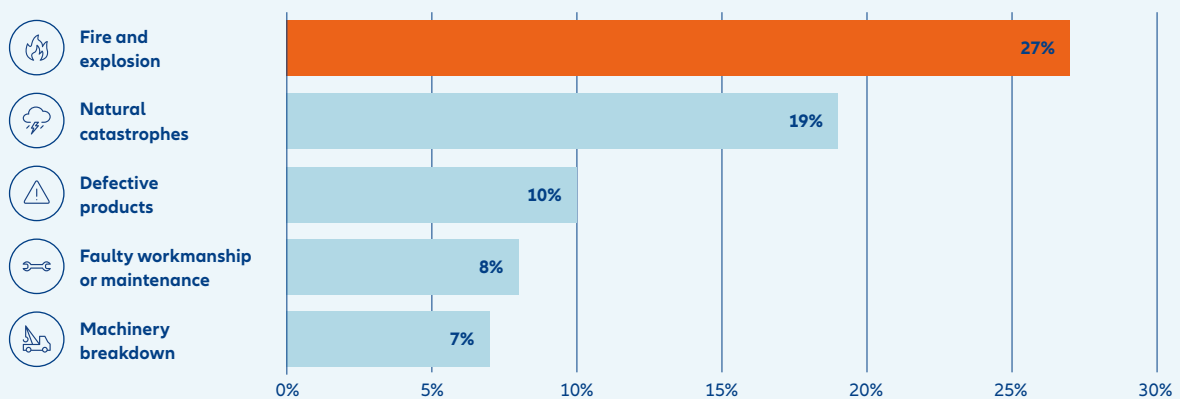
Natural catastrophes account for almost a fifth of claims by value (19%) and are also the most frequent cause, totalling 18% by number. Construction sites need to give more consideration to the impact of extreme events, such as wildfires, flash flooding and landslides in their risk assessments. Recent years have seen claims activity from such events disrupt and temporarily close sites and infrastructure projects due to safety concerns and power outages. Business continuity plans should be regularly updated and tested.

Defective products are the third most expensive cause of claims (10%) and the second most frequent cause (13% by number) – any potential defects in design can mean that project losses quickly soar. Faulty workmanship/maintenance (8%) and machinery breakdown (7%) round out the top five causes of loss by value of claims.

The analysis was conducted on 22,705 insurance claims worldwide between January 2017 and December 2021, worth approximately €12.8bn in value. The claims includes the share of other insurers as well as AGCS.



### Top 5 causes of claims by value in construction and engineering insurance



Source: Allianz Global Corporate & Specialty

## What kind of construction projects is AGCS involved in as it supports customers on the net-zero journey?

AGCS is a lead insurer on the construction of the UK's Dogger Bank wind farm project, a joint venture partnership between SSE Renewables, the UK's leading developer and operator of renewable energy, and Equinor, one of the world's largest offshore operators, each with a 40% share, and Vårgrønn, a Norway-based offshore wind company. It is the world's largest multi-field offshore wind farm, which could provide up to 5% of the UK's total energy needs by 2026.

Green hydrogen is another important component of the decarbonization strategy and AGCS recently deployed capacity for the construction of one of the world's largest renewable energy hubs to produce, store, and deliver green hydrogen in the US.

Another increasingly important, and interesting area, that we are involved in is 'floatovoltaics' – solar photovoltaic (PV) panels that float on a body of water, usually unused, such as coal quarries, mineral extraction pits, or reservoirs. Their construction opens up opportunities for solar installation. In Germany, renewable energy developer BayWa r.e. recently built the country's largest floatovoltaic plant. AGCS was the lead insurer, and risk consultants worked closely with BayWa r.e. from an early stage to carry out risk analyses, identify potential areas of concern during construction, and collect data.

### Further information

- [Global Industry Solutions | AGCS \(allianz.com\)](#)
- [Construction Insurance | AGCS \(allianz.com\)](#)
- [ESG in the construction industry | AGCS \(allianz.com\)](#)
- [Allianz Risk Barometer | AGCS](#)



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# About AGCS

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 nine dedicated lines of business and six regional hubs.

Our customers are as diverse as business can be, ranging from Fortune Global 500 companies to small businesses. Among them are not only the world's largest consumer brands, financial institutions, tech companies, and the global aviation and shipping industry, but also floating wind parks or Hollywood film productions. They all look to AGCS for smart solutions to, and global programs for, 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 more than 30 countries and through the Allianz Group network and partners in over 200 countries and territories, employing more than 4,200 people. As one of the largest Property-Casualty units of Allianz Group, we are backed by strong and stable financial ratings. In 2022, AGCS generated a total of €11.2bn gross premium globally.

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