



Bridging the gap

Supervisors can act as a bridge between insurers and governments to drive action on natural catastrophe protection gaps



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Addressing insurance protection gaps in the face of catastrophic events is a complex societal challenge. GFIA’s report, “[Global protection gaps and recommendations for bridging them](#)”, cites that the current natural catastrophe (natcat) protection gap stands at roughly US\$139 billion per annum. Given the scale and complexity of the underlying issues, addressing this challenge will require a concerted effort from a broad range of stakeholders, including governments, the insurance industry and consumers. Alongside these parties, insurance supervisors can also play a role in mitigating the damaging effects of insurance protection gaps; a topic that is increasingly on the agenda of supervisors.

At the International Association of Insurance Supervisors (IAIS), the global standard-setting body for insurance supervision, we are actively exploring the role of insurance supervisors in addressing protection gaps and how we can act as a bridge between industry and governments to drive action. Earlier this year, the IAIS established a Protection Gaps Task Force (PGTF) comprising members from a broad range of IAIS jurisdictions and regions. In April 2023, we released a [statement](#), outlining our commitment to further supporting insurance supervisors in addressing protection gaps.

The IAIS is cognisant of the fact that that insurance protection gaps exist across a range of risks, such as pensions, cyber and health — and here we acknowledge the excellent work of GFIA across these topics. While we recognise the multifaceted nature of protection gaps, our initial focus at the IAIS centres on natcat protection gaps — a pressing concern for many of our members.

Upcoming report

A key deliverable of the PGTF will be a report this year on the role of supervisors in addressing natcat protection gaps. The report will outline what supervisors can do to help find solutions to address these gaps. It will also present a range of supervisory actions aimed at overcoming challenges related to the affordability, availability and uptake of insurance coverage against natcat events, underpinned by examples from IAIS member jurisdictions. This paper will serve as a pioneering initiative that builds a platform for future IAIS initiatives addressing protection gaps.

The report builds on the understanding that insurance, including reinsurance, can substantially contribute to managing the financial impact of natural disasters, thus enhancing resilience. Insurance provides financial protection against damage to and loss of physical assets, as well as indirect economic losses, and aids in recovery and reconstruction after natural disasters. Insurance can also incentivise adaptation, risk mitigation and preparedness before a disaster occurs. Beyond such microeconomic benefits, insurance also bolsters macroeconomic resilience by helping to absorb adverse financial impacts on the economy following natural disasters.

Insurance supervisors, for their part, can also support the important societal role that insurance can play in addressing natcat protection gaps — and protection gaps in general — through various activities. These activities could include:

- contributing to the assessment of protection gaps;
- enhancing consumer financial literacy and risk awareness;
- incentivising risk prevention;
- fostering an enabling regulatory and supervisory environment to support insurance availability and coverage uptake; and,
- advising government and industry on financial inclusion and societal resilience.

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Supervisory mandates differ

We must acknowledge from the outset that supervisory responses aimed at addressing protection gaps will be influenced by the supervisory mandate, in conjunction with the maturity, size and complexity of the insurance market. While supervisors will continue to focus on core policyholder protection and financial stability objectives, emerging risks and trends such as digitalisation in insurance, climate risks and cyber risks have led many supervisors to assume a broader scope of responsibilities and activities. For example, an increasing number of policymakers concerned with financial inclusion and resilience goals have assigned insurance supervisors an explicit market development mandate, while others are more actively supporting inclusive insurance markets in response to mounting societal risks arising from the lack of affordable and appropriate insurance coverage.

While approaches to narrowing protection gaps may differ, the supervisory mandates to preserve financial stability and enhance policyholder protection provide a robust basis for acting on protection gaps. For those supervisors with mandates to promote financial inclusion and market development, actions to address protection gaps are even more critical.

The forthcoming report on the role of supervisors in addressing natcat protection gaps will provide a basis for engagement amongst insurance supervisors, the insurance industry, policymakers and other stakeholders. It will also fortify our efforts to address protection gaps more comprehensively. We look forward to continued engagement with GFIA and its member associations on this critical topic

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