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"Market uncertainty" – implications for property and business interruption claims – and: How can this be countered?

Most recently, in 2023, I analysed the impact of market uncertainties on stock and business interruption claims. The catalyst at the time was the global COVID-19 pandemic. In light of current international market developments, I outline the interrelationships, (supposed) solutions and impacts on property and business interruption claims. Charts illustrating specific developments are not included, as these can be researched by anyone according to their own topics. Furthermore, individual developments cannot be applied proportionally to the price trends of semi-finished or finished goods; separate analyses are required for this.

What are the main causes of market uncertainty?

- Wars (particularly in Ukraine, Iran, …).
- Trade disputes between nations with differing access to resources.
- Mutual, particularly short-term, changes to and suspensions of tariffs.
- Cross-border pandemics.
- Foreign and domestic policy decisions.
- Market dominance.
- …

What significant impacts do these factors have on the markets?

- Rising commodity costs.
- Rising energy prices.
- Shortages and even rationing.
- Rising freight costs across all sectors.
- Longer delivery times.
- Inflation with the risk of stagflation.
- …

Which sectors are particularly affected?

- Chemicals.

- Energy.
- Steel and metal industry (and its customers).
- Cement, glass, paper.
- Agriculture (fertilisers).
- Transport (in addition to increased raw material costs: detours, airspace closures, waiting times).
- Downstream: food, travel, …
- "Consumers" (price rises, rise in unemployment).

What solutions are (theoretically) conceivable?

- Reducing dependence on individual suppliers.
- Reducing regional dependencies.
- (Partial) relocation of own production facilities to supposedly safe countries (which countries are "currently" considered safe, and in whose opinion?) and/or countries rich in raw materials.
- Increased stockpiling.
- Hedging.
- Use of AI (scenario recognition taking real-time data into account).
- …

Why are the solutions often only theoretically feasible?

- Companies must act economically in order to survive.
- Weighing up opportunities and risks does not allow for all the solutions mentioned.
- Risks change over time (and are sometimes difficult to predict; who knows in this day and age what will happen tomorrow?).
- The solutions may mitigate individual incidents, but increase the likelihood of an outbreak (multiple sites).
- Interdependencies change over time.
- A theoretically possible transfer of risk to insurers does not work in some cases due to a lack of coverage concepts (e.g. the impact of AI).
- Risks are shifting, or new risks are emerging (e.g. due to AI and 'incorrect' AI decisions).
- AI requires significant energy consumption, with corresponding consequences for the environment; what costs will this entail in the future (not only through actual market prices, but also, for example, through additional taxes and levies)?
- Who is responsible for AI decisions and who monitors the (increase in (potentially unknown) liability risks?

An example for consumers: in addition to a heat pump, an additional oil-fired heating system as a back-up could theoretically reduce individual dependence on rising energy prices through oil stockpiling. In practice, this approach makes little sense for reasons of cost, the environment and space.

What significant impacts do these developments have on the level of property and business interruption claims?

- Increase in the volume and value of stock (raw materials, semi-finished and finished goods).
- The value of inventories fluctuates significantly in the short and medium term.
- Prices for capital goods are rising.
- Property prices are rising.
- The risk of insufficient cover in the event of a claim is increasing (particularly in relation to inventories).
- A price difference clause between the valuation of the loss on the date of the loss and the actual date of replacement is regaining importance (this first-loss position had been of secondary importance for years).
- Extended delivery times lead to a (sometimes disproportionate) increase in loss of earnings and also in loss mitigation costs, as a business interruption loss is a loss of income over a period of time.
- Loss mitigation costs are rising and becoming more difficult to implement (e.g. in the event of damage-related relocation of production to other company-owned sites abroad).
- Sales trends are less suitable for determining the target benefit in the event of a business interruption claim, as sales prices are volatile.
- Sectors and companies are affected differently by market uncertainties ('winners' and 'losers'); this has implications for determining the target output in the event of a business interruption claim.
- Losses in contribution margins resulting from a claim must, in some cases, be determined on a day-by-day basis for specific sectors (as expenses for RHB and goods are volatile) and cannot be derived, for example, from the previous year's data.
- Determining future projected business interruption insurance values and thus sums insured becomes significantly more difficult (risk of underinsurance or, if the sum insured is set too high, risk of a cap on premium refunds).
- Reinsurance cover requires more detailed analysis and adjustments to sums insured.
- Contingency planning and PML calculations are becoming even more important (possibly AI-supported).
- New risks, e.g. arising from the use of AI, are in some cases neither known nor covered by long-term, tried-and-tested coverage concepts; for example, the risk of making incorrect business decisions through the use of AI (e.g. manipulated data sources); market influences, including those via social media, are playing an ever-greater role (who 'influences' whom, in whose interest and for how long?).
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