# Climate Change and its impact on Insurance Industry

## New and Increased Risk of Catastrophic Climate disaster

**London, United Kingdom Nov 5, 2021 (Issuewire.com)** - The Effect of Climate Change on The Insurance Industry by C&C Group.

In an attempt to save our planet and prevent it from becoming uninhabitable due to the dreaded consequences of climate change, world leaders are currently discussing the way forward at the 2021 United Nations Climate Change Conference (COP26), being held in Glasgow, Scotland.

Make or Break Year for Climate Change

A UN report released earlier mentioned that 2021 is a “make or break year” in the fight against climate change. Experts have long predicted the dreaded effects of climate change, but recent climate disasters show that the situation is dire.

This year, a report released by the UN mentioned that climate change 'will get progressively worse and cannot be stopped over the next 30 years.' Furthermore, studies show the amount of CO2 in the atmosphere is so large that planting trees can no longer save us- as there is not enough space in the world to plant the trees needed to prevent a significant increase of 3.60F temperature. Thus, the best the world can do is to manage the situation.

In 2021 alone, we have seen several climate disasters that are unprecedented.

- The recent drought caused high temperatures and intense wind, leading to the US's largest active wildfire.
- Canada, Turkey, Greece, Algeria, Spain saw hundreds of fires that destroyed properties and burned and displaced people.
- Europe also saw some heat waves across the region.
- This year, there has been flooding in central China, parts of Europe, and countries in Africa, destroying properties and killing and displacing people.
- Furthermore, in 2021 it has rained at the summit of the Greenland ice sheet for the first time.
- Climate change is making hurricanes stronger: Hurricane Idaho is a prime example. All of these events happened in 2021 alone.
- In the UK, we recall:

- The 2013 St. Jude storm
- The 2013 Great Britain and Ireland heatwave,
- The 2013 East Coast Tidal Surge
- The Winter Storms of 2013-14
- The 2018 Great Britain and Ireland Coldwave
- The 2018 British Isles Heatwave, the 2018 UK fires and the
- 2019-20 UK floods as some selected recent climate disasters.

One worrying fact is that some of these disasters have been missed by UK’s Environment Agency, leading to people being unprepared for them and thus causing damages and loss of lives.

How is the increasing frequency of climate-related disasters affecting the insurance industry?

Climatic disasters such as storms, floods, and wildfires affect the insurance industry directly by damaging insured and uninsured property and indirectly through subsequent events such as resource scarcity and disruption of global supply chains.

Windstorms, wildfires, floods, and related disasters affect the property-related classes of insurance businesses, which fall under the liability side of insurers’ balance sheets.

Inflation-adjusted insurance losses from these climate-related disasters have sharply risen from a yearly average of about US$10 billion in the 1980s to over US$50 billion over the past decade. This rise is due to the increasing number of insurance payouts, which insurers term as losses.

Factors influencing insurance losses

The factors that influence these losses are complicated. While most research results point to increased exposure from the expansion of the industry as the main factor, there are indications that climate change is playing a role.

For instance, a few years ago, Lloyd’s of London estimated that the 20cm of sea-level rise since the 1950s increased Superstorm Sandy’s (2012) surge losses by 30% in New York alone. Superstorm

Sandy alone caused almost $70 billion (2012 USD) in damage and, as would be expected in the industry, led to increased insurance payouts.

With such losses, insurers pass on the risk through increases in premium and reinsurance premiums. As a result, insurers tend to use catastrophe risk modelling, alternative risk transfer, portfolio diversification, and short-term contracts to manage the current level of direct physical risks.

These complex approaches for modelling risks for climatic disasters are, as previously mentioned, for current climate trends. As climate disasters become more frequent, they are more likely to increase insurance and reinsurance premiums when insurers renew annual contracts-as is commonly practised. The use of reinsurance and alternative risk transfer helps insurers level their peak exposures. It takes the basic insurance business model and regulatory capital requirements to provide resilience to climatic changes.

Ways Climatic Disasters Impact Insurer Balance Sheets

Looking into the future, increased physical risks due to climatic disasters could affect the liability side of the balance sheet of general insurers in several ways.

- **First, it could disrupt established insurance arrangements and associated risks** creating issues with public policy.

- **Second, increased risk volatility** and increased correlation between modelled risks could affect insurers' capital requirements and diversification benefits. Third, growing physical threats may also affect indirect risks and affect financial assets, such as investment in real estate, or affect large parts of portfolios through real-economy effects.

How Should Insurance Companies Adjust?

For insurance companies, the status quo can either play to your disadvantage or disadvantage. The increasing number of these disasters and the lack of insurance cover many properties means that insurance companies with abundant capital can increase their coverage. Yarab Capital a VC specialising in the capital funds for the insurance companies has noticed an increased capital demand for various UK based reinsurers, The Group CEO Niraz Buhari has said that the firm is working closely to raise a billion-dollar capital from a public fund based in the middle east who has the risk appetite to participate in these type of catastrophic risk.

Risk consultants have predicted a sharp rise in annual premium revenue for insurers. As a result, reinsurance companies that sell flood and other disaster insurances may want to sell these insurances for a few years. The challenge here is the cost of managing such insurance.

Niraz Buhari the Group CEO of C&C Insurance Group said Many insurance systems and programs have not been well developed to handle the growing risks. Konrad Schoeck, a flooding specialist at reinsurance group Swiss Re mentioned that flood risk management requires the concerted efforts of the insurance industry, private homeowners, and the government. It is very important that the financial services firms promote businesses like Smart Cover who offer insurance for household appliances and Gadget and homes which extends the lifetime of these Gadgets and helps the consumers to reduce their household carbon footprint.

Insurers can use their sophisticated understanding of evolving risks and the annual policy cycle to rearrange portfolios and reprice to prevent long-term exposure to climate events.

The growth in value at risk can increase the demand for different and new solutions and services that can expand the industry. Nevertheless, insurers should take care to avoid underestimating the actual threat of climate change. If catastrophic events become too frequent, it can threaten business models due to revolving regulatory requirements. . Moreover, insuring certain risks may become unfeasible for insurers and exorbitant for customers.

Projections of a possible escalation in floods and fires may lead to underinsurance or no insurance at all. Thus, a significant market dislocation could lead to higher self-insurance rates, premium losses, and a surged demand for insurance from the public sector.

Insurance companies who think ahead can begin offering policies that assist prospects who haven't yet considered the implications of climate disasters.

**Media Contact**

Yc

info@yarabcapital.com

03333449119

3-5 Rickmansworth road, watford

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