

12. EMERGING RISK AND THE FUTURE INSURANCE

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ABSTRACT

Emerging risks are new or evolving threats that can significantly affect individuals, businesses, and society. These risks include cyberattacks, climate change, pandemics, artificial intelligence (AI), natural disasters, and technological failures. Traditional insurance policies may not fully cover these modern risks, making it essential for the insurance industry to adapt. The future of insurance depends on innovation, digital technology, and data-driven decision-making. Insurance companies are increasingly using AI, big data, the Internet of Things (IoT), and predictive analytics to assess risks more accurately, detect fraud, and provide personalized insurance products. Digital platforms also improve customer experience by enabling faster claims processing and online policy management. As emerging risks continue to grow, insurers must develop flexible products, strengthen risk management strategies, and collaborate with governments and businesses to build resilience. The future insurance industry will focus not only on compensating losses but also on preventing risks through advanced technology and proactive solutions.

INTRODUCTION

The insurance industry plays a vital role in protecting individuals, businesses, and economies from financial losses caused by unexpected events. However, the rapid growth of technology, globalization, environmental changes, and evolving customer needs has introduced a new category of challenges known as emerging risks. These risks include cyber threats, climate change, pandemics, artificial intelligence (AI), data privacy issues, and other technological and environmental uncertainties. Unlike traditional risks, emerging risks are often difficult to predict, measure, and manage because they evolve quickly and have widespread impacts. To address these challenges, the insurance industry is undergoing a major transformation. Modern insurers are adopting advanced technologies such as artificial intelligence (AI), big data analytics, the Internet of Things (IoT), blockchain, and machine learning to improve risk assessment, enhance customer service, detect fraud, and develop innovative insurance products. These digital solutions enable insurance companies to provide faster, more accurate, and personalized services while strengthening their ability to respond to future uncertainties. The future of insurance will focus not only on compensating financial losses but also on preventing risks before they occur. By promoting risk awareness, using predictive analytics, and encouraging proactive risk management, insurers can help create a more resilient society. As emerging risks continue to evolve, insurance companies, governments, businesses, and individuals must work together to build a safer, more sustainable, and technology-driven insurance ecosystem.

OBJECTIVES OF THE STUDY

To understand the concept of emerging risks.

To examine the impact of emerging risks on the insurance industry.

To study the challenges faced by insurers.

To identify future trends in insurance.

To suggest measures for improving insurance coverage against emerging risks.

MEANING OF EMERGENCY RISK

Emerging risks are risks that are new, evolving, or increasing in importance due to technological, environmental, social, economic, or political changes. These risks are difficult to predict because there is limited historical data available.

Examples:

Pandemics, Cyber attacks, Artificial Intelligence risks, Climate change, Political instability, Supply chain disruptions.

TYPES

1 Pandemic Risks

Pandemics cause widespread illness, business closures, unemployment, and economic losses. Insurance companies faced huge claims during COVID-19, especially in health and business interruption insurance.

2 Cyber Risks

Businesses increasingly depend on digital systems. Cyber attacks such as hacking, ransomware, and data breaches cause financial loss and damage to reputation.

3 Political Risks

Political unrest, war, terrorism, sanctions, and government policy changes affect business operations and investments.

4 Climate Risks

Floods, cyclones, droughts, and rising temperatures increase property damage and agricultural losses.

5 Challenges Faced by Insurance Companies

Lack of historical data for accurate risk assessment.

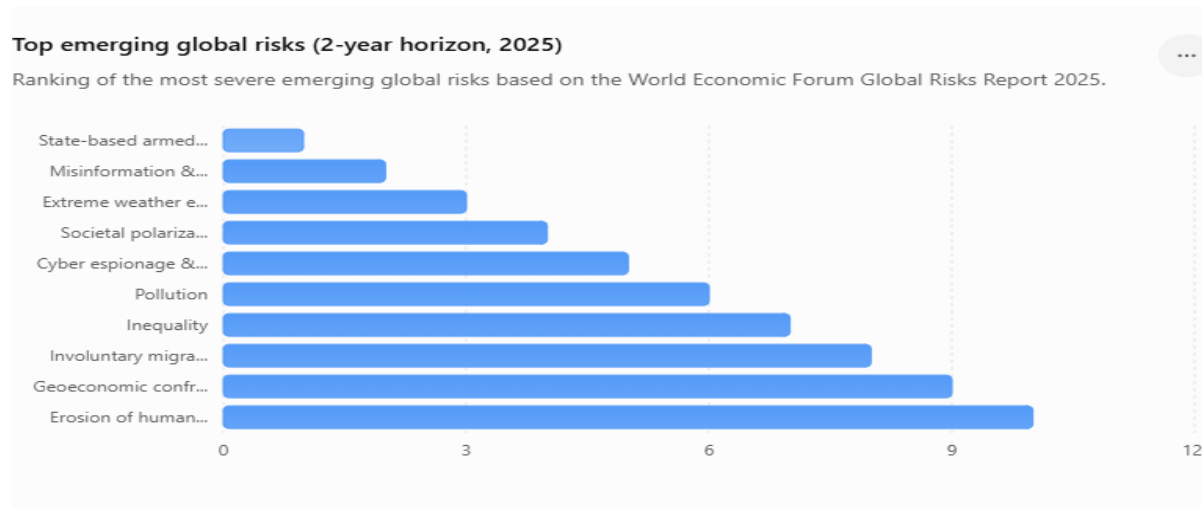
Increasing frequency of cyber attacks.

High claim costs during large-scale disasters.

Difficulty in pricing insurance products.

FUTURE OF INSURANCE

The future of insurance will be driven by technology and innovation. Insurance companies will use Artificial Intelligence (AI), Big Data, and IoT to improve risk assessment, prevent fraud, and provide faster claim settlements. The demand for cyber insurance and personalized insurance products will continue to grow. Digital services and advanced technologies will help insurers manage emerging risks more effectively and provide better protection to customers.



The above chart is the global risk research of previous years.

THE ROLE OF GOVERNMENT

The government plays a vital role in managing emerging risks and strengthening the insurance sector. It develops policies and regulations to ensure that insurance companies operate fairly and protect policyholders. The government also promotes cybersecurity by enforcing strong data protection laws and encouraging organizations to improve digital security. During pandemics and natural disasters, it provides financial support and works with insurance companies to reduce economic losses. It encourages the development of new insurance products to cover emerging risks such as cyber attacks and climate-related events. The government also creates public awareness about the importance of insurance through education and outreach programs. In addition, it supports research, innovation, and the use of advanced technologies in the insurance industry. By collaborating with insurers and international organizations, the government helps build a resilient insurance system that protects individuals, businesses, and the overall economy.

BENEFITS OF MANAGING EMERGING RISKS

Managing emerging risks helps individuals, businesses, and economies reduce financial losses caused by unexpected events. It improves preparedness for risks such as pandemics, cyber attacks, and political instability.

Effective risk management ensures business continuity even during crises. It increases customer confidence by providing reliable financial protection. Organizations can make better decisions by identifying and assessing risks in advance.

Managing emerging risks encourages innovation and the development of new insurance products. It strengthens the resilience of businesses and communities against future challenges. In addition, it supports sustainable economic growth by minimizing disruptions.

CONCLUSION

Emerging risks such as pandemics, cyber attacks, climate change, and political instability are reshaping the global insurance industry. These risks are becoming more complex, unpredictable, and widespread, making traditional insurance methods less effective on their own. To address these challenges, insurance companies must adopt advanced technologies such as Artificial Intelligence

(AI), Big Data Analytics, and the Internet of Things (IoT) to improve risk assessment and claims management.

Governments, insurers, businesses, and individuals must work together to build a strong and resilient insurance system. Developing innovative insurance products, strengthening cybersecurity, increasing public awareness, and improving disaster preparedness are essential for the future. By adapting to changing risks and embracing innovation, the insurance industry can provide better financial protection, support economic stability, and ensure a safer and more secure future for individuals, businesses, and society.

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