

Narrowing protection gaps through innovative insurance products

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Narrowing Protection Gaps

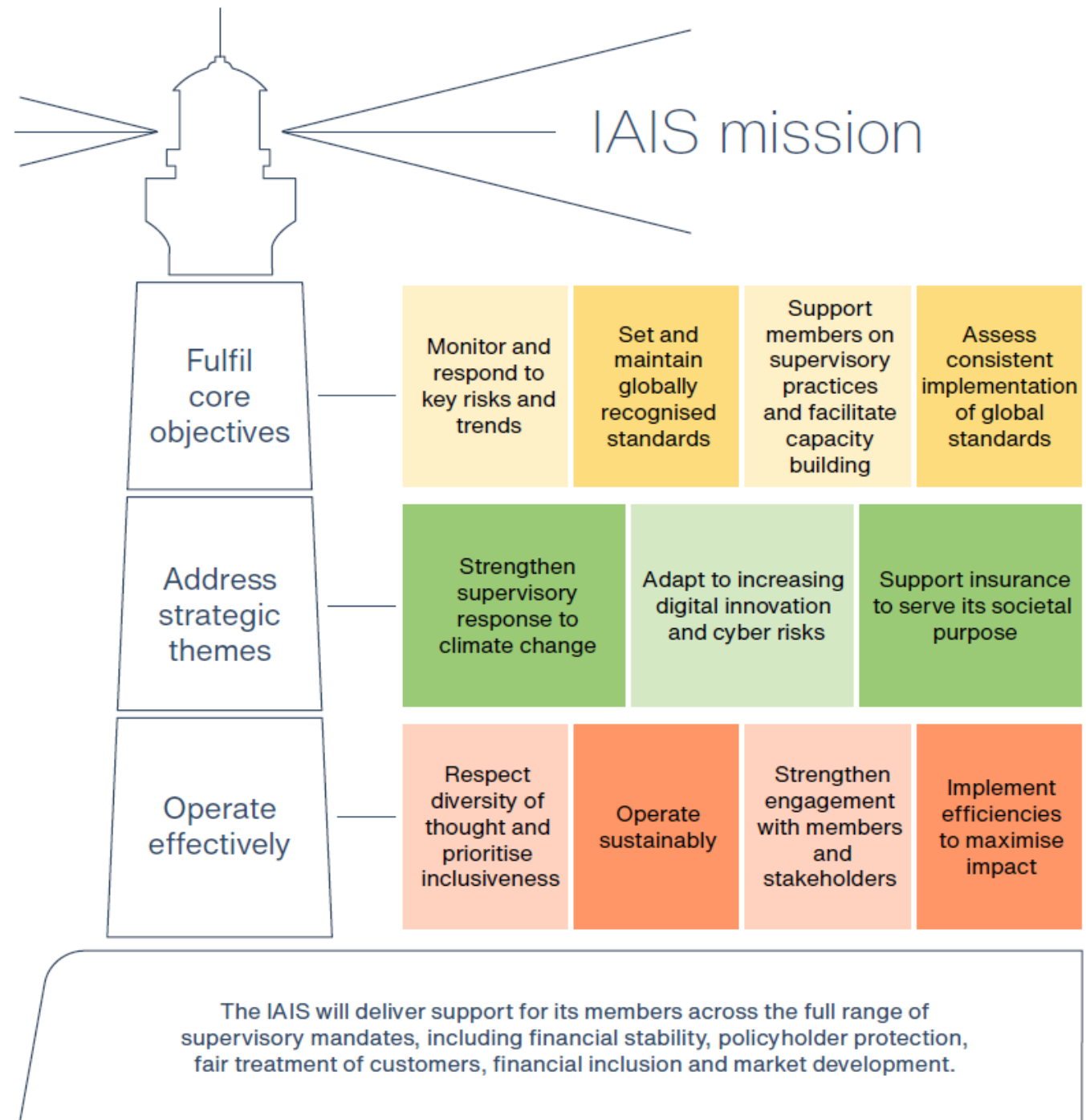


Contents

1. Strategic plan 2025-2029
2. Protection Gaps Matter
3. Insurance Supervisors have a role
4. Parametric insurance
5. Looking ahead

Strategic Plan

- In October, the IAIS published its 2025-2029 Strategic Plan, which sets the strategic direction for the Association over the next five years
- The 2025-2029 period follows an intensive standard setting phase; going forward there will be a shift to maintenance and refinement of these standards
- Focus shifts to: assessing key risks and trends in the global insurance sector; supporting effective supervisory practices; robust implementation assessment and support



IAIS strategic themes for 2025-2029

- The IAIS has identified three broad, cross-cutting strategic themes which warrant heightened attention and action by the global supervisory community
- The IAIS will ensure these themes are integrated into work done to support its core objectives
- The themes do not represent a radical shift in emphasis but rather an evolution of themes that the IAIS currently focuses on

1

Strengthening
supervisory
response to
climate change

**2**

Adapting to
increasing digital
innovation
and cyber risks

**3**

Supporting
insurance to serve its
societal purpose
of building resilience



Protection Gaps matter...

Emerging risks and trends—such as climate change, increased digitalisation, ageing populations, evolving urban environments and growing exposure—can exacerbate protection gaps in areas like climate, cyber security, healthcare, and pensions.

Cyber risks

Estimated protection gap
~90%¹

Healthcare

The global health protection gap is ~USD 941B in premium equivalent terms

Pensions

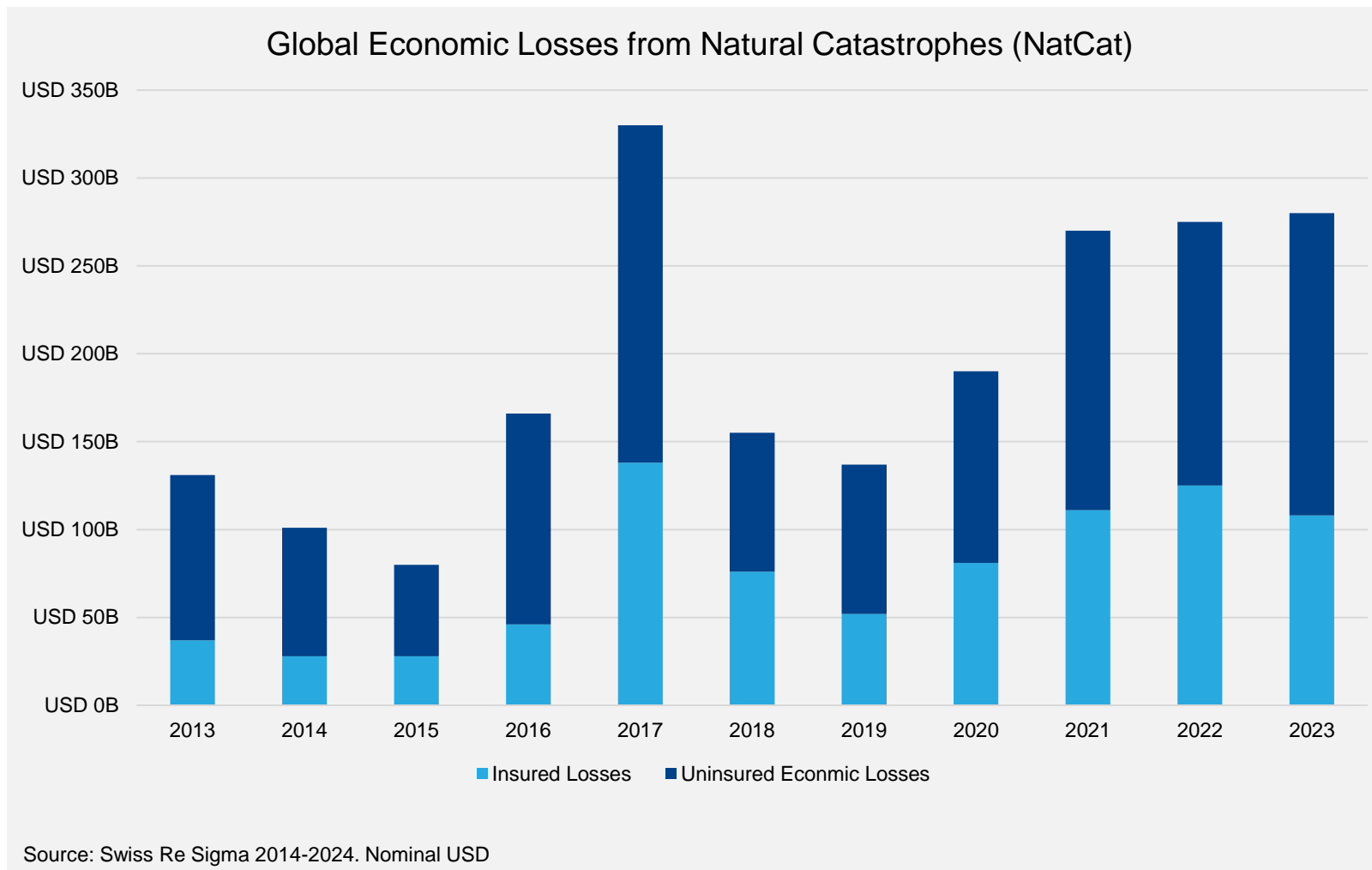
Estimated protection gap is
~USD 51Trn³

These protection gaps may pose risks for:

- **Households and businesses:** Increasing risks to business continuity and operational resilience.
- **Society:** Increasing morbidity and mortality, potentially impacting long-term economic growth.
- **Financial stability:** Impacting long-term investments, increasing the economic vulnerability for individuals, and posing risks of increased public spending.

Sources: 1) Swiss Re SONAR (2024); 2) Swiss Re sigma Resilience Index (2024); 3) Global Federation of Insurance Associations (2023)

Growing NatCat protection gaps



The frequency and intensity of NatCat events are increasing, triggering greater damages and **economic losses**

Increasing Protection Gaps pose challenges to financial stability and societal resilience. Impacts are felt more severely by emerging market and developing economies (EMDEs)

Addressing protection gaps is a broad societal challenge that requires a coordinated response

Insurance-based solutions provide vulnerable and low-income populations with an alternative to

- selling their belongings
- cutting back on business investments
- reducing household spending on essentials like food and education



All-Encompassing Solutions for NatCat risk

Insurance not only aids in risk sharing but also in risk mitigation, faster recovery, and can contribute to sustainable growth and financial stability.

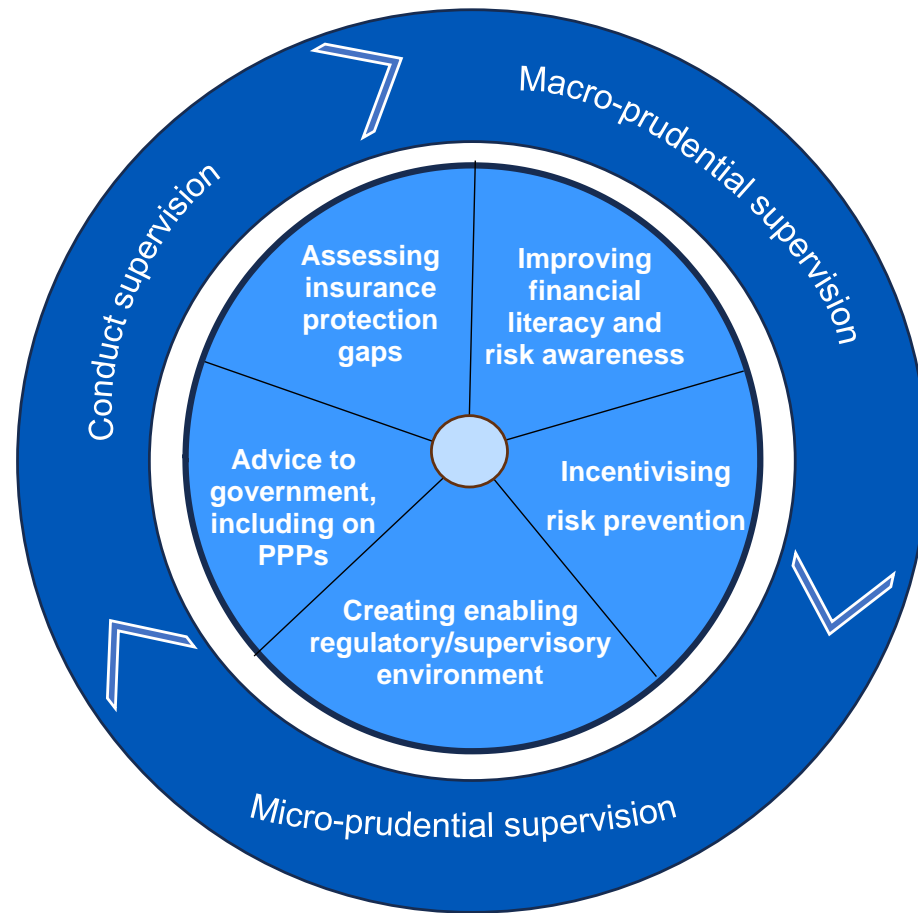
Ex ante investment in risk reduction

- Investments in resilience or risk reduction can reduce the costs related to natural disasters
- Often the most cost-effective approach to addressing disaster costs.
- Risk mitigation can help with making insurance more accessible and affordable.

Ex post funding of disaster costs

- The costs that remain need to be absorbed/funded when they materialize, eg through risk retention, risk financing and risk transfer.
- International and donor organisations can provide relief to supplement existing arrangements or where effective insurance markets, or government supported insurance schemes do not exist.

Insurance supervisors have a role...



Addressing protection gaps supports multiple insurance supervisory objectives, including:

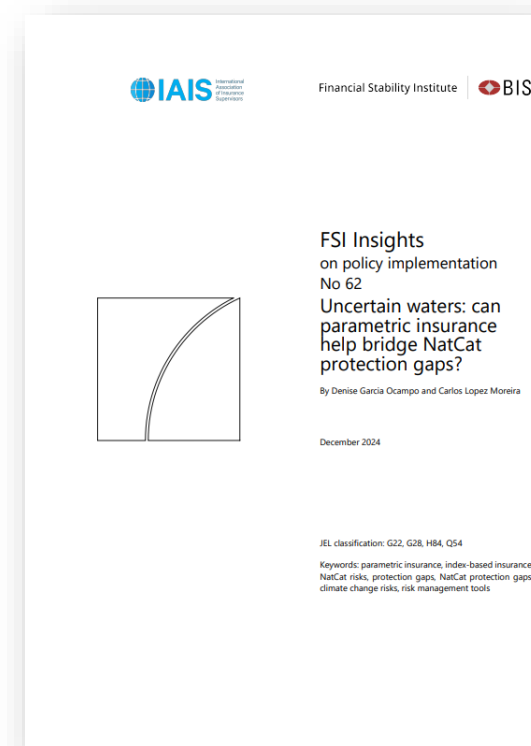
- Financial stability
- Policyholder protection and fair treatment of customers
- Financial inclusion
- Market development

Through:

- Assessing gaps
- Improving financial and risk literacy
- Incentivising risk prevention
- Creating an enabling environment
- Advising government

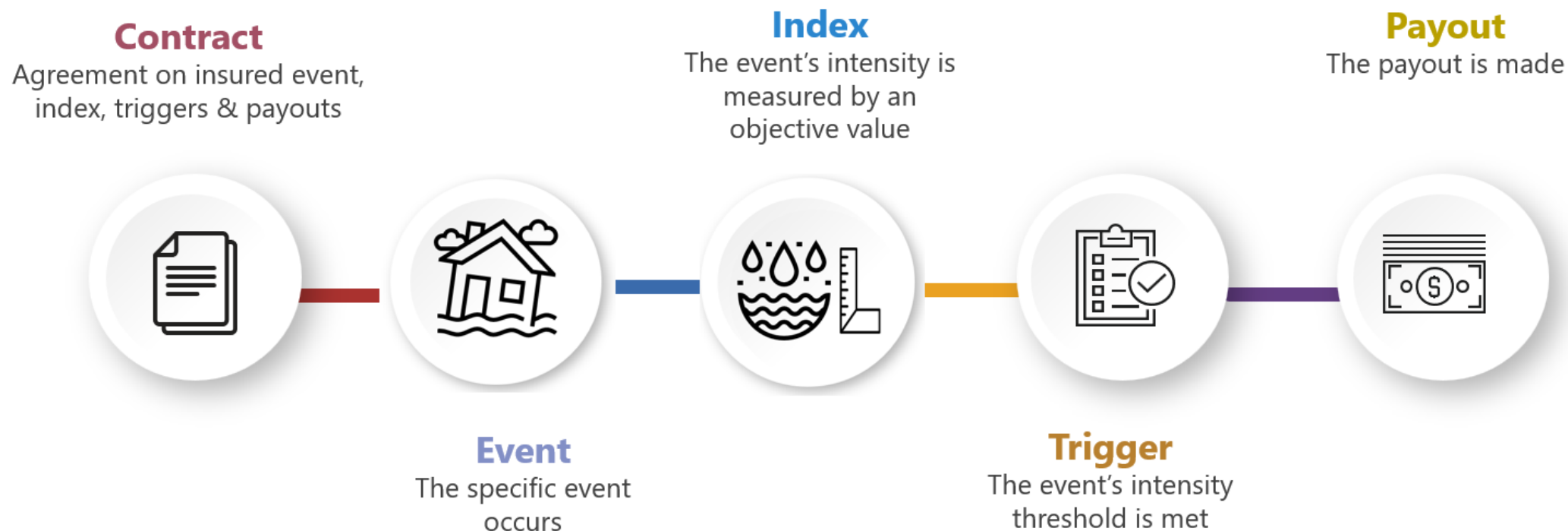
Insurance-based solutions

- IAIS calls for supervisors to take action to address NatCat protection gaps including by providing regulatory environments enabling innovative solutions like [parametric insurance](#).
- The FSI and IAIS developed a joint report to analyse key design elements enhancing parametric insurance adoption. [*FSI Insights no 62: Uncertain waters: can parametric insurance help bridge NatCat protection gaps?*](#)
- It is based on a desktop research and survey with 12 supervisors and 7 market participants (July-August 2024).
- Focuses on non-agricultural parametric insurance for households and SMEs given their crucial role for economic resilience, particularly in EMDEs



Key features of parametric insurance

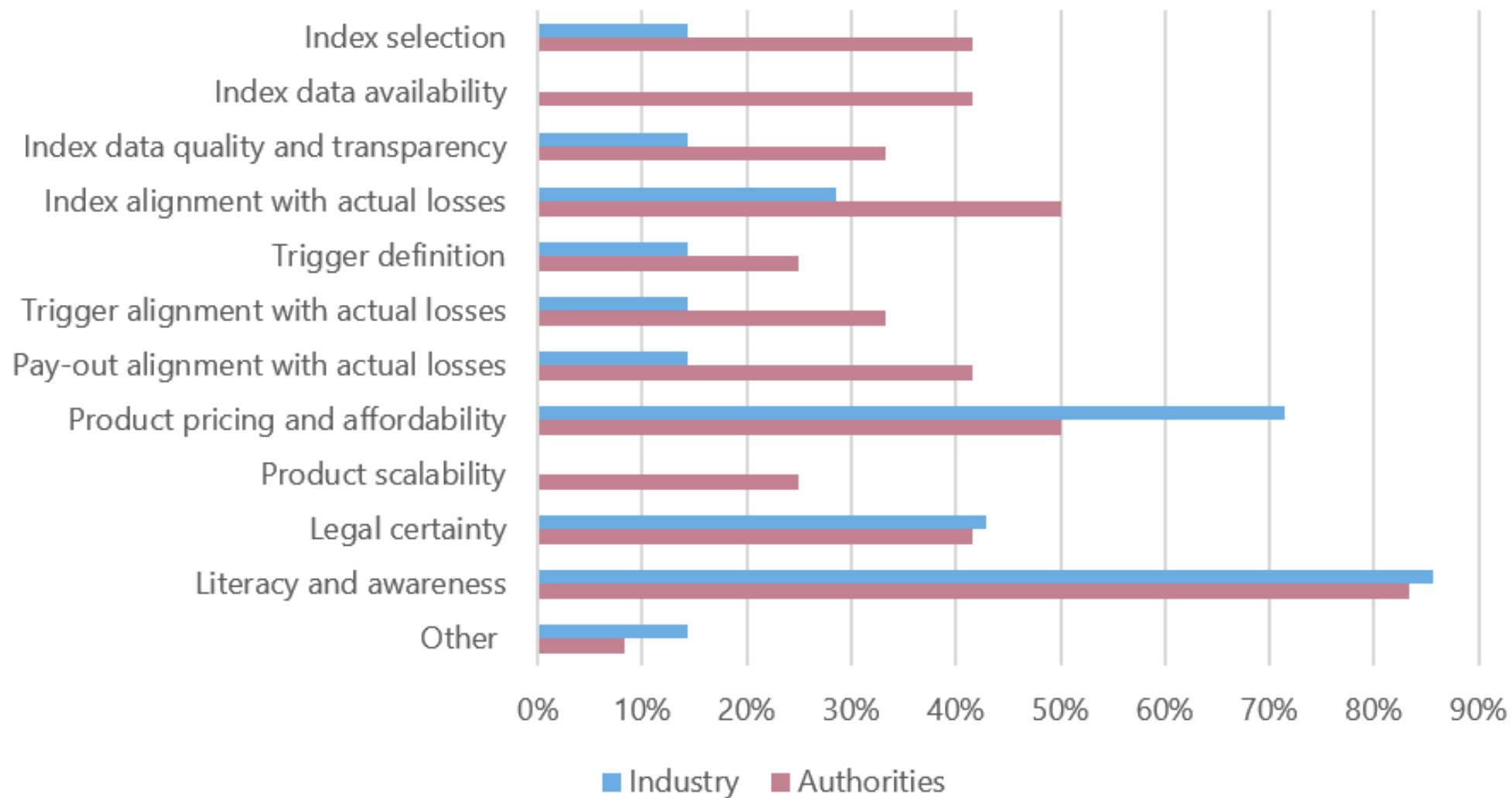
Parametric insurance is a type of contract that pays the insured a set amount upon the occurrence of a specific event meeting a predefined intensity threshold, as measured by an objective value instead of based on the amount of damage sustained.



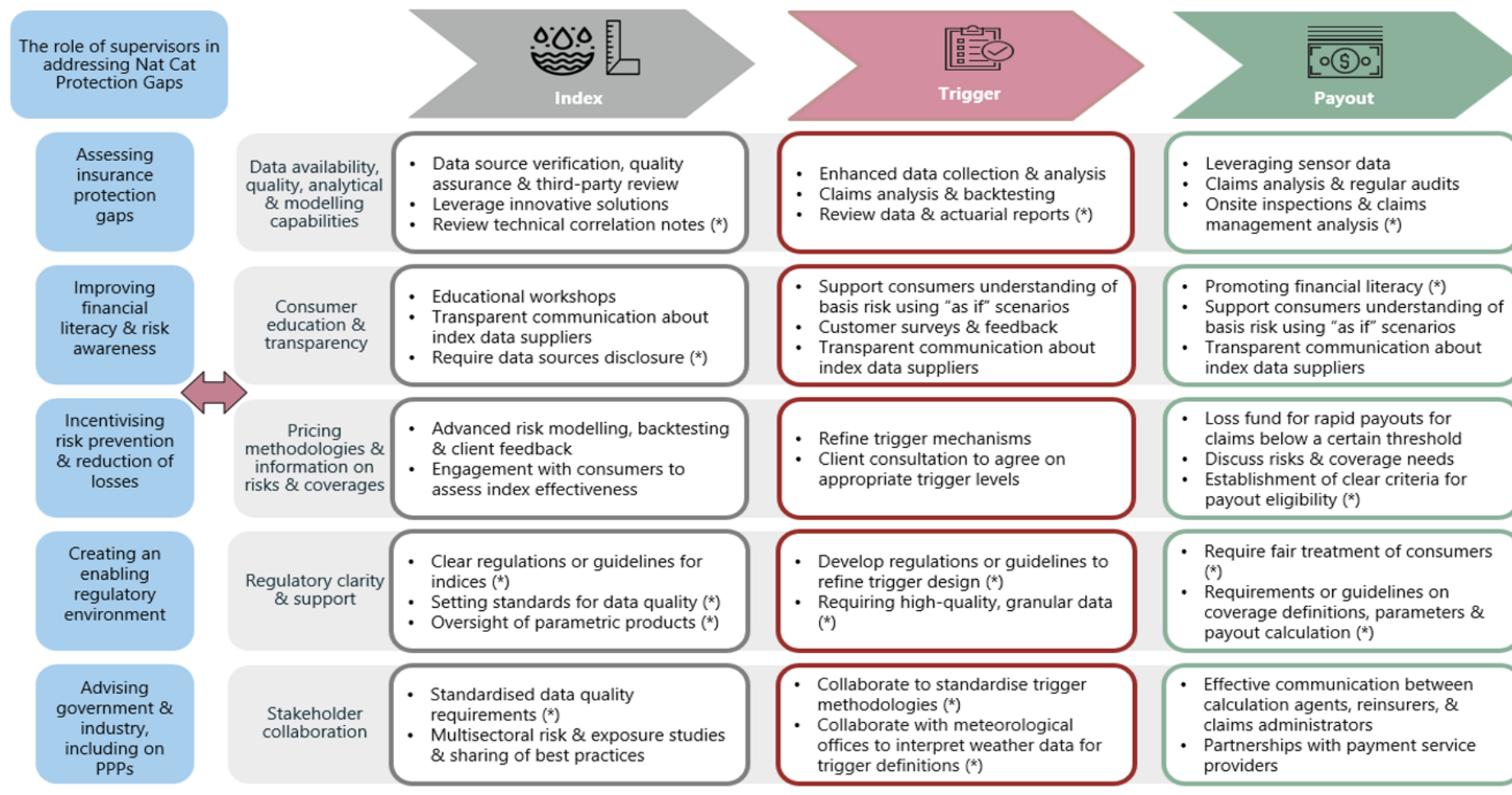
Regulatory frameworks

Approach	Description
Application of legal principles in existing regulation of insurance contracts	Legislation in force allows for or raises no barriers to parametric insurance.
Specific laws and/or regulations that regulate parametric insurance	Laws and/or regulations specifically regulate parametric insurance, providing greater legal certainty for the use of parametric products
Legal opinion by which parametric insurance is governed by existing insurance regulation	Issuance of a legal opinion in favour of including these products under the oversight of the insurance law, based on the “insurable interest” at the date of contracting.
Exceptions to the governing law on insurance	Adoption of a pilot project, generally in the context of a regulatory sandbox, as an exception to the legislation. This approach lets insurers test parametric products within a supervised environment before regulatory changes

Survey responses – Main challenges



Survey responses – Key recommendations



(*) indicates recommended actions for supervisors.



Looking Ahead

The IAIS will continue *supporting members in understanding and addressing the challenges posed by protection gaps* (Strategic Plan 2025-2029), potential work includes:

The IAIS has initiated a review of the Application Paper on Inclusive Insurance published in 2012, to reflect changes in the insurance landscape

Continue to provide a platform for information sharing and peer exchange on jurisdictional supervisory initiatives

Assess the financial stability implications of NatCat protection gaps

Enhance engagement with A2ii on inclusive insurance, supporting innovative solutions expanding knowledge

Collaborate with other partners including the Global Shield (with A2ii) against Climate Risks, IDF and the OECD on related issues

Continue supporting supervisory capacity building to equip supervisors with the skills to support inclusive insurance markets and understand their exposures to NatCat risks

An aerial photograph of a city, likely Shanghai, featuring the distinctive, curved, and tiered architecture of the Shanghai Tower. The building is surrounded by other urban structures and is partially obscured by thick, white clouds. The right side of the image is a solid blue triangle.

Thank you.