Insurance High Level Conference

"Disaster risk financing: the role of insurance for new public-private partnerships"

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Welcome Speech
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Greetings and thanks

First, let me extend to you all my warm welcome to Italy and to our meeting today. It's such a pleasure for me to open today's Insurance High Level Conference that we hold in partnership with the Italian G7 Presidency. Our event will focus on the role of the insurance industry in new public-private partnerships on Disaster Risk Financing and is intended as a follow-up to the annual international insurance meeting that ANIA traditionally holds in autumn.

I would like to thank Minister Giorgetti, Director General Barbieri Hermitte and their staff at the Ministry of Economy and Finance for their crucial support for our conference. Today we would like to provide the private-sector insurance industry's contribution to the ideas and proposals drawn up in May by the G7 Finance Ministers and Central Bank Governors in Stresa, with the support of the OECD and the IAIS.

The G7's 'Framework Document' seeks to promote public-private partnership schemes to provide broader and better protection for citizens and businesses against catastrophic risks, by emphasizing the role of the insurance sector.

Some data about climate change and natural disasters

Natural hazards have a wide-ranging impact on human life, society, economies, financial systems, and the environment, often leading to long-term, multi-generational consequences. We have just observed the latest evidence that climate change has caught up with us and is now a real threat across the world. A few days ago, Super Typhoon Yagi swept across Northern Vietnam causing well over 300 deaths, floodings, landslides, urban, industrial and rural destruction. A few days ago, Storm Boris caused severe flooding in central Europe; it has just struck the Italian region of Emilia Romagna, which experienced another dramatic flooding just one year ago.

Alarm bells are ringing for mankind, not just for this or that exposed coastal or desert area. Decarbonization efforts are ongoing throughout the world's most important countries and regions. Global per capita emissions may be slightly down, but total CO2 and greenhouse emissions in the world have not stopped growing. Renewable and other clean energy sources coming upstream are barely enough to cover the increase in global energy consumption.

The Paris Agreement on climate calls for human-caused emissions to fall by 45% from 2010 levels by 2030 and reach net zero by 2050, to keep global warming at no more than 1.5 degrees Celsius on average. Such is the ambition, and we share it. But a cold look at the data suggests the clear risk that targets will be missed. Without letting up on the decarbonization efforts, it's high time we start a conversation on how we plan for a somewhat different scenario.

We need to talk about mitigation and adaptation. We need to talk about societal, financial and economic resilience. Climate change, and global development trends, such as growing population in high-risk areas, are already making natural catastrophe (NatCat) events more frequent, with severe losses hampering economic growth and individual well-being.

In terms of catastrophic damages, 2023 ranks among the costliest years in history. For the fourth year running, global insurance claims exceeded over 100 billion dollars globally. In Italy, there was an all-time peak in insured damages: over 6 billion euros, of which 5.5 billion can be attributed to atmospheric events and 800 million euros to the floods in Emilia-Romagna and Tuscany.

As Munich Re's latest report points out,[1] catastrophic floodings, extreme storms, and two earthquakes have already led to overall global losses of around US$ 120 billion this year. Meanwhile, global insured losses reached US$ 62 billion — nearly doubling the ten-year average of US$ 37 billion.

Notably, events known in reinsurance as 'non-peak' or 'secondary perils' — closely linked to climate change, such as severe storms, floods, and wildfires — made up 68% of total losses and 76% of insured losses.

There is a substantial protection gap …

Despite the increasing frequency and severity of natural catastrophes, many individuals, organizations, and governments remain underprepared. Investments in resilience and prevention strategies are largely lagging and not enough.

[1] https://www.munichre.com/en/company/media-relations/media-information-and-corporate-news/media-information/2024/natural-disaster-figures-first-half-2024.html

Consequently, the protection gap — the difference between total economic losses and the coverage provided by insurance — is large and growing. It leaves hundreds of millions of people and tens of millions of companies exposed to devastating losses without adequate financial safeguards.

A report from our Global Federation of Insurance Associations (GFIA) highlights the most significant global protection gaps, including an annual shortfall of $139 billion for natural catastrophes.

According to Swiss Re, the NatCat gap in four G7 countries represents 25-50% of total losses.[2] However, this gap is significantly higher in Italy (80%) and nearly 100% in low-and middle-income countries. Large regions of the world are therefore particularly exposed to long-term economic and financial challenges and dependent on international aid when major catastrophic events occur.

Additionally, EIOPA estimates that only 25% of climate-related losses in Europe are insured, with significant disparities between countries, as recently highlighted by the *Climate Resilience Dialogue Final Report.*[3]

In this context, insurance and financial markets are crucial for managing the impacts of natural hazards. They offer protection for households and businesses, provide essential funding for recovery and reconstruction, and spread risks away from the real economy and local markets. However, to work efficiently, insurance markets require premiums that would accurately reflect underlying risks. We must all

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[2] https://www.swissre.com/risk-knowledge/mitigating-climate-risk/natcat-protection-gap-infographic.html#/country/US

[3] *"Climate Resilience Dialogue Final Report"* - July 2024 (The report is the result of the work of the Climate Resilience Dialogue, a temporary group set up by the European Commission in November 2022) https://climate.ec.europa.eu/document/download/4df5c2fe-80f9-4ddc-8199-37eee83e04e4_en?filename=policy_adaptation_climate_resilience_dialogue_report_en.pdf

be aware of long-term trends - if growth in NatCat-related losses keeps exceeding global GDP growth rates by about 3% every year, issues with the availability and affordability of coverage will inevitably arise.

…. narrowing the gap requires the crucial involvement of Public-Private Insurance Programs (PPIPs)

So, what can be done? The key lies in reducing potential losses while leveraging the strengths of both the public and private sectors. This includes implementing risk reduction measures, promoting adaptation and resilience, incentivizing risk mitigation, and enhancing data collection and modelling. By combining efforts from both sectors, we can develop comprehensive strategies managing and mitigate risks associated with natural hazards. Insurance supervisors play an important role here, by providing advice and regulatory oversight, using their understanding of insurance markets and their data collection capabilities.

As Italian insurers, we firmly believe that Public-Private Insurance Programs for Natural Hazards play a key role. Obviously, no ideal, one-size-fits-all model exists. Every country's idiosyncratic features, including its institutional environment, the size of its insurance market, and exposure to different risks, are critical factors. They all impact the configuration of a Public-Private Insurance Program (PPIP) scheme for natural disasters. Therefore, the G7 appropriately refers to a High-Level Framework, to guide policymakers. Today we will present such Framework in greater detail.

In this respect, I would like to highlight three especially important aspects.

Firstly, PPIPs encourage risk reduction and adaptation. As I mentioned earlier, managing the impacts of climate change requires a strong focus on those areas. A recent World Resources Institute report,[4] states that every dollar invested in climate resilience can save between 2 and 10 dollars in prevented future losses.

The public sector should ensure adequate investment in resilient infrastructure and promote the adoption of risk-reduction measures, whereas private insurers could provide incentives for policyholders who adopt preventative measures.

In this respect, we welcome the findings of the most recent report on the "Future of European Competitiveness" that Mario Draghi delivered to the EU Commission's president, Ursula von der Leyen.[5] The report rightly calls for an enhanced, more dynamic and integrated EU capital market. Among his recommendations, Draghi also lists a review of the Solvency II requirements with a view to freeing up insurance companies' capital for private investment.

Dear colleagues, this is key. We need more optionality to invest, including in energy-transition and climate-adaptation projects.

Second, PPIPs can improve the availability and affordability of coverage. This is vital in view of accelerating losses due to climate change.

In some areas, losses are so severe that they become unmanageable for individuals and businesses. In these situations, some form of public-sector support may prove necessary. Overall, governments should leverage resources from private insurance, reinsurance, and capital

[4] "Adaptation Finance and Investment" WRI – WORLD RESOURCES INSTITUTE https://www.wri.org/initiatives/adaptation-finance

[5] https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en

markets to handle natural hazard risks, ensuring insurer solvency is preserved and preventing excessive risk concentration.

Last but not least, I'd like to underline the key role that digital technologies and innovation will have in addressing the issues that we are discussing today. Artificial Intelligence and machine learning have the potential to enhance risk assessment, streamline underwriting and distribution, and refine pricing models.

ANIA recognizes this potential and is committed to encouraging and advancing the use of these technologies across all sectors and, particularly, in NatCat insurance. ANIA also recognizes the central role that data will play in these developments. It is therefore only natural for me today to remind that one of the key priorities for PPIPs should be the promotion of innovation and the definition of mechanisms of data sharing and integration.

The situation in Italy in the light of the Budget Law 2024

Recent developments in Italy mark an important first step in addressing the insurance protection gap. Currently, only 6 percent of homes are covered against earthquake and flood risks, and just 5 percent of businesses have policies for the same risks. In this context, the Italian Government's initiative to introduce compulsory coverage against catastrophic damage for all businesses is a key move towards reducing the gap.

An inter-ministerial decree will soon advance to the implementation phase of the law. Significant progress has been made in recent weeks. We have worked closely with the Government, IVASS - the Italian insurance regulator -, SACE, and business representatives in developing an efficient system and ensuring the swift implementation of the regulation. The insurance industry is working on the contractual and technical details to provide the best coverage for these risks. Moreover, other projects are under consideration – for instance, a voluntary pool of companies might apply the principle of mutualization to reduce their own policy costs for insured undertakings and capital costs for insurers.

Insured firms that can quickly respond to extreme natural events will be better positioned in global markets and will secure funding from banks and capital markets on better conditions. The success of this initiative could create a virtuous cycle, benefiting all stakeholders.

Finally, we hope the same kind of mandatory coverage will soon be extended to private real estate, possibly including tax incentives in the initial phase.

Conclusions

Let me conclude briefly. Mario Draghi's report essentially calls on us to look at reality in the face, resisting the easy lure of denial. As President Draghi says: "*The EU has reached a point where, without action, it will have to compromise either its welfare, the environment or its freedom*". He shows how much work remains to be done to ensure Europe's energy transition and decarbonization.

I hope those basic concepts represent an inspiration for us today as we develop a strategy for our industry in a fast-changing world. New realities call for creativity, courage, and innovative responses. I count on you so that today's discussions of such topics will be fruitful and rich with insight.

We will focus on an overview of the experience achieved so far internationally in providing insurance protection for risks related to catastrophic events, as well as an analysis of how to reduce the protection gap through the development of public-private partnership schemes.

To this end, we invited institutional speakers and panelists today, alongside qualified representatives of the insurance industry. We want to promote a public-private dialogue.

Today's discussion will allow us, I am sure, to move forward on these complex topics and hopefully arrive at pragmatic, achievable solutions.

Ladies and gentlemen. PPIPs leverage the strength of both the public and private sectors. They are part of a more resilient and comprehensive approach to managing natural hazard risks. Such cooperation will lead to better risk management, improved financial stability, and more effective disaster response and recovery efforts.

Thank you for your attention, I wish you all a very productive day of work.