FUTURE OF INSURANCE

Distributed in THE TIMES

Published in association with CII Insurtech Insights

Contributors

Anthony Beachley
Former *BBC World Service* journalist specialising in finance and tech, his work has been published in the *Spectator*, *Economist* and *The Independent*.

Josie Cox
Business reporter, commentator and broadcaster, she worked at *Reuters* and *The Wall Street Journal*, and was business editor of *The Independent*.

Marianne Curphey
Award-winning financial writer, blogger and columnist, she has held positions at *The Guardian* and *The Times*, and writes for a variety of publications.

Cath Everett
Journalist specialising in workplace, leadership and organisational culture, she also writes about the impact of technology on business and society.

Olivia Gagan
Journalist writing about energy, sustainability and culture for titles including *The Times*, *The New York Times* and *Time Out London*.

Oliver Pickup
Award-winning journalist, he specialises in technology, business and sport, and contributes to a wide range of publications.

raconteur reports

Publishing manager
James Studdert-Kennedy

Associate editor
Peter Archer

Deputy editor
Francesca Cassidy

Managing editor
Benjamin Chiou

Digital content executive
Taryn Brickner

Head of production
Justyna O'Connell

Design
Joanna Bird
Sara Gelfgren
Kellie Jerrard
Harry Lewis-Irlam
Celina Lucey
Colm McDermott
Samuele Motta
Jack Woolrich

Head of design
Tim Whitlock

ENVIRONMENT

Insurers have to meet climate change head on

Insurance against climate change is fast becoming non-negotiable for both individuals and businesses

Olivia Gagan

Climate-change risk to the insurance sector has never been greater. Weather anomalies are now commonplace: the past year alone saw unprecedented wildfires in California and Australia, exceptional flooding in Venice and the costliest typhoon on record in Japan.

2017-18 was the most expensive two-year period on record for global re-insurance, which had to stump up $219 billion to settle claims for weather-related damages, according to a World Economic Forum report.

That's just for those who can get insurance. Antony Woodhouse, partner at law firm DWF, says: "One of the biggest issues is whether insurance companies can carry on offering insurance that responds to climate change-related risks. The more frequent the natural disasters, the more difficult it can be to find insurers with an appetite to provide cover.

"There's also the issue of insurers adjusting their prices to reflect the increase in risk of freak events. Premiums would necessarily rise and become unaffordable to some people, which could then become a social and political issue."

As a result, governments and regulators are increasingly asking insurers if they can handle the liabilities climate change represents. Since last year, the Bank of England's Prudential Regulation Authority has required insurers to stress test their businesses against the risk that the world fails to meet temperature and carbon reduction targets. Independent watchdog, the Asset Owners Disclosure Project, has warned that the industry is failing to meet the objectives of the 2016 Paris Agreement.

So how is the industry adapting? In the UK, flooding is perhaps the biggest climate risk. UK trade organisation Business in the Community estimates 40 per cent of businesses close for good after a catastrophic loss from flooding, with small businesses losing 50 working days on average after a water breach. February 2020 saw Storm Ciara and Storm Dennis overpower homes and high streets and batter infrastructure, just two months after then-environment secretary Theresa Villiers promised an inquiry into why many flood-prone communities are denied insurance.

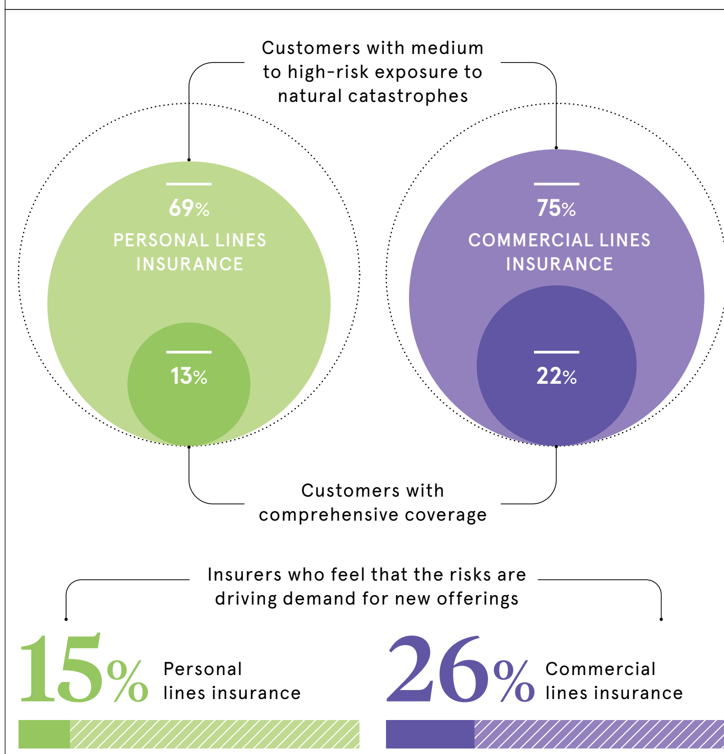
David Gray/Getty Images

Dr Bev Adams, head of catastrophe resilience at insurance broker and risk manager Marsh, says that in the UK and beyond, the industry's approach to climate change and flood is evolving. As risk heightens, the payouts grow and the gap between climate risk and protection gets bigger, so the sector is starting to focus on recoverability, as well as prevention.

Cue the rise of a different type of cover against climate change: parametric insurance. Policyholders aren't compensated for a specific loss, like a collapsed factory wall or a waterlogged sofa, but for the triggering event, like a flood or a drought. A pre-agreed sum of cash is paid out when floodwater reaches a certain level, for example, or temperatures or wind speeds hit a predetermined high.

Adams says we should increasingly expect preventative measures to be built into homes and businesses. "Traditional insurance protects you financially against the risk of water entering your facility. Greater resilience opens up more options, like parametric insurance, which uses sensors to detect water exceeding a particular depth in buildings and can result in an instant payout. Anything below that [is covered by the fact that] you've built flood resilience into your building," she says.

NATURAL CATASTROPHES AND INSURANCE



Capgemini 2019

Parametric insurance makes sense if businesses have prepared themselves by taking action to install resistance and recoverability measures, Adams adds. Each property is different, but a business that could more easily qualify for parametric insurance would be one which can tell their insurer: "I've moved my electrical sockets up. I've put in water-resilient plasterboard. I've tanked out my floor. I put some pumps in. I've moved my product on to crates. I've moved my key machinery up."

Insurers like parametrics because they know in advance what the settlement will be and the exact conditions that will lead to a payout. It's a model that could work well for people and businesses in high-risk areas which fail to qualify for traditional insurance.

Such cover relies on data and measuring tools. UK parametric insurer FloodFlash calculates its premiums according to the flood risk it believes an individual or business faces. It calculates this using data such as historic rainfall records and sensors which measure the quality of terrain. Tamper-proof sensors developed by ex-Dyson staffers are installed at the insured location, triggering a payout when water reaches a pre-agreed depth.

Dr Bronwyn Claire, senior programme manager of ClimateWise, a University of Cambridge-backed network of insurers seeking to reduce the impact of climate change on the sector, is focused on industry best practice to provide as much cover for natural disasters as possible.

"How do we make sure that as much is covered by insurance as possible, so everyone can be more resilient and bounce back?" she asks.

As high-impact weather events are increasingly seen more as an expectation than a risk, insurance against climate change now seems to be about enabling recovery for as many people as possible. There is a sense of inevitability about the physical damage society must reckon to cope with as a result of climate change. Claire concludes: "The goal now is to recover quicker."