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Managing Risk

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How AI Will Change the Risk Landscape

A new report from Swiss Re (“Tech-tonic Shifts: How AI could change industry risk landscapes”) studies the risk posed by AI to ten major industries. It also identifies the opportunities for insurers to help clients mitigate these risks.

One estimate suggests that generative AI, a sub-branch of AI, could alone add “between USD 2.6 trillion and USD 4.4 trillion” annually to the global economy. However, the report points out, AI is no different from other technologies: it can go wrong. It may fail against performance benchmarks; it may inadvertently perpetuate discrimination; it could be subject to malicious attack; or it will perhaps cause real world damages. Wherever there are opportunities – and the opportunities are huge – there will be risk.

The report ranks ten major industries in terms of exposure to AI risk both immediately and over the next ten years. Drawing on data and anecdotal examples, these are sectors where AI risk is currently most concentrated, both by frequency and severity; and where it may become more prevalent with time. Here are some highlights:

Technology: This sector should surprise no one given its role as the developer of AI systems.

Energy and Utilities: Risk here should be relatively low; even though any incident is likely to have a

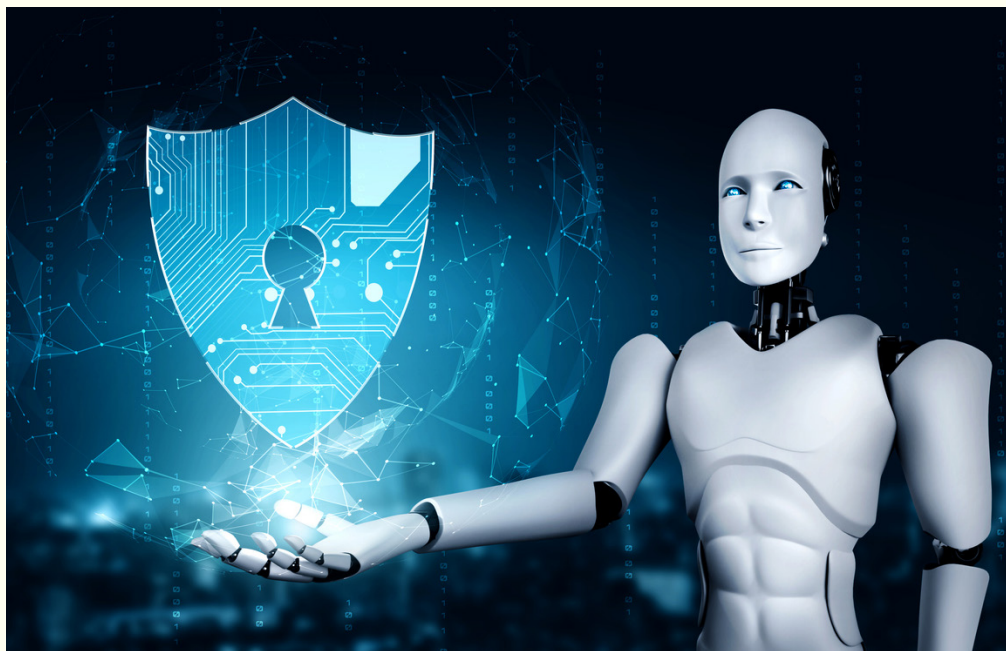
This Just In ...

Most commercial insurance lines are projected to enjoy stable to slightly increased pricing in 2024, says USI Insurance Services’ 2024 Property & Casualty Market Outlook. According to the Outlook:

- ✱ **Property:** Natural catastrophe (CAT) losses continue to increase by 5% to 7% annually. However, we expect a return to minimal valuation increases in 2024. As technology advances, artificial intelligence (AI) increases the chance of insurers automatically declining risks with algorithms rather than manual intervention. Finally, lender requests are creating major coverage challenges.
- ✱ **General/products liability:** We project flat to 5% rate increases. However, many organizations continue to switch to loss-sensitive programs despite rate moderation to further reduce their cost of risk.
- ✱ **Auto:** Virtually all providers of auto-liability insurance continue to push for rate increases. While new capacity continues to enter via telematics programs, traditional insurers have reduced capacity by exiting certain un-

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high severity. Frequency will increase as AI becomes more widely deployed in smart grids.

Media and communications: There is short-term exposure to intellectual property risk, reflecting the recent coming onstream of generative AI and the legal status of the use of copy-righted materials to train large language models (LLMs). As AI use becomes more common, the risks will be more disbursed over sectors.

Healthcare and Pharmaceuticals: AI risk to these industries is expected to be prominent due to a combination of 1) high frequency of potential incidents, given a high number of applications across the health value chain that could use AI; and 2) potentially high-severity losses (e.g., bodily injury, professional liability).

Here is how Swiss Re ranks AI risk exposure by industry right now and in the near future (estimated rank in ten years appears in parentheses).

- 1 (4) IT services
- 2 (3) Energy and utilities
- 3 (1) Health and pharma
- 4 (10) Other services (retail, hospitality, legal)
- 5 (2) Mobility and transportation
- 6 (7) Financial and insurance services
- 7 (6) Government and education
- 8 (8) Manufacturing
- 9 (5) Media and communications
- 10 (9) Agriculture, food and beverages

Long Term Outlook

Overall, risks relating to ethics, bias and pri-

This Just In

derperforming states.

- ✱ **Umbrella/excess:** We project that rate increases will be limited to 5% to 15%, and markets will offer increased limits of \$15M to \$25M.
- ✱ **Workers' compensation:** The rate and pricing environment in most states should continue to remain competitive in 2024 for both buyers of guaranteed cost and loss-sensitive programs, with rate reductions being more common than rate increases.
- ✱ **Cyber:** Ransomware and business email compromises (BEC) are becoming more interconnected as attackers can use compromised email accounts to initiate ransomware attacks, making the cyber threat landscape even more perilous. However, rates have been stable, with renewals flat to up 15%. We expect rates to remain the same in 2024.
- ✱ **Directors and officers (D&O):** We project that public company D&O rates will be flat to down 7.5% in the first half of 2024.

The full report is available at <https://tinyurl.com/2s479zpw>

vacy will be more prominent in the short term. As AI models are established, the danger is that existing flaws in data storage and analysis will become entrenched. Industries holding sensitive personal data — such as healthcare, finance or law — are particularly vulnerable. Longer term, performance risk will grow in importance. Assuming teething pains in creating AI models can be solved, performance risk will become the dominant risk category. This will be the case especially for closed-systems production, such as agriculture or manufacturing.

You can download a copy of AI and the industry risk landscape by Swiss Re here: <https://tinyurl.com/undj6wxp> ■

Good News, Bad News on EVs

According to a report by Mitchell, there are positives and negatives when comparing Electric Vehicles (EVs) and Internal Combustion Engine Vehicles (ICEs).



In Q1 2024, says the Report, electric vehicle (EV) repairable claims frequency rose to 2.26% in the United States and 3.41% in Canada, an increase of approximately 40% and 38% respectively over Q1 2023. Tesla price reductions late last year spurred precipi-

tous price drops throughout the EV segment. As a result, price parity between EVs and vehicles with an internal combustion engine (ICE) may be coming faster than previously predicted. For example, Cox Automotive reported that in the U.S. the “average transaction price

at the end of 2023 for a new EV was \$50,798, only \$2,040 more than a gas-powered vehicle at \$48,759”. That same rapid move towards price parity, however, also resulted in weakened consumer confidence in the financial viability of used EVs, with prices falling by more than 30% year over year versus a 3.6% decline for used ICE vehicles.

As EV values decrease, EV total loss frequency has increased. In the U.S., EVs were written off as a total (insurance) loss 9.93% of the time in Q1 2024 (up 8% from Q4 2023 and 30% from Q3 2023). Canadian EV total loss frequency was 7.48% last quarter (up 7% from Q4 2023 and 29% from Q3 2023). This dramatic rise brings EVs mostly in line with their newer ICE counterparts and, based on the latest claims data, there is no evidence that they are declared total losses at a significantly higher rate than ICE automobiles. In fact, gasoline-powered vehicles 2021 and newer had a similar total loss frequency last quarter — 9.51% in the U.S. and 7.44% in Canada.

EV Losses More Severe Than ICE Losses

When it comes to repairable vehicles, however, claims severity for EVs continues to exceed ICE automobiles. In Q1 2024, average severity

was \$6,066 for all EVs — including Tesla models — and \$4,703 for ICE vehicles in the U.S., a difference of \$1,363 or 29%. In Canada, average severity was \$6,810 (CAD) for all EVs and \$5,110 (CAD) for ICE alternatives, a difference of \$1,700 (CAD) or 33%.

The disparity between EVs and ICE alternatives is also evident when comparing mechanical labor hours present on estimates for repairable vehicles. The number of hours for EVs is significantly higher — 3.04 compared to 1.66. With the average mechanical labor rate for both the U.S. and Canada exceeding \$100 per hour, this additional time adds significant cost to EV repairs. The extra EV labor hours are likely due to the management of the high-voltage battery, which requires de-energization and often complete removal to protect it during collision repair and refinishing processes.

We would observe, says the Report, that slightly higher accident severity and higher labor costs are still significant factors making insurance for EVs higher.

Biggest Problem for EV Drivers Still Fear of Running out of Power

In terms of EV adoption, says the Report, range anxiety continues to be a barrier. However, greater access to more charging points can help allay the concerns of potential new EV buyers. In 2023, Canadian public charging ports increased by 30% and U.S. public charging ports increased by 22% over the previous year. Also influencing adoption is the cost of fuel. Several financial institutions and the U.S. Energy Information Administration raised their crude oil price targets for the second half of 2024—some expecting the average price per barrel to surpass \$100 by year end. If prices at the pump continue to rise, more consumers may again consider an EV for their next vehicle purchase, especially now that exorbitant EV premiums are seemingly a thing of the past, says the Report. ■

How to Create a Risk Management Plan

When we think of risk, the first thing that usually comes to mind is insurance. But insurance is just one component of a sound risk management plan.



A risk management plan includes insurance, plus all the other strategies you need for dealing with the risks associated with your business or organization.

The following steps outline the main components of a traditional risk management plan as practiced by professional risk managers all over the world. While large corporations follow this procedure, it works just as well for all sizes of organization. Even a one-person retail operation will find following

this procedure helpful for identifying, assessing and managing risks. (This version has been adapted from an article published by the Small Business Development Corporation of Australia):

1. Identify the risk. Some useful techniques include:

- ✱ Evaluating the functions of your business that could have a negative impact — for example, slips and falls in a store, harmful effects from a product you make, injuries to the public from your vehicles, etc.
- ✱ Reviewing your records such as safety incidents and complaints.
- ✱ Identifying the external risks that could impact your business (weather, city planning decisions, etc.). Some of the ways to accomplish this include asking yourself and your staff questions like “what if”:
 - you lost power
 - your premises were damaged or made inaccessible?
 - your suppliers went out of business?
 - there was a natural disaster in your area?
 - one of your key staff members resigned or was injured at work?
 - your computer system was hacked?
 - your business documents were destroyed?

2. Assess the risk. Next, assess each risk you've identified by establishing:

- ✱ the likelihood (frequency) of it occurring
- ✱ the consequence (impact) if it occurred

TIP: The level of risk is calculated using this formula: Level of risk = likelihood x consequence.

To determine the likelihood and consequence of each risk it is useful to identify how each risk is currently controlled.

Controls may include:

- ✱ elimination
- ✱ substitution
- ✱ engineering controls

- ✱ administrative controls
- ✱ personal protective equipment.

The risk analysis matrix below can help you to determine levels of risk. After you've assessed the risk, you need to determine how to:

3. Manage the risk. Managing risks involves developing cost effective options to deal with them including:

- ✱ avoiding
- ✱ reducing
- ✱ transferring (including insurance)
- ✱ accepting.

Avoid the risk — change your business process, equipment or material to achieve a similar outcome but with less risk.

Reduce the risk — if a risk can't be avoided, reduce its likelihood and consequence. This could include staff training, documenting procedures and policies, complying with legislation, maintaining equipment, practicing emergency procedures, keeping records safely secured and contingency planning.

Transfer the risk — transfer some or all of the risk to another party through contracting, insurance, partnerships or joint ventures.

Accept the risk — this may be your only option.

Once you've evaluated your risks, by identifying, assessing and determining the best ways to manage them with a risk management plan, frequently:

4. Monitor and review. You should monitor and review your risk management plan regularly and ensure that the control measures and insurance coverages you've provided are adequate. Discuss your risk management plan with your broker regularly. ■

Risk Management Evaluation Guidelines

Likelihood		Rare. The event may occur in exceptional circumstances. (Less than once in 2 years)	Unlikely. The event could occur at some time. (At least once per year)	Moderate. The event will probably occur at some time. (At least once in 6 months)	Likely. The event will occur in most circumstances. (At least once per month)	Certain. The event is expected to occur in all circumstances. (At least once per week)
Consequence		1	2	3	4	5
Negligible. No injuries. Low financial loss.	0	0	0	0	0	0
Minor. First-aid treatment. Moderate financial loss.	1	1	2	3	4	5
Serious. Medical treatment required. High financial loss. Moderate environmental implications. Moderate loss of reputation. Moderate business interruption.	2	2	4	6	8	10
Major. Excessive, multiple long term injuries. Major financial loss. High environmental implications. Major loss of reputation. Major business interruption.	3	3	6	9	12	15
Fatality. Single death.	4	4	8	12	16	20
Multiple fatalities. Multiple deaths and serious long term injuries.	5	5	10	15	20	25

Risk rating	Risk priority	Description
0	N	No risk: The costs to treat the risk are disproportionately high compared to the negligible consequences.
1 – 3	L	Low risk: May require consideration in any future changes to the work area or processes, or can be fixed immediately.
4 – 6	M	Moderate: May require corrective action through planning and budgeting process.
8 – 12	H	High: Requires immediate corrective action.
15 – 25	E	Extreme: Requires immediate prohibition of the work process and immediate corrective action.



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