

## INSURANCE PROTECTION GAPS



### PETRA HIELKEMA

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## The supervisory duty to address insurance protection gaps

In 2023, losses caused by natural disasters globally amounted to 250 billion US dollars and more than 74,000 fatalities, while insured global losses amount to 95 billion US dollars.<sup>1</sup> Extreme weather events rank as the environmental risk most likely to present a material crisis on a global scale in 2024.<sup>2</sup> The WEF Global Risks Report 2024 places extreme weather events as the second most severe risk, while projecting it to become the most significant risk over a 10-year period.

Based on the latest update of its nat cat protection gap dashboard, EIOPA confirms a persistent insurance protection gap for natural catastrophes, with only about a quarter of losses caused by natural perils insured across the EEA.<sup>3</sup>

EIOPA's work to address protection gaps considers the empirical evidence that insurance coverage not only

directly impacts the financial resilience of policyholders, but also GDP growth. When the share of insured losses is low, large-scale disaster causing over 0.1 per cent of GDP-worth of direct losses can reduce GDP growth by around 0.5 per cent in the quarter of impact. Inversely, if a high share of damages is covered by insurance, the indirect impact on GDP growth may be significantly reduced. Countries with a substantial history of catastrophe losses relative to their GDP also tend to experience a considerable insurance protection gap. This can impact the sustainability of debt. Natural disasters can be a further source of systemic risk for financial institutions and financial markets. For example, the insurance protection gap can increase the exposure of banks to physical risk and reduce the value of collateral.<sup>4</sup>

These impacts, and the high risk of failing to limit the global temperature rise to 1.5 degrees Celsius, require us to adapt to physical risks caused by extreme weather events. With climate change, and increasingly severe or frequent extreme weather events, the future cost of insuring natural catastrophes becomes a critical issue if no adaptation measures are taken. The acute and chronic physical risks of climate change for life and health insurance business are increasingly coming to the forefront of discussions.<sup>5</sup> The reliance of primary insurance on reinsurers to cover these risks is significant, and the challenges may increase with a tightening reinsurance market.

### Addressing protection gaps is crucial to safeguard policyholders and preserve financial stability.

Public authorities and the private sector are under pressure to provide solutions through prevention and adaptation. EIOPA's recent initiatives to promote solutions for nat cat insurance protection gaps include measuring protection gaps, incentivising risk prevention, and addressing obstacles to the take-up of insurance. Building up its capacity as a centre of excellence on catastrophe modelling and data, EIOPA aims to provide European supervisors, policy-

makers, and insurers with expertise, studies, tools and data to enable them to effectively assess, monitor and supervise these catastrophe risks.<sup>6</sup>

EIOPA's analysis on measures to address the demand-side highlights potential consumer-related implications that can be addressed to reduce protection gaps. EIOPA is developing a blueprint to increase awareness on natural catastrophe risks and to incentivize consumers to take prevention measures to reduce losses. Beyond this, EIOPA is actively engaging with supervisory and public authorities to identify how protection gaps are best addressed at a regional or EU-level. These initiatives show the importance of not only addressing the offer, but also the demand for insurance.

EIOPA is likewise engaging with supervisors, consumers and stakeholders to address cyber protection gaps.<sup>7</sup> This includes collecting information on access to cyber coverage by SMEs and identifying barriers to the coverage and take-up of insurance.

These efforts illustrate the opportunity of supervisors to address protection gaps in a concerted action with public authorities and the private sector, based on the supervisory duty to protect policyholders and contribute to global financial stability.

1. *Record thunderstorm losses and deadly earthquakes: the natural disasters of 2023* | Munich Re.
2. *WEF\_The\_Global\_Risks\_Report\_2024.pdf* (weforum.org).
3. *Dashboard on insurance protection gap for natural catastrophes - European Union* (europa.eu).
4. *Policy options to reduce the climate insurance protection gap* (europa.eu).
5. *PSI-Life-Health-ESG-Guide.pdf* (unepfi.org).
6. *Centre of excellence for catastrophe modelling and data - European Union* (europa.eu), *Catastrophe Data Hub - European Union* (europa.eu).
7. *Measures to address demand side aspects of the Natcat Protection Gap* (europa.eu).



## CARMINE DI NOIA

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### Building financial resilience against disaster risks – An increasing challenge

Building financial resilience against disaster risks should be an important public policy objective for governments, especially in countries faced with significant exposure to disaster risks or limited capacity to manage their financial impacts. Disasters generate a broad range of impacts, including loss of life and bodily injury as well as damage and disruption to property and infrastructure. Severe events destroy capital, disrupt economic growth and can create fiscal risks due to the need to support economic recovery and fund reconstruction. According to the Swiss Re Institute, economic losses from catastrophes – floods, storms, earthquakes as well as major industrial or transport accidents – have averaged USD 220 billion annually between 2013 and 2022.<sup>1</sup> This is more than the 2022 GDP of 20% of OECD member countries and more than annual general government revenues in about 40%.<sup>2</sup>

The frequency and severity of many types of natural and human-made catastrophes are likely to increase. A number of economic, social and

environmental trends – a changing climate, digitalisation, globalisation and urbanisation – could lead to greater economic impacts. A changing climate is expected to lead to an increase in the severity of cyclones in some regions, more days of conditions conducive to wildfire ignition, and changing precipitation patterns that could lead to more flooding and more frequent droughts. There is already some evidence of an increase in losses – for example, annual average economic losses from weather-related catastrophes were more than 200% higher in 2015-2019 than they were in 2000-2004 (in constant dollars).<sup>3</sup> Losses from other perils such as cyber attacks are also on the rise as the “ransomware epidemic” continues to disrupt the provision of critical public and private services and as a more volatile geopolitical environment leads to increasing concerns about potential cyber warfare.

Insurance markets play a critical role in protecting households, businesses and public finances from the financial impacts of disasters. Households and businesses with insurance coverage have access to the funding they need to rebuild damaged property and recover lost revenue and income. They are less likely to depend on public financial support to recover or default on their loans or mortgages. However, levels of insurance protection remain low for many disaster risks. Between 1995 and 2019, almost 40% of storm-related losses and 82% of flood losses were uninsured, and the level of coverage for emerging (or re-emerging) risks such as cyber risks and infectious disease outbreaks is even lower. Despite efforts to expand insurance coverage, there has been limited progress in closing these “financial protection gaps” for many disaster risks.<sup>4</sup>

#### Regions of the world risk becoming uninsurable if increasing losses lead to unaffordable premiums.

Some regions of the world (or some perils) risk becoming uninsurable if increasing losses lead to unaffordable premiums or insurance coverage withdrawals – and we are already witnessing signs of this in some areas. Maintaining insurability will require increased investment in building societal resilience to disaster risks and cooperation between the insurance sector and governments in identifying areas at risk and assessing financial protection gaps. In some cases, catastrophe risk insurance programmes

(often referred to as public-private partnerships) will be needed to respond to capacity constraints or affordability challenges, particularly if other types of interventions to maintain access to affordable insurance are unsuccessful.

Building financial resilience has been a priority for the OECD Insurance and Private Pensions Committee and a core part of its work programme for many years. This work is anchored in the recently updated *OECD Recommendation on Building Financial Resilience to Disaster Risks* which provides guidance for governments on how to assess the financial impacts of disaster risks, establish policy, regulatory and supervisory frameworks that enable the availability and take-up of financial protection tools and respond to potential fiscal risks. This guidance will become increasingly important in the context of increasing losses and insurability challenges that have the potential to thwart efforts to build financial resilience.

1. Swiss Re Institute (2023), “Natural catastrophes and inflation in 2022: a perfect storm”, *Swiss Re sigma* No 1/2023.
2. OECD calculations based on data from *OECD Government at a Glance (general government revenues)* and *OECD National Accounts Statistics (GDP)*.
3. OECD calculations based on data provided by *Swiss Re sigma*.
4. For example, - between 2015 and 2019, approximately 57% of natural hazard losses were uninsured – relative to about 58% between 2000 and 2004.



## SHIGERU ARIIZUMI

Vice Minister for International  
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### Narrowing the protection gap: the role for insurance supervisors

Last year was the hottest on record. As average global temperatures continue to rise, we know as supervisors we need to stand ready to address the consequences for insurers' solvency and for policyholder outcomes. This is a key priority for the IAIS.

In recent years, our focus on climate has increased, including work to update the guidance in our global standards and develop further supporting material to effectively integrate climate-related risks into insurer risk management frameworks. We are currently consulting on application papers on climate-related consumer protection considerations and approaches to effective scenario analysis. In addition, we have integrated climate data elements into our annual Global Monitoring Exercise to analyse the impacts of climate change to the insurance sector.

Over time, we expect to see greater damage due to climate-related natural catastrophes (NatCat) and the widening of insurance protection gaps, mainly driven by accumulating exposures in high-risk areas and the impact of

climate change. As these gaps grow, societal vulnerabilities will intensify and the insurance sector is likely to face considerable pressure. As a result, last year the IAIS broadened the scope of our climate work to consider the role supervisors can play in helping to address increasing NatCat protection gaps.

The report is a call to action, outlining five major areas of supervisory activity that can contribute to addressing NatCat protection gaps. This is supported by case studies from jurisdictions spanning all IAIS regions. Importantly, the report emphasises that all supervisors have a strong basis for action to help narrow NatCat protection gaps, regardless of their mandate, given the potential impact of protection gaps on financial stability, policyholder protection and financial inclusion objectives. For those supervisors that have mandates to promote financial inclusion and market development, actions to address protection gaps and resilience are particularly critical.

Our report outlines practical steps insurance supervisors can take to incentivise risk prevention and reduction of insured losses. This includes promoting adaptation and risk mitigation measures to reduce policyholders physical risk exposure to NatCat events. Supervisors can also play a role in socialising useful and reliable sources of information on NatCat events or tools or portals to help consumers assess their risk. For some supervisors, there may be a role in publishing information such as flood maps which can foster better decision-making by governments, as well as business and individuals.

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Another key area of supervisory action is advice to government, as well as industry. Supervisors can act as a bridge between government and industry, leveraging their established links with insurers and understanding of the insurance sector to enhance coordination of government response. For instance, they can inform policymakers on areas where insurance is unaffordable because of the level of risk or the limited financial capacity of consumers, guiding effective interventions in risk reduction or financial inclusion. One such risk reduction measure could be to consider drivers behind construction

and development in high-risk areas. Additionally, they could bring a risk perspective to a range of government activities such as building codes, housing and urban planning.

Our report has already catalysed discussions among insurance supervisors, the insurance industry, policymakers and other relevant stakeholders on how to narrow protection gaps. This work by the IAIS was also highlighted in the Communiqué of the G7 Finance Ministers and Central Bank Governors Meeting in May 2023. As supervisors can most effectively contribute to building enhanced resilience against NatCat events through collaboration with other parties, the IAIS is undertaking follow-up activities with partner organisations, including the A2ii, the Global Shield against Climate Risks and the OECD, building on the findings of the report.

Our initial focus has been on NatCat protection gaps, but it is possible to extend our work to other protection gaps over time. When we move forward with such work, multistakeholder engagement will be key to tackling the complex problems that result in protection gaps.



## CHRISTOPHE BORIES

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### Adapting the French insurance sector to rising climate risks: what is at stake?

Over the past two decades, climate has changed and we have observed a significant increase of costs for the insurance system. By 2050, climate change will further exacerbate climate risks and have a significant impact on drought, flooding, marine submersion and cyclonic risks in particular. The Caisse Centrale de Réassurance (CCR) - a publicly-owned company offering reinsurance with a public guarantee for natural disaster risks - estimates that the increase in claims due to climate change will be between 27% (RCP 4.5 scenario) and 62% (RCP 8.5 scenario) on average by 2050. The increase in insured stakes in high-risk zones, as well as inflationary pressures and improvements in policyholder coverage are additional causes of climate-related costs for the insurance sector.

As a consequence, the potential withdrawal of insurers from areas exposed to climate hazards is a major economic and social risk for policyholders and for the market equilibrium of the French insurance system. The extent of this phenomenon is quite difficult to estimate accurately.

The key challenge for policymakers is to determine the most effective incentives in order to avoid a widening of the protection gap for natural disasters.

Pooling risks among all policyholders is necessary to achieve a broad insurance coverage, including in areas most exposed to climate hazards. Insurance models based on market freedom, giving insurers the freedom to underwrite and price risks according to their climate exposure, can leave households and businesses uninsured, while generating instability in the insurance market. These market limits have led to government interventions as a last resort, either to subsidize the insurance offer, to support access to insurance or to provide post-disaster emergency budget response.

France is one of the very few countries with a system guaranteeing all its citizens adequate compensation, in the event of loss or damage caused by natural disasters such as floods, mudslides, tidal waves, drought and landslides. This natural disaster compensation scheme was introduced in 1982. It is based on a public-private partnership, which combines private insurance with a non-mandatory state-guaranteed public reinsurance that provides cedants operating in France with coverage against natural disasters and extreme risks. This system combines two principles:

- i) solidarity, based on an additional premium set by the government at a mandatory uniform rate on every P&C insurance contract; and
- ii) responsibility with a minimum compulsory deductible set by the government.

However, the development of geographic segmentation tools to guide risk selection policies could jeopardize this compensation scheme, as they could lead to anti-selection in areas with high exposure to climate risks. The potential consequences for the stability of the Nat Cat compensation scheme imply that policymakers need to be better informed about the geographical areas where the protection gap is widening and to anticipate the evolution of this phenomenon.

Strengthening individual and collective prevention and adaptation efforts is a priority in order to contain the projected rise in claims costs. In particular, several studies have demonstrated the effectiveness of deploying flood risk prevention measures to reduce insurance costs:

- A recent study concludes that French public investments dedicated

to the reinforcement of hydraulic structures (96 M€/year) reduce the average annual loss by 130M€.

- A regulation enacted in 2020 on the construction of new homes located in clay zones is expected to save up to 200 M€ yearly on insurance claims due to geotechnical drought. In the French context, this risk represents the largest cost of claims for the Natural Disasters Compensation Scheme ("Cat Nat"), with an annual cost averaging 1.1 billion euros in 2022-2023.

The uncertainties related to climate change suggest the need to regularly question existing prevention measures with a view to adapting them to the evolution of risks. Historically, in France, flooding was considered the main threat in terms of insured losses, which led to efforts to develop public policies to prevent such damages. However, geotechnical drought has become the most dynamic threat in terms of losses.

In 2023, the French government announced the launch of a commission tasked with drawing up recommendations on the challenges facing the French insurance system with respect to climate risks. The mission is part of the ecological planning work being carried out under the authority of the Prime Minister. Its proposals aim to guarantee the sustainability of the Cat Nat compensation system and to strengthen the role of the insurance system in preventing, mitigating and adapting to climate change.



## FRANÇOISE GILLES

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### Closing the climate protection gap in insurance: call to intensify the dialogue

With more frequent and severe natural disasters, climate change requires actions combining innovative adaptation strategies and enhanced public-private cooperation. The current and expected increase of extreme climate events underscores the need for public authorities to prioritize climate change consequences in their prevention measures and mitigation strategies. On their side, insurers also have key components and expertise to bring in support to the overarching objective of making societies more resilient. To achieve this goal, we stress the need for public authorities and private insurers to cooperate.

On one hand, the primary role of public authorities is to spearhead efforts in risk assessment and disaster prevention by defining and enforcing the required measures that will reinforce their overall adaptation to climate risks and contribute to risk reduction.

- Public authorities are responsible for raising the awareness of citizens e.g., through communication campaigns and regular crisis exercises that

will prepare communities for the impacts of climate-related events.

- Public authorities can develop measures to reduce vulnerability and ensure the adaptation and maintenance of public infrastructures (e.g., water pipes, dams, etc.). This includes the development of robust building codes, implementation of land-use planning to avoid development in high-risk areas, enforcement of building bans in vulnerable locations, and mandating resilience plans for local governments. They have the ability to support risk reduction and mitigation in the private sector and among individuals and SMEs through various incentives.
- Lastly, they play the role of insurer of last resort for citizens, which provide the necessary economic safety net to the society. Such role is even predetermined by some existing schemes in certain countries (e.g., France's NatCat regime, Floor Re in the UK).

On the other hand, the private insurance sector has major components to bring in support to the overarching objective of making societies more resilient.

- At the underwriting level, insurers have a unique risk knowledge through risk modelling and access to precise data on geo-coding of risks and perils and can therefore promote individual prevention measures. For instance, they can incentivize good practices through actuarially justified (or risk-based) premium reductions.
- Moreover, in case of major events, they can provide their ability to indemnify and give effective support to citizens through management of massive claims (through mobilization of networks of experts, repairers, etc.).
- On the broader scope, they develop innovative insurance products such as parametric insurance or ILS/ Cat Bonds that enhance risk-sharing mechanisms.

Adequate insurance coverage is important but is not a standalone solution, particularly as the economic impacts of climate change are increasing and the demand for insurance coverage against natural catastrophe is lower than it should. National and EU-level strategies for climate-related natural disasters are key to increasing the overall resilience of European economies. However, as the perils' diversity across Europe calls for solutions tailored to

each country's specific needs. A robust framework in place at national or regional levels for awareness, adaptation measures and risk reduction are a prerequisite to a framework that could be developed at European level.

Cooperation between public authorities and private insurers is needed to face issues posed by extreme climate events and a certain number of conditions is required to make it successful. Among them, the preliminary requisite is for governments to provide clear information about the extent and conditions (incl. implementation of prevention measures) of financial state intervention during such events to avoid moral hazard. Moreover, any cooperation should aim at enhancing risk-sharing and leveraging technology to increase effectiveness of disaster management (such as data analytics shared between both parts, Artificial Intelligence for risk assessments, etc.). Eventually, a regular monitoring and evaluation of the partnership's activities would help in understanding its effectiveness and in making necessary adjustments.

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#### Insurers stand ready to engage a constructive dialogue with public authorities.

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While insurers play a critical role in indemnification, managing risks and providing innovative solutions, the primary responsibility for prevention and climate change adaptation lies with public authorities. Insurers stand ready to engage a constructive dialogue with Public Authorities to address the issue of extreme climate events and their impacts.



## IVO MENZINGER

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### Global protection gaps and what we can do about them

The world has faced extraordinary shocks in recent years, from the COVID-19 pandemic to geopolitical conflicts and 40-year high inflation in major economies. Combined with megatrends such as digitalization, climate and demographic change, these shocks pose fundamental challenges to the resilience of households, businesses and economies.

Swiss Re tracks these developments in the context of its annual resilience and protection gap research<sup>1</sup>. The value of unprotected risk exposure globally rose steadily between 2018 and 2022. We estimate the global protection gap at a record USD 1.8 trillion in premium equivalent terms for 2022, representing a cumulative 20% increase since 2018. In the context of our research, three key areas stand out in terms of a need for increased resilience: food security, natural catastrophes and health. Specifically, we estimate that 60% of global insurable crop production was unprotected against natural disasters and accidents in 2022, amounting to a global crop protection gap of USD 113 billion. The global natural catastrophe protection gap of physical assets stood at USD 368 billion, implying that 76% of natural catastrophe risk was unprotected. The global health protection gap rose to USD 888 billion, up by 3.2% from 2021.

While developments and underlying factors vary greatly by sector and geography, protection gaps are the largest in emerging markets. At the same time, it is worth noting that overall resilience has not been improving in advanced economies in general, and in Europe in particular.

What can be done to address large protection gaps? Increasing resilience requires consideration of two overall strategies: reducing expected losses and increasing insurance cover. First, loss prevention measures structurally narrow protection gaps by reducing the risk of damage to crops, property or infrastructure. By reducing risk, they also foster insurability. Second, beyond loss prevention, risk transfer comes into play.

Re/insurers can support on both. When it comes to incentivizing loss prevention, re/insurers can help through pricing signals and client engagement. With respect to risk transfer, recent developments have been encouraging. By using modern analytical tools and data sets, re/insurers are now able to design covers for risks that used to be assessed as uninsurable. And ongoing innovation around data, analytics and distribution are set to further expand the scope of insurance to access new and under-served risk pools.

However, re/insurers' ability to expand the availability of risk transfer solutions is contingent on appropriate actions being taken by public stakeholders. Governments and regulators have numerous tools at their disposal to foster insurability. Mandating insurance coverage for health and workers' compensation, supporting crop insurance via public insurance schemes or subsidies, offering tax benefits to promote life and health insurance and reducing taxes on property insurance premiums are just a few examples. Beside incentivizing risk transfer, public measures are pivotal when it comes to fostering loss mitigation behavior, for example through building codes, zoning laws or fiscal rules.

Public-private partnerships are key to facilitating insurability of hard-to-insure risks. These partnerships work both ways: on the one hand, there is a need for government backstops as insurer of last resort for risks that exceed the capacity of private markets. These could be cyber catastrophe risks from large, coordinated attacks, future pandemics, or solutions for affordable natural catastrophe insurance in peak risk zones. On the other hand, there is a need for insurance of public assets for countries under fiscal stress, where risk transfer through the global re/insurance market

comes at a lower cost of capital. There is also a strong case for transforming international disaster assistance from post-event grants to ex ante solutions via insurance or cat bonds.

### As global protection gaps are increasing, what can insurers and policy-makers do to restore resilience?

The renewed attention of European authorities to protection gaps – as evidenced by the EU Commission's ongoing Climate Resilience Dialogue<sup>2</sup>, and EIOPA and ECB's recent call for an increased uptake of climate catastrophe insurance<sup>3</sup> – is positive. However, some recent developments have been counter-productive. Above all, regulators should bear in mind that re/insurers' ability to help reduce protection gaps greatly depends on their ability to diversify risks across jurisdictions. By promoting open markets and removing trade barriers, such as the mandatory holding of collateral or the localisation of assets, regulators will be able to unlock the full potential of re/insurers on the path to sustainably closing protection gaps.

1. *sigma* | Restoring resilience | Swiss Re Institute | Swiss Re
2. *Climate Resilience Dialogue* - European Commission (europa.eu)
3. *EIOPA and ECB call for increased uptake of climate catastrophe insurance* - European Union (europa.eu)



**PENNY SEACH**  
Group Chief Underwriting  
Officer - Zurich Insurance

## Investing in resilience is key to tackling global protection gaps

The increase in frequency of climate related natural catastrophes in recent years has brought increased attention to the challenge of gaps in the protection provided by insurance to individuals, families and businesses. In fact, the world is facing — and growing — gaps in insurance protection in a number of areas: EUR 0.9 trn (US \$ 1trn) a year for pensions; EUR 0.8 trn (US \$ 0.9trn) for cyber; EUR 0.7 trn (US \$ 0.8trn) for health, and EUR 0.092 trn (US \$ 0.1trn) for natural catastrophes (source: Geneva Association). All four of these protection gaps are widening, reinforced by global trends from climate change and demographics to macroeconomics, geopolitics, and digitalization. If not addressed the consequences of those gaps for our communities and society as a whole will be significant.

Providing protection against these global-scale risks is a critical challenge for insurers, but there is also clear agreement across the insurance industry that the traditional mechanisms to spread financial losses will not be sufficient to address the scale of the challenge. We need to acknowledge that there are emerging risks which present challenges to insurability, as well as traditional risk transfer mechanisms

and need to look to other approaches to address protection gaps.

In the context of climate change, the traditional role of insurance is to transfer risk through paying a premium and increase the insured's capability to withstand or recover from any financial loss arising from natural catastrophes like major floods or a tropical storm. However, insurers can also contribute to climate change adaptation, through their underwriting and pricing signals in the marketplace.

At Zurich Insurance, risk mitigation and risk transfer has been our business for more than 150 years, and we continue to refine and evolve our solutions and approach as we adapt to an evolving risk landscape. With our Zurich Resilience Solutions (ZRS), we provide specialized insights and risk management tools to support commercial customers proactively manage their risks. We also work with the public sector, for example we are currently working with Madrid City Council to help identify and quantify the hazards associated with extreme heat to define adaptation measures for their Climate Resilience Plan – providing a template for how cities across Europe might enhance their resilience and reduce the costs of extreme weather events.

Drawing on our experience, we see three actions that should be prioritized in the quest to close protection gaps.

**A prevention mindset  
needs to develop  
across our economies  
and embedded in  
policy thinking.**

First, we need to develop a prevention mindset. Ensuring our communities are resilient in the face of more frequent climate related natural catastrophes is increasingly essential. Financial support to help with post disaster recovery is important, but far better to avoid the worst impacts of a catastrophe in the first place. Insurance can help plug income gaps in the event of illness, but far better for individuals and companies if we can work to prevent ill health in the first place. Better that a company has protections in place against cyber-attacks rather than having to rely on insurance payments to make up for lost income after they have been hacked. Ex-ante measures and a prevention mindset need to develop across our economies and embedded in policy thinking.

Without prevention, protection gaps will only continue to grow.

Second, we must (re-)establish trust in insurance. Communities, corporates, households that are insured are more resilient, but many find insurance complicated and too many are unaware of the risks that they face. As a result, insurance coverage is partial and governments tend to rely on ex-post compensation schemes, which lack incentives for investment in resilience.

Third, there needs to be better collaboration between public and private sectors if we are to make meaningful progress to address protection gaps. Dialogues like those at this EUROFI conference are important to advance thinking on how we can address protection gaps, and we need to replicate this at national and local level. In this dialogue, we can also address shortcomings in regulatory frameworks our commercial customers have shared with us. The construction industry, for example, plays a key role in the transition to lower carbon economies and low carbon materials are available. However, many tender processes, especially in the public sector, apply a significant weighting to overall cost. This slows down the adoption of these materials and results in missed opportunities to hasten the Net Zero transition.

Clearly, these actions will not happen overnight, and the challenges ahead are manifold. But I remain optimistic that the insurance industry, in conjunction with strong public sector partnership, can be a catalyst for helping society at large and preparing a better future for next generations.