GRAMERCY
RISK MANAGEMENT

AN UNCERTAIN LOOK FORWARD – WEATHER THREATS AND THE GROWTH OF INSURTECH

It's always amusing to read articles or postings about emerging trends or exposures that will affect the insurance industry. Some of them are accurate (but predictable) and other times we really miss the mark – as with the COVID-19 pandemic. So, here is a look at two different concerns – one of which, if correct, can significantly impact the industry. The second, while seen as a disrupting threat by some, may make the industry more efficient and effective.

More Severe and Protracted Weather-Related Losses

- According to NOAA, 2020 turned out to be the most active hurricane season on record, with 30 named storms. Six were Category 3 or higher which are considered major hurricanes. What may be more alarming is that 2020 is the fifth consecutive year with an above normal hurricane season; 18 of the past 26 years were above normal. AccuWeather estimates the total damage and economic loss caused by U.S. named storms that made landfall in 2020 to be between $60 billion to $65 billion.
- Nineteen of the 20 warmest years on record have occurred since 2001, with 1998 the lone exception. 2016 ranks as the warmest on record (NOAA Global Climate Change, Vital Signs of the Planet). NOAA also points out that since 1993, there has been a 95.6 mm increase in sea level – about 3.8".
- Judging by acres burned, three of the most volatile years for California wildfire have occurred since 2015 – 2015, 2017 and 2020 (National Interagency Fire Center).

What will be the insurance industry's likely reaction? In the short-term, expect the current prolonged hard market for property insurance (especially for risks with unfavorable loss experience or in catastrophic-prone areas) to continue. More carriers will refuse to write property coverage in affected areas, and impose additional windstorm restrictions when they do extend coverage. This will result in greater FAIR plan participation, and political pressure for government intervention. Entities retaining the property risk exposure will find it harder to get affordable excess property coverage at acceptable attachment points.

In 2019, the Congressional Research Service reported that the National Flood Insurance Program (NFIP) owed about $20.5 billion to the U.S. Treasury. It is unlikely that this level of debt will subside. Ways to make the NFIP more financially viable include: reducing the number of uninsured properties, changing risk-based premiums, and greater participation from private insurers – perhaps insuring marginal (properties presenting low risk of flooding) risks or acting as a reinsurer in some manner. Congress must periodically renew the NFIP. Although politically dangerous, a greater aggregate number of flood-related catastrophes may compel Congress to drastically amend the program, to the detriment of not just property owners in affected areas, but builders, suppliers and others who support coastal communities.

Insurtech Becomes a Bigger Player

Insurtech is short for insurance technology – the use of technology to improve the insurance product. The tailwinds supporting a bigger role for Insurtech are formidable: interest by venture capitalists, the constant need for product differentiation by insurers, purchasing patterns of digitality savvy younger buyers, and the vast, almost unlimited potential for data mining – both within their own historic transactional, loss and exposure data and through agreements with third-parties. Improved risk, claims and client demand modeling is likely. Insurers are also finding cutting-edge ways to use technology in risk engineering and risk control. Such as creating exposure models of risks and geographic areas that are not normally visited and the ability to perform risk assessments using remote technology.

Insurtech got its foothold in product and service marketing and distribution. McKinsey reports how companies are attracting and retaining clients by discounting automobile and property policies (including personal lines) through the use of devices that monitor mileage, speed and operation or by using onsite flood, temperature and fire detectors that pass along data and automatically notify insureds and emergency services if some metric is reached or a dangerous condition occurs.

WillisTowersWatson reported in its Quarterly Insurtech Briefing Q3 2020 that Insurtech companies globally raised US $2.5 billion across 104 deals – significantly more than Q1 2020.

Insurtech is challenging the existing insurance model and will force insurers to develop different digital platforms, and acquire or merge with IT companies, perhaps outside of insurance field. Traditional insurers who are willing to marry Insurtech concepts with their experienced underwiring and claims management systems will fare the best.

Insurtech is not without drawbacks. Cost and the useful life span of technology is always an issue. Maneuvering through the state-based regulatory landscape will be a challenge, as will getting buy-in from staff, clients, and producers. Success of Insurtech implementation requires both personal interaction with technology and messaging for the targeted audience.