New world + new risks = new approach

Guy Carpenter's Julian Enoizi examines the vital role the industry can play in enabling government entities to de-risk their balance sheets through both better risk management and efficient risk transfer

The ravages of a global pandemic, the creeping consequences of climate change and the outbreak of conflict in Europe have all exposed the fragility and inadequacies of our current risk management models.

Today's macro-level risks demand a new approach that recasts the roles of public and private actors as complementary partners in a new risk management paradigm. The World Economic Forum recently called it a "new societal risk compact", and the insurance industry needs to play a core role.

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In the decade preceding the financial crisis, global insurance markets grew generally in line with GDP. However, since then, world GDP has outpaced insurance premium growth by a wide margin. Combined with a stark increase in risk exposures, these factors have led to the broadening of the protection gap, which must be closed.

Covid-19 pushed the theme of systemic risk to the forefront. Unfortunately, for many observers "systemic" could just as easily be replaced with the word "uninsurable" since many of the risks we face today – climate change, catastrophic cyber attack and human communicable disease – all defy the principle on which our industry was built: that the premiums of the many will pay for the losses of the few. The focus of both governments and insurers, therefore, needs to be on holistic risk reduction.

The UK government recently acknowledged these systemic challenges and proposed a whole-of-society approach – including the insurance sector's deep expertise in risk mitigation, modelling and risk pricing – as the underpinning of a comprehensive national resilience strategy. In response, Guy Carpenter, in conjunction with others, established the Resilience UK initiative, which seeks to design insurance solutions that incentivise risk mitigation and allow the government to concentrate its liquidity post-event if the industry's own pooled capacity is exhausted.

In the US, innovative insurance schemes are being tested that blend the de-risking effects of pooling with the efficiency gains of parametrics to create community-wide programs whose lowered costs can then finance risk-reduction interventions. The G7's recent Global Shield announcement expressly calls for public-private approaches to incentivising and reducing climate risks. Public sector risk pools are increasingly leveraging private sector capital. Anticipatory finance is emerging as a hyper-effective means of deploying blended capital to fund targeted and timely risk-reduction interventions. New technologies – as well as nature's older tricks – are being combined with risk incentives to protect communities and reduce the protection gap.

This "new societal risk compact" is happening, just not fast or broadly enough. At Guy Carpenter, and across Marsh McLennan, we have developed end-to-end solutions combining our strategic advisory, risk mitigation and transactional capabilities to provide comprehensive support for government entities seeking to de-risk their balance sheets through both better risk management and efficient risk transfer. Advising on and designing these solutions is our specialty – pre- or post-funded, risk socialisation or mutualisation, and how to encourage take-up and avoid moral hazard. We are proud to be part of a purpose-driven business and are ready to meet today's challenges.

Julian Enoizi, Global Head Public Sector, Guy Carpenter