

# BRIDGING THE INSURANCE GAP A GLOBAL CHALLENGE FOR FINANCIAL RESILIENCE

BY **MONIKA LIS**

The insurance industry plays a crucial role in safeguarding individuals, businesses, and economies against unforeseen risks. However, despite the widespread availability of insurance products, a significant portion of the global population remains exposed to financial vulnerabilities due to the insurance gap. The insurance gap refers to the disparity between the actual insurance protection in place and the level of coverage needed to mitigate risks effectively. This article explores the multifaceted nature of the insurance gap, its impact on global economies, and the efforts to bridge this critical financial divide.

## **UNDERSTANDING THE INSURANCE GAP**

At its core, the insurance gap refers to the lack of sufficient coverage or financial protection that leaves individuals and communities vulnerable to unexpected expenses. It is measured by comparing the level of insurance coverage to the actual risks faced by individuals and societies. Swiss Re Institute, a leading authority in risk research, has developed indices to estimate the insurance gap worldwide, including the SRI Insurance Resilience Index (I-RI), SRI Health Resilience Index, SRI Mortality Resilience Index, and SRI Natural Catastrophe Resilience Index.

The global insurance gap was estimated at a staggering \$1,420 billion in 2021. The SRI Insurance Resilience Index, which measures overall insurance protection, was calculated to be 54.3%. This means that on a global scale, only just over half of the exposure of life, health, and property to catastrophic damage is covered by insurance.

## **CHALLENGES IN HEALTHCARE COVERAGE**

One of the most significant insurance gaps exists in the health sector. Surprisingly, the SRI Health Resilience Index is high at 92.5%, indicating that 92.5% of health risks worldwide are covered by health insurance. Despite this seemingly high resilience index, the health insurance gap amounts to \$737 billion. This discrepancy highlights that while most health risks are insured, there are still substantial healthcare expenses that individuals must bear out-of-pocket.

The insurance gap in the health sector exhibits regional disparities. In the EMEA (Europe, Middle East, and Africa) region, the lack of healthcare coverage stands at 5.3%, resulting in a gap of \$108 billion. In contrast, emerging markets experience a much higher insurance gap of 11.9%, leading to a gap of \$60 billion. This significant difference means that obtaining health coverage in mature economies is four times costlier than in emerging markets. >

However, it is important to note that this calculated value considers only those direct household expenses that are considered to be a significant burden on the budget, augmented by the health debt indicator, which represents unrealized expenditures due to limitations in the public healthcare system. Therefore, it does not directly correlate with the level of healthcare accessibility and quality in each country. Instead, this indicator primarily reflects the level of access to any form of healthcare rather than a guarantee of receiving high-quality healthcare services promptly, ensuring the fastest possible recovery.

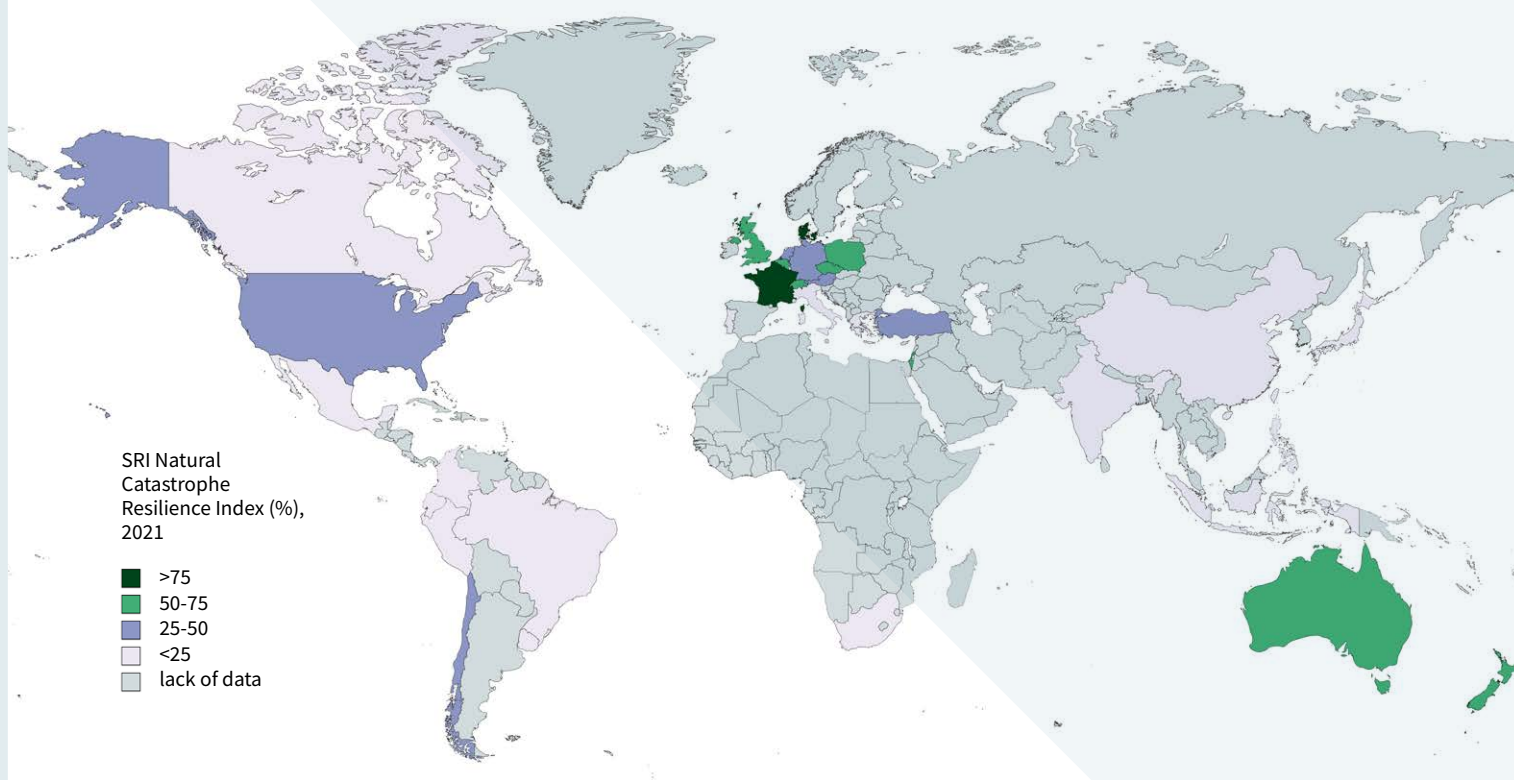
The insurance gap is projected to be even more significant, potentially five to six times larger, if funds are appropriately directed towards improving preventive measures, healthcare services, diagnostics, and early-stage treatments.

### CATASTROPHIC RISKS

The insurance gap in the realm of asset protection mainly revolves around the occurrence of natural disasters. An estimate suggests that the global insurance shortfall for this category amounts to a huge \$251 billion. According to the SRI Natural Catastrophe Resilience Index, only 24.6% of the world's assets are insured against the consequences of natural calamities.

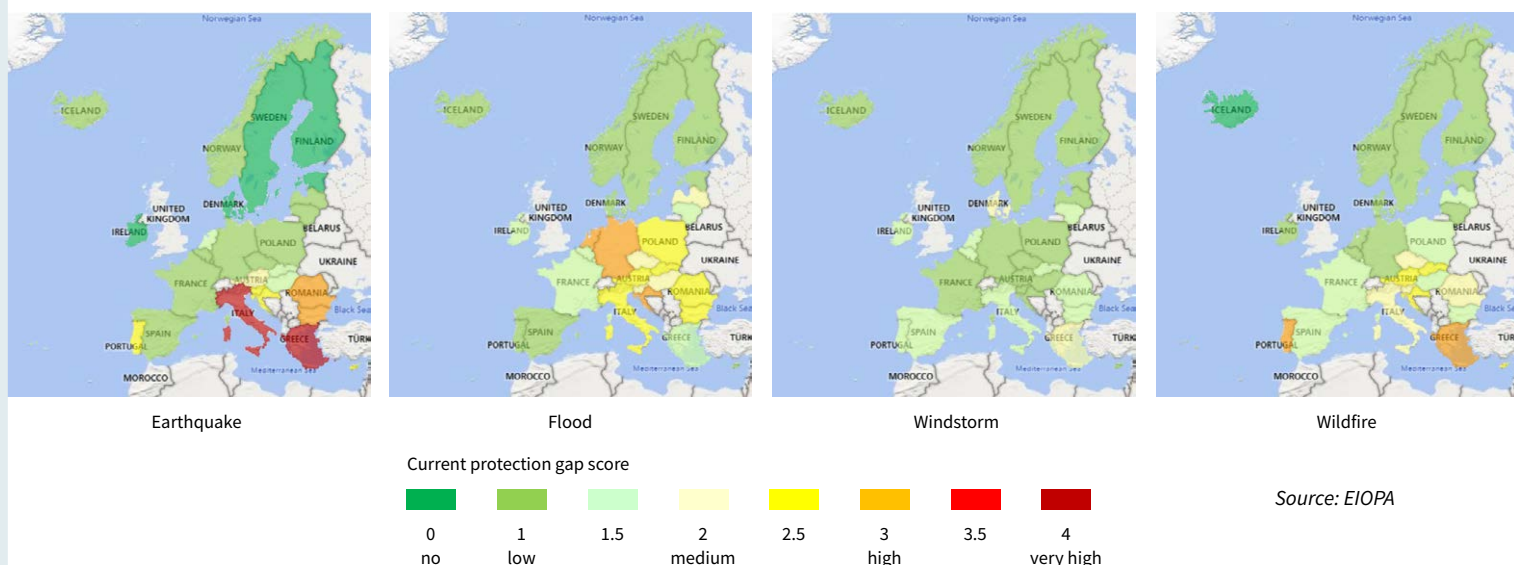
The Swiss Re Institute's sigma report No. 1/2023 on natural disasters released in early 2023 reveals varying estimates of the insurance gap for catastrophic damages. The report indicates a lower insurance gap of \$151 billion, resulting in a combined coverage of 46.48%. In 2022, the world witnessed 285 major catastrophic events, claiming over 35,000 lives (including those reported missing). The economic losses due to these events amounted to \$284 billion in 2022 (compared to an average of \$220 billion over the last decade), of which \$132 billion were insured: \$125 billion for natural catastrophes and \$7 billion for human-induced catastrophic damages. >

FIGURE 1: SRI NATURAL CATASTROPHE RESILIENCE INDEX



Source: Swiss Re

FIGURE 2: THE DASHBOARD ON INSURANCE PROTECTION GAP FOR NATURAL CATASTROPHES IN A NUTSHELL



### EIOPA'S DASHBOARD INITIATIVE

The European Insurance and Occupational Pensions Authority (EIOPA) introduced a pilot program of catastrophe risk presentation in the form of a dashboard in 2020. This dashboard rates risk on a scale from 0 to 4 (0 being the lowest risk and 4 the highest). The dashboard focuses on the private sector and displays historical and current catastrophic risk data. It also considers potential risks that have not occurred in the past but may arise in the future.

### THE EUROPEAN ENVIRONMENT AGENCY'S INSIGHT

The European Environment Agency (EEA) provides valuable insights into the growing impact of extreme weather events on society and the government. Their data reveals an alarming trend, with the average annual losses caused by these events (€14.5 billion in the last 10 years compared to €9.5 billion annual average losses in the years 1981-1990). This upward trajectory in average annual losses points to the escalating impact of extreme weather events on economies and societies across Europe. Furthermore, the EEA data highlights that a mere 22.4% of the total losses caused by extreme weather events between 1980 and 2020 were covered by insurance, leaving a significant insurance gap.

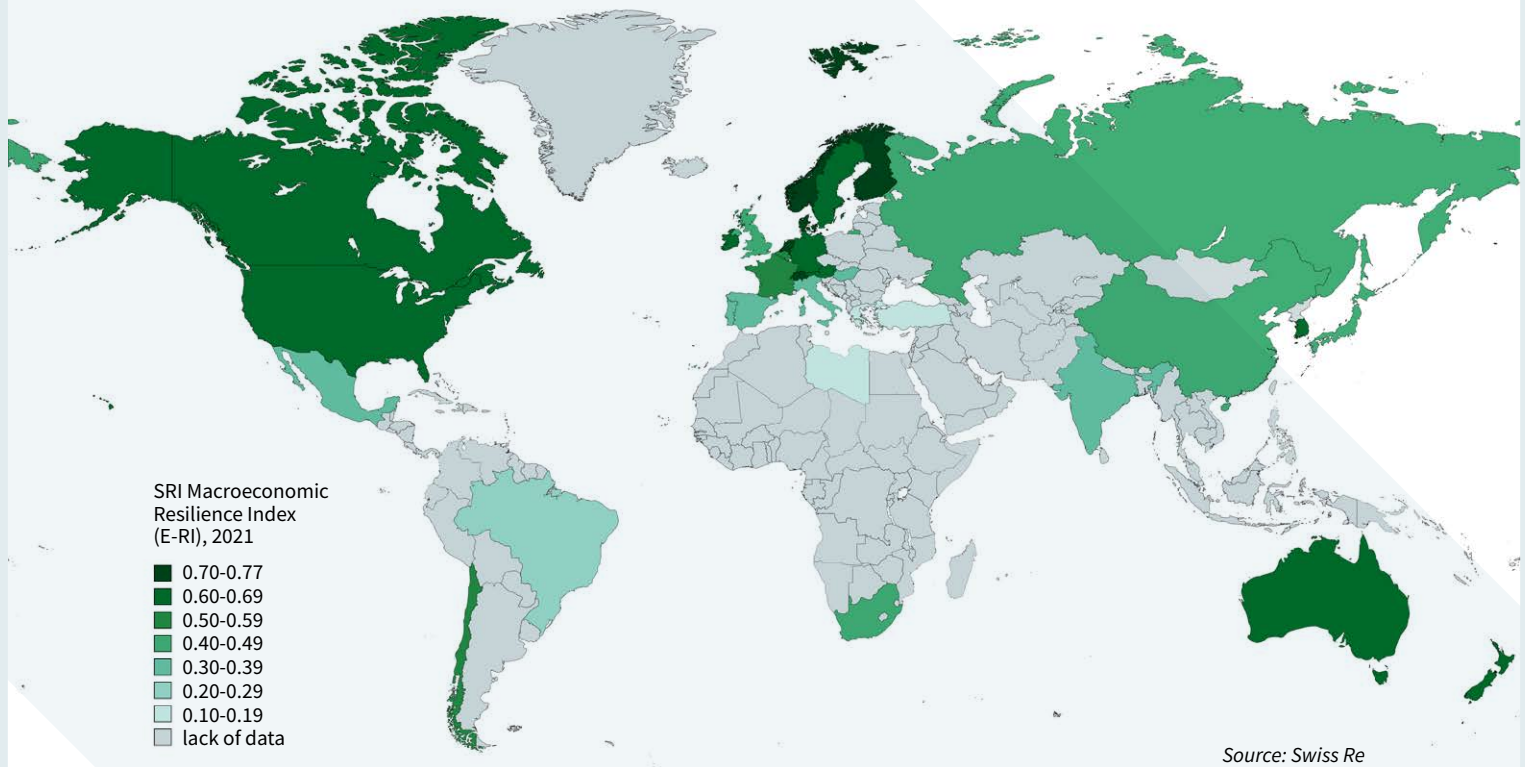
### FACTORS CONTRIBUTING TO THE INSURANCE GAP

Several factors contribute to the insurance gap. In mature economies, insurance products can be costly and complex, deterring some individuals from purchasing coverage. Moreover, the lack of awareness and understanding of insurance products and their benefits also contributes to the insurance gap, particularly in emerging markets. In some cases, individuals and businesses may underestimate the potential risks they face, leading to inadequate insurance coverage. In addition, there are cultural factors that can influence the way people engage with insurance.

### EXAMINING THE ROLE OF INSURANCE RESILIENCE INDICES

Insurance resilience indices, like the E-RI (SRI LSE Macroeconomic Resilience Index) have been created to evaluate the resilience of economies. The E-RI index considers aspects such as monetary policy, development of markets, efficiency of labour markets and insurance coverage. These indices offer insights into the level of insurance coverage and economic resilience across countries and regions. They can help pinpoint gaps in insurance penetration and highlight areas that need improvement. Furthermore, they can aid in developing policies to bridge these gaps. >

FIGURE 3: SRI MACROECONOMIC RESILIENCE INDEX



### CLOSING THE GAP: A JOINT RESPONSIBILITY

Investing in infrastructure and incentivizing participation in insurance play a role in reducing damages and safeguarding lives during extreme weather events. Implementing early warning systems also enhance disaster preparedness and mitigation efforts. Advancements in climate science research and risk modelling are essential for creating insurance solutions that address the gap associated with weather events.

The existence of an insurance gap poses a challenge as it affects financial resilience while leaving millions vulnerable to potentially devastating risks. To bridge this gap, it is crucial for governments, insurance companies and international organizations, to work together. They need to focus on promoting knowledge and creating insurance plans that are affordable, as well as increasing awareness about the significance of having insurance coverage.

By doing so we can strengthen our economies and ensure the protection of individuals and communities around the world. <



**MONIKA LIS** IS MANAGER  
AT MILLIMAN, WARSAW,  
POLAND