# Allianz Coffee Guide to:
# Floating Warehouses

**Broking business is busier than ever, and staying on top of the latest insurance and risk management buzzwords can sometimes fall by the wayside. So, harking back to the coffee shop origins of insurance, Allianz is offering a series of short and snappy insights that pull on our commercial expertise. A perfect way to catch up on what's hot!**

**On this week's agenda: Floating warehouses. We hope the following comes in handy next time you're awaiting a cappuccino in your local coffee house and a fellow coffee customer turns to you and says…**

*Coffee Customer:* ***I've heard the expression 'floating warehouses'…what are they?***

**You:** Floating warehouses, also known as 'Airborne Fulfilment Centres' (AFCs) only exist so far as an Amazon-owned patent, but may change the way deliveries are handled in the future. Designed as mobile warehouses located in the sky, initial sketches of these AFCs resemble a large zeppelin. The plan is to store items in these floating warehouses and use drones for collection and delivery.

*Coffee Customer:* ***A warehouse in the sky? How does that work?***

**You:** Think of it as an airship stocked with produce. Goods stored in the warehouse would need to be within a certain weight limit to ensure they are not excessive for lifting. The current plans show the AFC rising to a height of 45,000 ft and being fully mobile, able to adapt to factors such as customer demand or weather conditions. The drones (or 'unmanned aerial vehicles') are used to collect the package, glide down to the delivery destination and deliver the item.

*Coffee Customer:* ***What's the benefit of floating warehouses over land-based warehouses?***

**You:** One suggested benefit is reduced congestion on road and rail in favour of delivery via a battery operated drone. Fewer delivery vehicles mean lower emissions - welcome news for environmentalists. Plus there's the matter of freeing up warehouse spaces in crowded, urban areas. According to Amazon, customers can look forward to a speedy service, with a predicted delivery time of 30 minutes or less from the point of order. Companies might use these AFCs for advertising and for rapid mass distribution of merchandise at music or sporting events.

*Coffee Customer:* ***Sounds too good to be true! Are there any negatives?***

**You:** Some concerns exist over safety and privacy, such as drone hijacking or unauthorised surveillance. Since regulation is still in its infancy, there are questions regarding drones sharing airspace with passenger and cargo aeroplanes, plus potential physical hazards in urban areas. There's also the matter of data privacy, since drones require a personal address and GPS to deliver items. Finally, there have been reports of birds of prey attacking drones whilst in flight.

*Coffee Customer:* ***So when can I expect my first delivery from an AFC and drone?***

**You:** It's unlikely this will replace traditional delivery methods anytime soon, since drones have limitations such as limited carrying capacity and battery life. Rather, it's more likely this will be used to supplement existing methods initially. However, with Amazon running tests on its own drone delivery service, "Prime Air", and the Dubai company Space Autonomous Drones seeking government approval to launch a version by 2019, it may not be as far off as we think.

**At this point, your drink will be served and you can smile modestly knowing that your coffee catch-up went well.**

## Insurance implications at a glance:

- There is a growing need for insurance solutions for drones and unmanned aerial vehicles (UAVs) in a market where little currently exists. Types of policies required for drone deliveries will include: Employers' Liability, Product Liability and Cargo Liability.
- 'Drone hacking' has already been identified as an issue, meaning that cyber security risk exposure will likely form a key part of the underwriting process.
- PWC puts the predicted global value of drone powered solutions in the insurance industry at US$6.8bn.

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