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# INSIGHTS

AUGUST 2025


Resilient Future Through Insurance Innovation

Navigating The Complex Web Of Polycrisis

Secondary Perils: A Growing Threat to Global Resilience

# Editor's Note

Dear Readers,

This month’s issue circles around a theme that feels impossible to ignore: living and working in a world where risks no longer come in isolation. Whether it’s climate change, economic shocks, or geopolitical tension, the ground beneath us is shifting, and the insurance industry finds itself both tested and needed more than ever.

Each of the articles in this issue offers a window into that reality. In this issue, we look at the industry’s path toward net zero underwriting, where insurers are caught between the urgency of the climate transition and the reality of missing data and uneven regulation.

The challenge relates to the second article on resilience through innovation, highlighting that traditional insurance models are inadequate. It stresses the need for the industry to adopt new tools, data, and partnerships to proactively anticipate risks rather than just respond to them.

Secondary perils, once treated as side events, now dominate loss tallies and remind us how quickly the unforeseen becomes the everyday. And if all of this sounds daunting, it’s worth remembering the flip side: these are also moments of opportunity. Risk, after all, is the raw material of our business. In our last article, we look at how the industry can rethink its role, not just as a payer of losses but as a guide, helping societies adapt and thrive in a more volatile world.

Taken together, these pieces sketch a picture of an industry in transition, one that cannot afford to remain stagnant. I hope that as you read, you’ll see not just the challenges, but the possibilities for reinvention that lie within them.

Annie Undikai

**Annie Undikai**
**Managing Editor**

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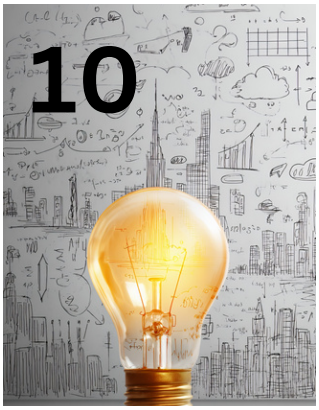
# IN THIS ISSUE







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# NET ZERO UNDERWRITING

## Where The Industry Stands Today

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Keeping global warming within 1.5 °C, as outlined in the Paris Agreement, is more than a scientific benchmark. It is the line between a liveable world and one marked by instability, forced migration, and economic breakdown. Every sector is being asked to rethink its role in this transition, and the insurance industry cannot sit on the sidelines.

Unlike most industries, insurers influence both sides of the balance sheet. With around $36 trillion in global assets under management, they play a crucial role in guiding investments, shaping business decisions, and managing risk throughout the economy. This influence extends beyond merely safeguarding balance sheets; it involves actively supporting the transition to a low-carbon economy. For insurers, this forward-looking approach is referred to as net zero underwriting.

**What It Really Means**

At its core, net zero underwriting is about integrating climate goals into the practice of underwriting itself. Every policy, whether it covers cars, factories, or infrastructure; indirectly connects the insurer to emissions. These emissions known as insurance-associated emissions (IAE), fall under the industry's Scope 3 footprint. While they can be challenging to quantify, their significance cannot be overlooked.

For years, conversations about climate in the finance sector largely revolved around investment portfolios. However, this focus is changing. Analysis from McKinsey reveals that underwriting emissions can match or even surpass investment-related emissions for property and casualty insurers.

Approximately 30% of these emissions stem from motor portfolios, while 15% originate from commercial lines. In essence, underwriting has transitioned from a peripheral concern to a crucial element of an insurer's climate impact.

Recognising this, the Partnership for Carbon Accounting Financials (PCAF) published the first standard for measuring IAEs in 2022. The framework allows insurers to attribute emissions to their clients using premium-to-revenue ratios and then rank the quality of the data.

At the same time, the Net Zero Insurance Alliance (NZIA) set ambitious goals: align underwriting portfolios with net zero by 2050, disclose emissions, and set interim targets for 2030. Although some members have since withdrawn, the principles they established still shape industry practices under new initiatives, such as the UN-convened Forum for Insurance Transition to Net Zero (FIT).


**The Current Landscape**

Progress has been uneven. S&P Global reported this year that many insurers have yet to set Scope 3 targets for underwriting. Some who tried found the data too limited to be credible. Swiss Re, for example, adjusted its approach after concluding that measurement standards were not yet reliable enough for detailed targets.

But achieving a global transition to net zero cannot occur without the backing of insurance. According to estimates from Howden and BCG, a staggering $19 trillion in global investment is necessary by 2030. Of this amount, more than half will require insurance coverage. Without underwriting support, it will be impossible to deploy capital on a large scale.

Recognising the gap, the UN's FIT released a guide in July 2025 titled Underwriting the Transition. It offers insurers a structured way to craft credible transition plans. Rather than broad statements of support, it focuses on practical steps: how to assess clients, where to gather data, and how to set targets that regulators and investors can actually evaluate. The guide also includes a self-checklist, giving insurers a way to map their own readiness against global expectations.

The upcoming COP30 report in Brazil will focus on integrating underwriting and investment strategies for a balanced approach. This integration is crucial to avoid inconsistencies, as supporting coal while investing in renewables undermines the credibility of net-zero plans.

The industry now appears to be moving at two speeds. In Europe, regulatory pressure is intensifying. The European Insurance and Occupational Pensions Authority (EIOPA) has encouraged firms to integrate climate stress tests and has hinted at future capital charges linked to carbon exposures. In the UK, the Prudential Regulation Authority (PRA) requires climate scenario analysis. This regulatory momentum, combined with shareholder activism, pushes European carriers toward more ambitious Scope 3 goals.

By contrast, many US and Asian insurers face fewer regulatory constraints and remain focused on short-term profitability. For them, the risk of losing clients in energy and heavy industry is more immediate than the risk of reputational damage. This divergence could reshape global insurance capacity. Carbon-intensive sectors may find coverage scarcer and costlier in Europe, while still accessible in Asia or the US. At least for now.

**Some insurers adopt engagement strategies, collaborating with high-emitting clients on transition plans instead of withdrawing.**

There is also the commercial reality. Insurers sit at the crossroads of capital and risk. While strict underwriting policies that exclude carbon-intensive sectors may support climate goals, they risk lost profits. Some insurers adopt engagement strategies, collaborating with high-emitting clients on transition plans instead of withdrawing. This approach has resulted in varying commitments influenced by geography, regulatory expectations, and market pressures.

**The Measurement Problem**

Unlike investment portfolios, which have relatively standardised carbon accounting, there is no universally accepted framework for underwriting emissions. Although the PCAF has released draft methodologies for emissions related to insurance, the adoption of these guidelines remains inconsistent.

A 2024 ClimateWise survey found that only 28% of insurers have begun piloting Scope 3 underwriting measurement. Even fewer have integrated those results into business strategy. The reasons are practical as much as they are political. Underwriting contracts are short-term, often one year, whilst data quality varies by client, sector, and geography. And unlike an equity stake, an insurance contract doesn't confer ongoing control over a company's emissions.

Setting Scope 1 and 2 targets, those tied to direct operations and purchased energy, has been far simpler than addressing Scope 3, which includes the emissions of insured clients.

The hesitation is visible in the numbers. According to S&P Global, as recently as early 2025, a large share of insurers still had not published underwriting-related Scope 3 targets. Those that have done so often limit disclosures to selective business lines such as motor or property. Few have established comprehensive pathways across specialty and commercial risks.

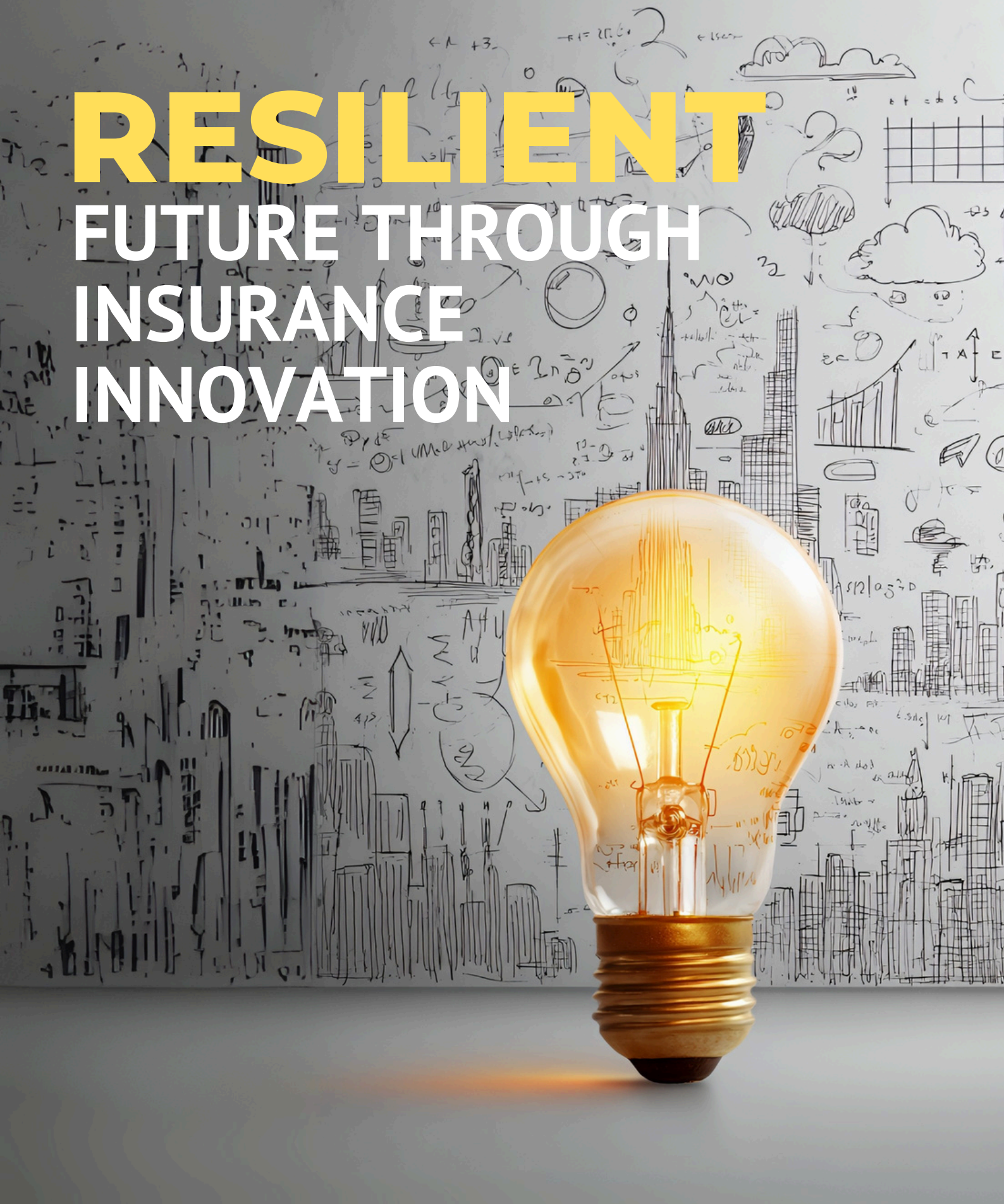
**Opportunities Hidden in Transition**

The debate is often framed as insurers versus fossil fuels. But net-zero underwriting is not only about restricting coverage. It is also about enabling the transition. Renewable energy projects, battery storage, and green hydrogen plants all require specialised cover.

Allianz reported that renewable energy premiums grew at an average annual rate of 14% between 2019 and 2024. Offshore wind alone is projected to require over $100 billion in insurance capacity by 2030, according to Lloyd's estimates.

Insurers who build expertise in these sectors can replace shrinking fossil portfolios with growth in transition-aligned business. Moreover, underwriting can actively shape outcomes by offering preferential pricing for clients who demonstrate credible decarbonisation pathways. Some carriers already provide premium discounts for companies with validated science-based targets.

# RESILIENT FUTURE THROUGH INSURANCE INNOVATION



As the world gears up for COP30 in Brazil, the insurance industry finds itself at a pivotal moment. The increasing frequency and intensity of climate-related incidents highlight the urgent need for transformative change. The way forward is clear: insurers must transition from conventional risk management to a proactive approach to climate resilience. This shift calls for the use of innovation, technology, and collaboration to protect communities and economies.

**Bridging the Protection Gap**

The financial implications of climate change are becoming increasingly evident. In 2024, global natural catastrophes, including hurricanes, wildfires, and floods, resulted in approximately $320 billion in economic losses. Of this, only about $140 billion were insured, marking one of the costliest years for insurers since 1980 .

Despite this significant insured portion, a substantial protection gap persists, particularly in high-risk regions. For instance, Typhoon Yagi in Southeast Asia caused $14 billion in damages, with only $1.6 billion insured. This situation highlights the vulnerability of communities lacking adequate coverage

The gap also underscores the pressing necessity for innovative insurance solutions tailored to vulnerable populations. Parametric insurance, which delivers predetermined payouts based on specific triggers such as rainfall or wind speed, is becoming increasingly popular. In contrast to traditional indemnity insurance, it offers swift financial relief, enabling quicker recovery and alleviating the economic strain on impacted communities.

The global parametric insurance market was valued at $16.2 billion in 2024 and is projected to reach $51.3 billion by 2034, growing at a compound annual growth rate (CAGR) of 12.6%. This growth is driven by several factors as outline below.

*Increase Frequency of Climate Disasters*

The rising occurrence of extreme weather events, such as hurricanes and floods, has heightened the demand for insurance solutions that can provide timely financial support.

*Technological Advancements*

Innovations in data analytics, satellite imagery, and artificial intelligence (AI) have significantly improved the precision of risk assessments. This progress allows insurers to create more customised and effective parametric products.

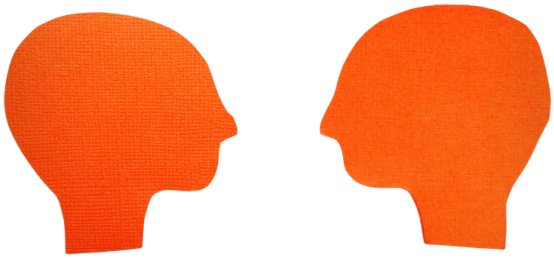
*Shifting Economic Conditions*

As traditional insurance markets face challenges, businesses and governments are seeking alternative risk management tools that offer greater transparency and efficiency.

In the corporate sector, parametric insurance has been increasingly adopted to mitigate risks associated with supply chain disruptions and infrastructure damage due to extreme weather events. These policies provide immediate "first-dollar payments" to cover financial losses, facilitating faster recovery and continuity of operations.

However, despite the growth of parametric insurance, significant challenges remain. The protection gap continues to be a pressing issue, particularly in low-income and developing regions where access to insurance products is limited. Closing this gap requires a concerted effort from insurers, governments, and international organisations to develop an inclusive insurance model, enhance data sharing, and foster partnerships that drive climate innovation.


**The protection gap continues to be a pressing issue, particularly in low-income and developing regions where access to insurance products is limited.**



**Technological Advancements**

Advancements in technology are fundamentally reshaping the insurance landscape, particularly in how the sector addresses climate-related risks. The integration of AI, satellite imagery, machine learning, and advanced data analytics enables insurers to assess hazards with unprecedented precision, develop tailored products, and respond more effectively when disasters strike.

For example, AI-powered predictive models now evaluate historical climate data, current weather patterns, and socioeconomic elements to predict the probability and potential consequences of events like floods, hurricanes, and wildfires.

McKinsey & Company has indicated that the integration of AI and data analytics has the potential to lower underwriting losses by up to 20% and cut claims processing times by nearly 40%. This advancement also improves accuracy in risk assessments.

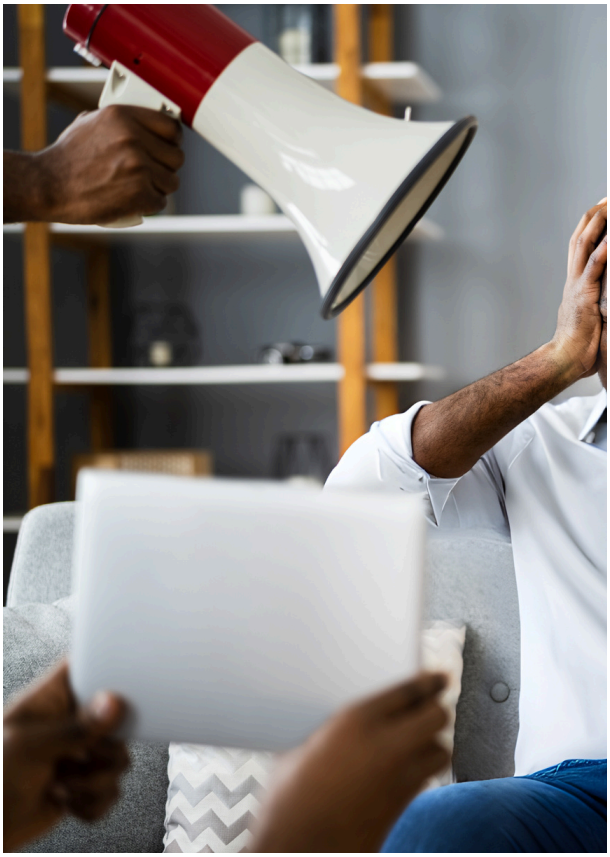
Satellite imagery and remote sensing have become invaluable tools for insurers, providing detailed, real-time information on environmental changes and disaster impacts. In regions prone to flooding, satellites can monitor water levels, river overflows, and rainfall accumulation, allowing insurers to trigger parametric insurance payouts almost instantly.

The World Bank's Global Risk Financing Facility highlights that satellite data combined with parametric insurance has reduced payout times for flood-affected communities in Latin America from weeks to mere hours.

Predictive analytics and AI-driven claims automation improve operational efficiency for insurers by analysing claims data to detect fraud, streamline investigations, and optimise resource allocation. A survey by PwC found that 73% of insurers using AI and data analytics experienced measurable gains in claims accuracy, efficiency, and customer satisfaction.

Insurers are increasingly utilising IoT devices to monitor assets in real time. Smart sensors installed in buildings, farms, and supply chains can track temperature variations, water levels, and other climate-related factors. This technology allows insurers to continuously evaluate risk and provide proactive advice to policyholders. Transitioning from a reactive to a proactive insurance model is essential for minimising the economic and social effects of climate-related disasters.

Technological innovations serve as a vital element of resilience, improving operational efficiency and fostering trust among policyholders. They achieve this by accelerating claims processing, guaranteeing predictable payouts, and providing accurate risk assessments.



This is crucial in emerging markets with low insurance penetration, particularly for vulnerable communities affected by climate shocks. Hence, technological innovation will remain a cornerstone of the sector's strategy to safeguard both people and economies against the growing threat of climate change.

**Harnessing Collective Power**

Collaboration is increasingly recognised as a cornerstone in tackling the multifaceted challenges posed by climate change. No single sector or organisation can address the scale, complexity, and interconnected nature of climate risk alone. The insurance industry, with its expertise in risk assessment, financial protection, and recovery, plays a critical role. But it must work hand-in-hand with governments, development institutions, technology providers, and local communities to achieve meaningful impact.

A new partnership between the Insurance Development Forum (IDF) and the Bridgetown Initiative aims to incorporate insurance into climate development and resilience finance. This collaboration seeks to unlock affordable financing, reform outdated financial rules, and mobilise resources for climate adaptation and sustainable development. With nearly 200 million people unprotected by insurance against climate hazards, urgent coordinated action is needed.

Collaborative efforts include public-private partnerships (PPPs) like the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which pools resources from countries and organisations to offer parametric insurance for hurricanes and earthquakes. Since 2007, CCRIF has paid over $300 million in claims, aiding rapid recovery and reducing economic disruption. This model showcases how collective risk pooling can provide timely financial relief and encourage national resilience measures.

Collaboration also ensures that climate finance reaches the most vulnerable populations. By pooling resources, sharing knowledge, and co-developing solutions, stakeholders can create inclusive insurance models that are both affordable and effective. The United Nations Environment Programme (UNEP) notes that every $1 invested in collaborative insurance models can save up to $4 in disaster costs, highlighting the economic efficiency of joint efforts.

Collaborative efforts go beyond risk transfer; they focus on resilience, innovation, and equitable access. By uniting insurers, governments, technology providers, and communities; systems can be designed to mitigate climate shocks, enhance recovery, and empower vulnerable populations. This strategy is essential for attaining sustainable goals and promoting a future that prioritises proactive climate risk management.

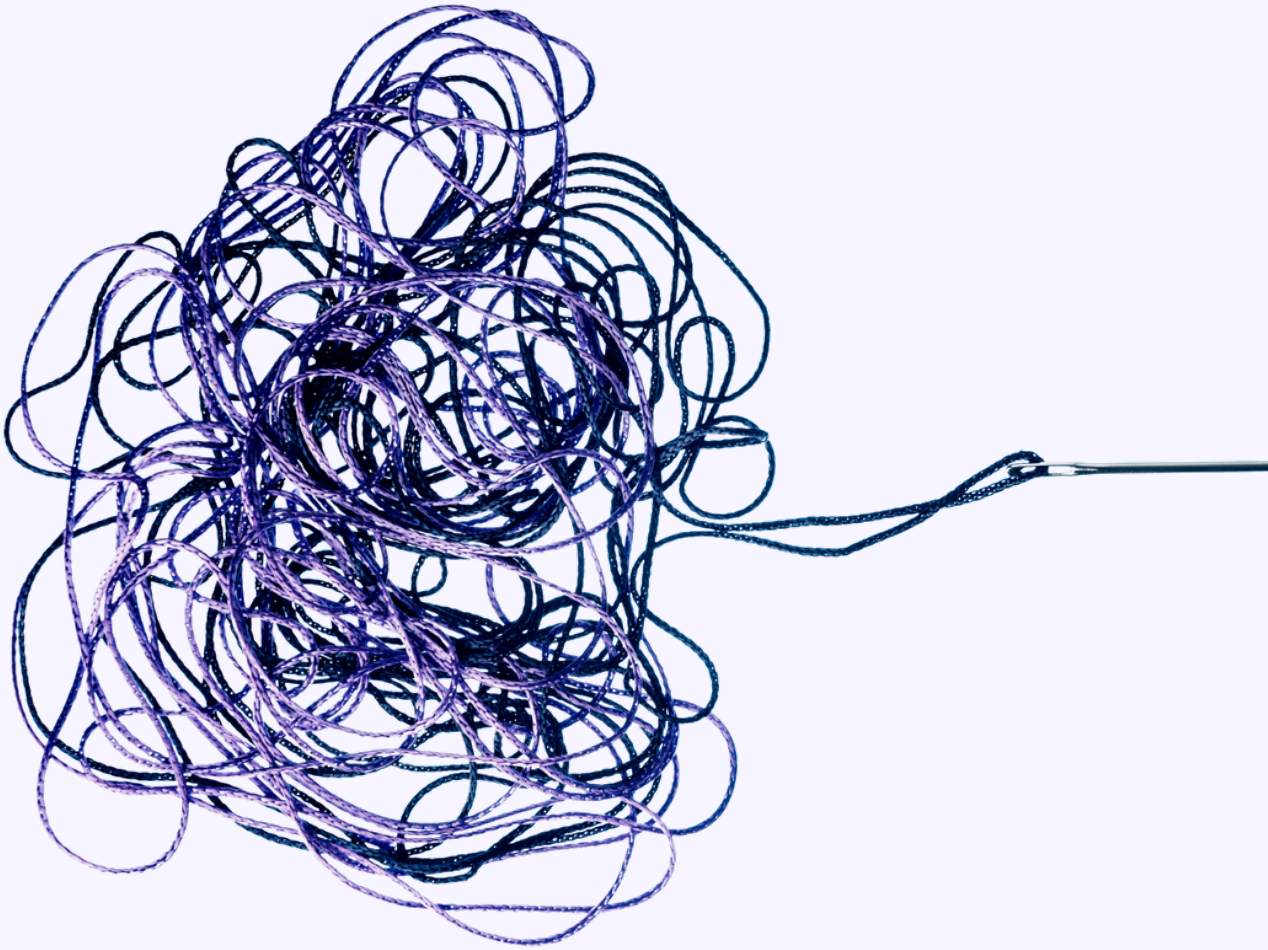
**A Vision for the Future**

Looking ahead, the insurance industry has the opportunity to lead in climate resilience. By embracing innovation, leveraging technology, and fostering collaboration, insurers can develop solutions that not only protect assets but also promote sustainable development.

The industry's transformation from a reactive safety net to an active catalyst for change, highlights the influence of innovation, collaboration, and dedication in creating a sustainable future for everyone. As global leaders gather in Brazil for COP30, the contributions of the insurance industry will play a crucial role in advancing worldwide initiatives aimed at climate resilience and sustainable development.

**The United Nations Environment Programme (UNEP) notes that every $1 invested in collaborative insurance models can save up to $4 in disaster costs, highlighting the economic efficiency of joint efforts.**

# NAVIGATING THE COMPLEX WEB OF POLYCRISIS



In an era marked by overlapping crises such as climate change, pandemics, geopolitical tensions, and economic instability; the term polycrisis has emerged to describe the convergence of multiple, interconnected global risks. This phenomenon presents unprecedented challenges, not only for societies but also for industries like insurance, which traditionally operate on the premise of managing isolated risks.

**What is Polycrisis**

The term polycrisis describes a scenario in which several crises, each considerable in its own right, intersect, overlap, and intensify each other. This results in a chain reaction of effects that far surpasses the impact of any single event.

A polycrisis differs from a singular, isolated disaster in that it is characterised by its interconnectedness, unpredictability, and cumulative impacts. This complexity makes it particularly difficult to predict and handle, posing challenges for both governments and industries such as insurance.

Consider climate change as an example. Rising temperatures not only increase the frequency of extreme weather events such as hurricanes, floods, and wildfires, but they also strain infrastructure, agriculture, and energy systems. When a major hurricane strikes, the immediate physical damage is compounded by supply chain disruptions, rising commodity prices, and displacement of communities. If such an event occurs in a region already facing political instability or economic stress, the crisis multiplies, triggering social unrest or migration pressures.

Geopolitical events can also intersect with environmental and economic risks. For instance, the 2022 Russia-Ukraine conflict not only created a humanitarian crisis and energy market volatility but also exacerbated food insecurity worldwide, particularly in countries heavily reliant on wheat and fertiliser imports from the region. When combined with droughts or floods in other parts of the world, these crises feed into each other, creating a complex web of interrelated risks.

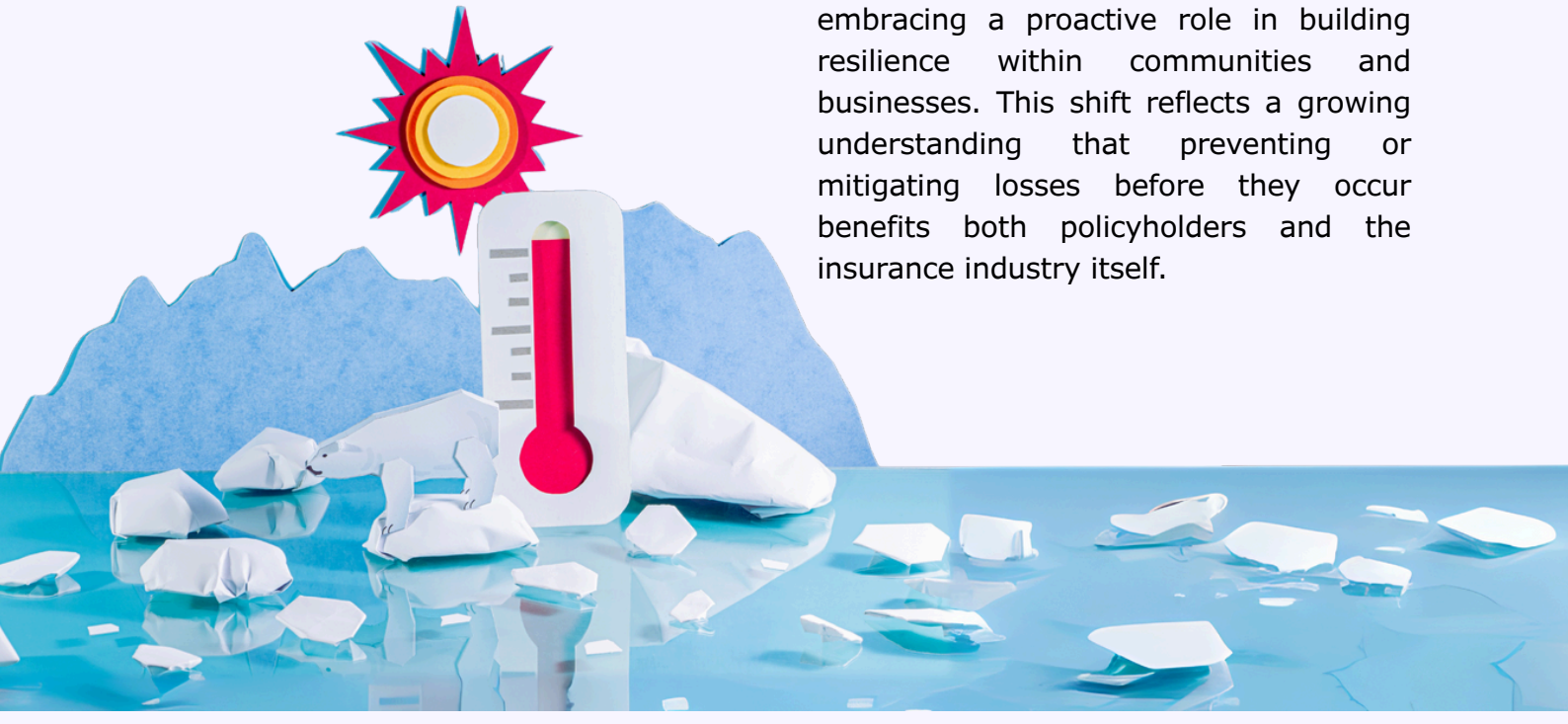
Polycrises are particularly challenging because traditional risk models are often siloed, assessing risks individually rather than holistically. A flood model might focus solely on water damage, while an economic risk model assesses inflation or trade disruptions separately. In reality, the impact of one crisis often feeds into others, creating feedback loops that amplify losses in ways that conventional risk assessment tools cannot easily capture.

**The Role of Insurance**

Insurance, at its core, is about risk management and mitigation. In the context of a polycrisis, insurers face the dual challenge of adapting to rapidly evolving risks while maintaining their foundational role of providing financial protection. Here's how the industry is responding.

*Adapting Risk Models*

Traditional risk models frequently work in isolation, evaluating individual risks without acknowledging their interrelations. However, in a polycrisis, this method falls short. Insurers are now crafting integrated risk models that consider the cascading effects of interconnected crises. The Swiss Re Institute identifies three key clusters, namely, climate change, technological advancements, and geopolitical tensions. Understanding these interdependencies allows insurers to better anticipate and prepare for potential impacts.



*Innovating Insurance Products*

The evolving risk environment necessitates the development of new insurance products that address the unique challenges posed by a polycrisis. Parametric insurance, which provides predefined payouts based on specific triggers, is gaining traction. This model allows for quicker responses to events and can be particularly effective in scenarios where traditional claims processes may be delayed due to systemic disruptions.

In response to the growing complexity of polycrisis, insurers are increasingly developing coverage for emerging and non-traditional risks that were once considered secondary such as cyber threats and pandemics. By expanding the scope of coverage, insurers can offer more comprehensive protection to policyholders.

*Enhancing Resilience*

Beyond offering financial compensation after a disaster, insurers are increasingly embracing a proactive role in building resilience within communities and businesses. This shift reflects a growing understanding that preventing or mitigating losses before they occur benefits both policyholders and the insurance industry itself.

Insurers are also investing in risk prevention strategies that encourage sustainable practices. For example, companies that adopt green building standards or energy-efficient systems may receive reduced premiums, fostering a culture of risk awareness and aiding the transition to a low-carbon economy. Such incentives create a culture of risk-conscious decision-making while simultaneously supporting the transition to a low-carbon economy.

Disaster preparedness programs are also becoming central to insurance strategies. Insurers now work with local governments and businesses to provide early warning systems, emergency response training, and continuity planning. These initiatives are supported by cutting-edge data and technology, including satellite imagery, predictive analytics, and AI-driven risk models. The outcome is twofold: underwriting becomes more accurate, and policyholders receive actionable insights that empower them to minimise risk and enhance their resilience.

**The Path Forward**

The polycrisis presents a paradigm shift for the insurance industry. To effectively navigate this complex landscape, insurers must embrace innovation, collaboration, and a holistic understanding of risk. By adapting risk models, developing new products, enhancing resilience, and fostering collective action, the insurance industry can play a pivotal role in mitigating the impacts of interconnected crises.

As we move forward, it is crucial for insurers to adapt continuously to the shifting risk landscape. This proactive strategy will not only protect the industry but also support the greater objective of fostering a more resilient and sustainable future.

**Insurers now work with local governments and businesses to provide early warning systems, emergency response training, and continuity planning.**

# SECONDARY PERILS

## A GROWING THREAT TO GLOBAL RESILIENCE

Floods, wildfires, and severe convective storms are no longer just occasional headlines. These secondary perils have quietly become major drivers of global economic losses, often surpassing the impact of traditional catastrophes like hurricanes and earthquakes.

Secondary perils have caused more than $1.39 trillion in losses since 2000, according to Aon's 2025 Climate and Catastrophe Insight report. Unlike hurricanes or earthquakes, which grab attention with their scale, these smaller, more frequent disasters accumulate damage over time. They strike regions often considered "low risk" and challenge insurers, policymakers, and communities to rethink disaster preparedness and response.

**Shifting Focus in Risk Management**

For many years, the insurance industry concentrated on primary perils—major catastrophes with established models for assessment. However, this strategy is now inadequate. Secondary perils are becoming the primary drivers of insured losses. In 2023, they represented over 60% of global insured catastrophe losses. Just one flood, wildfire, or storm can create a cascade of effects, impacting supply chains, disrupting infrastructure, and placing a strain on emergency services. This highlights the increasing interconnectedness and compounding nature of these risks.

In the first half of 2025, secondary perils emerged as a key driver of global insured losses, according to Swiss Re's sigma report. Severe convective storms in the US alone racked up around $53 billion, making up roughly 40% of all natural catastrophe losses worldwide. While total losses stayed within expected ranges, the outsized impact of these frequent, smaller-scale events is raising fresh concerns across the insurance industry.

The World Economic Forum highlights secondary risks as a significant challenge for the upcoming decade. These threats are intricately linked to climate change, vulnerabilities in supply chains, and geopolitical tensions, which render them more difficult to manage and increasingly urgent to tackle.

**Severe convective storms in the US alone racked up around $53 billion, making up roughly 40% of all natural catastrophe losses worldwide.**

**Building Resilience on the Ground**

Addressing recurring disasters effectively goes beyond relying solely on traditional insurance model. It calls for proactive, community-focused strategies and innovative planning. Infrastructure serves as the first line of defence. Implementing flood defences, such as levees, stormwater management systems, and reinforced riverbanks, can significantly mitigate the effects of heavy rainfall and rising water levels.

For example, after severe floods in Germany in 2021, the city of Cologne invested in an extensive network of retention basins and improved drainage systems, which experts say reduced the impact of subsequent heavy rainfall events.

Firebreaks, controlled burns, and wildfire-resistant landscaping play a crucial role in safeguarding communities in fire-prone areas. This is exemplified by California's growing implementation of vegetation management programs in high-risk counties aimed at slowing the spread of wildfires.

Buildings themselves must be constructed or retrofitted to withstand storms, with wind-resistant designs, reinforced roofing, and elevated foundations in flood-prone areas. After Typhoon Haiyan in 2013, many coastal communities across Asia, began adopting higher structural standards to reduce vulnerability.

In Japan, advances in wind engineering and stricter seismic-plus-typhoon building codes have become the norm, forcing developers to design for multiple hazards at once. These lessons are being mirrored elsewhere. Following Hurricane Katrina, reforms in the US resulted in enhanced building code enforcement in Louisiana and Florida. Consequently, many newly constructed homes now feature hurricane straps, impact-resistant windows, and reinforced concrete frames.

In flood-prone regions of Germany and the Netherlands, communities have adopted “living with water” strategies that focus on adapting rather than resisting. Buildings are elevated or designed with sacrificial ground floors that can withstand flooding without endangering the structure above. Cities like Rotterdam go further, with water plazas and floating homes designed to absorb excess water while protecting core structures.

Revitalising existing homes is also crucial, especially in older neighbourhoods where construction predates modern standards. Programs like FEMA's "Build Back Better" initiative, along with local grants in the UK for flood-proofing, are helping residents install barriers, elevate electrical systems, and strengthen roofs.

But building codes are not enough. Most codes are designed with the primary goal of protecting human life during a disaster. They aim to prevent collapse, ensure safe evacuation, and reduce fatalities. In other words, they emphasise evacuation and survival, but not resilience. A house may protect its occupants during a storm yet still be rendered uninhabitable, leading to massive displacement and costly recovery.

This gap highlights the need to rethink resilience as more than just safety. Codes and standards must evolve to reflect the economic and social consequences of property loss.

To bridge this, policymakers and regulators are increasingly looking at “functional recovery” standards, which go beyond survival to ensure that buildings remain habitable and operational after disasters. New Zealand has introduced performance-based codes that push builders toward resilient, not just safe, outcomes. For insurers, this distinction matters greatly: a structure that remains functional after a peril event significantly reduces claims costs and accelerates community recovery.

**Anticipation Over Reaction**

The age of secondary perils demands a different mindset. Waiting to respond after disaster strikes is no longer enough. Communities that invest in proactive measures by enhancing infrastructure, intelligent urban design, clear regulations, and continuous public education; stand a far better chance of minimising losses.

Insurers play a crucial role in enhancing societal resilience through advanced risk models, tailored products, and cross-sector collaboration. They must balance mitigation and adaptation to protect lives, livelihoods, homes, and economies. When implemented successfully, insurance industry evolves from simple risk transfer to a strong global safety net that effectively addresses ongoing threats.