

Natural catastrophes a top risk for engineering, construction, real estate businesses

Risks of storms, earthquakes and floods are a top concern for businesses operating in the engineering, construction and real estate industries, according to the Allianz Risk Barometer 2018.



Seelan Naidoo, head of property and engineering at AGCS Africa

Business interruption risks at 40% are in #2, showing a steady increase from 2017. Fire, explosion is a new emerging threat at #3 with 29%, which is a 6% increase from the previous report. Cyber incidents are #4 at 22%, while market-related risks such as changes in legislation and regulation stand at #5 with a 21% reading.

The report is published annually by Allianz Global Corporate & Specialty (AGCS), and is based on the insight of 1,911 risk experts from 80 countries.

Climate disruptions

Head of property and engineering at AGCS Africa, Seelan Naidoo says, "Approximately \$330bn was lost from natural catastrophes, globally. Climate disruptions are increasing in volatility throughout the world, impacting many sectors and industries - engineering, construction and real estate are being largely affected. The risk in natural catastrophes has increased from 24% in 2017 to 30% in 2018 and another increase is expected."

Climate change / increasing volatility, natural catastrophes and fire, explosion are all risks that may result in business interruption, which is a risk on its own. South Africa has experienced a spate of natural catastrophes in recent years. The Rossburgh fire in March 2017 is a quintessential single loss on property due to a fire. In a similar incident, a Transnet warehouse went up in flames in a commercial business park just outside of Durban. It took 400 firefighters four days to extinguish it. The environmental liability and clean-up operations, business interruption and damages to third-party property claims are some of the aftermath costs that local real estate companies have to pay.

It is also predicted, that over \$8tn will be invested in infrastructure projects across 65 countries, which will drive demand for large-capacity construction and engineering insurance solutions. With this kind of investment being ploughed into the sector, it is imperative for businesses to be sufficiently protected as part of their risk management solutions.

Project completion delays

The engineering and construction industries suffer project completion delay losses that result from natural catastrophes. In instances where rainfall is abnormally frequent, construction projects usually have to come to a halt as the conditions are unworkable. Because no adverse weather conditions are taken into account during the project implementation plans, engineering and construction companies run the risk of operational losses especially where earth-moving equipment is leased and charged at daily or hourly rates.

“The impact of natural catastrophes goes far beyond physical damage to structures in the affected areas. Natural disasters disrupt the normal dynamics of societal and industrial operations in the immediate regions affected and beyond, impacting a large variety of industries that might not seem affected at first glance,” says Ali Shahkarami, head of catastrophe risk research at AGCS.

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