



COVERAGE INSIGHTS



Provided by Venbrook Insurance Services

The Impact of Secondary Perils on Property Insurance

Secondary perils, such as severe convective storms, floods, wildfires and hailstorms, have significantly impacted the commercial property market. In fact, according to industry data, secondary perils have consistently accounted for over 50% of insured natural disaster losses in recent years.

This article provides more information on secondary perils, including their impact on the property insurance market. It also offers tips on how businesses can mitigate associated risks.

What Are Secondary Perils?

Secondary perils are generally small to mid-sized loss events or secondary effects that follow a primary catastrophe such as an earthquake or a hurricane. According to credit rating agency AM Best, secondary perils account for a larger share of losses from catastrophes compared to primary perils, and it is now the norm that at least one secondary peril event creates losses greater than \$10 billion each year.

This is a shift from historical patterns where primary perils represented the highest loss potential. Factors including climate change and population growth in coastal areas and other areas susceptible to catastrophes have led to this shift in the risk landscape.

Evolving Risk Modeling for Secondary Perils

The insurance industry has tried to address the challenges presented by secondary perils. For example, more sophisticated modeling tools are being developed to better understand and manage the risks. However, modeling capabilities are still limited compared to models for primary perils. Additionally, AM Best notes that it will be vital for secondary peril models to be continually recalibrated

due to the quickly changing risk landscape.

Pricing Challenges and Capacity Constraints

Pricing challenges arise as secondary peril weather events become more common and severe. Since the technology used to model secondary perils is not as mature as those for primary perils, there is more uncertainty in underwriting them. This can lead to volatility in insurance pricing, making it harder for businesses to account for costs.

Capacity constraints also pose a significant challenge in the property insurance sector, particularly as it relates to secondary perils. These constraints can also lead to market volatility. They may result in insurers limiting coverage or pulling back from high-loss areas, leaving insureds to bear a larger portion of the risk.

Coverage Gaps

Coverage gaps for secondary perils are primarily due to underinsurance and limited availability of coverage. Additionally, property insurance policies may not cover losses caused by secondary perils like floods, leaving businesses to pay out of pocket for resulting expenses. Businesses should engage with insurance brokers and carriers to understand their coverage options and ensure they have adequate protection.

Risk Mitigation

Comprehensive risk assessment is challenging due to a lack of understanding and modeling capabilities. However, to mitigate the risks of secondary perils, businesses can adopt several risk management strategies. One such approach is business continuity planning, which involves identifying potential risks and creating procedures to minimize their impact.



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Additionally, investing in risk mitigation measures, such as infrastructure improvements or changes in operational practices, can reduce a business's vulnerability to secondary perils.

Conclusion

While secondary perils present significant challenges, businesses can take proactive steps to understand these risks, ensure adequate insurance coverage and implement strategies to mitigate their impact.

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