National Insurance
Alliance Limited

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How Climate Catastrophes Reshaping the Insurance Industry (Part 2)

In our previous article, NIACE introduced some of the challenges that the insurance industry is facing due to an increased occurrence of climate catastrophes globally. In part 2 of the running five part mini series, NIACE will explore some of the measures and policies that insurers and governments globally that are going to be or have already been implemented in response to climate change.

The growing intensity and frequency of climate-driven disasters are placing extraordinary pressure on the global insurance industry. Events such as hurricanes, floods, and wildfires are not only becoming more frequent but also significantly more destructive. In 2023 alone, natural catastrophes led to losses of $320 billion, with the insurance industry routinely absorbing more than $100 billion annually—an amount that continues to rise. These escalating losses are prompting regulators and policymakers to assess whether climate change now poses a systemic threat to the stability of the broader financial system.

Rising Costs and Market Withdrawal
One of the immediate effects of these mounting risks is the impact on insurers' profitability and risk exposure. As claims increase, insurers are passing on the costs to policyholders through higher premiums, often making insurance unaffordable in climate-sensitive regions. This affordability crisis is causing insurers and reinsurers to pull out from high-risk markets. For instance, in the UK, property insurance claims have exceeded £100 million for eight consecutive quarters, with the first quarter of this year alone seeing £226 million in storm-related damage. In the US, similar trends are evident, with insurers terminating coverage in entire regions where underwriting is no longer viable. This withdrawal shifts the financial burden of disasters onto individuals and governments.

Shifting Risk Landscape and Insurability Challenges
Beyond rising costs, climate change is altering the fundamental nature of insurance risk. Traditional insurance models rely on pooling risks under conditions of uncertainty. However, climate change is making extreme weather events more predictable in the aggregate, while individual occurrences are becoming harder to model accurately. This dual shift—greater predictability overall, but more uncertainty for specific events—challenges the ability of insurers to price and cover these risks. As a result, many climate-linked risks are now seen as potentially uninsurable by the private sector alone, prompting calls for structural reform.

Public-Private Partnerships: A Shared Approach
To manage these systemic risks, public-private partnerships are emerging as a vital solution. These collaborative models leverage both commercial and governmental

support to provide broad coverage for extreme events. Examples include Spain's Consorcio de Compensación de Seguros, which uses levies on insurance premiums to fund payouts, and New Zealand's Natural Hazards Insurance scheme, which covers initial losses from natural disasters. In the UK, Flood Re reinsures policies in high-risk flood areas. While similar programmes exist in the US, their scope is often limited by a narrow state-level focus. Industry voices increasingly view such partnerships as the only feasible model to address escalating climate risks.

Innovations and Preventive Strategies

Alongside public-private partnerships, the insurance sector is embracing innovation to improve resilience. Parametric insurance, which pays out when specific conditions like wind speed or rainfall levels are met, enables rapid claims resolution and has attracted new capital from investors seeking diversification. Companies such as Descartes and Generali are active in this space. However, the model carries a risk of "basis risk," where an event falls short of the trigger despite causing significant damage. Insurers are also pushing for reform in planning systems, advocating against new developments in flood-prone zones.

Organisations like the Association of British Insurers (ABI) support development but stress the importance of choosing safer locations for new builds.

Conclusion: Towards a Resilient Future

The escalating threat from climate change is driving a fundamental transformation in the insurance industry. Soaring losses, pricing pressures, and insurability challenges are forcing insurers to adapt rapidly. With private sector limits becoming clear, the industry is increasingly turning to public-private collaboration and innovative insurance models like parametric cover. At the same time, insurers are calling for proactive planning reforms to reduce exposure to future catastrophes. These evolving strategies are essential to maintaining financial resilience and ensuring that society remains protected against the growing risks posed by a warming planet.

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