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The Protection Gap: Climate Risk and Insurance

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*Navigating
the Future*



The Protection Gap: Climate Risk & Insurance

Association of California Water Agencies



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The Challenge

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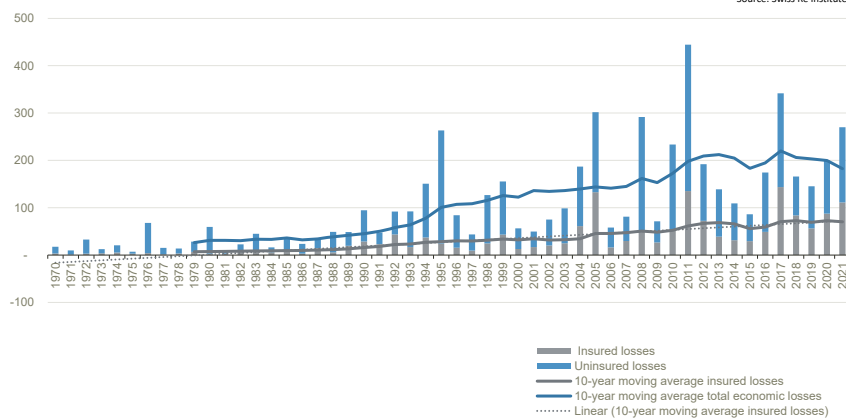
The Protection Gap

Economic Losses are outpacing Insured Losses

Insured vs uninsured losses

1970-2021, in USD billion at 2021 prices

Source: Swiss Re Institute



70%
of economic losses
globally from
natural disasters
have gone
uninsured in the
last decade

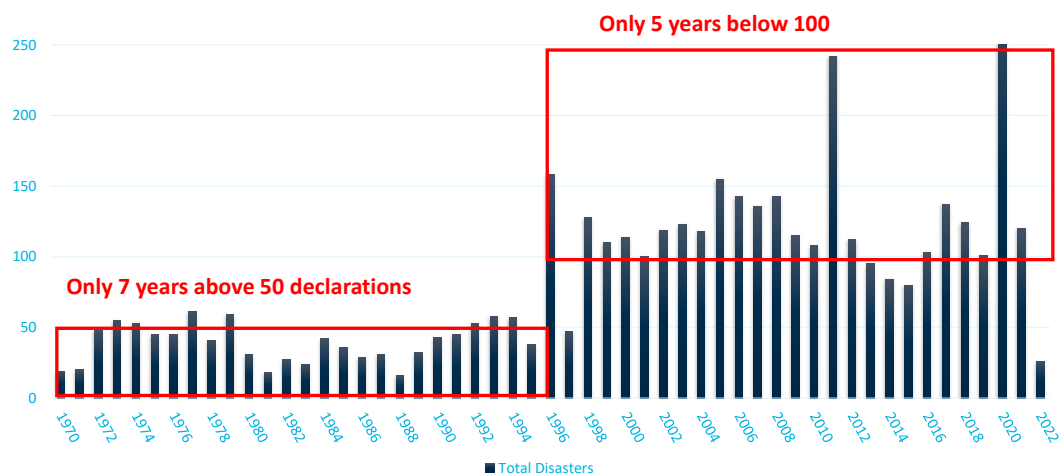
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Disasters Have Tripled Since in the 1970s

FEMA Disaster Declarations – 1970 – 2022 (YTD)



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The Risk Landscape is Changing



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By the Numbers

- In 2021, the US had twenty \$1 billion weather disasters, second highest on record.
- The 1980-2021 annual average of \$1B events was 7.7 events (CPI-adjusted). The annual average for the most recent five years is 17.8 events.
- Firefighting expenses have tripled in 20 years. In 1995, firefighting expenses made up 16% of the Forest Service budget. A decade later, it was more than half.
- OMB predicts suppression costs could increase to between \$1.55 to \$9.6 billion annually by the end of the century.
- According to NOAA, the US suffered \$145B of economic damage from climate events in 2021. If this was part of the actual federal budget, it would be the largest non-defense discretionary budget item.

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Parametric Solutions

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What is Parametric Insurance?

- Solutions are based on pre-defined event triggers, such as windspeed, ground shaking or river height and provide rapid funds according to the intensity of the event at agreed locations.
- If event occurs and meets or exceeds the trigger, the solution pays according to the intensity and agreed payout function.
- After event, the Insured follows a simplified “proof of loss” process which certifies that actual financial impacts exceed or are equal to the payout amount.
- There is no monetary deductible.



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Key Benefits of Parametrics

Rapid Payout

As the structures are generally settled on near real-time public data, the payments can be issued very quickly.

- In most cases, payments are made in less than 30 days.

Flexibility

As the contract ensures the event/circumstance, the policy can cover nearly any economic loss.

- Cover the loss of revenue or taxes, even without physical damage.
- Coverage for almost any economic losses, including loss of revenue, even without physical damage
- Cover underinsured or uninsurable risk
- Post-event emergency costs and repairs
- Asset and equity protection, debt servicing costs

Transparency

Using pre-defined triggers and public data allows transparency for both the Insured and Insurer.

- Data used to settle contracts is collected predominantly from governmental sources and reported in near real-time
- No adjustment challenges post-event

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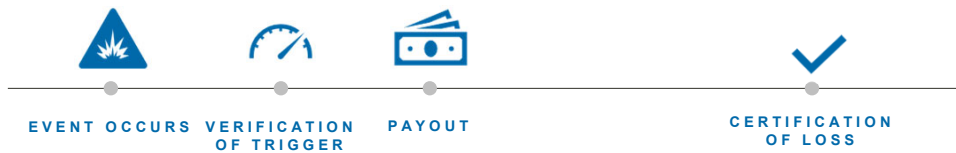
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Comparing Processes

With parametric insurance, the claim and settlement process is dramatically simplified.

Parametric insurance



Indemnity based insurance



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Natural Hazards

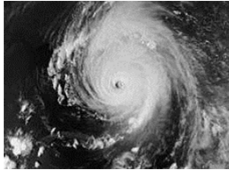
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Natural Hazard Protection

There are many variations of each peril based on the risk profile



Tropical Storm



Earthquake



Precipitation/
excess rainfall



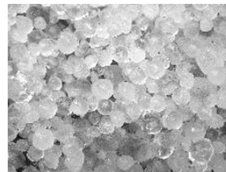
Temperature



Wildfire



Drought/
lack of rainfall



Hail



Snowfall (too
much/too little)

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Contact us for more information

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