# High-Level Framework for Public-Private Insurance Programmes against Natural Hazards

**Damages and losses from natural hazards, such as storms, floods, wildfires, and earthquakes, have increased substantially in recent decades** due to the increase in their frequency and severity, worsened by the effects of climate change, as well as the growth in the value of assets and businesses exposed to these hazards.

**Global financial markets – and particularly insurance markets – play a critical role in absorbing damages and losses from natural hazards.** They provide a source of funding for recovery and reconstruction and contribute to diversify risks away from the real economy and local markets. However, due to increasing damages and losses from natural hazards, the capacity of private insurance markets to provide sufficient insurance coverage is being challenged.

**In many countries, this has resulted in significant protection gaps for natural hazard risks ("protection gaps")** in some cases exacerbated by the limited availability of quality data on such risks. These gaps result from a range of factors, including a lack of demand driven by limited risk awareness, lack of insurance options, and affordability issues. Countries where damages and losses from natural hazards are largely uninsured could face severe hits to the public finances and, to the extent government expenditure is constrained, larger output losses. Addressing financial protection gaps is essential to support financial stability and policyholder protection and to ensure fair, safe, and stable insurance markets.

**Narrowing the protection gap requires a collaborative effort between multiple parties, including governments, insurance supervisors (including both market conduct regulators and prudential supervisors) and the insurance sector.** The combination of their perspectives can lead to the development of comprehensive strategies that bolster the ability of economies to withstand and recover from these events. Multi-stakeholder collaboration could include several approaches to increase insurance coverage, such as improving risk awareness and financial literacy, investing in risk prevention and reduction, promoting the availability and uptake of private insurance by regulators and/or supervisors, as well as establishing public-private insurance programmes (PPIPs). This framework focuses on the latter. It is meant to provide guidance to governments that consider implementing a PPIP to address the protection gap. PPIPs can take several forms of cooperation between private insurers and governments, ranging from provision and sharing of data on natural hazards, joint efforts on preventive measures and catastrophe risk insurance programmes involving risk-sharing among private insurers and governments.

**PPIPs can leverage the strengths of both the public and private sectors.** Governments can provide de-risking and enable access to public sector data and information. On their part, supervisors can provide advice and regulatory oversight, while private insurers can contribute their expertise in underwriting, risk assessment, and claims management, as well as their risk-bearing capacity. Where private (re)insurance solutions are not available, sharing risks and costs through these partnerships could be an option. If well designed, PPIPs can address affordability issues or gaps in coverage for highly exposed policyholders and promote solidarity in responding to natural hazard risks across regions. Finally, they can promote the role of technology in fostering the availability of quality risk-related data.

**This document sets out considerations to develop a High-Level Framework for Public-Private Insurance Programmes against Natural Hazards for countries, involving in particular policy makers and insurance regulators and supervisors** who are considering the development of PPIPs. Such framework is structured as a step-by-step guide illustrating the different phases of development of a PPIP for disaster risk finance. The high-level framework has been developed by the G7 Finance Track, based on contributions from the IAIS and OECD that leverage existing work.

# HIGH-LEVEL FRAMEWORK FOR PUBLIC-PRIVATE INSURANCE PROGRAMMES AGAINST NATURAL HAZARDS

## STEP 1: ASSESSING PROTECTION GAPS

**1.1** **Assessing the overall country's exposure to natural hazards**

**1.2** **Assessing financial vulnerabilities and their drivers**

## STEP 2: EXPLORING THE RANGE OF POSSIBLE ACTIONS TO ADDRESS PROTECTION GAPS, INCLUDING PPIPs

**2.1** **Improving risk awareness and financial literacy**

**2.2** **Incentivising and investing in risk prevention and reduction**

**2.3** **Supporting the availability of private insurance markets from a regulatory and supervisory level**

**2.4** **Assessing the necessity and viability of PPIPs**

## STEP 3: DEVELOPING A PUBLIC-PRIVATE INSURANCE PROGRAMME

### i. Objectives

**3.1** **Supporting broad availability and affordability of coverage**

**3.2** **Leveraging available private insurance, reinsurance, and capital market capacity to assume natural hazard risks while safeguarding insurer solvency**

**3.3** **Limiting public sector exposure to natural hazard risks**

**3.4** **Encouraging risk reduction and adaptation throughout the whole programme**

### ii. Design features

**3.5** **Defining the scope of coverage**

a) Including different types of hazards
b) Considering the needs of different policyholders

**3.6** **Configuring the role of government and types of coverage depending on the desired aim of the programme**

**3.7** **Considering the programme's role in the private (re)insurance market**

**3.8** **Establishing the desired level of compulsion**

**3.9** **Adopting an approach to premium-setting**

### iii. Implementation needs

**3.10** **Ensuring effective coordination at all government levels**

**3.11** **Designing an effective governance of the scheme**

**3.12** **Building expertise within all involved partners**

**3.13** **Fostering the use of technology**

**3.14** **Ensuring the involvement of insurance supervisors**