

# MOODY'S

Insurance Solutions

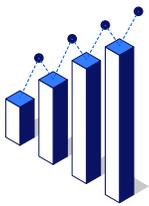
Take  
action on  
emerging  
risks

## EXECUTIVE SUMMARY

Moody's Emerging Risk Framework breaks emerging risk into three phases: emerging interest, emerging damage, and emerging litigation. Depending on the phase of emergence, our methodology recommends specific business actions to take and who should take them. Because our framework is embedded in Moody's software, understanding the information is intuitive and taking action is easy.

# THE THREE PHASES OF EMERGING RISK

The Emerging Risk Framework methodology is founded in science. Algorithms search and read the text of newly published science looking for articles investigating whether business activities or products cause harm. Once identified, new risks are connected to exposed industries and over 128,000 specific companies. After identification, we track the science as the early articles become rich literatures and later may become scientific evidence in litigation. Each phase of emerging risk has its own set of recommendations to guide action across the timeline of risk emergence. Let's take a closer look at each phase in more detail.



## PHASE 1: EMERGING INTEREST — THE TIME TO MEASURE

Emerging interest is the earliest phase in which scientists first flag a risk's potential to harm humans or the environment and publish their findings. It is during this phase that we help our clients begin to track the exposures most relevant to their businesses. We call this phase the time to measure, and Moody's does most of the work of measurement, including:

- Horizon scanning
- Risk identification
- Exposure tracking

Out of the hundreds of risks being investigated by scientists, most are likely safe and few will ever see litigation. However, corporations that are linked to these fledgling risks should certainly be prepared for later action, and insurers should start measuring their exposure with the knowledge that there is potential for the literature to evolve into something more concerning.



## PHASE 2: EMERGING DAMAGE — THE TIME TO ACT

A risk enters the "emerging damage" phase once its chance of litigation is greater than 1%. In emerging damage, initial studies seed larger scientific literatures that investigate the risks in depth and examine the pathways of exposure. During this phase, the literature is richer and more mature — investigating specific issues about who might be harmed, how they might be harmed, and what products might be causing harm.

While scientists and regulators begin to investigate where and whether damage may have occurred, carriers have an opportunity to take action to manage and price the risk while still writing it. The actions you can take during emerging damage include:

- Exclusion write-back
- Developing underwriting strategy
- Account underwriting
- Pricing
- Aggregation monitoring
- Capital modeling
- Transferring risk
- Maintaining regulatory compliance
- Reserving incurred but not reported (IBNR)

We call the emerging damage phase the goldilocks phase because this phase is "just right" for taking underwriting actions and performing proactive emerging risk management.



## PHASE 3: EMERGING LITIGATION — THE TIME TO DEFEND

Today there are a growing number of risks that enter emerging litigation, largely due to social inflation. While most underwriting activity currently happens during the emerging litigation phase, we think this is too late to be truly effective. Moody's emerging risk framework moves much of the underwriting activity upstream to the emerging damage phase to better prepare our clients should a risk in their portfolio mature into the emerging litigation phase.

There are still many actions you can take during emerging litigation, including:

- Litigation tracking
- Exclusion
- Claims defense
- Reserving known claims
- Underwriting strategy
- Account underwriting
- Risk transfer
- Reserving IBNR

During emerging litigation, we continue to track the science to help inform litigation defense strategy, including the selection of defense experts, development of defense arguments, proof of good intent, and overall cost efficiency. We also track the litigation to identify novel causes of action and build additional scenarios around them to anticipate where the litigation may go next, as well as to stress-test portfolios.

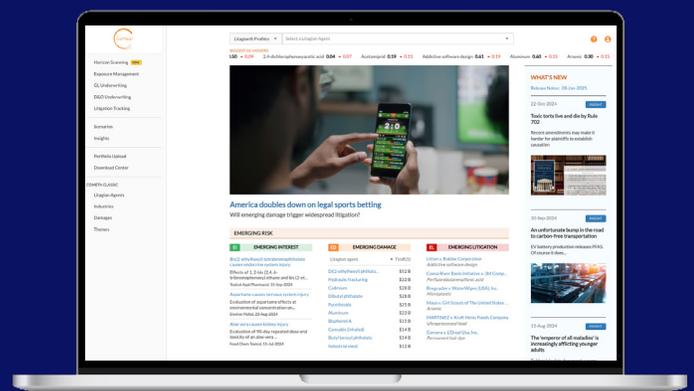
# TRANSFORM THE WAY YOU MANAGE AND PRICE EMERGING RISK

## SUMMARY

Moody's Emerging Risk Framework addresses the entire risk life cycle by identifying risks as they first materialize in the emerging interest phase, driving proactive risk management as risks evolve into harms in the emerging damage phase, and providing claims support should risks result in litigation in the emerging litigation phase.

Whether you are an insurer, risk manager, product steward lead, or global industrial, the framework makes emerging risk actionable, helping you make smarter business decisions informed by science and industry-leading technology.

## The timeline of risk emergence delivered to your dashboard



Insurance Solutions from Moody's have shaped the world's view of risk for over 30 years, leading the catastrophe risk industry that we helped to pioneer. Our unmatched science, technology, innovation, and 300+ catastrophe risk models help risk and insurance leaders evaluate and manage the risks of natural and man-made disasters.

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