Zurich Commercial Insurance
Customer and Broker Webinars 2021

Property insurance in a changing, complex market depends on transparency

Insurers need support from brokers and customers to uncover the complete exposure in a marketplace marked by traditional and not-so-familiar risks.

Shifting exposures and emerging risks in the property insurance market are challenging insurers to provide coverage that accurately reflects the risks while meeting the needs of customers looking for sustainable solutions.

That's the view of a panel of Zurich experts who discussed during a webinar the drivers of the continuing tight property market. Among the topics in the session moderated by Ron Davis, Zurich's Global Head of Customer Management Commercial Insurance, were some of the never-before-seen risks that are emerging as societies increasingly embrace green solutions and the unforeseen behavioral changes during the COVID-19 pandemic that are having an impact on property risks.

The scope of the challenge means insurers can't work alone to fully examine the risks facing their customers, said Chris Waterman, Global Head of Property, Marine and Technical Lines at Zurich. "We believe the existing risk landscape for property is going to go through a number of shifts in coming years. Without a collective understanding of this dynamic, the insurance market will be challenged in finding sustainable, predictable solutions."

"Insurability depends on the transparency of risk," said Mr. Waterman. "From an underwriting point of view, we can only provide risk transfer solutions and support customers if we understand the risk…To do that, we need customer and broker support."

That's especially true now, the panelists agreed, as familiar risks such as those posed by extreme weather are joined by others insurers have more recently begun to grapple with, such as those linked to the use of more environmentally friendly building materials and larger storage facilities to meet the growing demand for goods purchased through digital shopping channels, a trend that boomed during the pandemic.

Emerging risks demand new thinking

Many companies are reacting to increasing political and social influence by moving sustainability and the green agenda higher on their mission statements, Mr. Waterman said. While that's a move in the right direction, it does come with a "changing risk dynamic," he added.

In one example of how the green agenda is influencing construction risks, timber is being used in high-rise buildings up to 20 stories high, instead of traditional concrete and steel materials, Mr. Waterman said. "Advancements in how to assess and protect against these new build factors are definitely being made, but gaps do remain. Strategies for incorporating fire performance into the development of new green materials are not where they need to be."

There is a need for larger storage facilities, a growing trend boosted by the amount of digital shopping during the COVID-19 pandemic, Mr. Waterman pointed out. While average warehouse sizes 10 years ago may have been equal to the length of two soccer fields, today it has grown to a size larger than 30 fields. And, they are often in rural areas where firefighting responses could be slower than needed and water supplies questionable, he added.

"Robotics are also compounding the challenge," according to Mr. Waterman. Because less space is needed for robots than humans to operate, the density of goods in warehouses has increased, he explained, leading to a "higher fire potential that not all suppression systems have been designed to cope with."

Insurers are also seeing losses from sources historically considered "inert exposures," Mr. Waterman pointed out. Until around five years ago, a fire loss to a building that began in its adjacent or underground parking area was rare, he said. "However, a greater use of alternative fuels and increased use of plastics in vehicle manufacturing, including plastic fuel tanks, has resulted in several multi-vehicle incidents that severely impacted the neighboring physical asset."

With such shifting risks "comes the need for the insurance market to repurpose its underwriting proposition to ensure that customers are provided with a fit-for-purpose solution," Mr. Waterman advised.

Untangling supply chains

While warehouse owners grapple with the exposure created by larger facilities containing denser stores of products, their customers may be struggling with issues created because their stock levels are low, according to Martin Clark, Zurich's Global Head of Property and Energy Claims. "We certainly see smaller stock levels playing their part in business interruption," he noted.

It's a problem confirmed by an informal survey of loss adjusters who agreed that stock levels are dropping as supply chains become more complex, Mr. Clark said. And, to add to the risk, equipment replacement times can stretch to up to 24 months.

Mr. Clark said companies should closely examine their internal and external supply chains, with an eye towards:

- Confirming alternative sources for components and other goods that may not be available from a main supplier that cannot operate
- Increasing inventory to smooth out small interruptions in production
- Checking supplier contracts to make sure they align with business needs
- Examining any potential bottlenecks and clearing them

Keep in mind, Mr. Clark advised, that if a supplier is affected by an event that shuts its operations, finding an alternative isn't easy unless it's pre-arranged. That's a big risk, he said, because "customers can't always wait for suppliers to get up and running."

Many products and components have strict certification requirements, which could make replacements difficult to locate, Mr. Clark said. If such products become unavailable, "a relatively small interruption can cause a large business interruption," he warned.

Values matter

"Economic growth over the last two decades has increased exposures," Mr. Waterman pointed out, and Zurich's research found that declared values aren't keeping pace. The insurer has found "increased incidents of declared values being inadequate when a loss occurred," he said. "We accept that there are many challenges for customers and brokers in establishing accurate valuations. However, a failure to do so leads to incorrect purchasing decisions in relation to loss limits and coverages."

Often, valuations don't consider the costs of labor and materials to rebuild, Mr. Waterman said.

Mr. Clark pointed to a survey of loss adjusters conducted by Sedgwick Claims Management Services that show insured values were found to be inadequate in a large percentage of losses of more than $1 million in several parts of the world, most notably in Central America, South America and the U.K.

He agreed that the cost of rebuilding, particularly for "heritage buildings" is often under-valued. "When they get damaged, the cost to rebuild is two-fold," Mr. Clark said, because it requires craftsmen rather than contractors, which can take more time to arrange and complete the work. And, buildings with historical significance often involve many stakeholders who want input on how the structure should be re-built.

What's an insurer to do?

The trends that influence the market aren't going away, Mr. Waterman remarked. "We accept that processes will always embrace technology, sustainability targets are clearly going to influence construction codes, digital consumerism is going to drive the need for mega-storage, weather patterns will continue to change, and exposures will continue to increase through the connectivity and interdependence of global businesses."

That means the role of insurers, brokers and customers, he said, "is to ensure we keep up with these latest developments and all of the influencing factors so that we can collectively model, manage and mitigate."

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