MGAs are best placed to lead the industry's response to climate change

The rise in the number of climate-focused MGAs will continue as the nature of the risks and the opportunities involved in the transition to a low-carbon economy are better understood

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Corporate success and resilience has a very different meaning now from in the 1970s, 1980s, 1990s, 2000s or even 2010s – and that is not just as a result of changing vogues in management thinking.

Swiss Re's prescription for success in the 2020s is leadership during a transition to a low-carbon economy. The reinsurer's chief executive, Christian Mumenthaler, recently made his firm's purpose clear when, on a webinar, he said: "The business of [our] business is sustainability." And where reinsurer capital goes, the market follows.

Swiss Re calls the 2020s the "decade of action", referencing the massive acceleration of the decarbonising of the economy that is required to ensure further global warming is restricted to no more than 1.5°C by 2030.

The process of achieving this will require wholesale change in how we live, work, feed ourselves and manage energy, as well as a rethink of our business models. This is what has become known as the transition economy and Swiss Re is, unquestionably, leading the charge in our sector, along with Allianz, Zurich and others.

To deliver the transition economy, Swiss Re is aiming to be the leading re/insurance company on physical climate risk; the leading provider of re/insurance solutions for low-carbon transition opportunities; and to build partnerships to develop scalable solutions to mitigate and adapt to climate change.

The drivers here may well be shaped by other, non-financial factors but the core business case is grounded in science and modelling of economic impacts: an effectively uninsurable world unless there is urgent, material real-world traction in decarbonising, with the 2020s being the really critical "window of opportunity".

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Low-carbon economy

There is a wealth of expert and thoughtful insurance-specific commentary and data on the significant growth opportunities for the sector. For example, Lloyd's Below 2°C: Insurance for a Low-Carbon Economy (especially the sector deep-dives report) and Willis Towers Watson's 2020 Energy Market Review are just two examples. The scale of the challenge (including liabilities and reputation impacts) for our customers large and small, especially in infrastructure, construction, fashion, agriculture, energy and tourism, is enormous.

What we might term "corporate climate services" is clearly a huge growth opportunity. International management consultancy Oliver Wyman estimates the size of potential new revenues arising from the shift to a green economy to be $50bn to $150bn across financial services over the next decade.

Grasping these growth opportunities demands the expertise and attributes the insurance industry is famous for: filling data gaps, crafting modelling, creating and pricing product, managing capital and designing and deploying technically expert resources and supply chains to deliver for risk management, claims and beyond.Big change, fast pace, new and complex risks, uncharted opportunities and substantial upside… does that not sound exactly like insurance?

I would argue managing general agents (MGAs) are the insurance businesses that are best placed to take advantage of these new opportunities. It may too early to be writing the history of the insurtech phenomenon, but it undoubtedly offers a case study of how incumbent firms have pursued and experimented with new sources of and angles on product development, customer acquisition and growth through supporting MGAs and managing general underwriters (MGUs). Reinsurers have been prime movers in this.

Major opportunity

There is a major opportunity for MGAs to be at the forefront of accelerating the development of corporate climate services, create products and markets in partnership with brokers and/or direct to customer – especially where there is a need for innovative approaches to data sourcing, management and modelling.

Deliberately unencumbered by legacy tech, they are usually also well placed to benefit from the plethora of specialist data analytics, insurtechs and other data sources such as the internet of things (IoT), client data and remote sensors that plug directly into workflows designed specifically for this flexibility. MGAs, which access the market directly or via brokers and platforms, supported by flexible IT, have fared relatively well during the pandemic and continue to make inroads into the sharing economy.

There are a number of interesting climate-focused MGAs active now and this trend will only continue as the size and scale of the corporate climate services opportunity becomes more widely and better understood. Skyline Partners, a parametric MGA, uses smart contracts to make automatic payments to policyholders based on weather events such as flood or drought and targeting the sectors you might expect: renewables, construction, agriculture, property and tourism.

Boston-based Energetic Insurance, an MGU, focuses on commercial solar financing, specifically mitigating counterparty credit (payment default) risk on commercial solar energy projects.

Large corporations with public credit ratings can access project finance relatively easily, while smaller businesses, especially those without a public credit rating, and municipalities have found it very challenging. It is this type of risk partnering that will drive the acceleration of renewables at sufficient volume and velocity to enable transition economy targets. In so doing, they will make the seemingly impossible possible and make the uninsurable insurable.

Finally, Descartes Underwriting, another parametric insurance MGA, offers protection for property damage, business interruption and financial losses from extreme weather events and natural catastrophes. We understand polices have already been underwritten with corporates and governments across western and central Europe, the US, Australia, Latin America and India.

Spotting changing consumer sentiment and building new businesses around that is what the best MGAs excel in. Colchester-based Arma Karma, for example, bills itself as the "new ethical avenue for insurance of the next generation", building its proposition not just on why and what it insures, but how it does it. With plans to soft launch in the next couple of months, the BMS Labs-backed MGA has recently certificated as a climate-positive workforce through offset and climate solutions social enterprise Ecologi.

The bet is being on the right side of history in the 2020s is a smart growth strategy – and MGAs are in a prime position to benefit from the odds. ■

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