

Insurance Buyers' News



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Emerging Risk

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Underwriting Challenges for Emerging Risks in 2025

As global industries evolve, insurers face increasing challenges in underwriting emerging risks. Traditional risk assessment models struggle to keep pace with new threats, requiring insurers to adopt data-driven strategies, AI-powered analytics, and innovative policy structures. Below, we explore key emerging risks and the underwriting challenges associated with each.

1. Cybersecurity & Data Privacy Risks

With cyberattacks growing in frequency and sophistication, insurers must navigate uncertain loss projections and rapidly evolving threats. Challenges include:

- ✳ **Lack of historical data** – Unlike natural disasters, cyber risks evolve unpredictably, making it difficult to price policies accurately.
- ✳ **Expanding attack surfaces** – The rise of cloud computing, IoT devices, and AI-driven cyber threats complicates underwriting models.

- ✳ **Regulatory uncertainty** – Governments worldwide are tightening data protection laws, increasing liability risks for businesses.

Example:

In 2024, cyber insurers faced record-high ransomware claims, forcing them to increase premiums and tighten coverage terms.

2. Climate Change & Catastrophe Risks

Extreme weather events—such as wildfires, hurricanes, and flooding—are becoming more frequent, making traditional underwriting models less reliable. Challenges include:

- ✳ **Unpredictable loss severity** – Climate change is intensifying disasters, leading to higher claims payouts.
- ✳ **Reinsurance volatility** – Insurers struggle to secure

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Commercial Insurance Rates Stabilizing in 2025, but Some Industries Face Challenges

After several years of sharp premium increases, the commercial insurance market is expected to experience rate stabilization in 2025, according to AM Best. While insurers have faced economic volatility, rising claims costs, and evolving risk landscapes, strong underwriting performance and risk-adjusted pricing strategies have contributed to a more stable outlook for the industry.

Key Factors Driving Rate Stabilization

- ✳ **Improved underwriting discipline** – Insurers have refined their pricing models, leading to more predictable premium adjustments.
- ✳ **Moderate pricing gains** – While some industries may still see modest price hikes, overall rate increases are expected to be less severe than in previous years.
- ✳ **Economic resilience** – Growth in net premiums written has been supported by strong economic perfor-

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affordable reinsurance, increasing costs for policyholders.

- ✳ **Geographic concentration risks** – Certain regions, like California and Florida, face coverage restrictions due to repeated losses.

Example:

The Southern California wildfires in late 2024 resulted in \$75 billion in insured losses, prompting insurers to raise deductibles and limit coverage for fire-prone areas.

3. Supply Chain Disruptions

Global supply chains remain vulnerable to geopolitical instability, pandemics, and trade restrictions, creating underwriting challenges such as:

- ✳ **Complex risk dependencies** – Insurers must assess interconnected risks across multiple industries.

- ✳ **Limited historical data** – Traditional models fail to predict modern supply chain failures caused by AI-driven automation and global conflicts.
- ✳ **Parametric insurance adoption** – Businesses are exploring parametric policies to secure faster payouts for disruptions.

Example:

In 2025, automotive manufacturers faced record delays due to semiconductor shortages, leading insurers to reassess business interruption coverage.

4. AI & Automation Risks

The rise of AI-driven decision-making introduces new liability concerns, including:

- ✳ **Algorithmic bias lawsuits** – Insurers must evaluate legal risks associated with AI-driven hiring, lending, and healthcare decisions.
- ✳ **Unclear liability attribution** – When AI systems fail, determining who is responsible remains a challenge.
- ✳ **Regulatory gaps** – Governments are still developing AI governance frameworks, leaving insurers with uncertain risk exposure.

Example:

In 2024, a major financial institution faced lawsuits over AI-driven loan discrimination, prompting insurers to redefine liability coverage for AI-related claims.

5. ESG & Sustainability Compliance

Environmental, Social, and Governance (ESG) regulations are reshaping corporate risk profiles, creating underwriting challenges such as:

- ✳ **Evolving compliance standards** – Insurers must continuously update policy terms to align with new ESG mandates.

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mance, helping insurers maintain profitability.

Industries Facing Continued Rate Pressures

Despite the stable outlook, certain sectors may still experience higher premiums, including:

- ✳ **Commercial auto insurance** – Due to rising claims severity and social inflation, rates remain under pressure.
- ✳ **Directors & Officers (D&O) liability** – Increased litigation risks continue to drive higher pricing.
- ✳ **Property insurance** – Catastrophe-exposed regions may see continued premium increases due to climate-related risks.

Overall, while rate stabilization is a positive development for businesses, insurers remain cautious about emerging risks and market uncertainties.

- ✳ **Greenwashing risks** – Companies falsely claiming sustainability efforts may face legal action, increasing liability exposure.
- ✳ **Investment volatility** – ESG-focused businesses may experience financial instability, affecting insurance pricing models.

Example:

In 2025, insurers began excluding coverage for companies failing ESG audits, signaling a shift toward stricter underwriting criteria.

Final Thoughts

Emerging risks require insurers to adapt underwriting models, leverage AI-driven analytics, and explore alternative risk transfer mechanisms like parametric insurance. As industries evolve, insurers must balance innovation with financial sustainability, ensuring businesses receive adequate protection in an increasingly complex risk landscape. ■

How Climate Disasters Are Reshaping Insurance Terms and Risk Assessment Across Industries



The Impact of Climate Disasters on Insurance Policies

The past six months have seen devastating climate-related disasters, including the Southern California wildfires and Hurricane Helene's inland flooding in North Carolina. These catastrophic events have forced insurers to tighten terms for weather-related risks, leading to higher deductibles, stricter coverage limits, and evolving underwriting strategies.

Industries such as commercial real estate, agriculture, transportation, and energy are feeling the brunt of these changes as insurers look to mitigate financial exposure.

How Insurance Terms Are Changing Across Industries

1. Commercial Real Estate

Businesses that own office buildings, retail spaces, and warehouses are facing:

- ✳ **Higher deductibles for flood and fire coverage**, making disaster recovery more costly.
- ✳ **Reduced wind and hail damage coverage**, especially in coastal regions and storm-prone states.
- ✳ **Strict policy renewals**, as insurers reassess risk models based on climate vulnerability.

Example: In wildfire-prone areas of California, some commercial property owners are seeing insurance rates double or facing non-renewals, forcing them to turn to state-backed insurance programs.

2. Agriculture & Food Supply Chain

Farmers and food producers face increasing risks from droughts, hurricanes, and heat waves. Insurance changes include:

- ✳ **Parametric drought policies**, where payouts are based on rainfall levels.
- ✳ **Stricter crop insurance terms**, requiring better soil and irrigation management to maintain coverage.
- ✳ **Higher premiums for storm-related losses**, especially for livestock and grain storage.

Example: Saudi Arabia's agricultural sector is adopting parametric heat insurance, helping farmers mitigate financial losses from extreme temperatures.

3. Transportation & Logistics

Shipping companies and freight operators are seeing:

- ✳ **Limited coverage for weather disruptions**, such as storm-related cargo delays.
- ✳ **Higher premiums for vehicles operating in flood-prone regions**.
- ✳ **Requirements for real-time tracking systems**, improving insurers' ability to assess risk.

Example: Nationwide Insurance is testing hail-

storm alerts for trucking fleets, helping businesses avoid costly damage claims.

4. Energy & Infrastructure

Oil, gas, and renewable energy sectors face heightened scrutiny over climate risks. Insurance adjustments include:

- ✱ **Rising costs for wind farms and solar projects**, as extreme weather threatens infrastructure.
- ✱ **Limited wildfire coverage for power companies**, forcing utilities to explore parametric models.
- ✱ **Stricter requirements for grid resilience**, with insurers mandating backup systems for critical infrastructure.

Example: Swiss Re is using AI-powered predictive analysis to help energy firms adjust policy pricing based on climate projections.

AI-Powered Risk Assessment and Predictive Analytics

Insurance companies are increasingly adopting AI-driven underwriting tools to improve risk prediction and policy pricing. These technologies help:

- ✱ **Analyze climate data** to assess long-term risk exposure.
- ✱ **Identify vulnerable properties using satellite imagery**.
- ✱ **Automate claims processing**, reducing fraud and administrative burdens.

Examples of AI in Insurance

- ✱ **Kettle**, an insurtech firm, uses AI to predict wildfire risks and adjust coverage terms.
- ✱ **Raincoat** is developing parametric hurricane insurance using AI-driven weather tracking.
- ✱ **NTT Data's analytics solutions** help insurers assess the probability of flooding and severe storms affecting businesses.

The Growing Appeal of Parametric Insurance

As traditional insurance becomes more restrictive, parametric insurance is emerging as a viable alternative for businesses facing climate uncertainties.

Why Businesses Are Embracing Parametric Models

- ✱ **Faster Payouts** – Companies receive immediate financial relief after disasters.
- ✱ **Lower Administrative Costs** – Eliminates complex claims investigations.
- ✱ **Improved Predictability** – AI-powered models help insurers price policies more accurately.

Understanding Parametric Insurance: A Game-Changer for Business Owners

What Is Parametric Insurance?

Parametric insurance is a modern approach to risk management that provides predefined payouts based on measurable events rather than traditional claims assessments. Unlike conventional insurance, which requires damage evaluation and lengthy claims processing, parametric insurance triggers automatic payments when specific conditions—such as earthquake magnitude, rainfall levels, or wind speed—are met.

For example, if a hurricane reaches a certain wind speed, a business with parametric coverage receives an immediate payout, regardless of actual damage assessments. This fast-tracked financial relief helps businesses recover quickly without waiting for adjusters and paperwork delays.

Why Is Parametric Insurance Important?

Current Significance

- ✱ **Rapid Disaster Recovery** – Businesses affected by natural catastrophes receive instant financial support, reducing downtime.
- ✱ **Predictable Payouts** – Since payments are predefined, policyholders know exactly what to expect.
- ✱ **Reduced Administrative Burden** – Eliminates complex claims investigations, making the process efficient and transparent.

Future Impact

- ✱ **Climate Change Adaptation** – As extreme weather events become more frequent, parametric insurance will play a critical role in resilience planning.
- ✱ **Expansion Beyond Natural Disasters** – Future applications may include cyber risks, supply chain disruptions, and pandemic-related losses.
- ✱ **Integration with AI & Big Data** – Advanced analytics will refine risk modeling, making policies more precise and cost-effective.



Examples of Parametric Insurance in Action

Saudi Arabia's Growing Adoption

Saudi Arabia is embracing parametric insurance to protect businesses from climate-related risks. With economic expansion and infrastructure development, companies are using weather-based para-

metric policies to safeguard against sandstorms, extreme heat, and flooding.

Other Global Applications

- ✱ **Agriculture** – Farmers use parametric insurance to cover crop losses due to drought or excessive rainfall.

- ✱ **Energy Sector** – Power companies insure against grid failures caused by extreme weather.
- ✱ **Hospitality & Tourism** – Hotels mitigate revenue losses from weather-related cancellations.
- ✱ **Transportation & Supply Chain** – Businesses can secure parametric coverage for disruptions due to natural disasters or other unforeseen events.

How Business Owners Can Benefit

Immediate Advantages

- ✱ **Faster Payouts** – No need for damage assessments, ensuring quick financial recovery.
- ✱ **Customizable Coverage** – Businesses can tailor policies to specific risks, such as wildfires, cyberattacks, or supply chain disruptions.
- ✱ **Cost Efficiency** – Reduces administrative expenses compared to traditional insurance models.

Future Opportunities

- ✱ **AI-Driven Risk Analysis** – Businesses will soon access real-time risk assessments, optimizing coverage.
- ✱ **Industry-Specific Policies** – Expect custom parametric solutions for sectors like manufacturing, logistics, and retail.
- ✱ **Government & Private Sector Collaboration** – Public-private partnerships may expand affordable parametric insurance options.

Final Thoughts

Parametric insurance is revolutionizing risk management, offering speed, transparency, and predictability. As businesses face climate risks, economic uncertainties, and emerging threats, adopting data-driven insurance solutions will be essential for resilience and financial stability. ■

Why You May Need Additional Insured Coverage and How to Obtain It

Standard liability insurance may not fully protect a business if it is found vicariously liable—meaning it is held responsible for damage or injury caused by contractors or partners working on its behalf. Additional insured coverage ensures that your company is covered under another party's insurance policy, preventing direct liability exposure.

There are two main ways to secure this protection:

- ✱ Contractual Indemnity – Your contract requires the other party to cover liability costs arising from joint operations.
- ✱ Additional Insured Endorsement – The contractor adds your company to its liability policy, offering direct coverage.

Courts often favor additional insured endorsements over contractual indemnity, as indemnity clauses can create unfair bargaining situations

for subcontractors.

Certificates of Insurance & Policy Considerations

Businesses typically request a certificate of insurance to verify additional insured coverage. However, this certificate is not binding, and the policy owner can cancel coverage without notice. For high-risk projects, businesses should require an endorsement that mandates insurer notification before cancellation.

Considerations for Subcontractors

Subcontractors facing frequent requests for additional insured endorsements can simplify the process with a blanket additional insured endorsement. This automatically applies coverage to all contractual agreements, though it limits protections—coverage may end once work is completed, leaving gaps in liability protection.



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