BEST'S REVIEW® ISSUES & ANSWERS:

• Specialty Coverage

• ESG

Experts discuss how specialty lines insurers cover unique, high risks not accommodated in the standard markets. Also, there's a look at how ESG scores are being incorporated into rating and underwriting decisions.

Interviewed Inside:

Seth Rachlin
Capgemini

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Climate of Change

Seth Rachlin, EVP, Global Insurance Leader for Capgemini, said he's been noticing a move toward the incorporation of ESG scores as factors in rating and underwriting decisions. "Look for a lot more of that going forward because I think that's absolutely the way of the future," he said. Following are excerpts from an interview.

What are the major challenges that insurers face due to climate change and how are they tackling them?
The major challenge is a simple one, that is, the increasing frequency and severity of climate events—the hurricanes, the wildfires, the flooding, other natural disasters, making insurance more expensive. They are creating insurability issues for insurers who may be moving out of certain areas because of the risk that's involved in writing the insurance there. They're forcing policyholders to work harder to find insurance and also to get value out of that insurance. It's creating an insurance climate crisis that in some ways mirrors and reflects the broader crisis, the broader climate crisis.

Are policyholders fully aware of climate-related risks?
They are. Our research shows that policyholders rated the pandemic as the biggest risk that they saw in their lives. Climate was a close second. That's a significant and an important finding. The challenge is that they don't necessarily know enough—enough about what they can do to protect their homes from wildfire, enough about what they can do to make their roofs more stable and more secure. That's really the opportunity for insurers, to become their expert partners in risk mitigation and helping them prepare to weather the storm, as it were.

How can insurers lead when it comes to sustainable underwriting and investment practices?
It's an evolution. Insurers have both a carrot and a stick when it comes to climate activity. The carrot is all of the incentives that we can provide to enable people to better be prepared for risk. The stick is a little bit the underwriting and investment piece. It's about the choices that insurers make when it comes to climate behavior, particularly on the part of corporate citizens. On the commercial lines side, there are huge opportunities to reward companies that do the right thing from an environmental sustainability perspective and to effectively punish, in higher rates or in underwriting decisions, those companies that don't take those steps.

Seth Rachlin
EVP, Global Insurance Leader
Capgemini

"It's about understanding the mission, and the mission being to keep insurance an affordable and high-value product for customers."

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What are the key steps that insurers need to take to embed climate resiliency into their strategy?
Step one is to make it somebody's job. Not every insurer that we interviewed for the report has a chief sustainability officer. That is a C-suite role. It's absolutely critical to have that person on board, coordinating and orchestrating the response. Step two is to get a whole lot smarter with data. I talked earlier about the possibilities that the world of climate data, the world of satellite and visual imagery provide as a way of better understanding risk and better working with customers to change and manage it. Finally, it's about the customer perspective. It's about understanding the mission, and the mission being to keep insurance an affordable and high-value product for customers. That's where I think a lot of innovation is going to come in the future.

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