Addressing Growing Protection Gaps through Better Public-Private Insurance Programmes

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The disaster protection gap – the uninsured share of economic losses from natural and man-made disasters – is widening. Between 1980 and 2025, natural catastrophes caused an estimated USD 7.4 trillion in property losses, of which two thirds were uninsured.[1] Uninsured losses impede economic growth and push governments into slow, unpredictable, and budget-destabilising post-disaster relief.[2]

Investing in risk reduction – measures that prevent or mitigate losses and support recovery and adaptation – is often more cost-effective than rebuilding. In addition, insurance can spread remaining losses and provide rapid, pre-arranged liquidity that keeps firms open, preserves jobs, and reduces the need for ex-post fiscal support.

In some regions and for some perils, however, private-market mechanisms do not generate enough risk reduction or insurance coverage. Government intervention can help narrow the disaster protection gap to an efficient and socially acceptable level.

Causes of the protection gap

Three market frictions drive the gap:

A. **Increased losses:** Climate change and technological progress intensify hazards while urban concentration and digitalisation increase exposure. Ageing infrastructure, weak building codes, and insufficient investment in risk reduction increase vulnerability.

B. **Insufficient demand:** Individuals underestimate the likelihood of rare events or expect government relief, reducing the perceived need for insurance. For low-income groups, premiums can be prohibitively expensive. Moreover, factors like financial-literacy levels impact demand.

C. **Supply uncertainties:** Highly correlated losses and significant uncertainty or ambiguity increase regulatory capital requirements, forcing insurers to charge higher premiums or to withdraw coverage. Inflation and price regulation further erode profitability and availability.

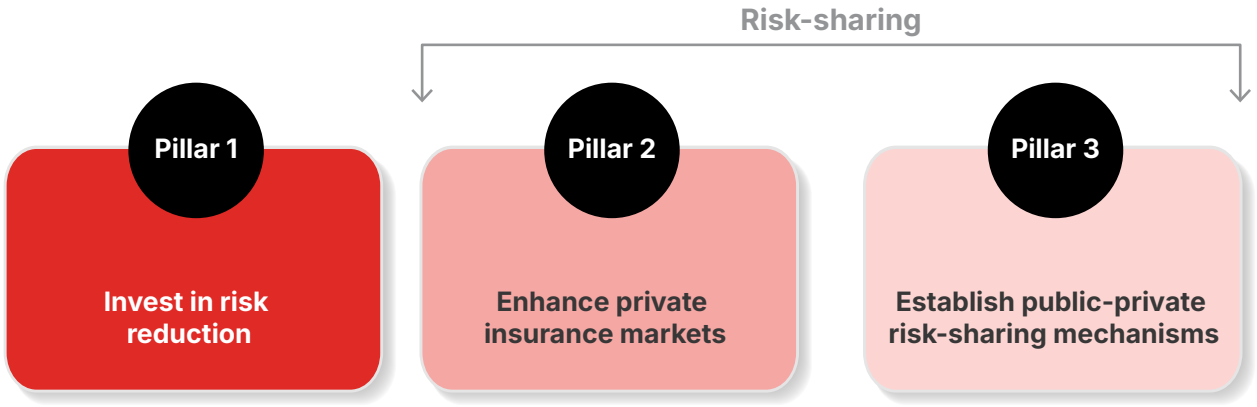
A three-pillar strategy

This report proposes a proactive, three-pillar strategy to narrow disaster protection gaps:[3]

- **Pillar 1: Invest in risk reduction.** Governments can both invest in infrastructure and create risk-reduction incentives, such as land-use planning or building codes, as well as provide financial support and information.
- **Pillar 2: Enhance private insurance markets.** Targeted policy actions, such as awareness campaigns, insurance mandates, or supportive regulation can support private capacity and encourage demand growth without distorting markets.
- **Pillar 3: Develop public-private risk-sharing mechanisms.** In some regions and for some perils, collaboration between the re/insurance industry and the public sector – often implemented as a Public-Private Insurance Programme (PPIP) – can lead to more efficient risk-sharing.

1 Munich Re 2026.
2 World Bank 2006.
3 Zurich Insurance Group 2025.

FIGURE 1: A PROACTIVE STRATEGY WITH GOVERNMENTS RELYING ON THREE PILLARS TO REDUCE AND SHARE RISKS



Source: Geneva Association, adapted from Zurich Insurance Group

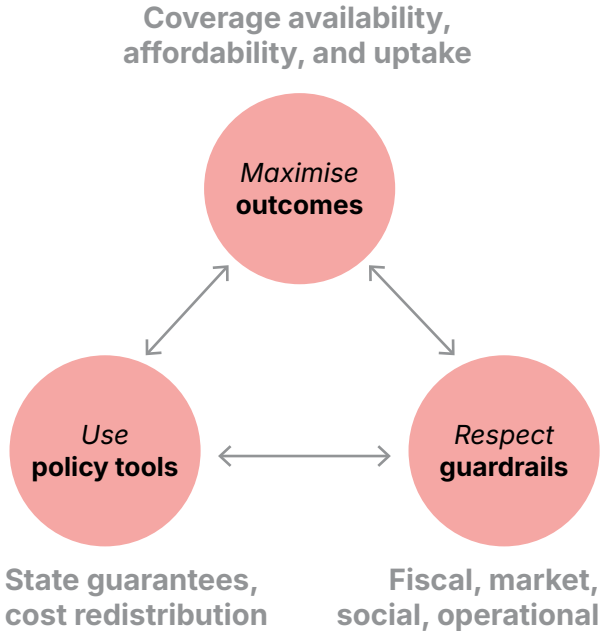
PPIPs: A conceptual framework

A PPIP aims to improve three outcomes: coverage availability, affordability, and uptake. Policymakers rely on two main tools: state guarantees to boost supply (availability); and cost redistribution – including insurance mandates and solidarity pricing – to support demand (affordability/uptake). Four guardrails constrain how policymakers use these tools:

- **The fiscal guardrail** aims to limit large, long-term burdens on public finances.
- **The market guardrail** aims to avoid crowding out private capacity or stifling competition and innovation.
- **The social guardrail** ensures affordability and an acceptable cost of coverage for vulnerable groups.
- **The operational guardrail** requires a fast claims-paying ability and adaptability to changing risk and market conditions.

The policy tools may stretch one or more guardrails, potentially requiring complex policy trade-offs. Strengthening the social guardrail though solidarity pricing improves affordability and uptake but can dampen risk signals, challenging the market guardrail. Over time, unmitigated risks might stress the fiscal guardrail. Likewise, state guarantees can crowd out private re/insurers, stifling the innovation and competition intended by the market guardrail.

FIGURE 2: PPIP DESIGN: AN OPTIMISATION PROBLEM



Source: Geneva Association

PPIP archetypes: Tailoring the solution to the protection gap

This report analyses 14 existing PPIPs across natural and man-made perils (terrorism). They balance policy trade-offs in two archetypal ways:

- **Market stabilisers** focus on supply. They restore or maintain private-market capacity amid extreme uncertainty through state guarantees. By providing missing capacity, they encourage private insurers to remain in the market. Examples include the US California Earthquake Authority and Terrorism Risk Insurance Program (TRIP), and the UK Pool Re.
- **Coverage expanders** focus on the demand side of the protection gap. They typically combine state guarantees with cost redistribution to create capacity while lowering prices in high-risk areas. Examples include France's CCR, Spain's CCS, the UK's Flood Re, and New Zealand's NHC.

Successes and challenges

While market stabilisers provide coverage availability and price stability, they depend on voluntary participation and risk-based pricing. Significant protection gaps can remain: for example, just 4% of UK small businesses have terrorism coverage.[4] Additionally, some PPIPs do not address contemporary risks, such as cyber threats or intangible asset losses.

Coverage expanders, combining mandatory participation with solidarity pricing, can reach uptake of 90–95%, such as in France and Spain. Voluntary programmes are less successful, as evidenced by opt-out rates from the US National Flood Insurance Program (NFIP).[5]

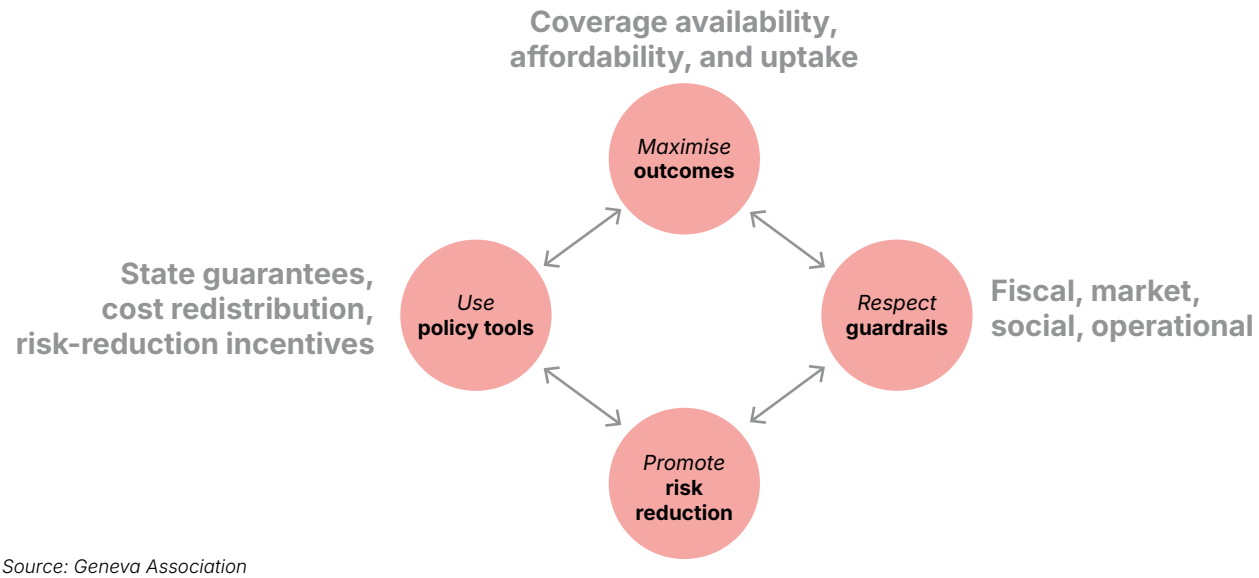
Many PPIPs stretch one or more guardrails. Some experience severe fiscal strain, including fund depletion at France's CCR after recent droughts, the US NFIP's enormous debt burden, and New Zealand's Natural Hazard Commission (NHC) following multiple earthquakes. Market distortions arise when the PPIP crowds out private capacity, as in France. Flat rates can favour wealthier households in exposed regions, while risk-based pricing proposals in the NFIP (US) have triggered political backlash. Some schemes have faced high operational loss ratios, as recently seen in Australia's Cyclone Reinsurance Pool.

From sharing risks to supporting risk reduction

Pillar 3 (PPIP) interventions frequently precede or replace Pillar 1 (risk reduction) strategies. Flood Re (UK) is accused of allowing the government to defer flood prevention measures, while US NFIP flood insurance subsidies have encouraged population growth in high-risk areas.

Policymakers should view PPIPs as part of a broader resilience strategy rather than as isolated financial mechanisms. PPIPs should not only share post-disaster losses but also support – not undermine – public and private efforts to reduce exposure and vulnerability. While a PPIP can incentivise individual behaviour, government actions, such as infrastructure investment, have the greatest risk-reduction benefits, emphasising the need for government dialogue with the PPIP.

FIGURE 3: PPIPS MUST BALANCE COVERAGE OUTCOMES (PILLAR 3) AND RISK-REDUCTION (PILLAR 1)



Source: Geneva Association

4 Pool Re 2025.
5 S&P Global 2024.

Decision process and design principles

PPIPs are costly and complex. A four-step process can assess the need for and potential role of a PPIP:

1. Substantiate the protection gap and the underlying drivers on the risk, supply, and demand sides.
2. Prioritise non-distortive measures to reduce risks (Pillar 1) and enhance private insurance markets (Pillar 2).
3. Agree on the perils and exposures a PPIP should cover, ensuring that remaining protection gaps are societally acceptable.
4. Make a clear fiscal case for state intervention.

Several key principles provide scope for designing or reforming PPIPs to remain within fiscal, market, social, and operational guardrails and contribute to resilience. These principles relate to:

- **Strategic alignment and governance:** Embed PPIPs in national risk-reduction strategies; define clear objectives and guardrails; ensure effective, multi-stakeholder governance; invest in risk data and modelling; and plan for adaptation.
- **Financial mechanics and market discipline:** Keep the state as reinsurer of last resort, covering only losses that private markets cannot bear; structure state guarantees to crowd in, not crowd out, private capacity; and use compulsion strategically, mainly where uptake needs to increase.
- **Pricing and incentives:** Use risk-based pricing as the default to signal risk and encourage mitigation; address affordability through targeted, transparent subsidies rather than broad price controls; and use product features and claims practices to reward risk reduction.

Emerging risks: cyber and pandemic-related business interruption

Applying this framework to two emerging risks – for which calls for PPIPs are growing – reveals important considerations:

- **Cyber risk.** While there is scope to strengthen cyber security (Pillar 1) and private cyber insurance (Pillar 2), covering peak cyber risk remains challenging. A state-backed PPIP (Pillar 3) could boost capacity, taking account of the ambiguity surrounding tail cyber risks and without overstepping fiscal and market guardrails.
- **Pandemic-related business interruption risk.** A PPIP could provide a state-backed liquidity facility for small and medium-sized enterprises (SMEs), with limits on the duration and amount of support. Insurers would serve as distributors and administrators, only bearing a small share of the risk. Such a PPIP cannot replace fiscal support and a broader economic resilience strategy.

Conclusion

PPIPs are often essential tools for maintaining insurability of disaster risks, with their design and operations as part of a proactive risk-management strategy. Governments must lead on risk reduction. PPIPs should be (re)designed to complement and incentivise risk reduction rather than subsidise exposure. Progress depends on aligning incentives around the common goal of proactively building a resilient society.

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