IAIS International Association of Insurance Supervisors

STATEMENT

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The role of insurance supervisors in addressing natural catastrophe protection gaps

Enhancing resilience against intensifying natural disasters is a pressing challenge for jurisdictions across the globe. The damage and economic losses caused by natural catastrophes are increasing, partly driven by growing exposures in high-risk areas. As the impacts of climate change intensify, this could result in even greater damages, leading to increased protection gaps, which often disproportionately affect vulnerable people and are felt more severely by emerging markets and developing economies (EMDE). This underscores the increasing importance of building and improving resilience against natural disasters.

Insurance, including reinsurance, can play a significant role in managing the financial impact of natural disasters, thereby contributing to resilience. Insurance offers financial protection against damage to and loss of physical assets, as well as indirect economic losses, and aids recovery and reconstruction after natural disaster events. Insurance can also provide incentives for risk adaptation, mitigation and preparedness before a disaster. Besides such microeconomic benefits, insurance also contributes to macroeconomic resilience by helping to absorb the negative financial impacts on the economy after a natural disaster.

Addressing natural catastrophe protection gaps requires shared efforts of both the public and private sectors. Issues such as insurability and affordability can be challenges for, or limits to, insurance-based solutions; increased intensity and frequency of natural catastrophes could further exacerbate such issues.

In this context, insurance supervisors can contribute to addressing protection gaps and support disaster risk assessment and risk management practices in various ways. Insurance supervisors have a mandate to protect policyholders, promote the maintenance of fair, safe and stable insurance markets and to contribute to financial stability. The supervisory mandate could also include the promotion of insurance market development or financial inclusion. Within these various mandates, supervisors can play an essential role in supporting disaster risk assessment and risk management practices. Examples of initiatives underway in IAIS member jurisdictions include:

- Supporting availability of risk analytics and data to assess disaster risks and insurance protection gaps;
- Providing incentives or implementing regulation to encourage risk prevention measures and actions to improve financial literacy and risk awareness; and
- Contributing to the design and/or implementation of public-private initiatives aimed at addressing natural catastrophe insurance protection gaps.

The IAIS is committed to further supporting insurance supervisors' actions to address protection gaps. By the end of 2023, the IAIS will publish a report that analyses the various types of initiatives undertaken by insurance supervisors to address natural catastrophe protection gaps. The report will draw from examples and insights from IAIS members, the insurance industry, international organisations and other stakeholders with a view to distil the key elements of current good practices. This work can contribute to discussions at other international fora, such as the G7.

The IAIS will facilitate information exchange at the global level and seek opportunities for collaboration with partners. In 2023, the IAIS will engage with our global membership and stakeholders on this important topic, including at its milestone events. To address this critical challenge, in developing options for future work the IAIS will seek opportunities to engage with existing initiatives like the Global Shield against Climate Risks and collaborate with other international partners, such as the Access to Insurance Initiative (A2ii), Insurance Development Forum (IDF), Organisation for Economic Cooperation and Development (OECD) and World Bank with expertise in protection gaps and disaster risk financing.