

## INSURANCE PROTECTION GAPS



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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).