

WeDapt

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The WeDapt Insurance Newsletter

Premier source for expert financial analysis, strategic solutions, and industry-leading actuarial advice.

FEATURED INSIDE



CLIMATE RISK & ITS IMPACT ON INSURANCE INDUSTRY



BIMA BHAROSA PLATFORM



LATEST INDUSTRY UPDATES & KPIs'

1. *Multiple climate tipping points could lead to systemic risks that could intersect and create cascading impacts like emerging diseases, food insecurity, water security risks and extreme heat stress.*
2. *Setting appropriate reserves for potential climate-related catastrophes is critical, requiring an assessment of the likelihood and impact of such events to ensure that reserves are adequate.*
3. *Bima Bharosa incorporates a smart workflow system that sets up alerts for tasks approaching their turnaround times.*



Data has been collected from publicly available sources, which include the companies' disclosures and business presentation, newspaper articles, IRDAI website, Central Board of Direct Taxes and other relevant public records.

CLIMATE RISK AND ITS IMPACT

Introduction



KEY TAKEAWAYS

- ❖ Climate change is significantly reshaping the insurance industry.
- ❖ Driving changes in underwriting, investment strategies, and regulatory compliance.
- ❖ Insurers are shifting towards sustainable investments.
- ❖ Regulatory requirements for climate risk disclosure are tightening.

Climate risk refers to the potential adverse effects of climate change on various sectors, including the insurance industry. These risks can be broadly categorized into physical risks, which arise from direct impacts of climate change, and transition risks, which stem from shifts in policies, technologies, and market dynamics aimed at mitigating climate change.

Physical risks from climate change refer to the potential damage and disruptions caused by extreme weather events (acute risks) like hurricanes and floods, as well as long-term changes (chronic risks) such as rising sea levels and shifting climate patterns. These risks can impact asset values and operational stability over time.

Transition risks are the financial and operational challenges arising from adjustments to mitigate climate change, including regulatory changes, technology disruptions, and shifts in market preferences towards sustainability.



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CLIMATE RISK AND ITS IMPACT ON INSURANCE INDUSTRY

1. Underwriting and Pricing

Climate change is driving significant changes in underwriting and pricing strategies due to the increased frequency and severity of extreme weather events. Insurers must adjust their pricing models to reflect heightened risks, which often requires developing advanced actuarial models that incorporate new climate scenarios. Traditional data models may fall short in capturing these evolving risks, leading to a greater need for innovative insurance products like parametric insurance and catastrophe bonds. These developments help insurers better manage the financial impact of climate-related claims and align with the changing risk landscape.

2. Investment Strategies

Climate risks are reshaping investment strategies within the insurance industry. Asset valuations are increasingly affected by environmental changes, especially in sectors like real estate that are vulnerable to climate impacts. Insurers are increasingly focusing on sustainable investments and incorporating ESG (environmental, social, and governance) criteria into their portfolios to align with regulatory expectations and stakeholder demands. This shift helps mitigate investment risks and respond to evolving market requirements, aiming for better long-term returns and reduced exposure to climate-related financial risks.

3. Regulatory and Reporting Requirements

Regulatory and reporting requirements for climate risk are becoming more stringent, with bodies like the TCFD and SFDR setting new standards. Insurers are required to disclose climate-related risks and their impacts on financial statements, which necessitates more detailed and transparent reporting. Additionally, regulators may impose capital requirements to ensure insurers have adequate reserves for potential climate-related losses. Compliance with these evolving regulations is crucial for maintaining financial stability and meeting regulatory expectations in a changing climate.

4. Operational Impacts

Climate risk significantly affects operational processes in the insurance industry. Insurers need to integrate climate risk into their risk management frameworks, establishing comprehensive strategies for risk identification, assessment, and mitigation. Regular scenario analysis and stress testing are essential to evaluate potential impacts on operations and financial stability. Additionally, insurers must enhance claims management processes and disaster response strategies to handle the increasing volume and complexity of climate-related claims, ensuring resilience and effective response to climate events.

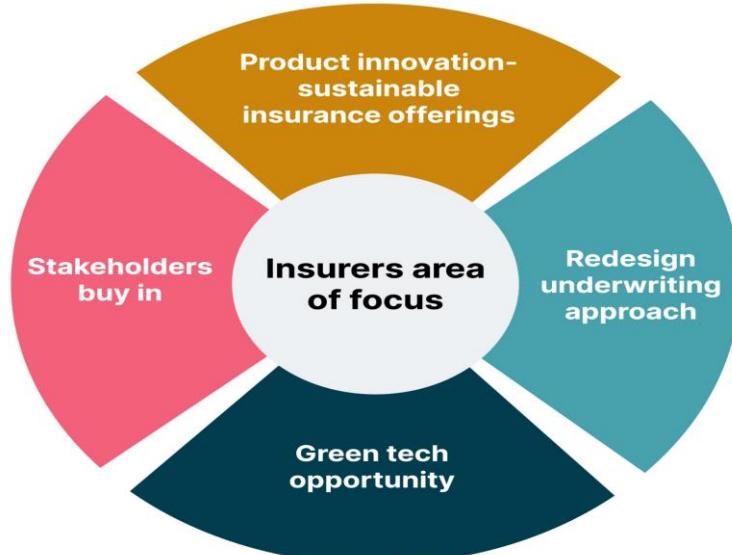


ACTUARIAL IMPACT ON CLIMATE RISK

RISK ASSESSMENT AND MODELLING: Actuaries are pivotal in climate risk assessment, requiring the integration of detailed climate scenarios into risk models for accurate future impact projections. High-quality climate data and collaboration with meteorologists are essential for precise modelling. This approach enhances risk estimation and supports informed decision-making processes.

PRICING AND RESERVING: Actuarial teams must adjust pricing models to reflect increased climate risks, developing new strategies or products tailored to these evolving conditions. Accurate pricing requires updating premiums to match the heightened risk environment. Additionally, setting adequate reserves for potential climate-related catastrophes is crucial, necessitating thorough assessment of event likelihood and impact.

COMMUNICATION & REPORTING: Effective climate risk communication and reporting are vital for transparency and stakeholder trust. Actuarial teams must ensure accurate disclosures in line with TCFD and other regulations, and actively engage with investors, regulators, and customers to convey risk exposures and management strategies. This approach fosters credibility and strengthens stakeholder relationships.



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MEASURES TO ADDRESS CLIMATE RISK

❖ RISK MITIGATION STRATEGIES:

Insurers need to refine underwriting guidelines to include climate risk factors such as flood and wildfire zones, while also diversifying investments to minimize exposure to vulnerable sectors. Investing in sustainable assets further aligns with market trends and regulatory expectations.

❖ INTEGRATION INTO RISK MANAGEMENT:

Incorporating climate risk into risk management frameworks involves setting up detailed guidelines for risk identification and mitigation. Regular stress testing and scenario analysis are crucial for assessing the impact on operations and ensuring better preparedness.

❖ COLLABORATION AND INNOVATION:

Managing climate risk effectively requires collaboration with industry peers and regulators to develop best practices and innovative solutions. Investing in new insurance products and advanced risk modelling techniques enhances resilience against emerging climate risks.

❖ REGULATORY COMPLIANCE:

Insurers must stay compliant with evolving climate risk disclosure and capital requirements by actively engaging with regulators. Contributing to the development of regulatory frameworks ensures effective management of climate risks and aligns with current standards.

By addressing these areas, insurers can better understand and manage the impacts of climate risk, ensuring resilience and adaptability in a rapidly changing climate landscape.

KEY TAKEAWAYS



Insurers must update underwriting guidelines to include climate risk factors and diversify investments towards sustainable assets to mitigate financial impacts.

Establish comprehensive frameworks with regular stress testing and scenario analysis to proactively manage and prepare for climate risks.

Engage with industry peers and regulators to develop best practices and ensure adherence to evolving climate risk disclosure and capital requirements.



EFFECTS ON LIFE INSURANCE COMPANIES

TEMPERATURE EXTREMES AND VOLATILITIES:

Temperature extremes and fluctuations significantly impact health risks, with increasing heat spells and temperature volatility contributing to adverse health effects. While higher temperatures may reduce cold-related morbidity and mortality, the overall impact on health is complex. For life insurers, the combination of more frequent extreme heat events and potential reductions in cold weather deaths presents both challenges and opportunities in risk assessment and management.

EXTREME PRECIPITATION:

Extreme precipitation events, including flash floods and flash droughts, are becoming more common and severe due to climate change. These events pose significant health risks, from immediate hazards like flooding to long-term issues such as water scarcity. The increased frequency and intensity of these events require insurers to account for their impacts on morbidity and mortality in their risk models.

EXTREME EVENTS:

Extreme precipitation events, including flash floods and flash droughts, are becoming more common and severe due to climate change. These events pose significant health risks, from immediate hazards like flooding to long-term issues such as water scarcity. The increased frequency and intensity of these events require insurers to account for their impacts on morbidity and mortality in their risk models.

MORBIDITY AND MORTALITY:

Climate change intensifies health risks through extreme weather events, causing immediate injuries and long-term conditions such as cardiovascular, respiratory diseases, and cognitive impairments. The broader impacts, including food insecurity and worsening mental health, contribute to underreported morbidity and mortality. These long-term effects can lead to premature deaths and increased health burdens. Addressing these risks requires comprehensive understanding and adjustment in health and insurance strategies.



Bima Bharosa

IRDAI Grievance Redressal Mechanism

BIMA BHAROSA PLATFORM – REVOLUTIONIZING INSURANCE GREIVANCE MANAGEMENT

Introducing Bima Bharosa, IRDAI's cutting-edge solution launched in 2022 to serve as an online platform for grievance redressal of insurance policyholders. More than just a repository, it is a dynamic monitoring system designed to empower policyholders and enhance service accountability. Policyholders who have grievances should register their complaints with the Grievance Redress Channel of the Insurance Company first. If policyholders are not able to access the insurance company directly for any reason, Bima Bharosa Portal provides a gateway to register complaints with insurance companies

ENHANCING CUSTOMER SATISFACTION:

The primary aim of Bima Bharosa is to significantly enhance customer satisfaction by offering a unified platform for grievance redressal. This platform is engineered to simplify and accelerate the complaint resolution process, ensuring that policyholders have a seamless experience in addressing their issues.

STREAMLINING GRIEVANCE HANDLING:

By integrating multiple grievance redressal mechanisms into a single platform, Bima Bharosa addresses complaints from policyholders and other stakeholders effectively. This approach helps in managing a wide range of insurance-related issues in a standardized manner, reducing complexity and improving overall service delivery.

BUILDING CONFIDENCE AMONG INSURERS:

Bima Bharosa aims to build confidence among insurers by providing a transparent and efficient grievance redressal platform. By streamlining complaint handling and ensuring prompt resolution, the platform fosters trust and credibility between insurers and policyholders, enhancing the overall integrity of the insurance process.

KEY FEATURES AND BENEFITS

❖ CENTRALIZED PLATFORM FOR CONVENIENCE:

Bima Bharosa offers a centralized web portal where policyholders can register their grievances online. This eliminates the need for physical office visits, providing a more accessible and user-friendly method for managing complaints.

❖ REAL TIME TRANSPARENCY:

One of the standouts features of Bima Bharosa is its real-time tracking capability. Policyholders can monitor the status of their complaints throughout the resolution process, ensuring transparency and keeping them informed at every step.

❖ EFFICIENT AND TIMELY RESOLUTIONS:

The platform is designed to facilitate the timely and efficient resolution of grievances. It includes functionalities to assign, store, and track unique complaint IDs, with established target turnaround times (TATs) to ensure prompt handling of issues.

❖ SMART WORKFLOW AND AUTOMATED ALERTS:

Bima Bharosa incorporates a smart workflow system that sets up alerts for tasks approaching their turnaround times. The platform uses rule-based workflows to automate activities, helping to ensure that complaints are managed promptly and efficiently.

❖ IMPROVED SERVICE DELIVERY:

By encouraging insurers to enhance their service standards and responsiveness, Bima Bharosa plays a crucial role in improving overall service delivery. The platform's integrated approach helps drive better performance and accountability within the insurance industry.

❖ EMPOWERING POLICYHOLDERS:

Bima Bharosa empowers policyholders by providing a straightforward and efficient way to address their grievances. The portal's user-friendly interface and real-time tracking capabilities enhance the overall experience for policyholders, fostering trust and confidence in the insurance industry.



INDUSTRY UPDATES



LIC has launched its MarTech Platform making the first significant step in its project DIVE initiative for digital transformation

The Life Insurance Corporation of India (LIC) has taken a significant step in its digital transformation journey by launching its marketing technology (MarTech) platform under Project DIVE (Digital Innovation and Value Enhancement). This initiative aims to enhance customer engagement by integrating world-class digital capabilities, allowing LIC to provide personalized and seamless interactions with policyholders, prospects, and agents. The launch marks LIC's commitment to redefining its customer outreach and strengthening its position in the evolving insurance landscape. With this launch, LIC aspires to become a global leader in digital insurance innovation, reinforcing its market dominance through cutting-edge technology.



The Union Budget 2025 outlines an inclusive growth agenda in the Foreign Direct Investment Limit in the insurance sector

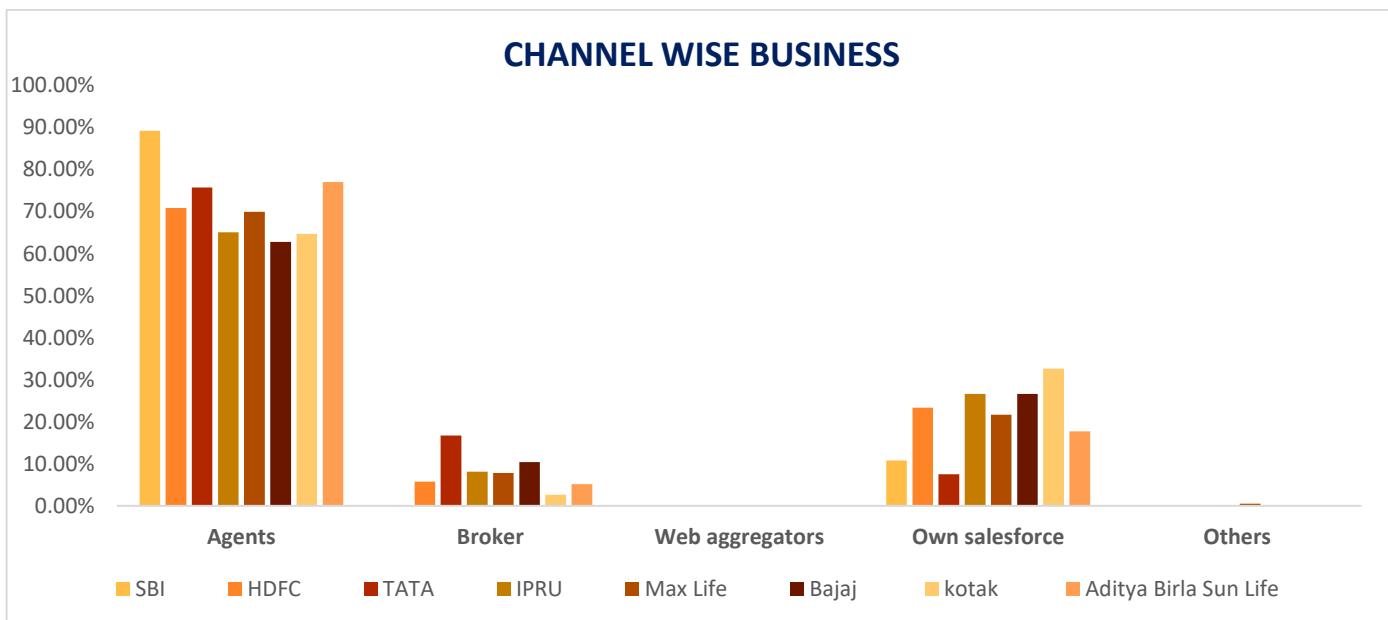
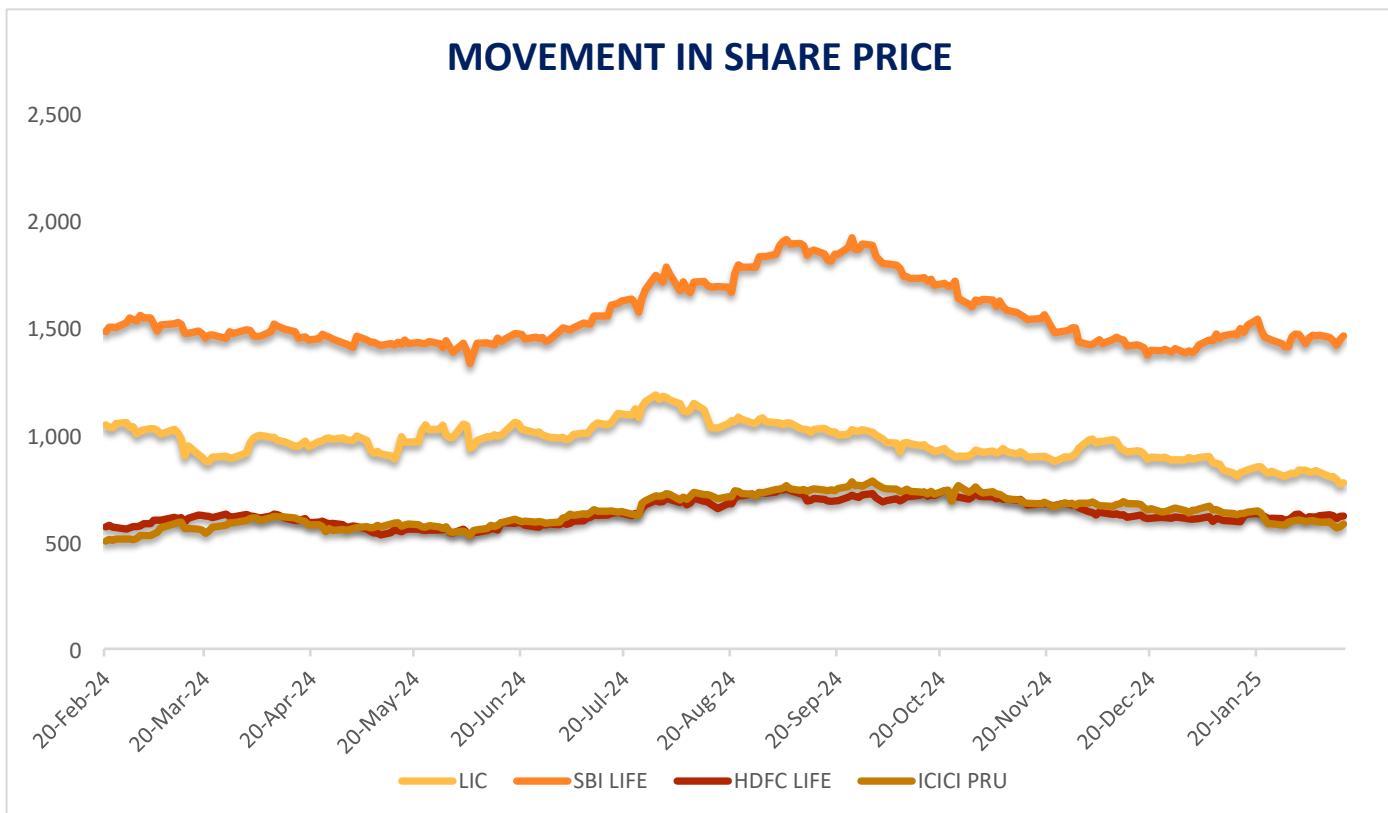
The Union Budget 2025 has introduced crucial reforms aimed at enhancing investment momentum and fostering inclusive growth. Major highlight is the proposal to increase Foreign Direct Investment (FDI) in the insurance sector to 100% from the existing 74%, provided the entire premium is invested in India. This move is expected to attract global insurers, infuse long-term capital, and improve competitiveness in an underpenetrated market. The introduction of a simplified income tax bill seeks to enhance tax certainty, streamline reinforcing India's commitment to good governance. To boost infrastructure investment, the government has extended the tax exemption for sovereign wealth funds and pension funds and long-term capital gains for another five years.



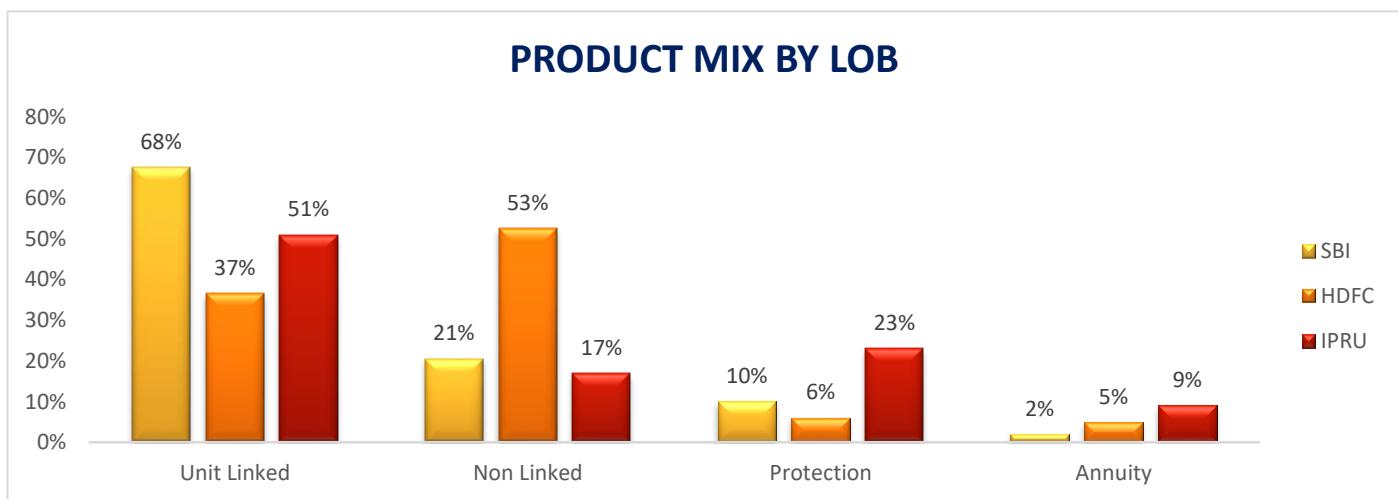
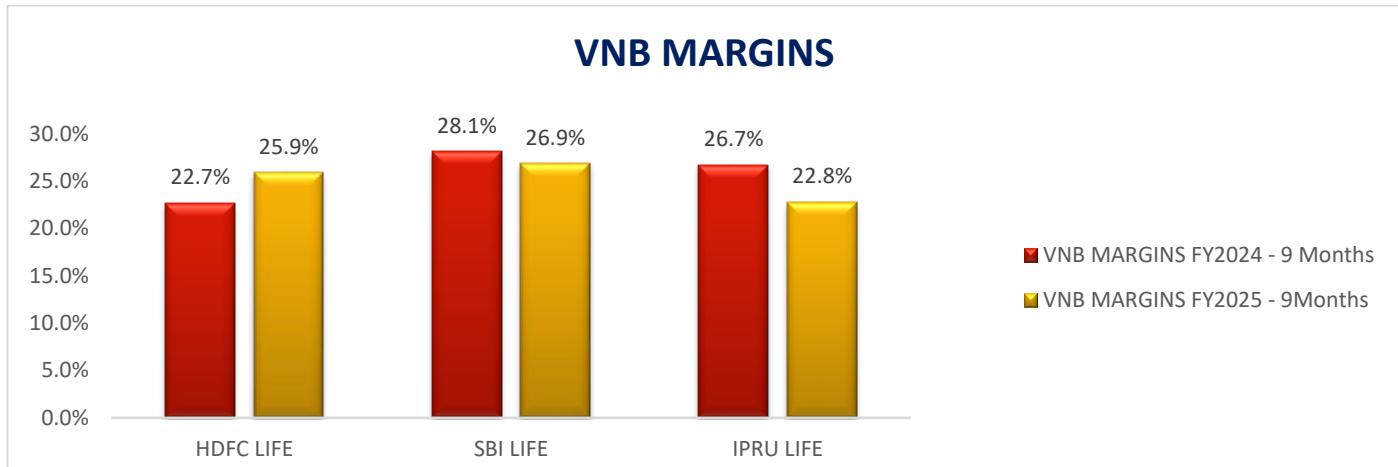
Revised Taxation on High-Premium ULIPs: Key changes for investors

Life insurance continues to offer tax-saving benefits under Section 80C, allowing deductions on premiums paid, while payouts remain tax-exempt under Section 10(10D), subject to conditions. However, the tax advantages of Unit Linked Insurance Plans (ULIPs) have been adjusted, with gains on high-premium ULIPs (above ₹2.5 lakh annual premium) now subject to a 12.5% long-term capital gains tax from April 1, 2026. This change aligns ULIP taxation with equity mutual funds, impacting investors who previously leveraged ULIPs primarily for tax efficiency. Despite these shifts, life insurance remains a crucial financial tool beyond just tax benefits. Whether opting for traditional plans or market-linked policies, securing coverage for yourself and your family ensures long-term financial stability.

KEY PERFORMANCE INDICATORS



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WeDapt as a firm has always focused upon a client centric approach wherein, we look to assist the clients in adapting to the ever-changing dynamic business environment. We aim to use our rich practical experience and technical expertise to bring effective & efficient solutions for our client.

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