Belgian Financial Forum
Colloquium on "Closing the Insurance Protection Gap"

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Ladies and gentlemen, allow me to welcome you to this Colloquium on 'Closing the insurance protection gap', organised by the Belgian Financial Forum.

Whether you define protection gaps more narrowly as the difference between the amount of insurance that is economically beneficial and the amount of coverage actually purchased or by referring to the broader risk protection gap which describes the difference between total losses and insured losses, we can all recognise that insurance protection gaps are at the core of several societal challenges. In order to, as the title of our colloquium suggests, "close them", it is vital we have a good understanding of 'how they arise' and 'how to tackle them'?

When discussing and solving these challenges, all relevant stakeholders need to be involved: (1) insurance and reinsurance companies offering affordable and solid insurance protection, (2) consumers/policyholders which can buy insurance contracts to help protect themselves from suffering losses, (3) governments which can help set-up the right institutional framework, and, finally, (4) supervisors, which through their mandates of preserving financial stability and/or enhance policyholder protection, can help acting on protection gaps.

Protection gaps can arise in many different areas: natural catastrophes, cyber, healthcare and pension risk most notably. The focus of today's colloquium is to delve deeper into two of the most prominent insurance protection gaps, natural catastrophe risk and cyber risk.

With cyber risk becoming a greater threat to the global economy, we observe that businesses turn to insurance companies for protection in order to cover the financial losses resulting from a cyber-attack. IAIS estimates that the global cyber insurance market amounted to 13,7 bn USD gross written premium in 2022. Year after year a strong increase in premiums volumes is observed which reflects the high demand for this product. However, this strong increase seems only to a small extent driven by a rise in the number of policyholders. Supply does not seem to be sufficient to keep up with the demand for cyber insurance. Insurance and reinsurance companies are aware of the potential systemic impact of cyber risk and the high claims cost related to extreme cyber-attacks on for instance a large cloud service provider. Therefore, the sector seems to be hesitant to underwrite new policyholders.

Let us not be too negative today, we must recognise that different initiatives are emerging which try to close the cyber protection gap. (1) Insurance companies are starting to adjust cyber insurance policies to exclude the largest risks resulting from clouds and cover these in a separate ‘war’ policy, similar to property insurance. The standard cyber insurance product would therefore have a more manageable risk allowing the market to grow in these areas. (2) Also, policyholders are creating solidarity pools amongst themselves to increase underwriting capacity for larger cyber risks. It is however not clear if these private sector initiatives are sufficient. Ultimately, a public-private partnership might be necessary in order to help insurers play their vital role in providing protection to businesses in an economy with ever greater risks stemming from digitalisation.

Against the backdrop of these initiatives, it remains key to highlight that insurers need to be vigilant when drawing up the wording of their contracts in order to avoid having to cover unforeseen losses due to cyber risk (so-called ‘silent’ cyber risk). The National Bank of Belgium, together with other supervisors, will continue to follow-up on the state of the cyber insurance market to assess whether additional policy measures are necessary.

Let us now turn to the other protection gap, the one related to natural catastrophes. It is no secret that climate-related extreme events can cause significant economic disruption. The consequences of natural catastrophes extend far beyond financial considerations, impacting individuals' livelihoods and the overall stability of our economies. It suffices to look at what happened in our country and the devastating impact of the floods in the summer of 2021 in Wallonia.

Natural catastrophes insurance plays a crucial role to mitigate the adverse macroeconomic impacts of disasters. It accelerates economic recovery by promptly providing funds for reconstruction and it enhances resilience by better understanding and assessing climate change risks, promoting also risk reduction and building resilience measures.

Collaboration between governments, regulators, and the industry, often through public-private partnerships can help close the natural catastrophe protection gap. Governments can help set-up a comprehensive legal framework to cover natural catastrophe losses and need to play a role in ensuring sound policy of granting building permits. Insurers need to ensure a sound pricing system, correctly reflecting the underlying risks and incentivising risk reduction measures. And, finally, supervisors within existing mandates can help address catastrophe risks by implementing climate-related risk management requirements, emphasizing risk-based pricing and underwriting for products exposed to natural catastrophes risks. Despite challenges, overcoming inaction is imperative to prevent further reductions in the availability and affordability of insurance against natural catastrophes risks.

Let me stop here, so we can kick off our discussions today. Thanks to our impressive list of speakers, I hope today’s colloquium will bring the necessary food-for-thought to help continue the debate and find solution on closing some of our protection gaps.