The contribution of Public-Private Insurance Programmes in responding to natural hazard risks

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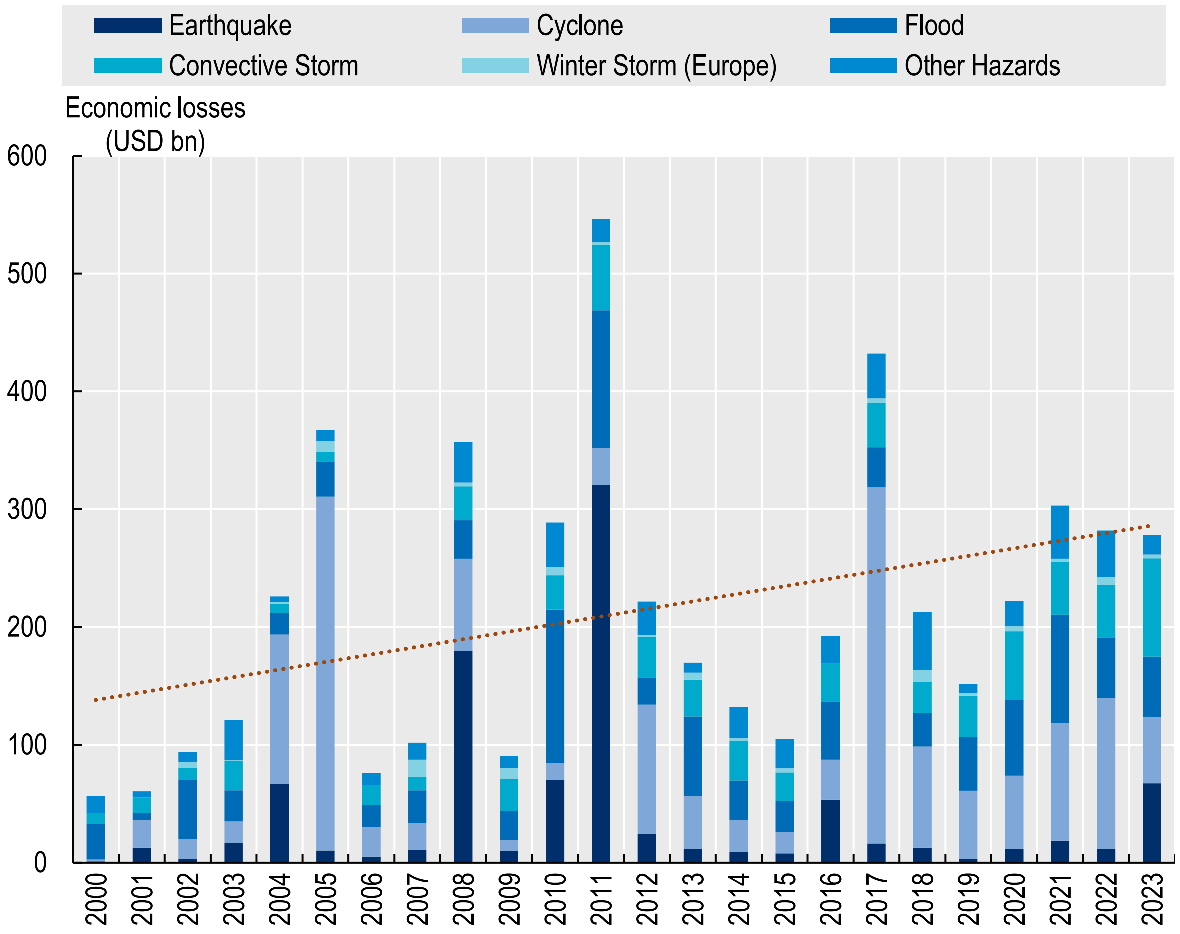
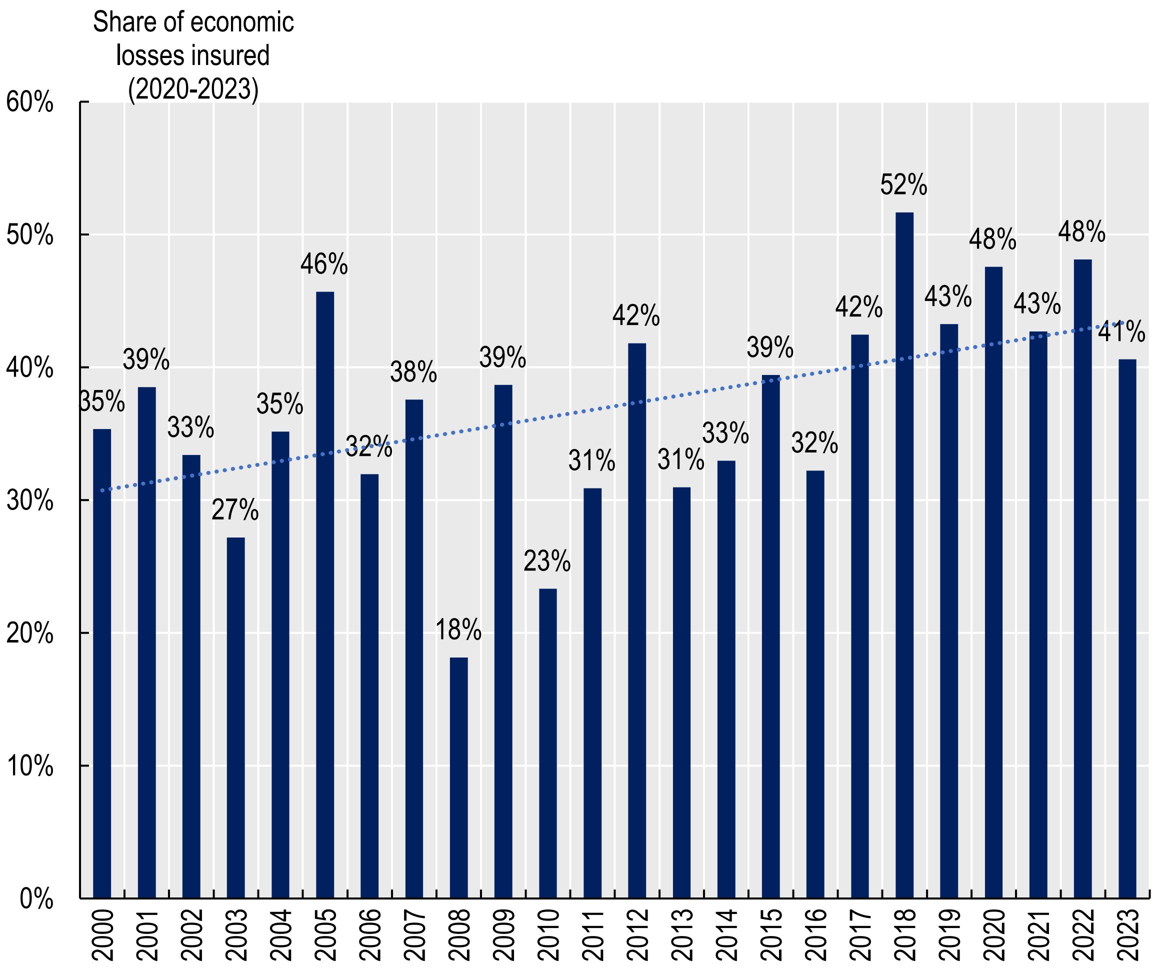
Economic losses from natural hazards are rising across the world...



Source: OECD calculations using data from Swiss Re, sigma database.

...with some progress in reducing protection gaps...



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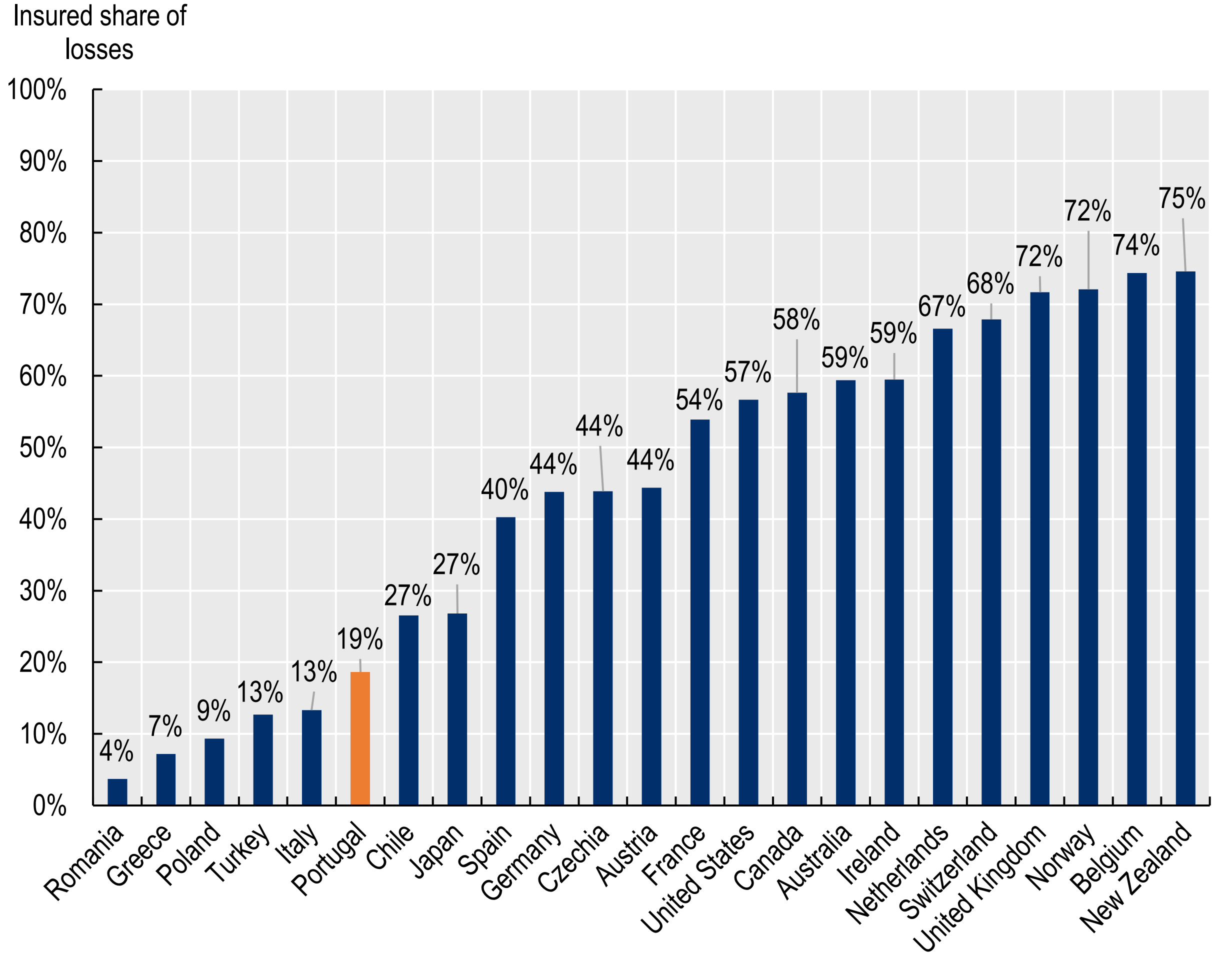
...although significant protection gaps remain in many countries...



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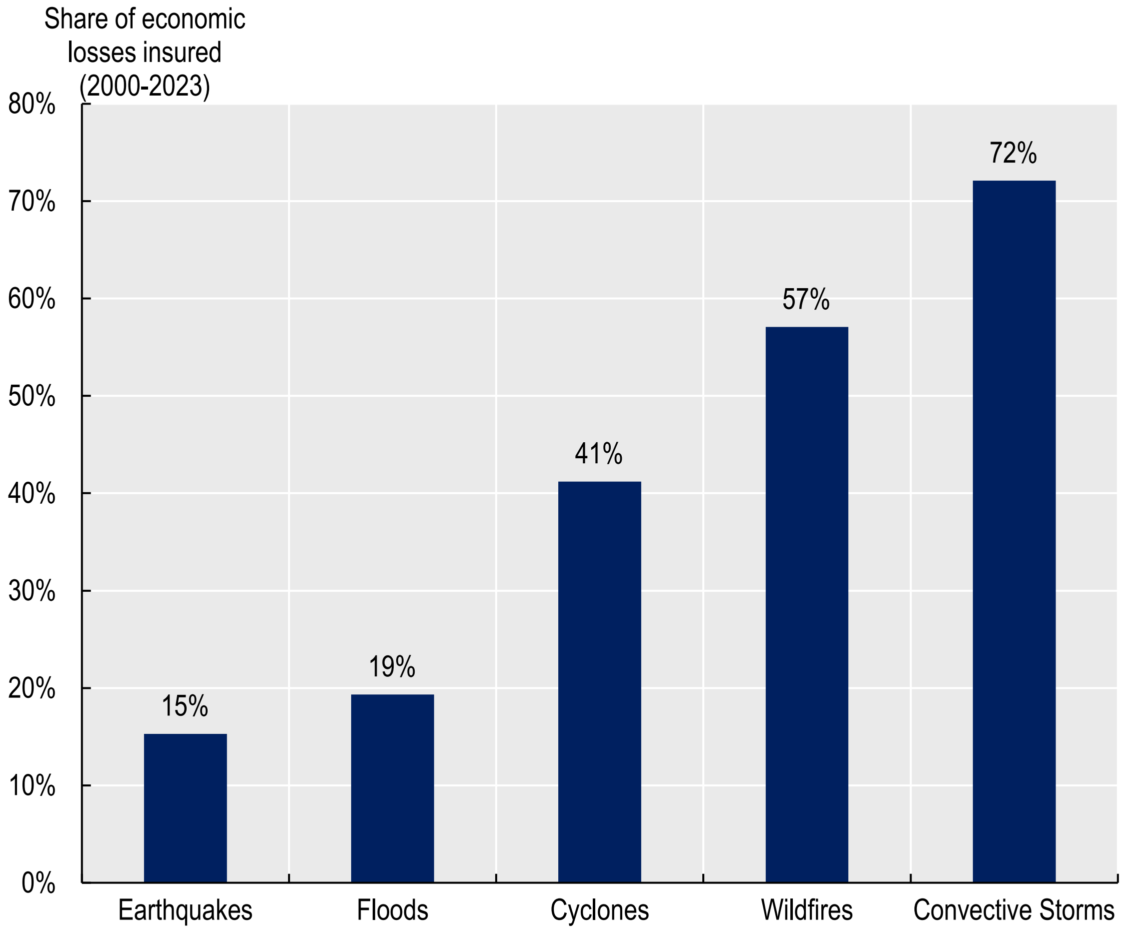
...and for many types of natural hazards



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G7 High-Level Framework for Public-Private Insurance Programmes (PPIPs) against Natural Hazards

1

Assessing protection gaps

- Potential financial exposures
- Availability and take-up of insurance
- Potential financial vulnerabilities
- Possible adverse impacts on public finances

2

Exploring possible actions to address protection gaps

- Improving risk awareness and financial literacy
- Incentivising and investing in risk reduction
- Enabling regulatory/supervisory environment
- Assessing necessity and viability of PPIP

3

Developing a PPIP for tackling disaster risks

- Possible objectives for PPIP
- Potential design features
- Implementation needs

1. Assessing protection gaps

1.1 Overall exposure to natural hazards

Assessment of current and evolving risks, especially due to climate change

Hazards / exposures / vulnerabilities

1.2 Financial vulnerabilities and their drivers

Identification of potential ***financial*** exposures to households and businesses due to damages and losses

Availability and uptake of insurance

Potential ***financial vulnerabilities*** and ***adverse impacts***

- *Households*
- *Firms*
- *Government*

Factors limiting availability and/or take-up of insurance

- *High exposure to damages and losses*
- *Correlation of risks*
- *Challenges in risk quantification*

- *Low levels of financial literacy*
- *Expectation of government compensation*
- *High insurance costs*

2. Exploring the range of possible actions to address protection gaps

2.1 Improving risk awareness and financial literacy

- Awareness of exposure to hazards and potential impacts
- Understanding of the need for applicable insurance
- Clarity on the availability (and limitations) of public compensation

2.2 Incentivising and investing in risk reduction

- Government investment in risk reduction
- Funding for risk reduction at community and property-level
- Incentives for policyholder risk reduction

2.3 Enabling regulatory / supervisory environment

- Insurance market development and sound regulation
- Market access for insurance and reinsurance
- Pricing flexibility (on actuarial grounds)
- Application of digital technologies

2.4 Assessing the necessity and viability of PPIPs

- Effectiveness of existing measures against potential implementation of a PPIP

3. Developing a PPIP to tackle disaster risks

3.1 Potential objectives

- Ensure broad availability and affordability of coverage
- Leverage available private insurance, reinsurance and capital market capacity, while maintaining solvency
- Limit public sector exposure to losses
- Encourage risk reduction and adaptation

3.2 Design features

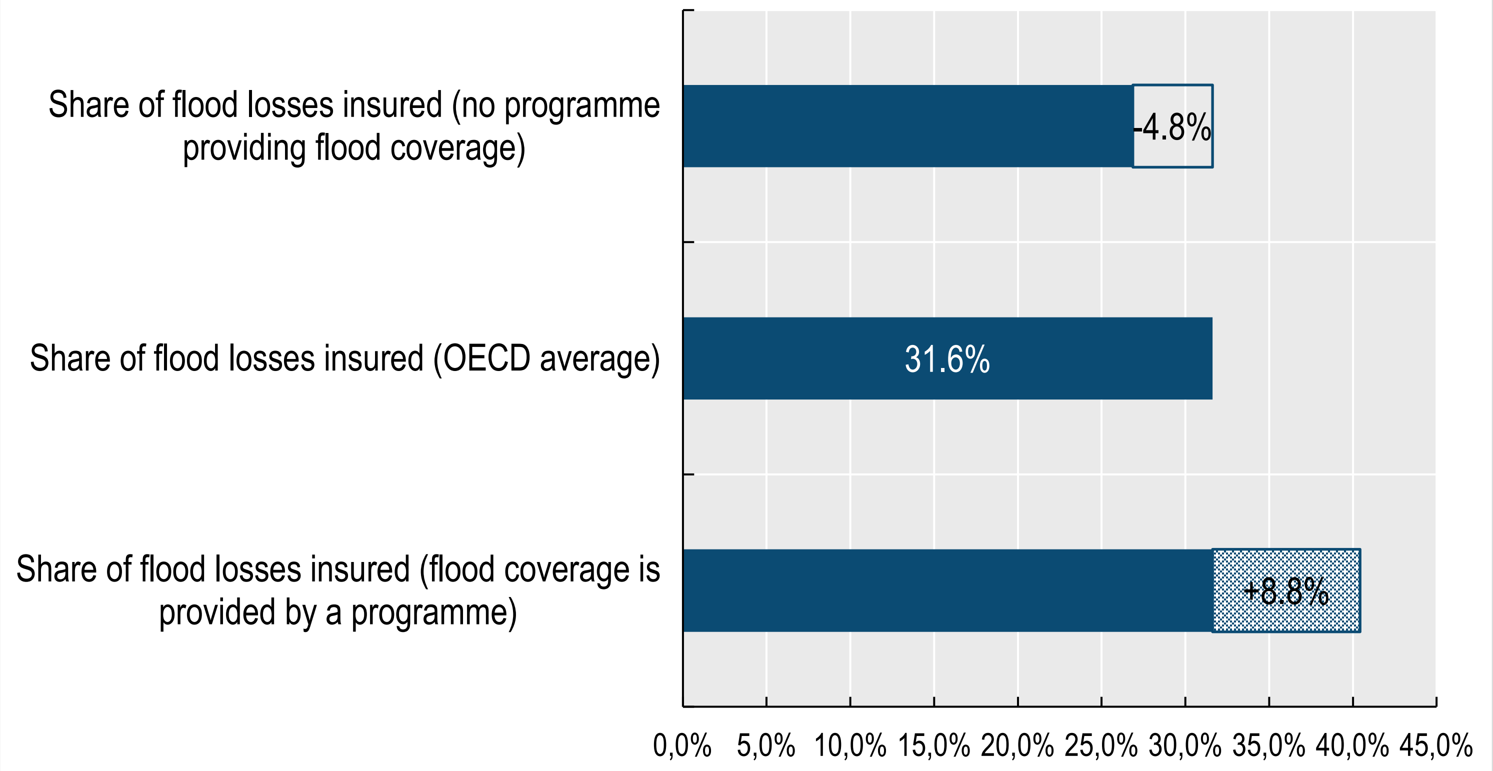
- Scope of programme (eligible hazards, policyholders)
- Type of financial protection (insurance, reinsurance,..) and role in the market (complement/substitute)
- Extent of compulsion and approach to premium-setting
- Other elements to support objectives (e.g. premium discounts, funding for policyholder risk reduction)

3.3 Implementation needs

- Ensuring effective coordination across government
- Designing effective scheme governance
- Building institutional capacity
- Fostering use of technology
- Ensuring involvement of insurance supervisors

3. PPIPs can support broad coverage

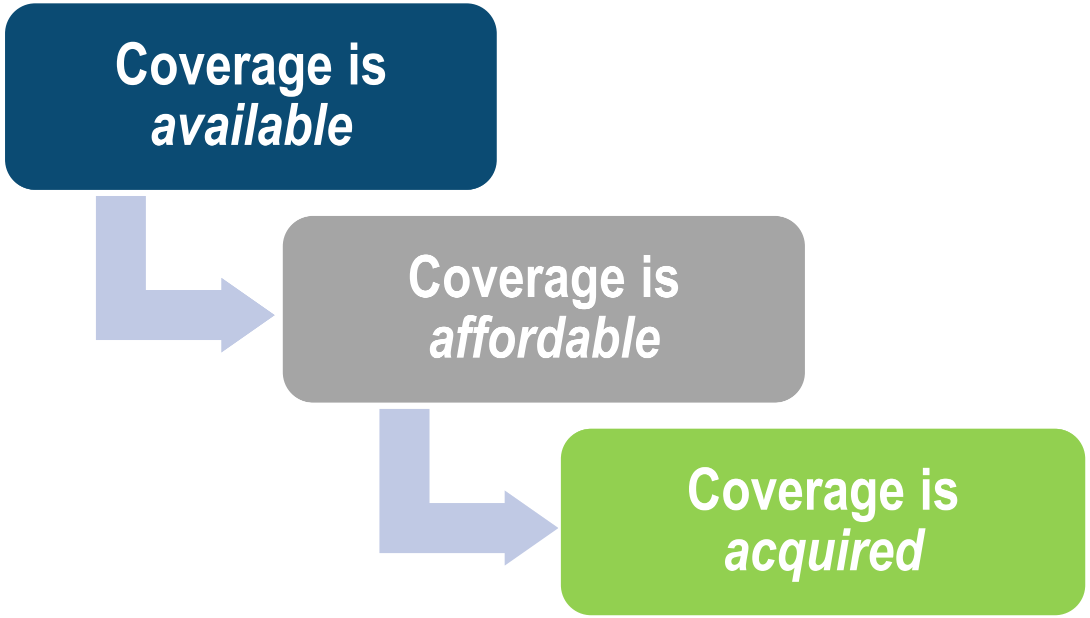
Co-insurance and risk pooling arrangements can support broader coverage



Source: OECD calculations using data from Swiss Re, sigma database. All rights reserved (OECD members, excludes flood loss years with no reported insured losses)

- Public-Private Insurance Programmes can enhance the availability of affordable insurance coverage, particularly in areas at high-risk

3. Design features for achieving broad coverage



- Broad eligibility for programme coverage (hazards, insureds)
- Limited programme exclusions
- Significant programme influence on premium pricing
- Compulsion, automatic inclusion, (broad) mortgage-related coverage requirements
- High existing insurance penetration

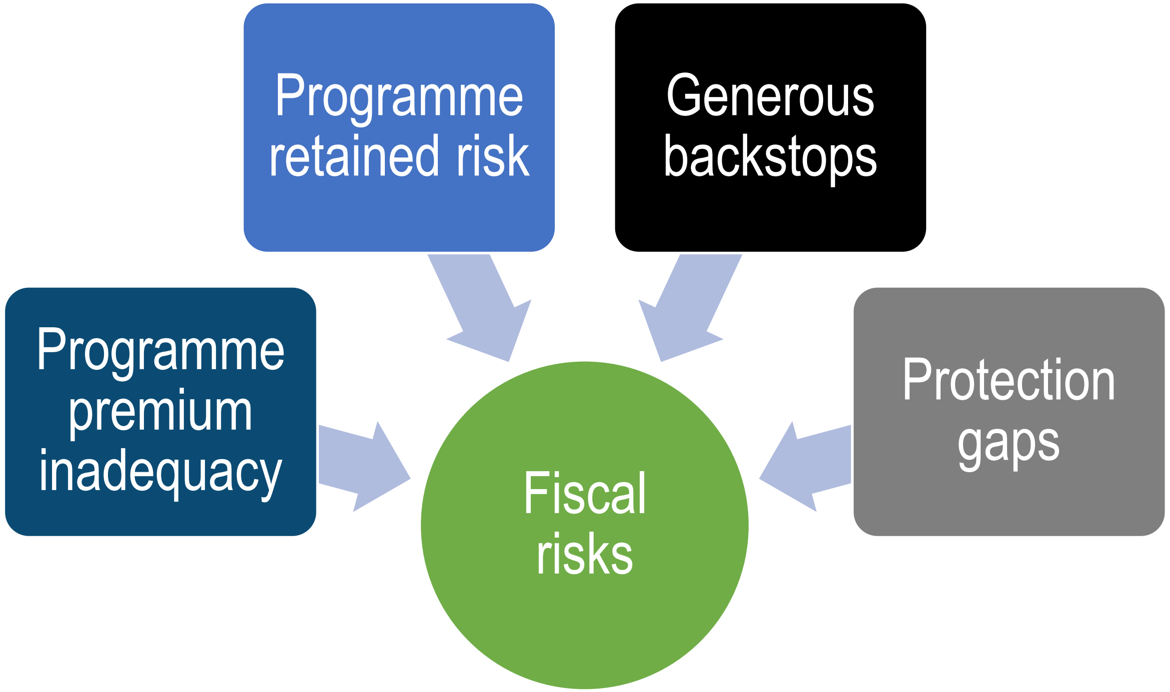
3. Design features for leveraging private market expertise and capacity

Potential benefits of insurance market participation

Coverage distribution	Risk assessment	Risk absorption

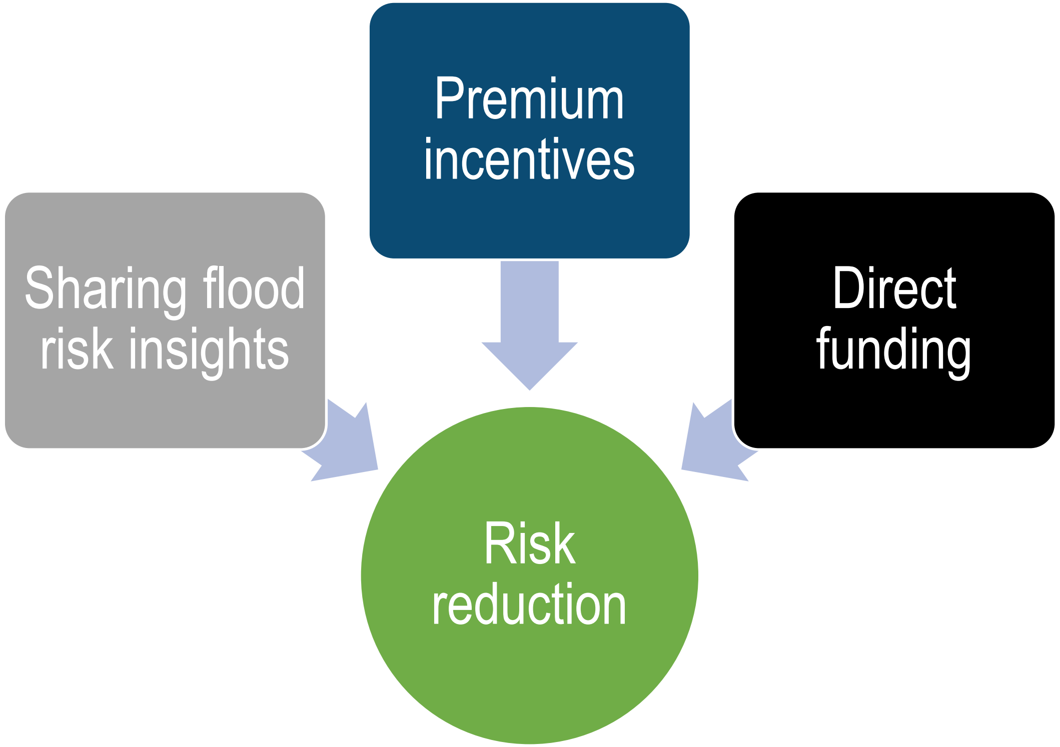
- Limited eligibility for programme coverage (hazards, insureds)
- Limited (basic) programme coverage
- Coverage exclusions (e.g., insurable, low-risk)
- Programme as co-insurer/reinsurer
- Programme risk transfer to reinsurance/retrocession markets
- Level-playing field

3. Design features for minimising fiscal risk



- Programme assumes limited risk (limited eligibility, coverage limits, coverage exclusions)
- Programme transfers significant risk to reinsurance/ retrocession markets
- Government backstop is limited, compensated and/or repayble
- Programme collects sufficient premiums
- Broad insurance coverage is achieved (programme or private sector)

3. Design features for encouraging risk reduction



- Broad view of risk (broad programme scope)
- Extensive sharing of risk insights
- Close relationship with government
- Risk-based pricing and premium discounts
- Programme as direct insurer
- Provision of funding for risk reduction

Design approaches for different hazards

Multi-hazard programmes (France, Iceland, Norway, Spain, Switzerland)	Earthquake programmes (Japan, New Zealand, Türkiye, US (California))	Flood programmes (Australia, United Kingdom, United States)
• Direct insurance, co-insurance or reinsurance • High levels of solidarity/ mutualisation • Automatic coverage inclusion • Varying levels of government support	• Direct insurance or reinsured standard policy • Often provides basic level of coverage • Some risk differentiation • Mandatory or optional add-on to standard fire • High (but not universal) government reinsurance or backstop	• Direct insurance or reinsurance • Automatic inclusion of optional add-on • Risk differentiation more common • Some focus on high-risk • High (but not universal) government backstop

3. Potential trade-offs between different design features (examples)

Broad eligibility (and coverage)

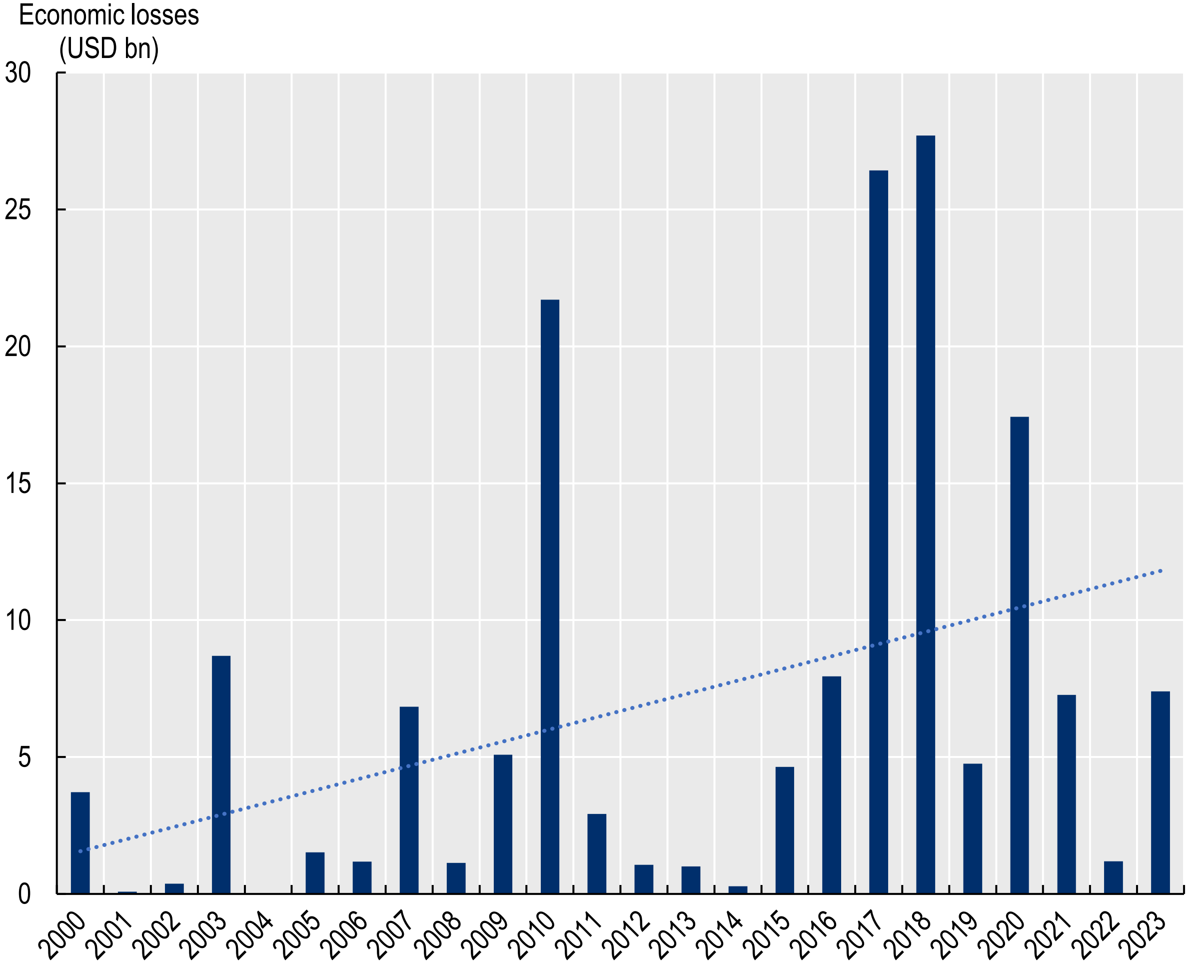
Coverage affordability

Private market participation

Incentives for risk reduction

Fiscal cost

Emerging natural hazard risk: wildfire



Source: OECD calculations using data from Swiss Re, sigma database.

- High-levels of insurance (fire is fire)
- Availability and affordability challenges for high-risk properties
- No catastrophe risk insurance programme coverage (except FAIR plans)
- Significant focus on risk reduction (in some countries) – rather than exclusion
- Interest in the role of forestry insurance in incentivising risk reduction