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European flooding to cost insurers up to $7.4B and protection gap remains wide

Article

The news: Catastrophe risk modeling firm RMS forecast that the losses to insurers from July's extreme flooding across Western and Central Europe will be in the range of **€5 billion**

($5.7 billion) to €6.5 billion ($7.4 billion), per Artemis. **This would make the insured losses one of the costliest flood-related events in European history.**

Flood insurance gap: The flood protection gap in Europe means that a large proportion of economic losses will be uninsured, which highlights the devastating wider impact of the flooding beyond the insurance industry.

A combination of climate change increasing the severity and frequency of extreme weather events like flooding and the relatively high cost of traditional flood insurance caught policyholders and insurers flat-footed in Europe.

What does this mean for the insurance industry? As devastating disasters like July's flooding become more common, policyholder awareness of the need to take out protection will grow—this presents an opportunity for innovative insurers to scoop up premiums. Some incumbents seem to have reacted to this critical demand: **SwissRe** rolled out a new flood product that aims to close this gap with flexible coverage.

The role of insurtechs: Incumbent insurers are currently ill-equipped to offer the comprehensive and affordable flood insurance that policyholders now need, and partnering with or acquiring innovative insurtechs could be key to meeting demand.

Insurtech partnerships can help insurers both proactively mitigate the impact of floods and offer more affordable premiums—**all the more salient given that recent events might drive up prices for policyholders due to increased risk.**

- **Flood forecasting.** UK-based insurtech **Previscio** uses its flood forecasting technology to model flood risks in real time and send actionable alerts and warnings to affected areas and policyholders. This lets insurers and policyholders take action ahead of time.
- **Lower premiums.** UK-based insurtech **FloodFlash** offers policyholders cheaper prices by agreeing on a set payout based on the depth and damage caused by any flooding, which is measured by smart sensors installed at each insured property. This removes the uncertainty of future payouts—traditionally the main reason insurers charge higher premiums for flood insurance.

Most Important Global Business Risk Factors According to Executives Worldwide, Nov 2020

% of respondents

	2020	2021
Business interruptions (including supply chain disruption)	37%	41%
Pandemic outbreak (e.g., health and workforce issues, restrictions on movement)	3%	40%
Cyber incidents (e.g., cyber crime, IT failure/outage, data breaches, fines, and penalties)	39%	40%
Market developments (e.g., volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	21%	19%
Changes in legislation and regulation (e.g., trade wars and tariffs, economic sanctions, protectionism, Brexit, Euro-zone disintegration)	27%	19%
Natural catastrophes (e.g., storm, flood, earthquake, wildfire)	21%	17%
Fire, explosion	20%	16%
Macroeconomic developments (e.g., monetary policies, austerity programs, commodity price increase, deflation, inflation)	11%	13%
Climate change/increasing volatility of weather	17%	13%
Political risks and violence (e.g., political instability, war, terrorism, civil commotion, riots and looting)	9%	11%

Note: n=2,769
Source: Allianz, "Allianz Risk Barometer 2021," Jan 27, 2021

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