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Why insurers need to race ahead of emerging risks

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The rudimentary forms of insurance in the early 1600’s were commercial and marine insurances, especially in regards to shipping goods, since cargo was often lost or damaged or stolen by thieves and pirates. By 1700’s fire insurance began, because buildings and their contents were mostly made of wood, and candles and lanterns were used for lighting due to which massive fires were not uncommon. By the 1800's and 1900's, the society and industry started to become far more complex, thus giving rise to many other forms of insurance such as auto and casualty insurance.

Insurance, over the last five hundred years, has emerged as an effective risk management strategy to the changing risks landscape that protects individuals and institutions from financial losses arising out of unforeseen contingencies. Modern insurance has therefore evolved over the years and cast a dense net of basic security to the rapidly changing risks landscape developing newer appropriate versions of protection schemes.

While it has been a constant part of the insurer’s journey to cover every modern peril, traditional portfolios such as motor, health, marine, fire, property etc. continue to be the domain expertise of most insurers globally.

Though globalization and information technology are combining to create a high degree of new opportunities, they also harbour fresh risks and complex inter-dependencies. Rising geo political volatility, demographic shifts, climate change and environmental risks, liability, cyber-crimes such as cyber stalking, phishing, identity theft, data beaches are some of the new age risks that we see today.

The era of cyber risks

In tandem with the frantic pace of development of information technology, the risk of cyber-crime and security is rapidly multiplying. Terabytes of sensitive data are stored on servers and are being transmitted each day through networks. Internet is steadily becoming an indispensable lifeline with Customer relationship management, mobile computing, online banking and online social networks both in the private sphere as well as in the world of business.

Cyber risk is now consistently rated as one of the top threats to businesses today as companies increasingly face new vulnerabilities due to exposure, including first and third party damages, business interruption, operational damages or any other catastrophic consequences.

According to a report by Allianz Global Corporate and Specialty (AGCS), cyber-crime costs the global economy approximately $445 billion a year with the world’s largest 10 economies, which includes India, accounting for half of this total. The report further claims that cyber-crime could cost close to $4 billion to the Indian economy.

Both individuals and businesses currently, live in perpetual fear that the increasing amount of data that they have kept online could be stolen, hacked, damaged or wiped off. However, paradoxically, despite living in the digital age, most enterprises in India continue to buy covers only for their property and physical assets and avoid buying a cyber-insurance cover. This can expose them to a wide range of different hazards in the fields of security, reputation, liability, data protection and compliance.

Apart from large corporates, small business and individuals are particularly susceptible to cyber-attacks such as data breaches. Earlier the biggest worry for an individual was to guard their physical wallet but now with all financial transactions moving online, securing their data and information online is their most important need. The fear today is that their data could be stolen, hacked, damaged or wiped off.

Also while technologies like artificial intelligence, blockchain, nanotechnology, driverless cars are redefining industries across the world, many of them are still new and their manifestations and implications are still emerging and therefore by their unique nature, not measurable and hence not susceptible to traditional risk management techniques.

Other emerging risk scenarios

Apart from cyber and technology related risks, there are also several other new emerging risk avenues that have to be borne by various industries. Several of these are customer-friendly regulations rolled out across industries to enhance transparency and to shift the liability of an unfavourable situation onto the service or entity provider. Questions of liability and product response are becoming increasingly prominent, increasing the transfer of these risks to insurers who would have to be ready with newer customised liability and indemnity covers for these risks.

Globally insurers have also observed an upward trend in weather-related losses due to the increase in frequency and intensity of extreme weather events and major catastrophes such as cyclones, unseasonal heavy rains and droughts.

Furthermore, globally these weather-related losses have been growing at a faster rate than the rate of insurance penetration. In India too it is a major cause of concern that the insured losses are a mere fraction of the total economic damage, leaving a vast majority of the population financially vulnerable to these catastrophes. There is hence a strong need for the government, disaster management agencies and insurers to build a shared financing mechanism in the fields of home, property and crop insurances to build resilient communities.

The insurer's way ahead

For insurers, dealing with these new age risks requires a major shift in their current way of functioning. They need to understand the mutual interactions and complicity between the risks in order to give clear recommendations to their client organisations for defining, assessing and preventing any impending chaos.

The insurance industry needs to tap into innovative and preventive solutions that go beyond a one size fits all product based approach. In the futuristic connected world, insurers shall need to step into the shoes of financial advisories and only by staying ahead of the risk curve, can they offer adequate solutions to their new age clients.

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