Insurance protection gaps

1. Cyber risk: persistent protection gaps and an urgent need to adapt protection to SME needs

1.1 A growing but fragmented cyber insurance market, addressing mainly large corporates

An industry representative shared that Swiss Re's latest report reveals that global cyber insurance premiums rose from $3 billion in 2017 to an expected $16 billion in 2025, although growth has recently slowed. The market remains dominated by North America (66% of premiums), followed by Europe (21%) and APAC (10%).

An official noted that a 2023 International Association of Insurance Supervisors (IAIS) report based on 2021 data already identified a small but growing cyber insurance market, with insurers tightening terms and focusing more on risk selection. The trend continues, though the protection gap remains vast, at possibly over 95% globally. The market is maturing, with insurers offering additional services, such as risk management support and cyber resilience tools. There is growing use of insurance-linked securities (ILS) and more standardised contract wording, aiding transparency.

1.2 Product complexity, high costs and low risk awareness hinder SME uptake

An industry representative highlighted large disparity in coverage by company size. 60% to 70% of large corporates with annual revenues above $1 billion currently have cyber insurance compared to 50% of medium companies, 10% to 20% of small and medium-sized enterprises (SMEs) and 5% to 10% of micro-SMEs. Although SMEs make up around 90 % of all businesses globally, together with micro-SMEs they account for only about 30 % of total cyber insurance market premium. The lack of coverage in SMEs is driven by a range of factors, including expense, the belief of some SMEs that they are too small to be a target and therefore do not need coverage and the fact that the market has developed to service large corporates, with sophisticated language and contracts that are not tailored to SMEs.

An official commented that there is low penetration of cyber insurance in the market. While large entities accept the need for cyber insurance as part of their overall coverage, SMEs, particularly in smaller member states, often consider cyber coverage a luxury. Individuals and households generally do not see themselves as potential targets. The Organisation for Economic Co-operation and Development (OECD) has concluded in recent work that coverage may not even be available for this segment of the market.

A regulator noted that mid-sized entities in the public sphere often lack knowledge on how to protect themselves. When arranging insurance cover, entities are often advised on changes they need to make. This helps to build resilience at a societal level.

1.3 Regulatory frameworks such as the Digital Operational Resilience Act (DORA) and the Network and Information Security 2 Directive (NIS2) are fostering cyber resilience

An industry representative observed that regulation is playing a positive role. The EU's DORA and NIS2 are increasing risk awareness and aiding market development by supporting better risk management practices.

An official noted that rules and regulations at a European level are helping to manage the risk, for example DORA on operational resilience and NIS2 on stronger risk management and reporting obligations. These regulations can provide protection across society, not just specifically within the financial sector. Collaboration in the area of insurance gaps is in the interests of all because it is a shared issue.

2. Limited data and systemic characteristics demand a public good approach for cyber insurance

2.1 Lack of reliable data and under-reporting undermine market development

An official remarked that barriers to cyber insurance development include limited historical data, under-reporting and the unpredictability of cyber incidents. Cyber attacks are very idiosyncratic, sometimes only impacting one individual or company, but at other times affecting whole systems. Although the incidence of both natural catastrophes and cyber is increasing, natural catastrophes and their effects are much more readily visible to the public. Cyber attacks are often not as obvious to the public, particularly as many companies will not publicise an attack for fear of reputational damage.

An official confirmed that the IAIS is collecting new data on cyber risks and insurance markets globally.

2.2 Cyber risks are systemic, under-recognised and insufficiently understood

A regulator commented that cyber risk is a less mature area than natural catastrophes (NatCat), due to limited data and lower comfort levels. People sometimes do not believe that they will be impacted by a cyber attack, but perceptions can quickly change. For example, in the Netherlands the data of over 900,000 women was lost when the breast cancer screening centre was hacked. This made people reluctant to attend breast cancer screening appointments and raised many questions around how well people's data was protected. The impacts of NatCat are more tangible and easier for citizens to understand.

An official shared that Ireland's 2021 health system cyberattack had severe operational and societal costs, illustrating the systemic nature of cyber risks. OECD research indicates that cyber coverage may not be available to households.

2.3 Cyber resilience requires collective responsibility and basic hygiene practices

An official concluded that cyber is a shared challenge that can only be addressed through collective responsibility and better cyber hygiene practices.

3. Bridging the NatCat protection gap through better education, data and coordination

3.1 Affordability and low awareness limit NatCat uptake, especially in small markets

An official stated that the main barriers to NatCat take-up include affordability, low risk awareness and expectations of government assistance. There are issues on both the supply side and the demand side.

On the demand side, take-up among householders is limited. A lack of understanding of what is covered by policies, sometimes due to previous negative experiences, can affect trust. In Ireland, recent storm damage highlighted misconceptions around coverage. Newspaper articles stated that people were not covered for household damage because it was an 'Act of God'. The finance ministry and insurance sector collaborated to dispel this misunderstanding.

On the supply side, climate change increases the difficulties of risk pricing. Risk appetite can be an issue and a deeper market capacity is needed.

3.2 Insurance literacy and clarity in contracts are key to consumer trust

An official emphasised the importance of insurance literacy, realistic expectations of government intervention and market sustainability. There is no one-size-fits-all solution to the protection gap. The Irish market is quite small and designing policy to encourage insurance companies to provide a full suite of products across the market, while avoiding unintended consequences, is difficult.

An official advised that supervisors must ensure clear contract terms, operational readiness and equitable access to insurance, especially for vulnerable populations. Vulnerable consumers may be less able to invest in resilience measures or withstand a climate event and it is important that their distance from the insurance market is addressed. One of the Insurance Core Principles of the IAIS (the global standard for insurance supervision) deals with the fair treatment of consumers by insurance companies throughout the entire customer journey, from ensuring clarity in marketing materials to providing adequate resources after events occur.

3.3 Supervisory coordination and proportionate regulation build resilience

An official noted the importance of understanding local contexts, demand and supply-side challenges and the fair treatment of consumers. Building resilience and expanding access requires collaboration between prudential and conduct authorities, as well as innovation from the private sector. Operational resilience will involve insurers planning and ensuring that the necessary systems and people are in place to process claims after climate events that may increase in impact and frequency.

In addition to market conduct requirements, prudential requirements including on risk-based solvency and risk-based pricing are important. Conduct and prudential requirements help supervisors to maintain the sustainability of the insurance sector. The insurance sector can assist in building resilience across the market. As the private insurance sector develops innovative products, supervisors can set the boundaries around prudential and conduct regulation to ensure a sustainable and resilient sector

4. Public-private schemes must complement, not distort, the market

4.1 Long-standing national public-private partnerships (PPPs) ensure rapid recovery and broad coverage

An industry representative shared Spain's experience with the public-private Consorcio de Compensación de Seguros (CCS), particularly following the extreme floods in Valencia. The event resulted in nearly €5 billion in losses and 250,000 claims, which was the largest ever incident for CCS. The scheme's long-standing cooperation with the private market enabled swift claims management, with 97% of claims processed within 10 months. 90% of affected properties were insured due to automatic NatCat coverage. For several decades the market in Spain has focused on cooperation, considering CCS a tool, not a competitor. This has benefitted all players and is an approach that could be followed globally.

An industry representative explained that the French CatNat scheme, similarly to CCS, is a cooperation between the private and public sectors. The scheme has four principles: private insurers cover insurable risks, such as storms; uninsurable risks, such as floods or droughts, are managed through the PPP; operations are managed by insurers under state supervision; risks are shared equally between public and private sectors. 95% of houses are insured and the premiums average only €300 per year, although unfortunately the fund is in deficit and recently had to be reformed.

4.2 Risk selection and demutualisation could threaten the sustainability of pools

An industry representative emphasised that the effectiveness of the French scheme relies on strong pooling, affordability and insurer participation. The use of risk data could potentially undermine this if insurers begin selecting risks, threatening the sustainability of the pool. A new observatory under the Ministry of Finance now monitors insurability to ensure fair participation across insurers. Data-driven risk selection by insurers could destroy the pool, leading to the loss of a vital national resource, and regulatory discipline will be crucial in preventing this.

4.3 National contexts must guide PPP design to ensure effectiveness and fairness

An industry representative noted that the industry is sceptical about an EU-wide NatCat scheme, as proposed in a paper by the European Central Bank (ECB) and the European Insurance and Occupational Pensions Authority (EIOPA). Three elements are presented as triggers for the EU scheme. First is a lack of NatCat capacity that can only be addressed by adding more capacity. However, it is not accepted by the industry that there is a current significant capacity problem in Europe.

Secondly, the paper states that a whole-EU pool would be well-diversified geographically. However, from the perspective of a global reinsurer, global diversification is better than EU diversification, so this is not a strong argument.

Thirdly, the paper suggests that EU scheme would offer lower NatCat premiums. The paper outlines some tools, including one that is related to sovereign backing and another with less stringent prudential requirements. This would not be helpful in the long term and would not provide the right incentives.

While the industry welcomes the 'ladder' approach prioritising private markets before PPPs, any solution must reflect national contexts. Industry input should be sought in the design of any potential EU scheme regarding what aspects already present in other schemes should be emulated and in what political and economic context these aspects could be applied.

A regulator explained that the 'ladder' model includes the EU level as a backstop after all the other steps. The model also includes a reinsurance pool in the private markets before this backstop to assist with insurability. If the industry believes that this final backstop is not needed, this suggests that the problem is perhaps not as significant as was feared, which is reassuring. However, regulators may disagree with the industry and still see some tail risk that needs to be mitigated with a backstop.

An official reiterated that national specificity matters and warned against removing policy options prematurely. While mandatory insurance might be discussed theoretically, it is not currently being seriously debated in Ireland.

5. Enhancing coordination and learning to deliver scalable, sustainable solutions

5.1 International cooperation is vital for effective supervision and mitigation

An official shared that the IAIS is prioritising collaboration between the insurance sector and policymakers and supporting supervisors through data collection and peer exchange. The IAIS is now engaging directly with global fora such as the G7 and G20 and partnering with the OECD and World Bank to promote multi-stakeholder solutions.

5.2 Functional benchmarking of existing schemes can inspire tailored solutions

An industry representative indicated that the industry favours schemes that promote mitigation, risk reduction, and transition to risk-based pricing, as exemplified by the UK's Flood Re sunset clause. Discussion should focus on functional elements of existing schemes rather than top-down harmonisation.

5.3 Shared challenges require cross-sector dialogue and continued EU engagement

A regulator noted that DG CLIMA and EIOPA are currently working on an EU proposal. Continued discussion will be needed to develop sustainable and scalable solutions. Insurance protection gaps are a shared challenge, requiring cross-sector collaboration, national tailoring and international learning.