

ALLIANZ COMMERCIAL

# Global Risk Dialogue

Analysis and insight from the world  
of corporate risk and insurance

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Hot seas and heatwaves • Climate adaptation opportunities •  
Risk trends for directors and officers • North Atlantic hurricane  
season review • Pipeline risks • Data centers boom

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# Introduction

In the latest edition of **Global Risk Dialogue**, we delve into some of the hot topics that have been rising up the risk management agenda in recent months. We explore the exposure landscape navigated by directors and officers, who confront geopolitical and macroeconomic uncertainties, as well as liabilities risks arising from artificial intelligence, cyber crime, and so-called 'forever chemicals'.

We also look into the hidden dangers of pipes and pipelines, which are a fundamental part of infrastructure but which could be approaching critical failure points in many aging networks, raising the risk of leaks and contamination. Geopolitical risk and geohazards are also likely to intensify in future.

The great data center building boom is another area of discussion and rarely out of the news. We hear from construction and risk experts about what the buildout of these immense campus-like facilities means in terms of risks and exposures, from power supply outages and skills shortages to resistance from local communities.

Elsewhere, climate and weather are recurring themes as we take a look back at the recent North Atlantic hurricane season ('the one where (most) storms stayed out to sea'), discuss the consequences of record-breaking sea surface temperatures across the Mediterranean, and suggest how best to protect roofs against hail, wind, and severe convective storms.

Throughout, the observations and insights in this **Global Risk Dialogue** have been provided by an international team of risk consultants, engineers, underwriters, claims experts, and sustainability professionals. We hope you enjoy reading them.

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Risk trends and exposures for directors and officers



What happens when essential pipelines fail?

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**[commercial.allianz.com](https://commercial.allianz.com)**

# News from Allianz Commercial

## Board appointments to drive market and trading focus

With effect from January 1, 2026, **Allianz Commercial** announces a new board structure and appointments designed to boost growth in its target markets and to further drive market-facing activities for clients and brokers.

**Jeremy Sharpe**, currently **Global Head of Distribution**, joins the Board of Allianz Global Corporate & Specialty SE ('AGCS SE' as the legal entity of Allianz with board responsibility for Allianz Commercial) as **Chief Distribution Officer**. **Sharpe** will take global responsibility for client and broker management, sales, marketing and distribution strategy, and Allianz's well-established multinational insurance activities. This follows other recent appointments in the Allianz distribution team including **Elke Vagenende** as **Chief Client Officer (Global)**, **Tom Leonard** as **Global Head of Broker Management**, and **Patrick Thiels** as **Chief Client Officer (EMEA)**.

**Allianz Commercial's** activities in Europe, Middle East & Africa (EMEA), the UK, and in Asia Pacific will be divided across three board members, each taking responsibility as **President, Commercial** for one group of markets. **Christian Sandric**, currently **Regional Managing Director** for Asia, joins the board as **President, Commercial, Asia Pacific**, based in Singapore.



Jeremy Sharpe



Christian Sandric

Presidents for the UK and for EMEA will be appointed in due course. In the interim, these markets will be overseen by **Thomas Lillelund**, **Allianz Commercial CEO**, and coordinated directly by **Sharpe**, and **Thomas Sepp**, **Chief Claims Officer**, with **Sharpe** covering all market-facing activity. These new board responsibilities will replace the previous role of Chief Regions Officer, International, which is currently held by **Dirk Vogler** who is moving to a new senior position in Allianz Group.

**Shanil Williams** continues to take board responsibility for **Allianz Commercial** in the Americas, as **President, Commercial, Americas**.

## Allianz Commercial to launch Latin America hub in Miami

**Allianz Commercial** will open a Miami Latin America hub in February 2026. The office will support business development across Latin America, leveraging Miami's position as a leading center and talent pool for the Latin American and Caribbean (re)insurance sector.

It will centralize resources and expertise to better engage with brokers, clients, and other partners throughout the region, as well as creating an additional presence in the Americas.

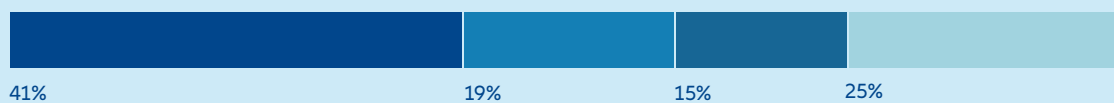
The new office will build on **Allianz Commercial's** existing business in core markets such as Brazil, Mexico, Argentina and Colombia, while expanding facultative reinsurance across property, construction and natural resources, financial lines (including cyber), marine and multinational services into other Latin American markets, including Chile, Peru, Ecuador, and Panama.



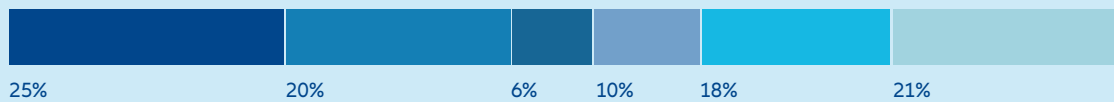
# Loss log: Cyber claims trends

Cyber claims analysis: Expanding risk landscape visible – incidents by loss category  
By % share of total claims value – large claims only (>€1mn)

2025 (6M)



2024



KEY

- Attack-driven losses (with data exfiltration)
- Attack-driven losses (without data exfiltration)
- Contingent business interruption (CBI)/supply chain
- Business interruption due to technical failure
- Non-attack data breaches (e.g., wrongful collection and processing of data)
- Tech/media professional indemnity (e.g., legal actions related to service performance etc.)

Source: Allianz Commercial. Large Claims analysis only (>€1mn) between 2021 and 2025 (6M) with a total value in the dataset in excess of €400mn

Ransomware attacks accounted for around 60% of the value of large cyber insurance claims (>€1mn) seen by **Allianz Commercial** during the first six months of 2025, according to its annual *Cyber security resilience outlook*.

High-profile incidents targeting large companies in many industries underscore ongoing threats, but attackers are also targeting smaller firms, which are typically less resilient. Recent years have also seen a shift from purely extortion-based ransomware attacks to double extortion including data exfiltration – 40% of the value of large cyber insurance claims during the first half of 2025 included data theft, up from 25% in all of 2024. Losses involving data exfiltration were more than double the value of those without.

However, the risk landscape is expanding beyond direct cyber-attacks. Non-attack incidents, such as wrongful collection and processing of data, as well as business interruption due to technical failure, account for a record 28% of large cyber insurance claims by value during 2024. Meanwhile, claims related to growing dependencies of IT supply chains is a key emerging trend. Contingent business interruption (CBI) supply chain events accounted for 15% of large cyber insurance claims by value during the first half of 2025, compared with 6% in 2024. Such losses can result from both attacks and technical faults, causing disruption to critical services and production. The risk of breaches at companies’ IT partners is harder to control. Vendors need to be well managed from a contractual perspective, but also around access control, monitoring and audits of suppliers.

**Find out more**

[➤ Cyber security resilience 2025 | Allianz Commercial](#)

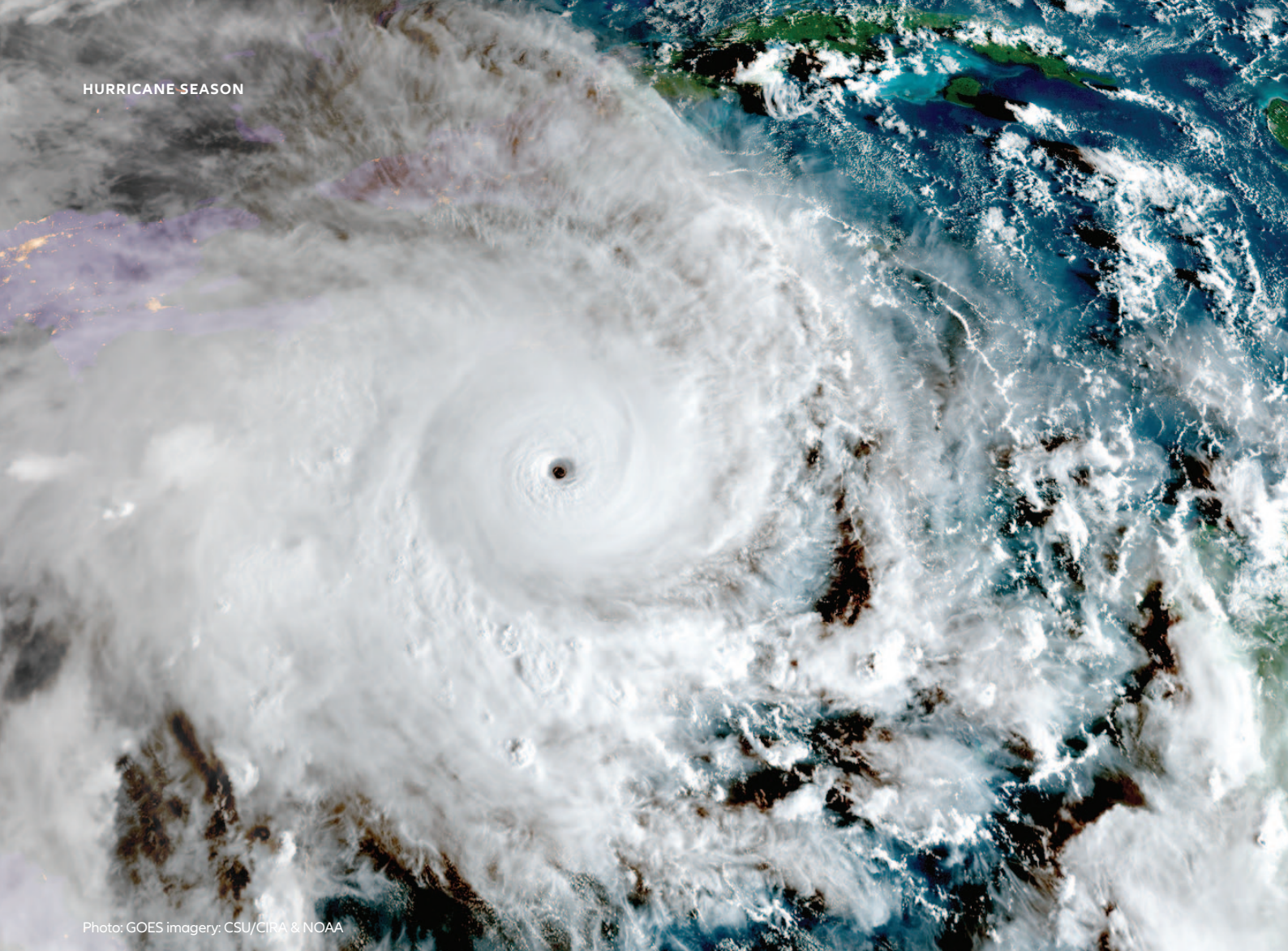


Photo: GOES imagery: CSU/CIRA & NOAA

A satellite image of Hurricane Melissa, which struck in October 2025

# 2025 North Atlantic hurricane season in review: the one where (most) storms stayed out to sea

While not many hurricanes made it to the headlines this year, the 2025 Atlantic hurricane season was close to an average one, according to the **Allianz Commercial** catastrophe risk research team. The season officially ended on November 30, so where did all the storms go?



## Among the four major hurricanes, three reached Category 5 strength

With 13 tropical storms, five hurricanes and four major hurricanes (that is, Category 3 or above), the 2025 Atlantic hurricane season was very close to the 1991 to 2020 average defined by [NOAA](#)<sup>1</sup> (National Oceanic and Atmospheric Administration) and on the lower side of the pre-season forecasts. Among other factors, dry air moving in from the Sahara and a high-pressure system in the Gulf of Mexico created unfavorable conditions for the formation of more storms. Moreover, only three storms (Barry, Chantal and Melissa) made landfall. But why?

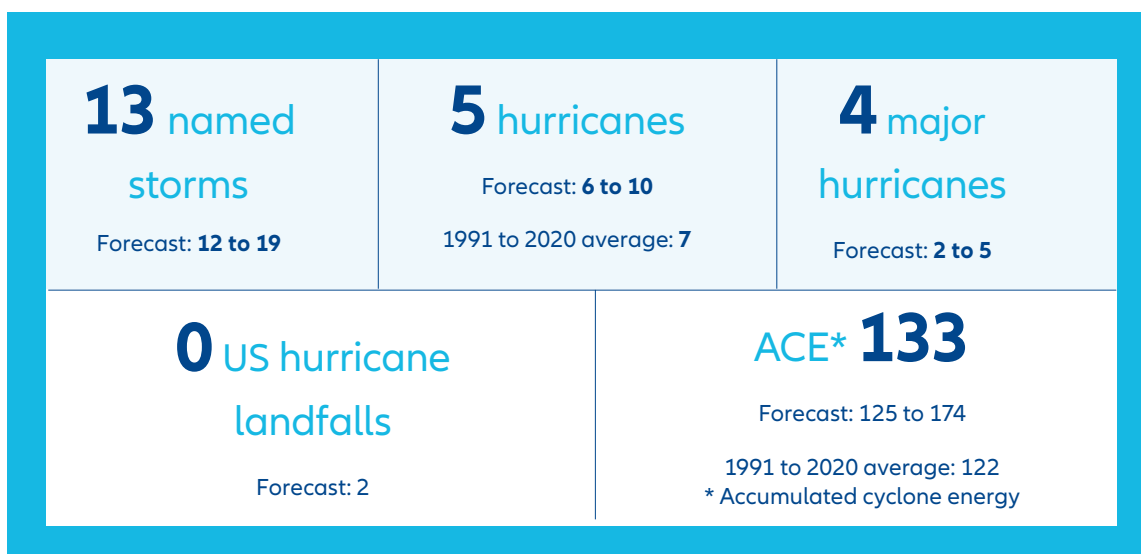
Enter the North Atlantic Oscillation (NAO) – a pressure system in the Atlantic Ocean that helps direct a storm’s pattern. By controlling the position of the Bermuda (or Azores) High (a semi-permanent center of high atmospheric pressure in the Atlantic Ocean), the NAO also influences the direction of general storm paths for major North Atlantic tropical cyclones: when the Bermuda High is further to the south, it tends to force storms into the Gulf of Mexico, whereas a northern position allows them to track up the [North American Atlantic coast](#)<sup>2</sup>. The latter is the case this year, and it helped to keep most

cyclones out in the ocean. The 2025 hurricane season was the first in 10 years without a US hurricane landfall and the first since 2019 without a tropical cyclone directly hitting Florida.

While the overall numbers for the 2025 hurricane season are close to average, the accumulated cyclone energy (ACE), which is a measure of a [storm’s potential for wind destruction](#)<sup>3</sup>, was 9% above the 1991 to 2020 average. By this measure, the 2025 season classifies as an above-average one, comparable to the 2018 and 2019 seasons, but with a lower total hurricane count. This means the hurricanes that did form were particularly strong and long-lived. Among the four major hurricanes, Erin, Humberto and Melissa reached Category 5 strength, making the 2025 hurricane season the second highest on record for Category 5 storm count, just behind the 2005 season, which recorded four.

## Deep dive: Hurricane Melissa and climate change

A hurricane’s intensity is typically described by two main metrics: surface pressure and wind speed. With a minimum center pressure of 892mb (the third lowest ever recorded) and maximum sustained winds of 298km/h (185mph), the second highest recorded, Melissa is preliminarily tied with the 1935 Labor Day Hurricane and 2019’s Hurricane Dorian for the strongest landfall ever recorded in the Atlantic basin. This means the combination of Melissa’s minimum center pressure and peak sustained winds at the moment of landfall is what makes it one of the strongest landfalling hurricanes





# Geopolitical and emerging risk trends drive D&O exposure landscape

Senior managers are having to carefully navigate a challenging environment as they head into 2026. Geopolitical and global macroeconomic uncertainty, together with developing areas of risk like artificial intelligence (AI), cyber, and even so-called forever chemicals, are elevating liability for directors and officers (D&Os) at both public and private companies. **Global Risk Dialogue** highlights some of the most significant risk trends and exposures for boards of management for the year ahead.



## The 1 minute dialogue

- ▶ Ongoing geopolitical instabilities expose companies and their management to an array of complex challenges, potentially resulting in corporate and securities litigation.
- ▶ Cyber is an increasing cause of claims against directors, arising from data breaches, ransomware attacks, and operational errors.
- ▶ Artificial intelligence-related exposures and safety issues associated with PFAS ('forever chemicals') present escalating liability risks for directors and officers (D&Os).
- ▶ D&Os' liabilities are heightened during and following bankruptcy proceedings, as lenders, investors and other parties look to protect their interests.

## An uncertain geopolitical environment – implications for D&Os

Geopolitics has climbed up the corporate agenda, becoming a top priority for boards. Around the world, political, economic and social uncertainties can impact every aspect of a company's operations, as well as lead to potentially significant changes in financial, regulatory, and legal environments. Moreover, a climate of armed conflicts, cyber-attacks, trade disputes, and economic realignments can increase economic fragility and potentially undermine trust in institutions and data. The result – members of boards of directors and company officers are having to navigate their organizations through incredibly complex risk scenarios that did not exist a few years ago.

Shocks such as conflicts, political instability and trade barriers create wavelike effects across industries. Ongoing geopolitical instabilities expose companies and their management to an array of complicated operational, financial and reputational challenges, which can have enormous potential to result in corporate and securities litigation. For example, companies may face increased scrutiny for non-compliance with international sanctions

regimes or a failure to observe changes to legal and regulatory frameworks in the different territories of their operations.

Directors and officers (D&Os) can be held accountable for misjudging the impact of geopolitical developments on their company's operations or failing to control and adequately adapt to the legal or regulatory requirements in different countries. Liability for D&Os may arise from shareholder lawsuits or regulatory penalties directed both against the entity and individual decision-makers.

Geopolitical intelligence and business impact analysis need to become integral parts of organizational risk management and strategic decision-making, as well as supply chain and cyber risk management. Systematic monitoring of global hotspots and scenario-based planning are now essential.

## Cyber emerging as a major cause of claims against D&Os

Cyber-related D&O liability risks have risen sharply in recent years with higher expectations for board-level oversight of cyber security and a trend toward more litigation and regulatory actions. Cyber is now an increasing cause of claims against directors, resulting from incidents such as data breaches, ransomware attacks and even technical glitches and operational errors.

Cyber exposures for D&Os typically arise from their duty to oversee the organization's cyber security posture. Should a cyber incident result in financial loss, directors could potentially face legal claims from shareholders, customers or suppliers (and, in some cases, from the company itself) if the board is perceived to have failed to implement adequate cyber risk controls or business continuity plans. Directors could also conceivably face shareholder litigation for a lack of cyber insurance coverage. And while they might not be at fault, they can still face significant defense and investigation costs.

Willingness to seek damages in court is increasing, partly out of fear of recourse claims by shareholders or supervisory authorities. The threshold for asserting internal liability is falling

## Viewing geopolitics through a corporate lens



### Business impact:

Geopolitics affects every function and must be embedded in corporate strategy.



### Volatility management:

Flexibility is essential to navigate ongoing instability and upcoming global elections.



### Strategic focus:

Companies should identify risk drivers, build buffers, and engage in scenario planning.



### Collaboration:

Sharing intelligence, best practices, and insights with stakeholders and partners strengthens collective resilience.

while the number of cyber-attacks with a systemic impact has increased.

At the same time, companies and their directors also face an evolving regulatory environment. In addition to comprehensive data privacy laws, policymakers have been turning their attentions to operational cyber resilience. In Europe, the Network and Information Security directive (NIS2) is extending robust cyber security and reporting standards to more companies and their supply chains – failure to comply can result in fines of up to €10mn or 2% of global turnover. It also increases the personal accountability for D&Os, who will be directly responsible for overseeing cyber security, risk management and incident response preparedness.

If companies and their directors invest in cyber security, have a solid business continuity plan and robust data privacy controls, they are less likely to face litigation or regulatory action.

## AI sparking shareholder actions

Rapid developments in artificial intelligence (AI) are generating huge potential opportunities for companies, with the global market predicted to reach almost \$5trn [by 2033](#)<sup>1</sup> – a 25-fold increase in just a decade. However, they also have the potential to drive significant D&O liability in the future.

AI has the potential to trigger D&O claims through securities class action lawsuits and regulatory enforcement actions, which can focus on performance issues at AI companies, AI-washing allegations, as well as the understating of AI-related risks. There has been a significant uptick in AI-related filings during the first half of 2025, with more than 50 lawsuits filed in the past five years.

## Forever chemicals and other emerging risks

First developed in the 1940s, per- and polyfluoroalkyl substances (PFAS) have since been used for a wide range of industrial and consumer products, from food packaging to firefighting foams. But these so-called forever chemicals have also been linked to serious health issues. Recent years have seen mounting litigation, much of it stemming from environmental contamination and product safety concerns (mostly in the US, although there have also been civil proceedings in Europe, Canada and Australia). It has been predicted that PFAS water contamination and environmental litigation could eventually cost in [excess of \\$100bn in the US alone](#)<sup>2</sup>, depending on how regulatory and legal trends evolve.

From a D&O perspective, PFAS-related liability is a potential source of claims, namely through corporate and securities litigation. Like other event-driven D&O losses, there have been cases where shareholders alleged that the directors failed to identify potential PFAS liability exposures and did not adequately disclose those risks to investors. If the stock price drops, investors may point the finger at D&Os, alleging this was a risk they should have been aware of and disclosed.

Such issues highlight the need for boards to be more forward-thinking when identifying and disclosing emerging risks – directors need to seek



jonews / Shutterstock

uncertain geopolitical landscape, in particular the far-reaching impact of US tariffs on business and the wider economy. From a D&O liability perspective, trade tariffs can bring an additional risk of regulatory investigation and enforcement actions, and litigation. Shareholders may allege that D&Os breached their fiduciary duties by not taking adequate precautionary measures or not sufficiently adapting to changing conditions. In addition, consumer class actions could arise if a company is perceived to have misrepresented tariff impacts in marketing or passed on costs in allegedly deceptive or unfair ways.

Compliance is another challenging area. Companies and their directors could potentially face investigations and enforcement action from their regulators or customs authorities or civil litigants for allegations of tariff evasion or misleading disclosures.

guidance when it comes to disclosure, as this is where they can be vulnerable.

### Private companies: trade risks challenge D&Os

Bankruptcy and regulatory enforcement actions are among the top sources of private D&O claims, although claims can also arise for breach of fiduciary duty, such as misleading or inadequate disclosure, or negligence. The current challenging business environment – marked by factors such as tariffs, weak demand, rising costs and technological transformation – is heightening the risks of such claims against directors of private companies.

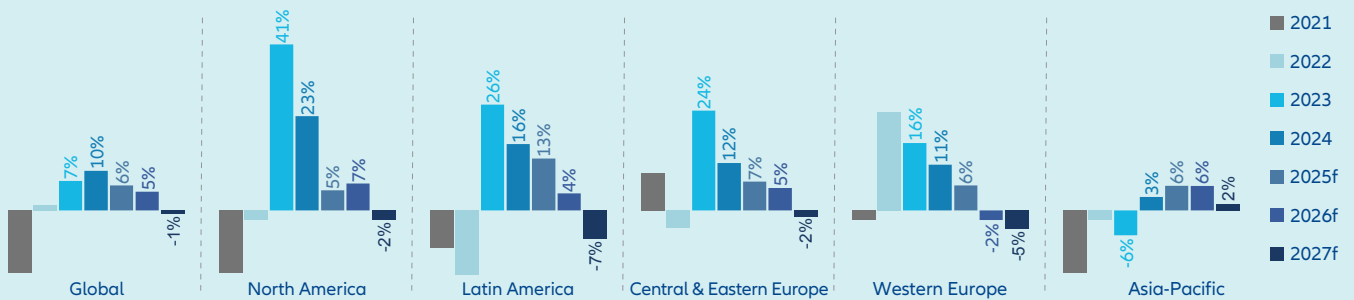
Much like publicly traded companies, one of the hottest topics for private D&O liability is the

For D&Os, mitigating tariff-related risks comes down to robust governance and staying informed about the evolving political and trade landscape. Scenario planning and risk assessments focusing on potential tariff outcomes and supply chain dependencies can help boards anticipate potential financial and operational implications, as well as support timely and accurate disclosure.

### Elevated bankruptcy risk

Global business insolvencies are expected to rise by +6% in 2025 and +5% in 2026, [Allianz Trade forecasts](#)<sup>3</sup>. Next year will thus mark five consecutive years of increases to reach a record high number of bankruptcies, +24% above the

## Global and regional insolvency indices, yearly change in %



Source: Allianz Research





Dmytro/ Adobe Stock

# What lies beneath: hidden risks in pipes and pipelines

Whether they're conveying safe drinking water or transporting hazardous materials, pipes and pipelines are an essential component of modern infrastructure. But what happens when they fail?

In 2019, a gas leak in a Paris bakery caused a massive explosion that shattered windows, overturned cars, claimed the lives of four people, and injured more than 200 others.

On the US East Coast, a cyber-attack in 2021 forced the shutdown of the Colonial Pipeline, which carries 45% of the region's supply of diesel, petrol and jet fuel, causing disruptions and prompting panic buying.

In the Baltic Sea off the coast of Denmark, an act of suspected sabotage in 2022 triggered a series of explosions in the Nord Stream gas pipelines. The incident released nearly half a million tonnes of methane into the atmosphere, undermined European energy security, inflated energy prices, and heightened geopolitical tensions.

These three events highlight the catastrophic consequences of pipeline damage. From local

tragedies to international incidents, our domestic lives and economic activity can be brought to a standstill by failures in the arterial networks that circulate not only fuels, but water, steam, gases, chemicals, and waste.

**Oliver Lauxmann, Global Practice Group Leader, Chief Underwriting Office – Liability, at Allianz Commercial**, explains what's at stake: *"Whatever the cause, the results can be the loss of essential services, the evacuation of homes and businesses, reputational damage and economic losses for companies affected, contamination concerns, and localized or widespread disruption, not to mention threat to life."*

Although pipelines are one of the safest modes of transport for commodities compared to road, rail or ship, **Lauxmann** notes large volumes are often conveyed in pipelines across industrial, natural or urban areas, so failures can have far-reaching consequences: *"Depending on the substance, accidents can result in fires, explosions, toxic releases, vapor clouds, and asphyxiation. And, even if no injuries occur, there can be significant and long-lasting environmental damage."*

There can be a psychological impact too, **Lauxmann** adds, arising from trauma or the upheaval of displacement.

## Aging assets and vulnerabilities

Concerns about aging infrastructure assets have been mounting in many cities around the world, and pipes are no exception. In New York, some water pipes are around 100 years old, while in London they can be as old as 150. There are fears aging networks are reaching critical failure points. In 2018, a water main built in the 1920s gushed 15 million gallons of water on to the streets of downtown Philadelphia, the equivalent of 25 [Olympic-sized swimming pools](#)<sup>1</sup>. The city's mains and sewers have been built over a 200-year period and are continually being replaced.

Corrosion is a leading cause of all pipeline failures, accounting for as much as 30-40% of damages in oil and gas networks globally, says **José Luis Pallarés, Senior Risk Consultant, Liability, at Allianz Commercial**: *"Corrosion can occur internally due to the corrosive nature of the*



## The 1 minute dialogue

- ▶ Concerns are mounting around the world about aging infrastructure assets, with fears that some pipe networks are reaching critical failure points.
- ▶ Human error, particularly excavation, as well as cyber crime, sabotage and theft, all pose risks to pipes and pipelines.
- ▶ Pipelines can be damaged by geohazards and natural catastrophes, which have intensified with climate change, while more projects are being commissioned in complex or remote terrains.
- ▶ Artificial intelligence is increasingly important in enabling companies to act before accidents happen and allows for greater accuracy in monitoring over vast distances.

*transported substance and the pipeline material, or externally from factors like abrasive seawater or excessive moisture. It can lead to cracks and holes, allowing substances to leak or explode, potentially causing contamination or fires if flammable materials reach an ignition source."*

## The human factor

While aging infrastructures might be creaking, **Pallarés** says it is human error during excavation that is the most common cause of pipeline damage: *"Very often, the damage is done by workers who are either unaware or ill-informed about the conditions they are digging in. Explosions have occurred because of poor communication between construction companies and local authorities about pipe locations. Even with the best surveillance technology, we see too many of these incidents translate into significant losses."*

Human error can compromise pipeline integrity, including mistakes relating to pressure management, valve alignment, or failure to detect ruptures. A 2016 slurry pump failure at an alumina refinery in Jamaica was caused by a water hammer event, which led to a rupture and [severely injured a technician](#)<sup>2</sup>. The incident highlighted the importance of pressure management and robust materials with



## Pipes and pipelines: in numbers

**30%-40%**

Percentage of oil and gas pipeline damage caused by corrosion

**100-150 years**

The age of some water pipes in cities such as New York and London

**53,000km / 32,933 miles**

Projected length of pipelines in the European Hydrogen Backbone, a continent-wide transport network project

**500,000 tonnes**

Almost half a million tonnes of methane were released by the Nord Stream gas pipeline explosions

**15 million gallons / 57 million liters**

A water main break flooded downtown Philadelphia with water equivalent to 25 Olympic-sized swimming pools in 2018.

pipelines that transport hazardous substances – in this case a hot, caustic fluid.

The incorporation of cyber-physical systems in pipeline operations also introduces challenges, as they are vulnerable to outages and cyber-attack. The integration of machinery, digital functions, and monitoring systems has increased the attack surface for cyber crime. Pipeline operators are now targeted by cyber criminals as key players in major supply chains, and geopolitical tensions raise the prospect of state-sponsored activity.

## Natural catastrophes and geohazards

Pipelines can be damaged by wildfires, flooding, earthquakes, landslides, or extreme temperatures – threats that have intensified with climate change. In 2020, after weeks of unusually warm weather, a storage tank in Russia's Arctic north collapsed and leaked 21,000 tonnes of fuel into rivers when the permafrost beneath its supports melted. A regulator found faults in the tank's construction and maintenance, and [Norilsk, the mining company involved, was fined \\$2bn<sup>3</sup>](#).



### The risks of climate and geohazards are likely to intensify in the future

Thaw-related subsidence and unstable earth and rock can compromise structural integrity in other Arctic or permafrost regions, including Alaska and northern Canada, according to **Nicole Baker, Team Leader, Environmental Impairment Liability, at Allianz Commercial.**

*“In the US, vulnerable regions include the Gulf Coast, which is prone to hurricanes and flooding, and California, which faces earthquakes and landslides. Both regions have dense energy infrastructures in ecologically sensitive areas with many water crossings. Mountainous terrains can present risks to structural integrity from landslides and river scour – when flowing water erodes sediment around structures, undermining their stability.”*

Extreme temperatures in winter and summer can strain assets in the Canadian provinces of Alberta and Saskatchewan, as well as the Great Plains region, which spans the US-Canadian border. This is especially true for the extensive networks of crude oil pipelines, which can stretch for thousands of kilometers.

*“The risks of climate and geohazards are likely to intensify in the future, which will increase environmental exposures and the mechanical strain they place on assets,” says Baker. “We expect to see more frequent and severe flooding,*

*landslides, wildfire and river scour. It's also likely new pipeline projects will be commissioned in complex or remote terrains, where natural hazards are heightened."*

## Sabotage and security vulnerabilities

Theft and the illegal tapping of fuel pipelines is a major problem in some regions and is exacerbated by organized crime. An explosion in the Mexican town of Tlahuelilpan in 2019 killed 137 people, after crowds gathered to collect gasoline from a ruptured pipeline. Third-party interference is also a danger in Nigeria, where incidents of theft or sabotage can incur annual costs in the billions of dollars. Environmental cleanup efforts can be complicated by mangrove ecosystems and swamps.

*"Geopolitical sabotage risk has also been on the radar in recent years, especially in the aftermath of the Nord Stream incident," adds Baker. "The risk is currently heightened in the Baltic-North Sea Corridor, where any response is complicated by the ocean environment and the need for cross-border coordination."*

## Different materials, different risks

Risks and liabilities vary according to the product being transported. Heavy crude oil or dilbit (diluted bitumen) persist in the environment, which complicates cleanup operations, while refined products pose fire and explosion risks, as well as risk of groundwater contamination. Toxic chemicals, such as ammonia, bring public health liabilities, and carbon dioxide can cause asphyxiation. Wastewater releases drive ecological and public health claims, and steam, used in district heating, carries burn risks.

New product uses introduce new exposures. The rise of carbon capture and storage as part of the energy transition has seen growing demand for pipelines to transport carbon dioxide so it can be stored underground.

*"The problem with a carbon dioxide release is it can be difficult to detect, but the consequences can be grave. CO2 can displace oxygen, particularly in confined spaces, and cause asphyxiation," explains Pallarés. In 2020 a*

*rupture in a carbon dioxide pipeline in Mississippi released a large CO2 cloud, causing [asphyxiation symptoms in residents](#)<sup>4</sup>. The incident highlighted the need for robust leak detection, emergency response planning, and community awareness.*

Hydrogen is another gas predicted to play a role in the shift towards sustainable energy, as illustrated by the European Hydrogen Backbone, which aims to create a continent-wide hydrogen transport network using repurposed gas pipelines. The initiative envisages 53,000km of pipeline infrastructure [operational in 28 countries by 2040](#)<sup>5</sup>.

*"Hydrogen has been used in industry for decades and its risks are well known, including fire, explosion, and embrittlement, which can weaken pipes," says Pallarés. "Hydrogen molecules are tiny so they leak easily, plus the gas has no odor and its flames are invisible, which makes leak detection challenging. Repurposing gas pipelines for hydrogen will not be straightforward because the steel pipes used to transport natural gas are vulnerable to hydrogen-induced embrittlement."*

## Regulatory scrutiny intensifies

As tangible risks continue to challenge pipeline operators, regulations are tightening in many jurisdictions. Compliance requirements address integrity management, leak detection, rupture mitigation, methane emissions, habitat protection, and reporting on climate and ESG (environmental, social and governance).

*"Regulatory scrutiny and investor reporting pressures are increasing transparency and the potential liabilities associated with climate-related pipeline risks," says Baker. "However, with stricter reporting requirements, and modern monitoring and detection methods, events can be caught earlier and their severity reduced."*

Legal disputes often focus on the environment, the rights of indigenous people, and security concerns. Baker adds there has been a shift towards pollution and climate-related liabilities. Social inflation increases the risk of class actions and large settlements, especially in high consequence areas (HCAs), where incidents can severely impact human health or the environment, leading to substantial penalties and cleanup costs.



## Pipes and pipelines

### Key risks and challenges

- Aging assets
- Corrosion and embrittlement
- Excavation damage
- Hazardous leaks
- Fire / explosion
- Theft and sabotage
- Extreme temperatures
- Natural catastrophe and geohazards
- Regulatory pressures
- Cyber-attack

## Risk mitigation in an evolving environment

Modern methods for reducing pipeline risk focus largely on leak detection. These can include aerial surveillance with drones or helicopters equipped with cameras and sensors, manual inspections for visible signs of leaks or damage, fiber optic systems that detect vibrations and temperature changes, and even patrols by dogs trained to sniff out leaks.

Two of the most common technologies used are pigs – devices that travel through pipelines to check for corrosion and cracks and take photos – and SCADA systems, which gather real-time data

on flow, pressure, temperature and other parameters.

*“Artificial intelligence (AI) is increasingly important in enabling companies to act before accidents happen,” says Pallarés. “AI tools can learn from processing huge volumes of information – more than a human ever could – and comparing that data with standard situations to detect deviations from normal parameters. AI also allows for greater accuracy over vast distances. In pipelines stretching over 1,000km, often in inaccessible terrain, it is important to pinpoint the location of a potential fault.”*

## The importance of information sharing

An up-to-date understanding of the risks operators face is essential for emergency preparedness plans, says Lauxmann. *“They must be able to detect many different scenarios and mitigate them in the shortest possible time. Emergency plans need to be regularly updated with the latest sensor data and the workforce trained to detect small anomalies for early detection of failures.”*

Pipelines present multiple risks that can impact many areas of business, says Lauxmann, and specialist risk consultants can help companies enhance their safety management systems with tailor-made solutions. At Allianz Commercial, these consultants can be drawn from a team of energy, marine, cyber, property, construction, or liabilities specialists.

*“We want to maintain a dialogue with all our clients in this space,” says Lauxmann. “That includes the construction and energy companies involved, the technology and manufacturing firms, the sustainability experts, logistics managers, safety consultants. This is an extensive risk landscape that spans multiple industries, exists in various geographies, and crosses national borders. Collaboration will be essential in identifying, assessing and addressing risks as they evolve.”*

## Our experts

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# Data centers: navigating risks in the building boom

The heavy computing power required by AI workloads, and growing global demand for AI technologies, has seen a rapid building boom take place to meet these needs, presenting opportunities and challenges for operators, investors, and insurers.

While the physical facilities to house IT infrastructure and store, process, or disseminate data are nothing new, the energy-hungry needs of AI workloads, as well as the hardware and cooling systems to support them, are significantly greater than for conventional non-AI business applications. This has sparked a rapid buildout of extensive facilities and dependable energy sources in response to a global surge in the rollout of AI technologies and cloud computing.

*"Data centers are particularly hot and rapidly growing," says **Darren Tasker, Head of Construction, Americas, at Allianz Commercial.** "We're seeing significant-sized projects, from a billion dollars to those in the realms of \$20bn. This breakneck buildout is fueling a rise in related infrastructure projects, particularly power plants, needed to fuel them."*

Nearly \$3trn will be spent globally on data centers by 2029, according to [Morgan Stanley](#)<sup>1</sup>,

with McKinsey estimating capital outlays reaching [as much as \\$7trn by 2030](#)<sup>2</sup>. Analysts at Goldman Sachs estimate the data center opportunity for the insurance industry could see annual premiums generate [\\$5bn-\\$11bn over the coming years](#)<sup>3</sup>.

The leading US cloud providers – Amazon, Microsoft, and Google Cloud – accounted for 63% of global cloud revenue in Q2 2025, according to **Allianz Research**. Along with Chinese companies such as Alibaba and Tencent, they are investing billions into the industrial scale infrastructure and dependable energy sources that high-performance AI and cloud computing now demands.

While the US remains the dominant market for data centers, growth is global. [A recent report by Allianz Research](#) reveals the US saw over \$74bn in construction investment in 2024. China is also expanding capacity at pace – Greater Beijing alone accounts for approximately 10% of global



## The 1 minute dialogue

- ▶ The global adoption of AI technologies and cloud computing is fueling a building boom for data centers that is unprecedented in speed and scale.
- ▶ The energy-intensive needs of AI technologies are significantly increasing power demand, straining infrastructures and electrical grids, prompting some tech companies to explore self-generated power solutions.
- ▶ As construction activity intensifies, the industry faces challenges from supply chain constraints, competition for skilled labor and components, and compressed timelines.
- ▶ Data centers face diverse risks, including remote locations, natural disasters, heat, fire, water, regulatory challenges, and opposition from local communities.

# \$20bn

The construction costs of some larger data centers

hyperscale capacity – with installed IT load projected to double to over 8GW by 2030. Asia-Pacific had 3.2GW under construction and 13.3GW planned as of early 2025.

Europe – which traditionally lagged behind the two superpowers – and the broader EMEA market is experiencing a 43% annual increase in pipeline activity, with London and Dublin the largest markets (each with over 1GW capacity), followed by Amsterdam, Frankfurt, Paris, and [Milan](#)<sup>4</sup>.

In the Middle East, Saudi Arabia's Public Investment Fund is expanding capacity with the launch of Humain, planning AI factories with hundreds of [thousands of Nvidia GPUs \(graphics processing units\)](#)<sup>5</sup>. This initiative faces regional competition from UAE's Stargate project, which is developing a campus in Abu Dhabi.

*"The technology giants are constructing vast campus-like facilities and clusters of data centers with immense proportions and processing power," says **Chris Fancher, US Head of Construction Property at Allianz Commercial**. "The scaling of data center infrastructure at the scale and speed we're seeing is unprecedented."*

## A breathless pace of growth

**Tasker** reports a significant increase in the number of data center submissions received by **Allianz Commercial** in recent years alongside escalating construction costs. *"These used to typically be in the \$200mn-\$300mn range, maybe up to \$500mn. Now they're expanding to industrial scale and we're working with some data centers with costs in excess of \$20bn."*

According to **Tasker**, construction costs for average-sized data centers are generally around \$500mn to \$1.5bn or \$2bn. *"The tech giants hit the headlines, with their 100MW capacities, but we anticipate activity in mid-sized data centers, with 1-5MW capacities, to remain consistent for the next few years at least. Organizations continue to migrate their processes to the cloud or are upgrading their own data center facilities to train AI models, which is leading to upgrades of existing facilities."*

Despite ongoing expansion, several factors could limit growth. Unpredictable AI demand, technological advances, and implementation barriers have raised concerns about potential over-investment and stranded assets. Bain & Company estimates \$2trn in annual revenue is needed to fund computing power for projected 2030 AI demand, with [an \\$800bn global funding shortfall anticipated](#)<sup>6</sup>.

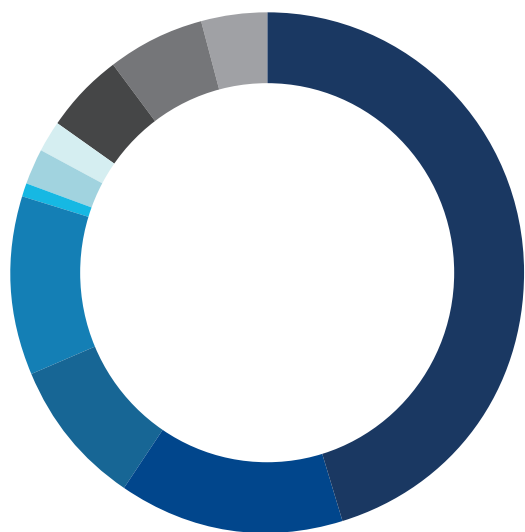
Technological disruptions could reshape requirements, illustrated by China's DeepSeek R1 chatbot, which reportedly [cost just \\$294,000 to train](#)<sup>7</sup> compared to \$100+mn for foundational models. Quantum computing advances and hardware efficiencies may further reduce infrastructure needs, while power constraints, supply chain issues, labor shortages, community opposition, and sustainability concerns could all impede development.

The industry's complexity extends beyond size, with facilities incorporating high-performance computing, advanced cooling, and on-site power generation, requiring thousands of workers and precise coordination to avoid costly delays.

*"Data centers are being scaled up very quickly and deployed in new locations with large acreage," says **Fancher**. "Emerging technologies introduce new underwriting complexities, and the threat landscape is expanding accordingly."*

## Power issues remain the top cause of impactful outages

What was the primary cause of your data center’s most recent impactful incident or outage? (n=96)



● Power	45%
● Cooling	14%
● IT systems (hardware/software)	9%
● Network	11%
● Colocation provider	1%
● Fire	2%
● Third-party provider	2%
● Information security-related	5%
● Fire suppression	6%
● Unknown	4%

All figures rounded.

Source: Uptime Institute Global Data Center Survey 2025

## Power supply concerns and the threat of outages

Electricity demand from data centers worldwide is [expected to more than double by 2030<sup>8</sup>](#), presenting significant challenges.

Aging grid infrastructure, increased power demand, supply chain issues, and lengthy planning processes can delay grid connections, and operators are increasingly looking to generate their own power, including solar, wind, gas, and the nuclear potential offered by small modular reactors. The scale and complexity of data centers with on-site power generation introduces multiple exposures.

Half of data centers reported experiencing at least one impactful outage in the past three years, with power issues being the primary cause (45%), according to the [Uptime Institute<sup>9</sup>](#). The consequences of outages have intensified with digital dependency, power demand, aging infrastructure, extreme weather events, and geopolitical uncertainty. Cyber-attacks on energy utilities [have tripled in the last four years<sup>10</sup>](#).

*“Data centers usually have a high degree of built-in resilience when it comes to preventing outages, such as multiple independent diverse power feeds, UPS [uninterruptible power supply] and generator*

*systems,” says Don Cockrill, Senior Risk Consultant, Property, at Allianz Risk Consulting, Allianz Commercial. “However, when outages do occur, the ‘blast radius’ can be extensive, affecting many people, businesses and services, and inflicting significant financial and reputational losses.”*

Site design and layout are key to reducing outage risk, including separate power supplies, with diverse routes from different substations, and self-generation. “Mirroring”, which replicates data and operations across multiple facilities, offers more comprehensive redundancy.

*“Reliable power underpins data center resilience,” adds Daniel Muller, Emerging Risks and Trends Manager at Allianz Commercial. “Facilities must implement robust backup systems and diversify energy sources to mitigate outage risks. Engaging multiple suppliers and assessing renewable and conventional options ensures redundancy and strengthens long-term operational continuity.”*

## Supply chains feel the squeeze

The industry is confronted with several challenges, including equipment tariffs, inflation affecting budgets, permitting delays, and logistical disruptions caused by geopolitical instability. Data center demand threatens to outpace the availability

of components, materials, and specialized skills and labor, while procurement lead times for many components are longer than ever, with lead times for a new transformer at least a year.

Supply constraints impacting GPUs, essential for AI, pose supply chain risks, especially in regions with heightened geopolitical tensions. Critical mineral demand is also rising and land availability is limited. European and Chinese authorities have implemented measures to manage growth amid community concerns.

*“Squeezed timescales on complex projects and competition for skilled personnel can affect project execution quality, potentially causing disputes and compromising safety,” says Fancher. “Risk managers should engage closely with contractors to ensure adequate resourcing as faulty workmanship and design defects are among the top causes of construction insurance losses. Securing equipment early and employing an experienced team, overseen by a specialist project manager, is essential.”*

### Natural catastrophes, fire, heat, and water risks

Large data centers in remote areas face heightened risks from natural disasters, such as severe convective storms and wildfires, while being further away from emergency response teams. Hiring contractors with experience of the local geography and climate is essential for developers.

Major hubs such as Northern Virginia, London, and Frankfurt concentrate critical infrastructure and equipment, making them particularly vulnerable to localized events.

Lithium-ion batteries are increasingly used in server racks and present fire hazards, as was seen in [two recent fires in South Korea](#)<sup>11</sup>. *“Adhering to best practices for battery storage and deploying advanced fire suppression, real-time monitoring, and optimized ventilation are critical to preventing lithium-ion hazards and safeguarding operational continuity in data centers,”* says Muller.

Rising global temperatures pose a risk to over half of the world’s top data center hubs, according to research by [Verisk Maplecroft](#)<sup>12</sup>. Extreme heat can force data centers to shut down, causing service disruptions, while cooling demands mean large facilities can consume up to [5 million gallons \(19 million liters\) of water daily](#)<sup>13</sup>.

As well as raising sustainability concerns, the high volumes of water needed for cooling carry risk of water damage, which can impact critical equipment and buildings, causing multi-million-dollar losses.

### Local communities raise objections

Data centers face resistance from communities worldwide as their footprint expands. Resource-hungry facilities spark tensions over water

## The data center construction boom

### Key risks and challenges



**Power supply concerns**



**The threat of outages**



**Supply chain constraints**



**Natural disasters**



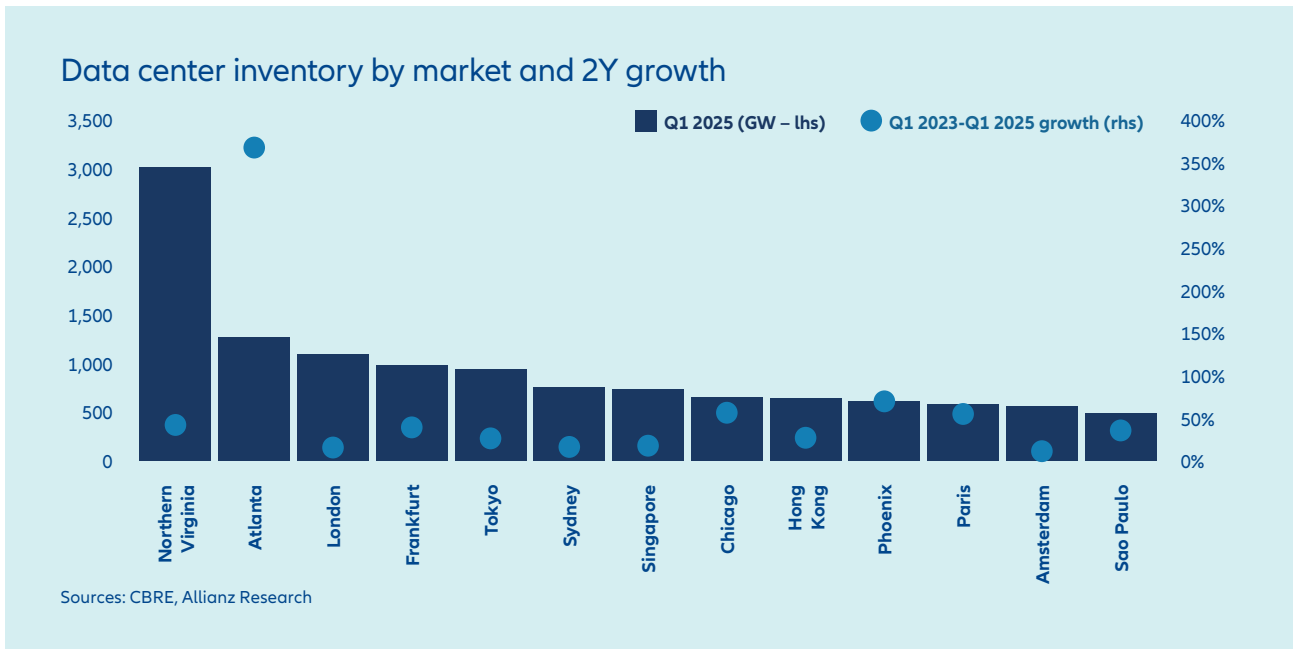
**Fire, heat and water**



**Community opposition**



**Regulatory pressures**



consumption, infrastructure strain, and environmental impacts. In the UK, Anglian Water opposed a North Lincolnshire project citing water supply concerns, while in August 2025, a judge blocked Virginia’s Prince William County Digital Gateway following homeowner litigation. Energy affordability fears are also rising, with Bloomberg reporting wholesale electricity costs up to [267% higher near data centers](#)<sup>14</sup>.

## Regulation tightens around the world

Governments worldwide are implementing frameworks to address environmental impacts and cybersecurity concerns, including the EU Energy Efficiency Directive. In Asia, Singapore unveiled its Green Data Centre Roadmap in 2024, while China’s data center action plan includes boosting renewable energy utilization by 10% annually. The US lacks comprehensive federal regulation, with a patchwork of state and local requirements focusing on environmental impacts and resource usage, particularly water restrictions in drought-prone regions.

*“Regulations are becoming more stringent, with 2030 a key deadline year for energy efficiency targets,” says Cockrill. “This will impact many data centers. They might require upgrades, better power management, including load shedding and load sharing, and possibly storing power on site or giving it back to the grid during quiet periods.”*

## Insurance coverage for complex exposures

The intricate aspects of data center construction and operation require specialized insurance solutions. Project-specific policies may encompass casualty coverage and professional liability, while builder’s risk addresses the construction phase, and project cargo covers equipment transit. Insurers can provide customized policies for property damage, business interruption, and environmental liabilities related to renewable energy.

*“Developers need the support of experienced construction underwriters who understand both core building and equipment requirements, along with skilled risk consultants to assess vulnerabilities, enhance resilience, and ensure adherence to evolving regulations,” says Muller. “For example, at Allianz Commercial, our [CAREs platform](#) can help businesses evaluate how natural perils will affect their assets today and in the future.”*

Download the full report, [The data center construction boom: emerging risk trends in the global buildout](#), from Allianz Commercial.

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# Hot seas, heatwaves and “medicanes”: the consequences of a cruel summer

The first half of 2025 has seen record-breaking sea surface temperatures across the Mediterranean Sea. But what are the consequences of this and what does it mean for different economic sectors, including insurance?

It has been another record-breaking summer in Europe. During June (2025), most of the Mediterranean basin experienced temperatures well above the average. Some regions, like the Gulf of Lion and the Ligurian Sea, exceeded the average temperature by more than 5°C (see *figure 1*), and for the first time, the western Mediterranean registered a daily sea surface temperature (SST) of 27°C in June.

When SSTs are warmer than usual, they pump heat and moisture into the atmosphere, raising humidity and nighttime temperatures (suppressing nighttime cooling and keeping minimum temperatures higher). They also weaken the sea’s natural cooling effect along coasts and reinforce high-pressure “heat dome” systems that trap hot air. Together, these processes amplify the intensity and [duration of heatwaves on land](#)<sup>1</sup>.



## The 1 minute dialogue

- ▶ High sea surface temperatures (SSTs) in the Mediterranean could fuel heatwaves, severe weather, flooding events, and even “medicanes”.
- ▶ As well as affecting human health, heatwaves can reduce labor supply and productivity, reduce power capacity, disrupt transportation, and damage infrastructure.
- ▶ By amplifying the temperature on land, SSTs increase the risk of wildfires, decreasing the resilience of cities and ecosystems to future heatwaves.
- ▶ These events demand innovative solutions from insurers, such as parametric insurance and incentives for implementing resilience-enhancing technology, to effectively manage risk and ensure sustainable coverage.

High sea surface temperatures can intensify heatwaves on land

According to the latest Climate Bulletin by the Copernicus Climate Change Service, June 2025 was the third warmest June on record globally. The high SSTs in the western Mediterranean Sea intensified two major heatwaves in June and early July, which affected large parts of western and southern Europe. The heatwaves brought “feels-like” temperatures corresponding to “very strong heat stress” (that is, above 38°C) to most of the affected regions. Some areas in Portugal even reached “extreme heat stress”, with feels-like [temperatures close to 48°C](#)<sup>2</sup>.

### Why are heatwaves so hazardous?

Heatwaves pose a risk to human health. It is estimated that as many as 95% of the fatalities associated with weather and climate-related extremes recorded in Europe between 1980 and 2023 were associated with heatwaves. In 2022 alone, there were between 60,000 and [70,000 fatalities linked to heat in Europe](#)<sup>3</sup>. It is likely that the increased heatwaves will bring implications for casualty insurance [unless proper guidance and legislation are put in place](#)<sup>4</sup>.

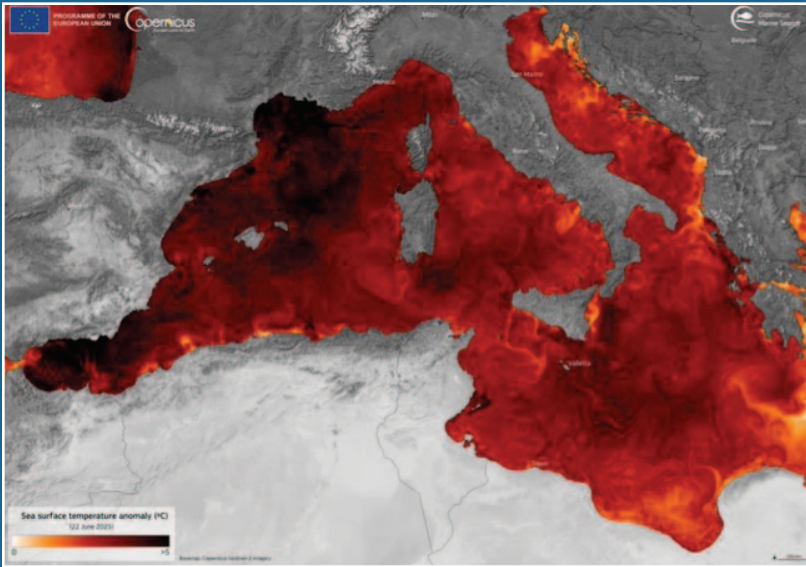
Elderly people, children, pregnant women, workers in physically demanding occupations, marginalized and under-resourced people are among the most vulnerable groups when exposed to heat. The impact of heat represents an additional burden for healthcare systems because it can lead to increased hospital admissions.

As well as affecting human health, heatwaves can lead to economic losses. Their negative impacts on wellbeing can reduce labor supply and productivity, while increasing the likelihood of workplace accidents and injuries. Additionally, failure to provide safe workplace conditions under high temperatures could result in [impacts to employers' and/or management liability insurance](#)<sup>4</sup>.

Power demand (largely for cooling) and risk of thermal and nuclear plant outages can also increase during heatwaves. In the recent June/July 2025 heatwave, all but one of France's 18 nuclear [facilities experienced reduced capacity](#)<sup>5</sup>. Outages combined with increased power demand can ramp up the daily prices of electricity.

Transportation disruptions and damage to infrastructure, including roads, bridges, and railways, can result in economic losses during heatwaves. A study by Allianz estimated the recent June/July heatwaves could cost between 1.0% and 1.4% of the GDP in countries including

**Figure 1. Mediterranean sea surface temperature (SST) anomalies on June 22, 2025**



Source: Copernicus, June 25, 2025

# \$4bn

Insured losses following the 2024 flooding in Valencia

China, Spain, Italy, and Greece. The US could see a GDP reduction close to 0.6%.

## Heightened risk of floods and storms

The high SSTs in the Mediterranean could fuel severe weather, flooding events, and even “medicane” (tropical-like cyclones in the Mediterranean Sea – see panel) through the coming late summer and autumn. Higher SSTs lead to higher dew points, meaning the air contains more moisture. Thunderstorms and medicanes draw their energy, at least partially, from warm, moist air. In September 2023, Medicane Daniel brought exceptional rainfall to Greece, resulting in insured losses close to \$440mn. After crossing the Mediterranean, Daniel made landfall in Libya, where the heavy rainfall led to the collapse of at least two dams, causing at least 4,300 confirmed fatalities (and up to 10,000 missing) and [billions of dollars in economic losses](#)<sup>6</sup>.

Research has also shown that the intense convective conditions linked with high SSTs (known as sea surface fluxes) are associated

with heavy rainfall, especially in late summer and autumn, which can in turn lead to destructive flooding events in areas of Italy, Spain, the Alps, and the western Balkans, among other regions. Recent examples of such events include the 2023 flooding in Slovenia and the 2024 flooding in Valencia, Spain, which resulted in insured losses close to [\\$350mn](#)<sup>7</sup> and [\\$4bn](#)<sup>8</sup> respectively.

In addition to heavy rainfall and flooding, the intense convective conditions favored by warm SSTs can also fuel the formation of severe convective storms (SCS), resulting in strong, damaging winds, tornadoes, and/or destructive hailstorms. Events like the unprecedented SCS in July 2023 in Northern Italy, which featured a record-breaking [19cm hailstone](#)<sup>9</sup> and combined insured losses [exceeding \\$3bn](#)<sup>10</sup>, showcase how [higher SSTs in the Mediterranean Sea](#)<sup>11</sup> can provide favorable conditions for more frequent and [severe SCS events](#)<sup>12</sup>.

## What is a medicane?

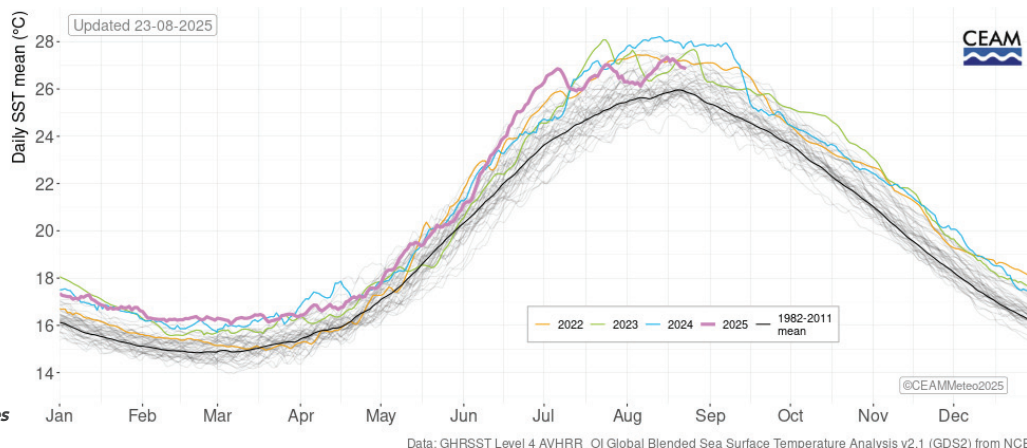
Medicane (from Mediterranean hurricanes) are rare, intense, and destructive cyclones occasionally generated in the Mediterranean Sea. They occur mostly in the western Mediterranean and in the region extending from the Ionian Sea to the North African coast. Compared with tropical cyclones, medicane are [weaker and smaller in size](#)<sup>13</sup>. The strength and duration of medicane have been shown to [depend significantly on SSTs](#)<sup>14</sup>.

## The impacts on the environment

Warmer waters can reshape ecosystems and impact long-term environmental health. Higher temperatures and drier conditions increase the risk for wildfires. Between 2014 and 2023, the global cost of wildfires reached \$106bn in economic losses and \$74bn in [insured losses](#)<sup>15</sup>. The dry conditions recorded this summer (2025) have already favored the development of destructive wildfires in Portugal, Turkey, Greece, and Spain, among others.

Wildfires decrease the resilience of cities and ecosystems to future heatwaves. As the tree coverage decreases, local temperatures can be altered, resulting in warmer cities, a phenomenon known as the “urban heat island effect”. Wildfires also increase the [emissions of air pollutants](#)<sup>16</sup>, worsening air quality. Other pollutants, such as ozone, accumulate during extreme heat conditions, further adding to lower

**Figure 2. Average daily sea surface temperatures (SSTs) in the Mediterranean**



air quality, [especially in cities](#)<sup>17</sup>. Cooling (and heating) systems in buildings and homes also contribute significantly to the [release of harmful pollutants](#)<sup>18</sup>.

In addition, changes in sea temperatures can affect ecosystems, disrupting marine food webs. Native species, such as seagrasses, corals and clams, have declined throughout the Mediterranean region, which can lead to further impacts such as reduced fish catches. Changes in sea temperatures have also seen the arrival of invasive species which endanger native species and could pose a danger to human health if people are stung or eat them mistakenly.

### Impact outside of the Mediterranean

Beyond the Mediterranean, climate-driven extremes are also posing challenges for other regions. According to the [European and Global Drought Observatories](#)<sup>19</sup>, prolonged and critical drought conditions have been affecting large regions of central, northern, and eastern Europe as well as northern Africa, the Eastern Mediterranean, and the Middle East. In the UK, a drought was declared in the [North West, Yorkshire, the East and West Midlands](#)<sup>20</sup>.

Between 1981 and 2010, the average drought losses in the European Union and the UK were €9bn annually. This figure could increase up to €15.5bn/year by 2050 under a 2°C warming scenario, according to a [JRC Technical Report](#)<sup>21</sup>. The main sectors affected would be agriculture, public water supply, and energy generation. As of July 2025, Canada, the US and some areas of South America were also experiencing drought conditions.

### Insurers must adapt and evolve

*“Climate change is leading to more frequent and intense extreme weather events: warmer heatwaves, more intense droughts, and heavier rainfall. These events not only pose a huge challenge to the resilience of communities but also demand innovative approaches from insurers, such as parametric insurance and incentives for implementing resilience-enhancing measures to effectively manage risk and ensure sustainable coverage,”* says **Mabé Villar-Vega, Senior Catastrophe Risk Research Analyst, Allianz Commercial**. *“It is crucial that the industry evolves, by embracing new technologies, fostering collaborative partnerships, and investing in relevant research. By doing so, insurers can protect the future for policyholders and contribute to the global efforts to build a more resilient world.”*

Allianz Commercial has launched its new [Climate Adaptation and Resilience Services \(CAREs\)](#) tool in order to help companies better assess and manage the climate risks facing their business. The data-driven platform allows companies to perform climate risk assessments for assets including their own locations, investments, and supplier locations. A dashboard solution can provide risk scores for 12 perils, such as tropical storms, floods, hail, wildfire, or extreme heat, for four different timelines – the present day, 2030, 2050, and 2080.

### Our expert

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# Roof hardening and beyond: climate adaptation opportunities

Climate adaptation means adjusting to the effects of climate change in order to reduce the risks of increasingly frequent or intense weather events, or chronic climatic change. But if adaptation is poorly designed or inadequately maintained, it can introduce new risks. In our **Adapt Now** series, we address both the benefits and risks of adaptation measures and take a look at best practice examples, sharing practical information, innovative solutions, and lessons learned.



Roof damage or leaks can be difficult to detect



## The 1 minute dialogue

- ▶ Severe convective storms (SCS) are one of the fastest-growing natural catastrophe perils, with roofs and roof-mounted equipment the most commonly damaged parts of a building when hail or high winds hit.
- ▶ Roof hardening measures are key to combating extreme weather damage, but businesses need to consider evolving risk patterns as well as current risks.
- ▶ Benefits of roof hardening include enhanced impact resistance against hail, reduced water intrusion, fewer operational disruptions, asset longevity, and energy efficiency.
- ▶ Risks include thermal performance trade-offs, installation complexities, unintended load consequences, technology lock-in, and maintenance access.

produce more of the largest hailstones, with the most damaging projected to increase by anything from 15-75% in frequency depending on climate [scenarios in the US](#)<sup>4</sup>. Around 4cm is a pivotal point, at which size hailstones are large enough to withstand increasing temperatures and inflict significant damage to property. The incidence of small hailstones, however, will likely reduce in frequency as a result of increased melting.

## The trend

Severe convective storms, including damaging hail and extreme winds, represent one of the fastest growing natural catastrophe perils, with the past years breaking [new records in terms of insured losses](#)<sup>1</sup>. According to recent industry studies, these storms caused more than 50% of secondary peril losses for the global economy, the majority of which were in the US, a consistent epicenter of severe convective storm losses. But severe convective storms are also rising in other countries. A hailstorm in Calgary last year was one of the costliest ever seen in Canada, with [insured losses of \\$2.3bn](#)<sup>2</sup>. The main drivers of this loss trend are urbanization, the accumulation of [assets in exposed hail-prone areas, and high reconstruction costs](#).<sup>3</sup>

Damaging convective weather events, including hail, cause not only physical damage for businesses, but can also severely impact business continuity.

And hail losses are likely to increase. A warmer climate with stronger updrafts is expected to

Roofs, as well as roof-mounted equipment, such as heating, ventilation or air-conditioning (HVAC) units, solar panels, and skylights, are the most commonly damaged parts of a building when hailstorms or high winds hit. The largest losses usually arise from leaks on the roof, which result in water damage in the premises below, or a power outage that can cause business interruption. Roof damage or leaks are often difficult to detect, and the longer they remain unaddressed, the more likely additional damage will occur.

## The need for roof hardening

Roof hardening has long been a key measure to combat extreme weather damage. Incorporating enhanced roofing materials, fastening systems and comprehensive protection can significantly reduce a building's vulnerability to hail, wind, and water intrusion.

As risk patterns evolve, businesses implementing roof hardening measures need to consider not only their current risks but also evolving risk

### Storm and hail: Physical damage and business impacts per industry (illustrative)

Industry	Physical damages	Business impacts
<b>Food Industry</b>	Roof collapse, damaged cold storage, hygiene breaches	Production downtime, cold chain interruption, regulatory non-compliance
<b>Logistics &amp; Warehousing</b>	Large roof areas exposed, vehicle/fleet damage	Supply chain disruption, delivery delays, high repair costs
<b>Retail &amp; Supermarkets</b>	Damaged storefronts, broken cooling systems, customer safety risks	Product loss, revenue decline, liability claims
<b>High-Tech &amp; Data Centers</b>	Roof leaks, cooling system failure	IT outages, data loss, cascading failures, reputational damage
<b>Manufacturing</b>	Damaged roofs, sensitive machinery exposure	Production stoppages, repair costs, worker safety risks
<b>Agriculture</b>	Destroyed crops, damaged orchards, soil erosion	Supply shortages, higher prices, reduced product quality



Climate adaptation represents both a strategic imperative and a competitive opportunity, driven by increasing severe weather events and economic and sustainability returns

combination with Temperature Adaptive Radiative Coating (TARC), it is possible to optimally absorb solar energy and automatically switch thermal emittance based on temperatures, [thereby providing energy savings](#)<sup>6</sup>. Further, installing protective screens over HVAC units can help ensure business continuity, especially for businesses dependent on cooling.

*“Loss history clearly shows that roof systems with enhanced uplift resistance in the corners and perimeter of the roof perform much better in high winds than roof systems without these enhancements,”* notes **Andrew Higgins, Senior Regional Technical Manager, Allianz Commercial**.

### Benefits of roof hardening measures

- **Hail/wind risk reduction:** Next-generation roof hardening technologies provide enhanced impact resistance against hailstones up to 2in/5cm in diameter, reducing structural damage from extreme weather events. A University of Alabama study found roof buildings with sealed roof decks, ring shank nails, reinforced perimeter edges and wind resistant attic vents [experienced a 73% reduction in weather-related claims frequency during Hurricane Sally in 2020](#)<sup>7</sup>.
- **Water intrusion prevention:** Advanced sealed roof deck systems prevent catastrophic water damage during roof cover loss, with Insurance Institute for Business & Home Safety (IBHS) research showing 65% of water hitting exposed roof decks will enter the building. Sealing roof deck systems and improving roof deck attachment can [reduce potential water intrusion by up to 95%](#)<sup>8</sup>.

patterns. This includes the increasing severity of severe convective storms, shifting seasonal patterns, and the expansion of storm-related perils beyond traditional high-risk areas. In areas where risks are projected to rise, measures must be designed to a higher standard.

When a hailstorm in Minnesota produced a [hailstone measuring 6in/15cm in diameter in 2024](#)<sup>5</sup>, it illustrated the amplified risk exposure businesses can now face. The event caused widespread infrastructure damage that existing design standards could not withstand, including significant damage to large solar installations, which undermined their sustainability benefits.

Novel adaptation approaches include next generation roof hardening technologies, with advanced composite systems providing improved impact resistance. Upgrading to steel gutters and downspouts, reinforcing edges as well as adding impact-resistant underlay can help ensure durability against hail impacts. In

## Best practice example: Integrated climate resilience at The Lodge at Gulf State Park in Alabama

The Lodge at Gulf State Park is a hotel resort on the Gulf Coast in Alabama, in the south-eastern US. After Hurricane Ivan destroyed the original lodge in 2004, a new facility was built to a higher resilience construction standard, the FORTIFIED Commercial standard, as part of Alabama's coastal resilience strategy. The roof system utilized enhanced fastening patterns with perimeter and corner fasteners installed closer together in specific patterns that exceed standard commercial building practices.

When Hurricane Sally struck coastal Alabama in September 2020 as a Category 2 storm with sustained winds up to 105mph/170kmh, the lodge served as a compelling case study of a resilient commercial construction.

Moving at only two miles/three kilometers per hour, Hurricane Sally subjected Alabama's coast to hours of

intense winds and testing conditions. Not only did The Lodge at Gulf State Park survive the storm with minimal damage, it served as a refuge for employees and their families during [the storm and the weeks following](#)<sup>9</sup>.

Post-storm inspections revealed the only damage the lodge sustained was to machinery on the roof that was not part of the FORTIFIED process, such as the air conditioning units, and siding damage from flying debris. The roof system itself remained intact and functional, preventing cascading water damage that typically accompanies roof failures.

Unlike many coastal businesses that faced extended closures and job losses, the lodge maintained operations and functioned as a community resource during the recovery period.

- **Business continuity enhancement:** Roof hardening significantly reduces operational disruptions during severe weather events.
- **Asset longevity:** Impact-resistant materials and enhanced attachment methods extend the lifespan of roof systems and reduce the need for maintenance.
- **Energy efficiency:** Modern roof hardening materials often incorporate reflective technologies and improved insulation, reducing cooling loads and energy consumption.

### Risks associated with roof hardening measures

- **Thermal performance trade-offs:** Some impact resistant materials have higher thermal mass and different expansion coefficients, potentially creating thermal stress points and reduced energy efficiency if not properly designed. Dark-colored impact-resistant surfaces may increase cooling loads in hot climates without adequate reflective coatings.
- **Installation complexity risks:** Skilled installation is needed to avoid introducing new risks. Improper installation of sealed roof systems can trap moisture and create mold or rot conditions that compromise structural integrity over time.
- **Unintended load consequences:** Additional weight from enhanced materials and

equipment may exceed original structural design limits, requiring costly structural upgrades. Heavy protective systems can create new seismic vulnerabilities in earthquake-prone regions if not properly engineered.

- **Technology lock-in:** Specialized hardening systems may depend upon specific products and maintenance protocols, limiting future flexibility and potentially increasing long-term costs.
- **Maintenance access complications:** Enhanced protective systems can make routine maintenance more difficult and expensive, potentially leading to deferred maintenance that undermines the original resilience benefits. Complex integrated systems may require specialized technicians for repairs and inspections.

### Pattern recognition: Trends and insights

The Lodge at Gulf State Park's (see panel) successful resilience measures reflect broader trends and considerations in climate adaptation:

- **Changing risks:** Climate change adjusts existing risk patterns and may expand risk zones beyond traditional regions. Adaptation investments, designed to a higher standard, are becoming critical to avoid claims and potential insurance premium surges.

- **Operational resilience for sustainability:** Companies are adopting resilience measures to manage both their operational risks but also to contribute to their sustainability goals.
- **Technology as a catalyst:** The use of advanced materials and new adaptive systems creates comprehensive protection capable of safeguarding organizations against increasing severe weather events.

## Framework: Building corporate climate resilience

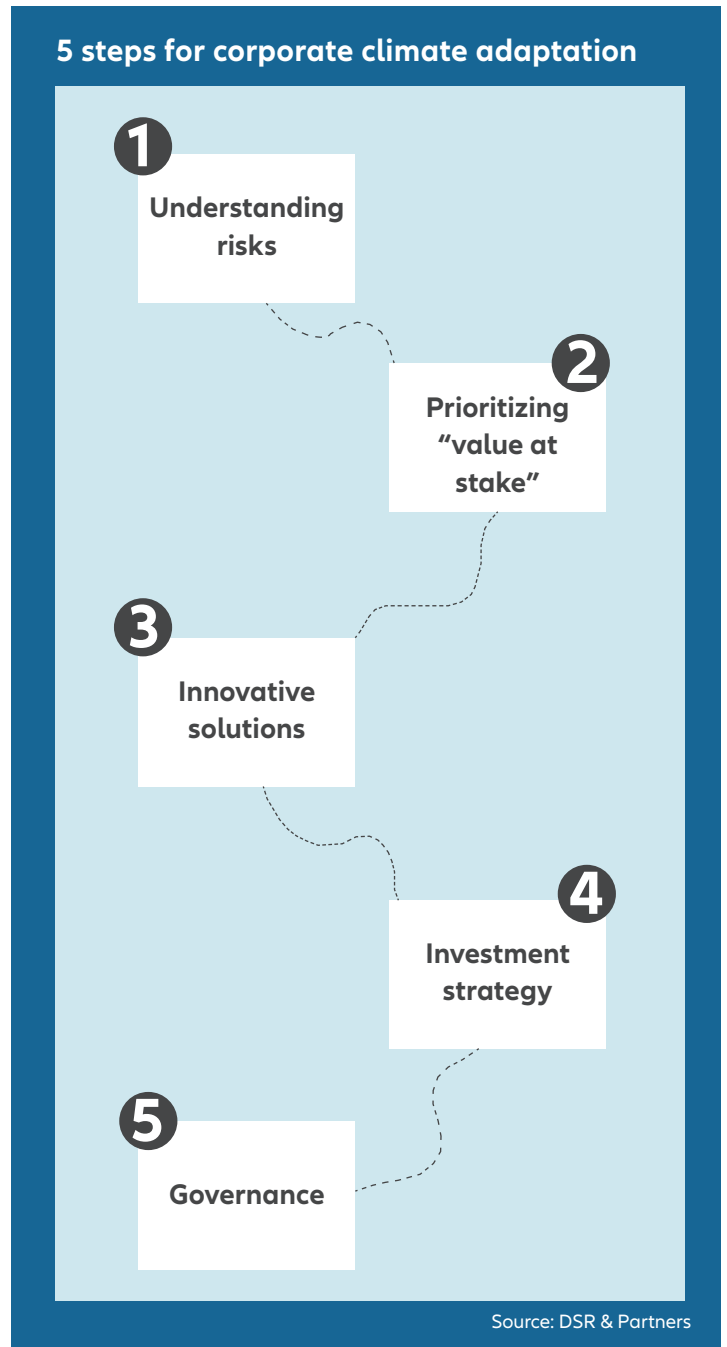
Some relevant steps to guide organizations in learning from successes and addressing climate adaptation challenges:

1. **Understanding risks:** Begin with a comprehensive risk assessment to identify the type of storm/ hail risks as well as the vulnerabilities across your assets, operations, and supply chains. This involves mapping out potential baseline and future climate risk impacts and identifying potential disruptions.
2. **Prioritizing “value at stake”:** Translate risks into financial terms to highlight the cost of inaction. Quantifying “value at stake” is essential for securing internal buy-in.
3. **Innovative solutions:** Implement tailored roof adaptation measures to mitigate risks, leveraging adaptive technology. A focus on additional sustainability co-benefits such as improved insulation can help achieve buy-in.
4. **Investment strategy:** Develop a roadmap that prioritizes high-impact, cost-effective adaptation measures aligned with long term business objectives, while performing proper risk assessments on these measures to reduce maladaptation.
5. **Governance:** Establish clear governance structures to ensure accountability and consistency in adaptation efforts. This includes defining roles, setting KPIs, and integrating adaptation into strategic decision-making.

## Actionable steps and learnings

What can stakeholders do to enhance resilience in the face of extreme storms and hail?

- **For facility managers:** Evaluate and implement advanced building systems that



provide multi-hazard protection whilst delivering benefits such as energy efficiency. Establishing predictive maintenance protocols can help optimize system performance and extend asset lifespan, thereby contributing to resource efficiency. **Quick win:** Schedule your next roof inspection before the storm season.

- **For risk managers:** Develop comprehensive risk assessments evaluating climate impact across multiple locations and multiple hazards, to help prioritize where adaptation is most impactful. **Quick win:** Align with your sustainability/ maintenance team to maximize opportunities and consider the future change in risk.



Roof-mounted equipment, such as solar panels, is particularly vulnerable when storms hit

- **For corporate leaders:** Align investments with climate resilience and the broader sustainability objectives of your corporate as well as new regulatory and stakeholder expectations for holistic value creation.  
**Quick win:** Check your investment process and bring together departments for multi-criteria decision making, including KPIs such as Return on Resilience Investment (RoRI).
- **Collaboration across facility, risk and sustainability managers:** Ensure clear responsibilities and coherent communication amongst different stakeholders within an organization.

*“Hail is not just a weather event – it is a systemic risk. Yet in many companies, responsibility is blurred across facility, sustainability, operations, and leadership. Unless executives set a clear focus, adaptation remains piecemeal and the organization remains exposed,”* **Daniel Schmitz Remberg Founder and Managing Director, DSR & Partners**, notes.

## Takeaways

Corporate climate adaptation represents both a strategic imperative and competitive opportunity driven by increasing severe weather events and economic and sustainability returns.

Advanced adaptive systems and roof hardening deliver measurable protection whilst holistic adaptation strategies help to maximize enterprise value through operational continuity and strategic positioning.

**Lena Fuldauer, Head of Allianz Risk Consulting Resilience and Business Development, Allianz Commercial**, concludes: *“Climate adaptation means understanding how risk evolves at every location. Where risks are projected to rise, design and resilience standards must rise with them. Those who invest in future-proofing their assets today will be best protected against the climate of tomorrow.”*

### Adapt Now

This article is part of the **Adapt Now** series, in which Allianz Commercial experts and DSR & Partners explore the benefits and risks of different climate adaptation measures and identify success stories.

Read the first in the series **Adapt Now # 1 - Greening measures** | Allianz Commercial

## Our expert

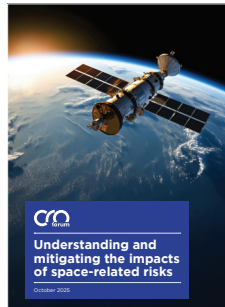
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## Space-related risks – new report out now

The Chief Risk Officer Forum (CRO), a group of professional risk managers from the insurance industry including **Allianz Commercial** colleagues **Daniel Muller, Emerging Risks and Trends Manager**, and **Deniz Güney Akkor, Senior Risk Analyst of Global Underwriting Risk**, has launched a new report on space-related risks. Numerous critical infrastructures on Earth, such as telecommunications, power grids, and financial networks, are heavily dependent on space-based assets like satellites and Global Positioning Systems (GPS). Failures in space infrastructure, whether due to natural phenomena or human-induced factors, can lead to substantial disruptions across these essential terrestrial systems, resulting in significant economic losses. While insurers do not directly operate space systems, they exert considerable influence through risk assessment, underwriting practices, and policy conditions. This position paper was developed in collaboration with the [European Space Agency – ESA](#), facilitating the collection of valuable insights and technical details related to forecasting and monitoring space weather events.



## Allianz Risk Barometer 2026 coming soon

The **Allianz Risk Barometer** tracks the most important corporate concerns for the year ahead, as voted for by more than 3,330 risk management experts from 100 countries and territories.

In our 2025 survey, cyber incidents, business interruption and natural catastrophe activity ranked as the risks of most importance for businesses globally. But which are the main perils occupying the thoughts of risk management practitioners going into 2026?

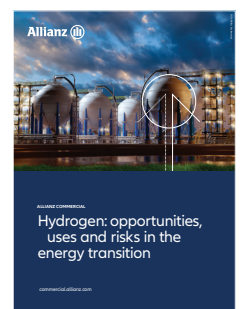


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Find out more in January 2026, when we will publish our latest rankings here [Allianz Risk Barometer | Allianz Commercial](#)

## Hydrogen and the energy transition

A recent report from **Allianz Commercial** explores the key role hydrogen could play in the low-carbon transition. Supported by global initiatives, hydrogen offers a promising alternative to fossil fuels, but its development hinges on geopolitics, infrastructure, policy, regulation, and cost. Despite benefits, hydrogen poses risks like fire, explosion, and embrittlement, requiring stringent risk management. In the report, **Allianz Commercial** experts discuss risk mitigation, loss prevention, and the role of insurance in supporting the hydrogen industry.



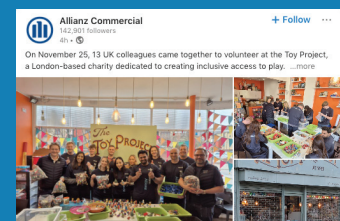
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Global Risk Dialogue

Volume 2 2025

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December 2025