

From Risk to Resilience

How Insurance Can Mobilise Disaster Finance and
Climate Investment in Vulnerable Economies

June 2025



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Foreword

We do not get to choose the storms. But we do get to choose how we prepare.

The world is living through a new era of risk—one defined not only by the climate crisis, but by the cascading social and economic consequences it brings. For vulnerable nations, each hurricane, flood, or drought is not just a weather event. It is a shock to public budgets. A development setback. A threat to macroeconomic stability. We have seen, time and time again, how a single natural disaster can wipe out years of progress—forcing governments to borrow, often at high cost, worsening debt burdens and delaying the investments needed to build a better future.

When Hurricane Beryl struck the Caribbean in 2024, Grenada’s foresight in securing parametric insurance enabled a USD 44 million payout within days—while its neighbour, St. Vincent and the Grenadines, received less than USD 2 million. The difference didn’t lie in the storm’s path, but in the pre-arranged disaster risk financing instrument that had been in place for precisely such an eventuality.

But as the past decade has shown, storms and drought alike are becoming ever more frequent and severe. So we **must put into place systems that will help ensure that climate-vulnerable nations can pick back up after such ‘natural disasters’.** That is why the Bridgetown Initiative has placed **shock-proofing economies** at the heart of our reform agenda. To do so, **we must expand access to pre-arranged finance: financial instruments that release significant volumes of funds rapidly when disaster strikes. Insurance is one of the most powerful of these tools at our disposal.** When used effectively, it is far more than a payout mechanism—it is a core piece of economic infrastructure that underpins investment, helps stabilise budgets, and enables long-term resilience planning.

Crucially, by reducing uncertainty and de-risking investment, insurance helps lower the cost of capital—a cost that today is pricing too many vulnerable countries out of the very investments needed for mitigation, adaptation, and development. Because as I have said before: **what is not insurable is not investable.**

This paper shows how insurance—through its full capabilities as a provider of risk insights, an underwriter, a long-term investor—can help close the disaster protection gap, mobilise capital, and shift development finance from reactive to resilient. At a time when aid budgets are under immense pressure, it **brings a fresh perspective on climate finance to the table, estimating that insurance could help to unlock between USD 100-200 billion in climate finance annually,** while also reducing the human and economic toll of disasters. Critically, it also **sets out a practical agenda to realise this potential.**

Given the sheer potential of insurance, the words outlined herein must serve as a springboard for action. Vulnerable countries must continue to lead in strengthening their preparedness and integrating risk in national planning. But this must be matched by a decisive step up from those with the greatest resources and responsibility for the crisis that we are facing. I urge the international community—especially donor countries, development banks, and institutional investors—to act on these recommendations. Not out of charity, but out of recognition that the resilience of vulnerable nations is inseparable from the stability of the global economy—and essential to a just and secure transition for all.



Honourable Mia Amor Mottley
Prime Minister of Barbados
and convenor of the
Bridgetown Initiative

In a world increasingly defined by complex and converging risks—from climate volatility to economic uncertainty—insurance stands as one of the most powerful, yet underutilised tools for resilience and development. As Chairman of both the Insurance Development Forum (IDF) and Zurich Insurance Group, I have had the privilege of witnessing firsthand the transformational role the insurance industry can play in strengthening the fabric of economies, and particularly the resilience of emerging countries and developing economies (EMDEs).

The Bridgetown Initiative and the IDF have joined forces in this paper to advance a compelling and necessary vision: that insurance must be recognised not merely as a mechanism for post-disaster recovery, but as a cornerstone of proactive disaster risk management, sustainable development finance and stability, particularly for vulnerable countries subject to natural catastrophe risks. This vision resonates deeply with our responsibility to act with long-term foresight, and our capacity to mobilise financial and risk expertise in service of global resilience.

The paper identifies four crucial leverage points to unlock the full potential of the insurance sector in disaster risk and climate finance in EMDEs.

First, embedding disaster risk management into national governance by quantifying protection gaps and integrating pre-arranged finance (PAF) into fiscal and debt strategies is essential. This is not only a prudent economic move; it is an ethical imperative. Communities that lack preparation and buffers against shocks pay the highest price—often repeatedly. If people are protected by a safety net when they suffer a loss, they retain their trust. Trust in democratic structures, trust in the mechanisms of the market economy, and trust in people. That is why insurance companies have an enormously stabilising function in our world.

Second, by mainstreaming pre-arranged finance into the lending and investment strategies of public development banks, we can ensure that resilience is no longer an afterthought, but a proactive built-in feature of financial flows to vulnerable regions.

This aligns with the broader ambition of transforming development finance from reactive to anticipatory.

Third, we must expand the risk management offerings of insurers, not only to amplify our efforts in risk reduction, but to unleash investments and capital flows into EMDEs.

The insurance industry is uniquely positioned to support resilience through both sides of its balance sheet and catalyse long-term responsible third-party investments. But this requires rethinking how we operate and collaborate—across sectors, institutions, and geographies. This also requires deeper engagement and collaboration with governments, regulators and the public sector at large.

Finally, innovation cannot flourish without enabling environments. Regulatory frameworks in EMDEs must be designed to encourage experimentation, support inclusive insurance models, and remain interoperable with global standards. This is about creating the conditions for local and international insurers to meet communities where they are—and build from there.

These leverage points are not theoretical. They are actionable. And they are urgent. The climate crisis and the increasing disasters that communities, governments and businesses face are not a distant threat; it is a present reality. The opportunity before us is to leverage and redefine insurance as a driver of equity, innovation, and stability in the face of EMDEs' reality.

Lastly, this paper reflects a shared ambition but its true power lies in implementation. **The insurance sector—when aligned with public purpose—can become a foundational pillar of a more resilient and just global economy.** Let us take this opportunity not only to advocate, but to act.



Michel M. Liès
Chairman of the Insurance Development Forum and Zurich Insurance Group

About this paper

This paper builds on an extensive body of work, including from the Insurance Development Forum (IDF), Centre for Disaster Protection, G7, International Association of Insurance Supervisors (IAIS), United Nations Development Programme (UNDP), World Bank Group and the recent High-Level Panel on Closing the Crisis Protection Gap's Roadmap. These publications have made important progress in recognising the role of insurance in disaster risk and climate finance in emerging market developing economies.

This paper outlines four high-impact actions that could have cascading effects across policy, finance, and institutional behaviour.

Each action is anchored in the core capabilities of the insurance industry as provider of risk insights, underwriters and long-term investors, and designed to mobilise wider coordination across governments, multilateral development banks, development partners, insurers, and regulators to shockproof and help scale investment in vulnerable economies.

We welcome feedback and opportunities to collaborate to bridgetown.initiative@barbados.gov.bb or info@insdevforum.org.



About The Bridgetown Initiative

Championed by Barbados' Prime Minister Mia Amor Mottley, the Bridgetown Initiative (BI) is a call for urgent and decisive action to reform the international finance architecture to better address the climate crisis faced by vulnerable countries and the achievement of the Sustainable Development Goals.

BI's set of priorities (Bridgetown 3.0) focuses on three pillars:

1. Changing the rules of the game

Reforming the governance and policies of international financial institutions to give developing economies a stronger voice, addressing debt burdens that currently hinder resilience investments, and making climate finance more accessible for climate-vulnerable countries.

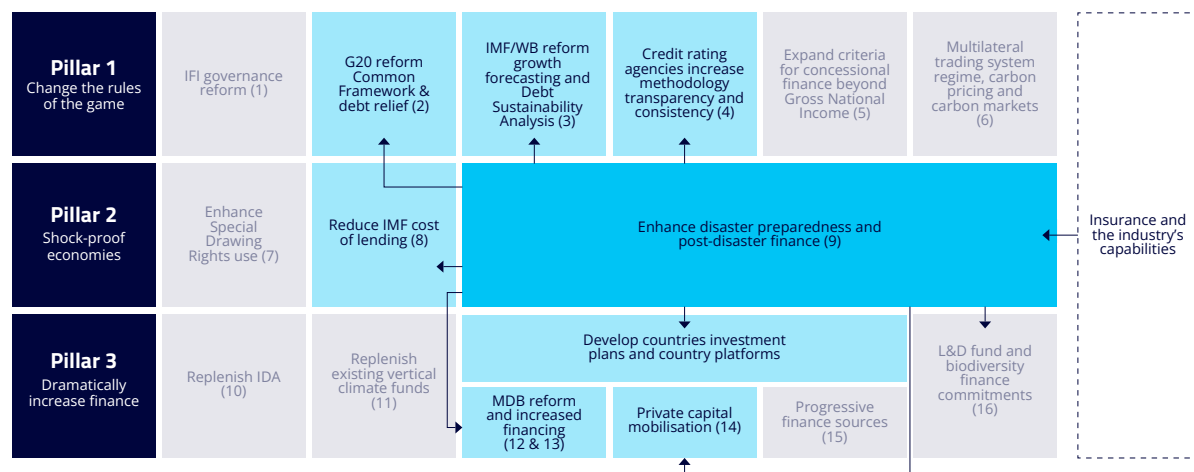
2. Shock-proofing economies

Strengthening resilience by enhancing disaster preparedness and pre-arranged financing, ensuring vulnerable nations have the fiscal space to invest in resilience and recover from climate shocks.

3. Scaling financing

Mobilising trillions in capital for climate action and the Sustainable Development Goals—leveraging public and private funds, external and domestic capital, and exploring innovative financing sources, channelled through country-owned platforms to deliver on national plans.

BI 3.0 and how this collaboration on insurance connects to other priorities:



Leveraging robust analysis on options to scaling financing, BI drives high-level strategic and political engagement to advance the agenda into meaningful action, unlocking resources for climate-vulnerable nations and strengthening economic resilience in developing countries. It is in this context that the Bridgetown Initiative has partnered with the Insurance Development Forum, with a view to unlocking the potential of the insurance industry in helping to shock-proof economies.

About The Insurance Development Forum

The Insurance Development Forum (IDF) was launched in 2015 at COP21 in Paris, as an industry-led public-private partnership established to support development and humanitarian priorities. It aims to optimise and extend the use of insurance and its related risk management capabilities to build greater resilience and protection for people, communities, businesses, and public institutions that are vulnerable to disasters and their associated economic shocks.

Through its broad membership of insurance sector, governmental and other international institutions, the IDF enables (i) the optimal coordination of insurance-related activities; (ii) the development of shared priorities; (iii) the mobilisation of resources; (iv) the promotion of strategic and operational relationships within and between governments, industry, and international institutions; and (v) safeguards the integrity and effectiveness of joint efforts and collective resources. Over the past 5 years the IDF has mobilised over USD 100 million across the public and private sector in support of addressing the financial protection gap.

| Steering Committee – Drives Strategy | | | | | Secretariat | |
|---|---|-------------------------------------|--|--|---|---------------------------|
| Chair entity | | Zurich Insurance Group | | | Drives strategic priorities through implementation, engagement and advocacy | |
| Co-Chairs | | UNDP World Bank | | | | |
| Operating Committee – Drives Implementation | | | | | | |
| Chair entity | | Swiss Re | | | | |
| Co-Chairs | | World Bank UNDP | | | | |
| Working Groups and Task Forces – Implement Projects & Initiatives | | | | | | |
| Inclusive Insurance Working Group/ IIWG | Legal, Regulatory and Resilience Policies/ LRRP | Risk Modelling Steering Group/ RMSG | Sovereign and Humanitarian Solutions / SHS | Disaster Risk Reduction (DRR) Task Force | | Infrastructure Task Force |
| Legal entity | | Insurance Development Forum Limited | | | | |

Acronyms and Glossary of Key Terms

| Acronym/Concept | Definition |
|---------------------------------|--|
| AUM | Assets under management are the total value of financial assets managed by an individual or institution, including both third-party (external) assets and proprietary (internal) assets. In the case of insurers, external assets include policyholder funds. AUM is a key metric used to assess the scale and influence of investment entities such as asset managers, pension funds, and sovereign wealth funds. |
| Blended finance | Blended finance is the strategic use of public or philanthropic development capital to mobilise additional private commercial finance for Sustainable Development Goal related investments. |
| Cat DDO | A Catastrophe Deferred Drawdown Option is a pre-arranged credit line that provides rapid financing to countries in the event of a natural disaster, once predefined conditions are met. |
| Climate finance | Climate finance is the mobilisation and deployment of public and private capital—aligned with the Paris Agreement—to scale up investment in mitigation, adaptation, resilience, nature, and just transitions. |
| EMDE | Emerging markets and developing economies is a classification covering approximately 152 countries not considered advanced economies. EMDEs typically face structural challenges, lower income levels, and higher external vulnerabilities. EMDEs include Small Island Developing States (SIDS) and least developed countries (LDCs). |
| IGO | An intergovernmental organisation is a formal entity created by sovereign states through treaties to collaborate on shared interests and address global or regional issues collectively. |
| IAIS | The International Association of Insurance Supervisors is a global standards-setting body that develops and promotes effective insurance supervision and regulation to maintain fair, safe, and stable insurance markets for the benefit of policyholders and financial stability worldwide. |
| LDC | Least developed countries are 45 countries with the lowest social and economic indicators and highest levels of vulnerability. |
| MDB | Multilateral development banks are international institutions funded by multiple countries that provide loans and grants for large-scale development. |
| MSME | Micro, small, and medium enterprises are businesses categorised by their size in terms of employees, turnover, or assets, and are vital for economic growth and job creation. |
| PAF | Pre-arranged finance includes financial instruments, such as contingent loans and grants, credit lines, insurance, and catastrophe bonds, established in advance to enable rapid and predictable funding in response to disasters. |
| Insurance protection gap | The insurance protection gap is the difference between total economic losses of natural catastrophes and the loss amount that is insured, highlighting the portion of risk that remains uncovered by insurance. |
| SDG | The Sustainable Development Goals are a set of 17 global objectives established by the United Nations to end poverty, protect the planet, and ensure prosperity for all by 2030. |
| SIDS | Small Island Developing States are 39+ low-lying coastal nations highly exposed to climate risks, with small economies and a high reliance on international trade. |
| UN | The United Nations is an international organisation founded in 1945 to promote global peace, security, human rights, and sustainable development among its 193 member states. |
| Vulnerability | The degree to which a person, asset, or system is susceptible to, or unable to cope with, the adverse effects of a hazard. |

Note to the reader

This paper focuses on the role of insurance in strengthening resilience and unlocking investment in emerging markets and developing economies (EMDEs). It makes the case for insurance not just as a tool for post-disaster response, but as a key enabler of proactive risk management, long-term investment, and capital mobilisation. At the same time, it is important to clarify the scope of this role. Three important considerations enrich the analysis:

1. EMDEs are not a homogenous group.

The term “EMDEs” is used throughout this paper for brevity, but it masks a wide range of contexts. Countries differ significantly in their size—both in terms of population and income levels—level of industrialisation, exposure to climatic hazards, maturity of their fiscal institutions, and types of resilience investment needed. No single variable determines the vulnerability of a country’s economy and society to disasters. For example, landlocked Malawi faces recurrent droughts and has limited public buffers; Indonesia must manage extensive coastal risk across its mainland and 6,000 inhabited islands while building resilient infrastructure at scale; the small island state of Dominica experienced two events just two years apart that caused damage exceeding 320% of gross domestic product (GDP). While insurance solutions for EMDEs are presented broadly in the paper, there is a diversity of solutions that must clearly take into consideration individual country contexts and be tailored to often very different circumstances.

- 2. Insurance is part of the solution, not the only solution.** Insurance offers critical functions: it provides liquidity when shocks hit, enables governments and investors to plan with greater confidence, and creates financial incentives for managing risk exposure. But it is not a standalone fix when it comes to addressing the protection gap and climate gap. Insurance works best when embedded in a broader toolkit of resilience finance that includes long-term public investment, improved disaster risk management, and social protection, with multiple stakeholders involved—including governments and regulators. Insurance cannot replace the need for grants, concessional finance, or structural reforms to address deep-rooted vulnerabilities. This paper focuses on insurance because it is underused, not because it can act alone.
- 3. Insurance is one form of pre-arranged finance and complements other instruments.** Pre-arranged finance allows countries to access funding quickly and predictably in the wake of a crisis, reducing delays and fiscal stress. Insurance is a central part of this toolkit, but not the only one. Instruments like contingent credit lines (e.g. the World Bank’s Cat DDO), budget reserves, and sovereign catastrophe bonds all play a role. Each has different costs, response speed, and suitability depending on the nature of the shock and the country’s capacity. This requires a layered approach that combines insurance with other pre-arranged tools. The focus of this paper is on the insurance layer, and how it can be better integrated into national and international strategies for resilience and development.

Executive summary

Insurance for resilience in EMDEs

Emerging markets and developing economies (EMDEs) shoulder the brunt of natural disasters and the climate crisis and hold immense investment potential. Yet today, too much capital remains on the sidelines—held back by rising risks, limited fiscal buffers, and uncertainty. Insurance can help unlock this capital. By reducing the risk of financial losses in the case of an extreme event, insurance enables governments and investors to better plan and allocate resources to long-term investments and provides greater confidence of recovery in its aftermath. It is therefore not just a tool for managing shocks—it is foundational for mobilising long-term investment and building resilience.

Natural disasters and climate-related catastrophes are increasing in frequency and impact, with EMDEs bearing dramatic economic costs,^{1,2} which is estimated at a reduction in gross domestic product (GDP) growth of above 2% annually in vulnerable countries.³ The economic toll of disasters is compounded by underdeveloped risk markets, limited fiscal space and high cost of capital—all of which leave governments with limited options when shocks occur.

In Pakistan, for example, the 2022 floods caused damage equivalent to nearly 5% of GDP, pushed an estimated 9 million people into poverty, and reconstruction needs exceeded the country's entire development budget.⁴

The disaster also had cross-border implications: widespread damage to Pakistan's agricultural and textile value chains disrupted global supply chains—affecting international food markets and apparel production far beyond its borders.⁵

Such devastating events force governments to divert scarce resources from long-term priorities—such as health, education, and infrastructure—to emergency relief and recovery. This reinforces a cycle where the pressing need to respond to crises crowd out long-term development. Without urgent action to strengthen risk management and build financial resilience, the cycle of crisis and recovery will continue to widen inequality. **Over 100 million people are at risk of falling into poverty by 2030 due to climate-related shocks, placing increasing strain on already stretched public finances.**⁶

Insurance: an underused but effective tool for resilience

As Mia Amor Mottley, Prime Minister of Barbados and convenor of the Bridgetown Initiative, has emphasised: **“what is not insurable is not investable”**. This highlights a structural barrier to finance in EMDEs that is reinforced by two critical gaps: **1) the protection gap** for natural catastrophes—the share of economic losses from natural catastrophes that are not insured stands at 90%; and **2) the climate finance gap**—an estimated USD 1.3 trillion in annual investment needed in EMDEs by 2035 to build more climate-resilient economies.⁷

1. This paper uses “EMDEs” as a collective term throughout, but it is important to note that this is not a homogenous group of countries, as each have different climate vulnerabilities and ability to respond to shocks.
2. Swiss Re Institute, “Changing Climates: The Heat Is (Still) On”, (2024).
3. Duenwald et al., “Feeling the Heat: Adapting to Climate Change in the Middle East and Central Asia”, (2022).
4. World Bank, “Pakistan Floods 2022: Post-Disaster Needs Assessment (PDNA)”, (2022).
5. European Commission, “Recovery and Resilience Facility – Total Allocation”, (2023).
6. Hallegatte et al., “Shock Waves: Managing the Impacts of Climate Change on Poverty”, (2016).
7. USD 1.3 trillion is the cross-border finance for clean energy transition, adaptation and resilience, loss and damage, natural capital and sustainable agriculture, and just transition for EMDEs, excluding China. Bhattacharya A, Songwe V, Stern N, Soubeyran E, “Raising ambition and accelerating delivery of climate finance: Third Report of the independent High-Level Expert Group on Climate Finance”, (2024).

Together, the protection and climate finance gaps represent both a major vulnerability for governments and a missed opportunity to unlock much needed investment in resilient infrastructure in EMDEs. This paper makes the case that insurance is a vital, but underused, instrument to help close both gaps, and progress in closing one gap can help accelerate progress in closing the other.

Insurers⁸ underwrite risks (their liabilities), such as those from climate-related disasters and invest the collected premiums to provide income (their assets). They follow an asset liability management discipline to manage risks and optimise performance. This business model offers a unique opportunity to accelerate resilience but this only works if the right incentives, policies, regulations, and financial structures are in place.

- › **On the liability side, reducing risk leads to fewer claims and lower potential losses for insurers.**
- › **On the asset side, investing in resilience, such as climate-smart infrastructure or clean energy, can generate stable, long-term returns, while contributing to risk reduction.**

This dual exposure means insurers have a strong financial interest in both managing and reducing risk. In well-functioning insurance markets with high insurance penetration, benefits of increasing resilience should reinforce one another: lower risk leads to lower costs, greater affordability, higher demand for insurance, more predictable investment returns and ultimately better credit ratings.

As domestic insurance markets grow, insurers collect more premiums and can invest them in local assets to meet future claims. This can help turn domestic savings into long-term investments, like infrastructure or housing, contributing to strengthening local capital markets and supporting economic growth.

The full capabilities and potential of the insurance industry to unlock investment

To realise the holistic benefits of insurance, it must be understood not just as a financial product, but as a core enabler of resilience, development and growth—embedded within public policy frameworks.

The insurance industry delivers these benefits through three core functions:

- 1. Providing risk insights** to inform resilient development by quantifying disaster risk and its financial impact to guide better risk management, underwriting, investment, and public policy.
- 2. Underwriting risks** to enable faster recovery by offering predictable and timely liquidity when shocks occur, thereby reducing governments’ fiscal volatility, limiting businesses’ exposures, and enabling faster recovery.
- 3. Investing over the long term and mobilising capital** for resilient infrastructure and sustainable development—aligning insurance investment portfolios with climate and development objectives, and enabling others to do the same by de-risking investments.

8. Throughout this paper, the term “insurers” is used as shorthand for both primary insurers and reinsurers, encompassing their activities in risk assessment, underwriting, and investment. Where relevant, the term also includes insurance brokers.

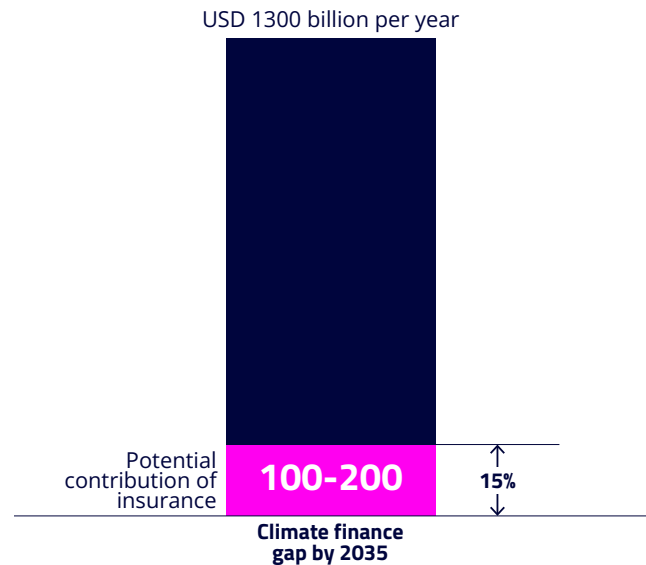
The insurance industry can play a catalytic role in unlocking USD 100–200 billion in climate finance annually for EMDEs (see Figure 1), while also helping to reduce the human and economic toll of climate-related disasters.

This potential stems from the industry’s ability to underwrite and transfer risks, and support investment flows where capital is most needed.

Insurance in action: examples of the catalytic roles of insurance

- › **Deploying capital into climate-aligned investments**
generating returns and predictable cash flows as part of a coordinated multi-stakeholder effort
- › **Safeguarding government fiscal space** through innovative risk transfer tools such as parametric insurance and catastrophe bonds
- › **Enabling multilateral development banks (MDBs)** to expand their lending capacity by transferring and managing credit risk
- › **Providing political risk insurance** to enhance investor confidence in EMDEs and support cross-border capital flows
- › **De-risking investments** in climate infrastructure, especially where risks deter commercial finance
- › **Boosting insurance penetration** through knowledge transfer, innovation, cross-border transactions, thereby strengthening macroeconomic stability and improving sovereign and corporate credit ratings

Figure 1: Estimate of potential contribution of insurance to the annual climate finance gap by 2035⁹



At the same time, insurance is not a cost-free solution. Premiums must be paid, coverage needs to be clearly defined, and in some contexts, insurance may not be the most appropriate or affordable tool to address the effects of natural disasters and the climate crisis. Indeed, this paper does not suggest the insurance industry is the answer to every resilience challenge—but rather that, when used strategically and in the right contexts, insurance can play a powerful enabling role within a broader resilience finance agenda.

Realising the full potential of insurance in EMDEs requires close collaboration across stakeholders, including EMDE governments, multilateral development banks (MDBs) or equivalent institutions, and regulators. Insurers can scale coverage, mobilise capital, and strengthen resilience. But this only works if supported by the right public instruments—from blended finance tools like risk pools and insurance-backed guarantees, to public-private insurance models that extend coverage where markets alone are not yet viable.

9. Systemiq analysis, order of magnitude estimate, see appendix for sources and references.

Four leverage points for impact

This paper identifies and recommends four mutually reinforcing leverage points for action to be undertaken by public and private actors in the finance and policy landscape, to help close the protection gap and make a significant contribution to scaling climate finance in EMDEs (see Figure 2):

1. **Adopt integrated disaster risk management in EMDEs** with governments quantifying protection gaps and integrating pre-arranged finance (PAF)¹⁰ into budget processes and financing strategies.
2. **Integrate pre-arranged finance into MDBs lending and investment frameworks**, including through risk layering, contingent components, risk transfer and shock-resilient loan instruments.
3. **Expand insurers' risk management offerings** to incentivise risk reduction and unlock insurers' potential to deploy investments in EMDEs.
4. **Design EMDE regulatory frameworks** to encourage experimentation, facilitate inclusive insurance models, and align with international standards for innovative solutions.

Figure 2: Four leverage points for impact to close the protection and climate finance gaps



These levers are not abstract—they are actionable, interconnected, and designed to shift the system. Unlocking this potential requires action by governments, insurers, regulators, MDBs, and donors. The Bridgetown Initiative and Insurance Development Forum invite partners to the table to advance implementation across these four areas to accelerate the role of insurance in disaster risk and climate finance.

10. Pre-arranged finance refers to financial resources that are secured before a disaster strikes, so funds can be quickly accessed when a shock occurs. This includes insurance, catastrophe bonds, contingent disaster loans and grants.

1. The disproportionate cost of natural catastrophes in EMDEs

Natural disasters are increasing in frequency and severity. These include floods, storms, droughts, wildfires, and geophysical shocks such as earthquakes, leaving many countries to manage the consequences alone. Over the past 50 years, the number of recorded disasters has increased fivefold. In emerging markets and developing economies (EMDEs), the trend is even more severe. Climate-related hazards now occur eight times more frequently.¹¹

This surge is driven by population growth, urbanisation, asset concentration in high-risk areas, and the impacts of climate change—the latter varies by region and has intensified the magnitude and unpredictability of many hazards. These shocks threaten progress.

While disaster costs grow 5–7% globally each year,¹² least developed countries (LDCs) suffer ten times more economic damage as a share of gross domestic product (GDP) than high-income countries.¹³

When these risks go unmanaged, the fiscal cost is high and recovery is slow. Governments are often forced to absorb disaster losses through budget cuts or expensive emergency borrowing. The consequences go far beyond the visible damage: natural disasters reduce GDP growth by 1–2 percentage points a year in many vulnerable economies.¹⁴ Among some of the most climate-vulnerable countries, including LDCs and Small Island Developing States (SIDS), an estimated USD 525 billion has been lost over the last two decades to climate-related catastrophic events.¹⁵ These figures capture only the visible costs, while the longer-term erosion of people’s health, education, and productivity remains largely unaccounted for.



11. UNDP, “Insurance and Risk Finance Facility”, (2024).
12. Swiss Re sigma, “sigma 1/2025: Natural Catastrophes – Insured Losses on Trend to USD 145 Billion in 2025”, (2025).
13. UN-OHRLS, “The Least Developed Countries in Facts & Figures”, (2024).
14. Duenwald et al., “Feeling the Heat: Adapting to Climate Change in the Middle East and Central Asia”, (2022).
15. CVF-V20, “V20 Debt Review”, (2024).

This impact is not uniform—but the exposure is rising.

- › In 2024, severe drought in Malawi, where agriculture makes up nearly 30% of GDP, slowed real GDP growth to 1.8% and pushed the poverty rate to 71.2%. Poor yields from moisture stress led to major agricultural losses, worsening food insecurity for 4.2 million people.^{16, 17, 18}
- › Hurricane Maria in 2017 caused damage equivalent to 226% of Dominica’s GDP in a single night—delaying progress for years as spending was diverted from health, education, and infrastructure.¹⁹
- › In contrast, Indonesia, an archipelagic nation with extensive coastal areas, faces distinct climate risks, with Jakarta sinking up to 10 centimetres annually due to groundwater extraction, worsened by rising sea levels. Climate change is expected to increase coastal flood risk by 19–37% by 2030, threatening millions in low-lying areas. To reduce flood risk, the government is constructing the Giant Sea Wall Jakarta.^{20, 21}
- › Severe flooding in Thailand in 2011 inflicted widespread damage to manufacturing industries. Economic loss was estimated at 12.6% of GDP and the country’s growth declined by 1.1%. Due to supply chain linkages, world industrial growth declined by about 2.5% as a direct result of the floods.²²

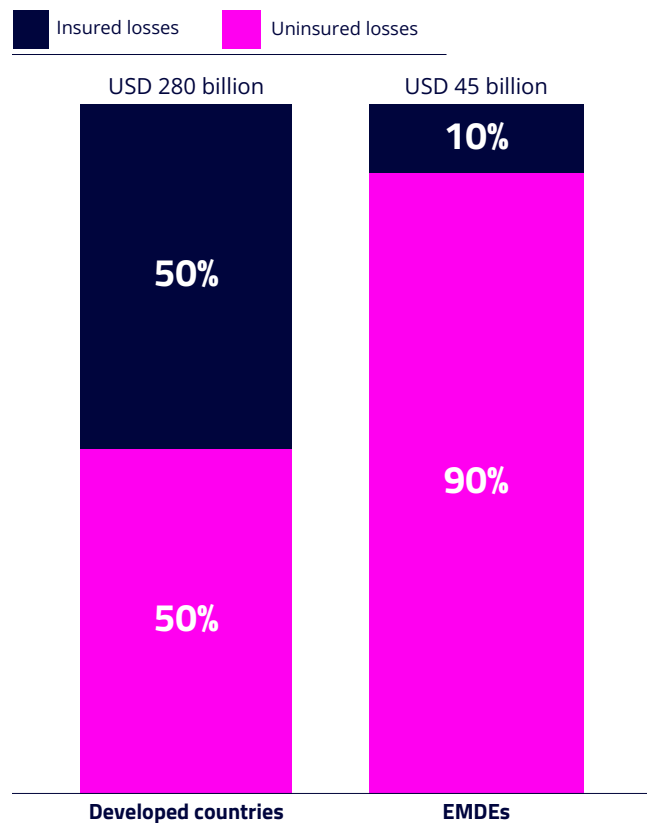
These examples show that while different countries face different risks, the consequences of inactions are strikingly similar: derailed growth, strained public finance, and delayed investment.

In 2024, only 10% of natural catastrophe losses in EMDEs were insured, compared to 50% in advanced economies (see Figure 3).

According to the United Nations (UN), the true figure for EMDEs is likely even worse due to incomplete data on total losses.²³

Investing in resilience is not just about humanitarian response and recovery. It is central to economic stability and a condition for investment and growth. For many EMDEs, financial protection is a key factor in attracting investment by reducing risk exposure and ensuring readiness when the next shock hits.

Figure 3: Total insured vs uninsured economic losses from natural catastrophes in 2024 (USD bn)²⁴



16. World Bank, “Malawi Country Overview”, (2024).
 17. World Bank, “Malawi Agriculture Public Expenditure Review. Report No. P173077”, (2023).
 18. World Food Programme, “A Tale of Two Villages: Malawi Farmers Point the Way as Drought Drives Hunger”, (2024).
 19. IMF, “Dominica Disaster Resilience Strategy”, (2021).
 20. Ghosh P., “Jakarta Is Sinking. Now What?”, Wired, (2023).
 21. World Bank, “Indonesia Country Climate and Development Report – Climate Risk Profile”, (2021).
 22. Haraguchi M., Lall U., “Flood Risks and Impacts: A Case Study of Thailand’s Floods in 2011 and Research Questions for Supply Chain Decision Making”, (2015).
 23. UNDRR, “Uncounted Costs: Data Gaps Hide the True Impacts of Disasters in 2023”, (2023).
 24. Systemiq Analysis; Swiss Re sigma, “sigma 1/2025: Natural Catastrophes – Insured Losses on Trend to USD 145 Billion in 2025”, (2025).

2. Insurance: an underused but effective tool for resilience and growth

If resilience is a precondition for investment and stability, insurance is one of the most practical tools to deliver it. But no single financial instrument can build resilience on its own. Countries facing growing climate and disaster risks need a layered financial strategy—one that combines domestic public finance, contingent credit, external support, and risk transfer mechanisms. Insurance is a critical part of this toolkit. Its value comes when it is used as part of a broader national strategy to attract investment and strengthen financial resilience—not only as payouts after shocks.

Insurance contributes to closing two major gaps that threaten economic stability and investments in EMDEs:

1. The growing protection gap for natural catastrophes—the share of climate and disaster-related losses that are not covered by insurance. Most climate and disaster-related losses in EMDEs are uninsured, leaving households, businesses, and governments to absorb the full cost of shocks.

At the same time, expected losses from natural disasters have been increasing at a rate of around 6% per year in real terms since 1994.²⁵ In 2024, this amounted to USD 35 billion in uninsured losses in EMDEs.²⁴ The combination of rising risks and low coverage compromises post-disaster recovery, increases fiscal stress and undermines development.

2. The climate finance gap—USD 1.3 trillion is needed annually in EMDEs in 2035 to fund climate and nature investments, with the private sector expected to contribute about half of this amount.²⁶ However, private investment is often deterred by real or perceived risks. Without tools to de-risk investment, including insurance, this capital will remain out of reach, undermining countries' ability to attract the necessary investment—whether in climate mitigation, adaptation, or broader development.



25. Swiss Re sigma, “Natural catastrophes in 2023: gearing up for today’s and tomorrow’s weather risks”, (2024).

26. \$1.3 trillion is the cross-border finance for clean energy transition, adaptation and resilience, loss and damage, natural capital and sustainable agriculture, and just transition for EMDEs, excluding China. Bhattacharya A, Songwe V, Stern N, Soubeyran E, “Raising ambition and accelerating delivery of climate finance: Third Report of the independent High-Level Expert Group on Climate Finance”, (2024).

2.1 How insurance can help narrow the protection gap

Insurance plays a critical role in reducing countries' exposure to disaster-related fiscal shocks and absorbing economic losses. Risk transfer mechanisms—including parametric insurance, reinsurance, catastrophe bonds, and regional risk pools—allow governments to share the cost of extreme events with insurers and global capital markets. This provides access to rapid liquidity after a disaster, reduces the need for emergency borrowing, and enables faster recovery.

Insurance also has an essential function in safeguarding public assets—such as schools, roads, and hospitals—helping to ensure essential services can be restored and maintained after extreme events. At the same time, many infrastructure and clean energy projects remain unbankable without adequate risk coverage. By enabling risk transfer, insurance not only protects existing value but also unlocks private investment, bridging the gap between short-term recovery and long-term resilience goals.

However, over time, insurance losses from natural disasters have increased faster than the economy, increasing financial strain on communities and governments while making coverage less affordable. As risks evolve and losses continue to rise, insurance companies must continuously adapt their risk assessments and pricing. To keep insurance affordable, close the protection gap, and ensure the industry's long-term stability, it is essential to reduce potential losses at their core. This paper provides recommendations to incentivise risk reduction.

2.2 How insurance can help close the climate finance gap

Insurance has significant untapped potential to support climate and nature investment in EMDEs—both through its role as a long-term investor and as a provider of risk transfer solutions. Together, these functions could unlock an estimated **USD 100-200 billion per year** by 2035—a material contribution toward closing the **climate finance gap**.

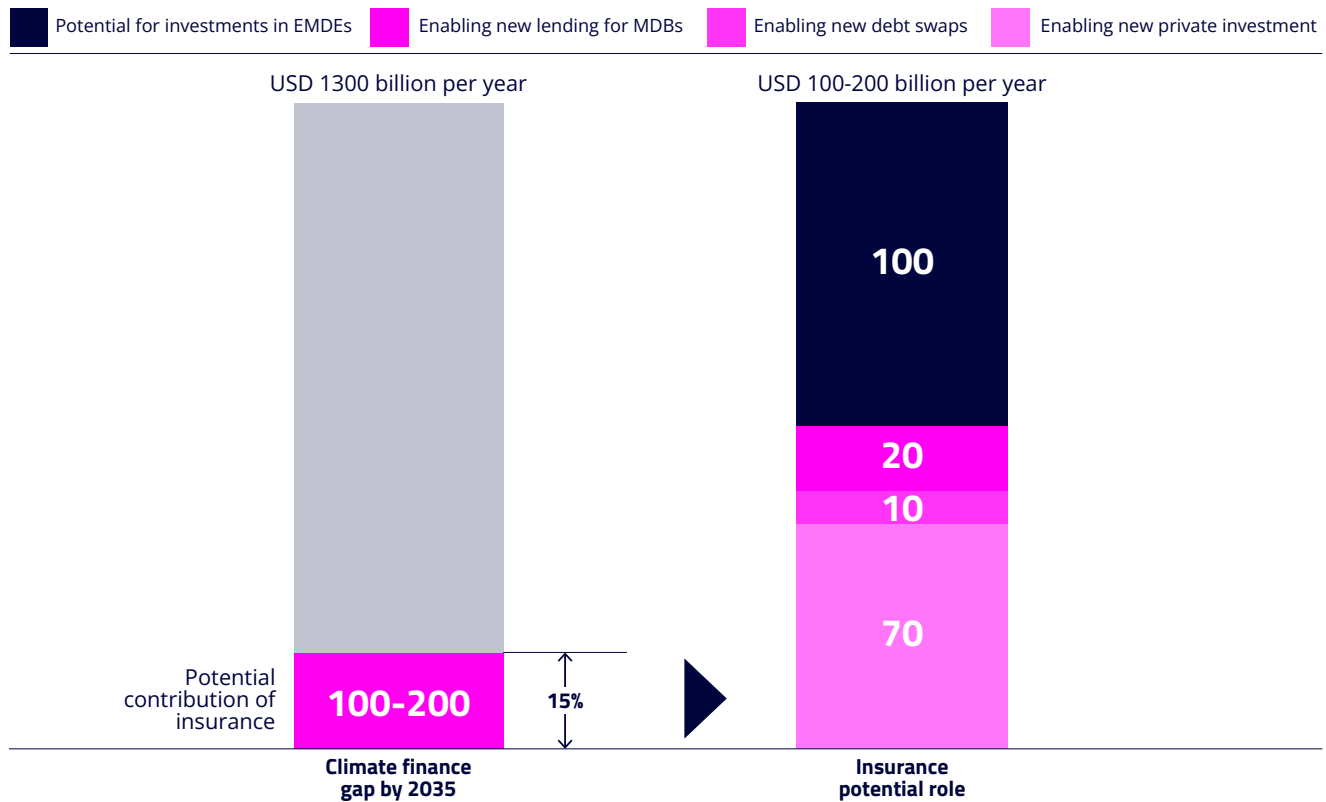
On the asset side, insurers manage over **USD 40 trillion globally**.²⁷ According to the OECD, if institutional investors, including insurers, would allocate just 3.7% of their assets under management (AUM) to sustainable development in EMDEs, this could close the climate finance gap.

On the liabilities side, insurers can also play multiple pivotal roles. Recent transactions demonstrate how insurers can expand the lending capacity of multilateral development banks (MDBs), serve as essential actors in debt-for-climate swaps, and de-risk the early stages of clean energy investments. Additionally, as credit rating agencies increasingly recognize the value of disaster risk mitigation and insurance-backed support, countries themselves could benefit from improved credit ratings—unlocking further investment and reducing the cost of capital.

The **USD 100-200 billion estimate reflects this combined role**—as both investor and risk transfer enabler—in catalysing capital flows into climate-relevant sectors (see Figure 4). While the number is directional, it underscores the scale of potential contribution from the industry if aligned properly with country demand and enabling conditions.

27. IAIS, "Global Insurance Market Report (GIMAR)", (2024).

Figure 4: Estimate of potential contribution of insurance to external climate finance annually by 2035²⁸



2.3 How closing both gaps can be mutually reinforcing

Closing the protection and climate finance gaps are not only complementary goals—they are expected to reinforce each other (see figure 5). Insurance connects countries to deeper capital pools by reducing and diversifying risks. This contributes to stabilising public finances, reducing investment risks, and encouraging climate finance into risk-sensitive sectors such as infrastructure, water, and agriculture.

At the same time, insurance contributes to the development of domestic capital markets.

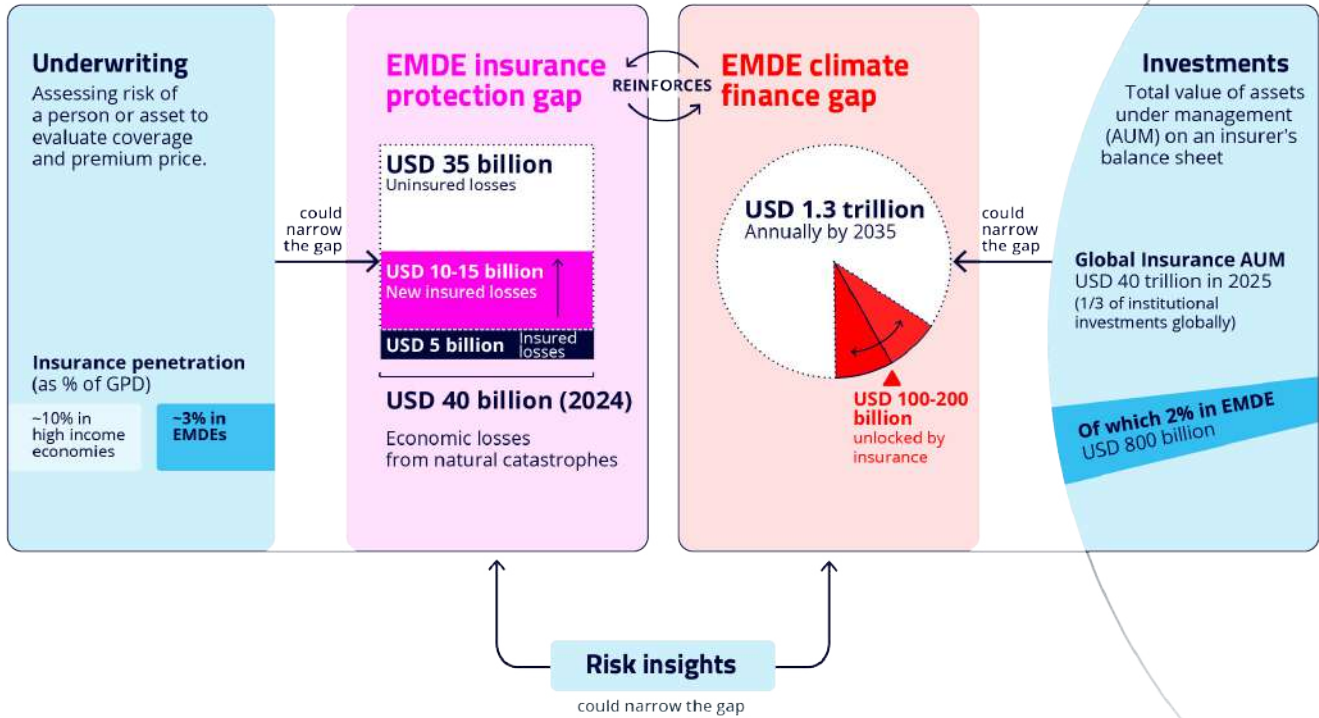
Local insurers tend to invest where they underwrite risk—and research shows a strong correlation between deeper insurance penetration and increased local investment.²⁹ Over time, this can create a virtuous cycle: growing insurance markets could lead to greater domestic investment in infrastructure and adaptation, which improves resilience, reduces risks, lowers premiums, and increases insurance affordability and uptake.

When this virtuous loop functions well, it helps to close both gaps simultaneously—provided market access rules are conducive.

28. Systemiq analysis, order of magnitude estimate, see appendix for sources and references. USD 1.3 trillion is the cross-border finance for clean energy transition, adaptation and resilience, loss and damage, natural capital and sustainable agriculture, and just transition for EMDEs, excluding China. Bhattacharya A, Songwe V, Stern N, Soubeyran E, “Raising ambition and accelerating delivery of climate finance: Third Report of the independent High-Level Expert Group on Climate Finance”, (2024).

29. OECD, “The Development Dimension of Insurance”, (2018).

Figure 5: Positive reinforcing effect of closing the protection gap and climate finance gap



Yet insurance remains underused in EMDEs. Across EMDEs, insurance penetration averages around 3% of GDP, and falls below 1% in many countries, compared to 10% in high-income economies.^{30, 31} Annual per capita insurance spending in EMDEs is USD 175, about thirty times less than in wealthier countries.³² In many countries, insurance can be difficult to structure, not properly understood, politically invisible, and unaffordable without support.

These barriers can be addressed when embedded into national financial strategies and supported financially or technically by MDBs and donors.

Recognising insurance as part of a broader resilience finance strategy is essential. While not a standalone solution, insurance can help close both the protection gap and the climate finance gap. The next chapter explores how insurance can do this using its three unique capabilities.

30. Mapfre, "Emerging Countries and the Insurance Sector: Common Challenges on the Road to Growth", (2022); Lloyd's, "A World at Risk: Closing the Insurance Gap", (2018).
 31. Mapfre, "Emerging Countries and the Insurance Sector: Common Challenges on the Road to Growth", (2022).
 32. Swiss Re sigma extra, "World Insurance: Regional Review 2019 and Outlook", (2020).

3. The full capabilities of insurance

Chapters 1 and 2 set out **why** insurance matters for climate and economic resilience—and what role it can play in closing the protection and climate finance gaps. The case is clear: insurance is an underused, but essential component of a well-functioning resilience finance system. This chapter now explores **how** the full capabilities of the insurance industry can be harnessed to deliver on that potential.

In a well-functioning market, investing in climate resilience reduces the impact of disaster risk and improves insurability. In turn, greater insurance coverage de-risks investment and unlocks climate finance, creating a reinforcing cycle of resilience and protection.

The insurance industry sits at the intersection and brings together three unique capabilities that are essential to closing both the protection and climate finance gaps:

1. **Providing risk insights** to inform resilient development by quantifying disaster risk and its financial impact to guide better risk management, underwriting, investment, and public policy.
2. **Underwriting and risk management** to enable faster recovery by offering predictable and timely liquidity when shocks occur, thereby reducing governments' fiscal volatility, limiting businesses' exposures, and enabling faster recovery.
3. **Investing and mobilising capital** for resilient infrastructure and sustainable development—aligning insurance investment portfolios with climate and development objectives and enabling others to do the same by de-risking investments.





3.1 Insurers as providers of risk insights

The insurance industry is a leading source of risk insights for effective resilience planning and investment. Its risk modelling and analytical capabilities, including probabilistic risk assessments, geospatial risk analysis, and hazard-specific tools, enable effective resilience planning, risk management and investment. These insights inform everything from infrastructure design and land-use planning to fiscal strategy and public investment. For governments, risk modelling can support the development of risk planning and help design risk-layered financing strategies. These strategies guide where and how to allocate resources, often with the support of MDBs or equivalent and intergovernmental organisations (IGOs). Risk modelling also underpins the creation of credible and investable pipelines for resilience finance (see Case Example 1).

While the need for improved risk data in EMDEs is well known, many solutions are already possible with existing tools. For EMDEs already experiencing severe climate impacts, availability and access to high-quality risk data are critical. However, the immediate challenge is not only data scarcity, but also the insufficient use of existing tools.

Many basic parametric insurance products and risk financing strategies can already be developed using available data and existing models.

Insurance can also improve the quality and targeting of public investments. Through its risk assessment and engineering capabilities, the insurance industry can help governments identify and prioritise high-risk public assets, such as hospitals, schools, and roads, based on their vulnerability and exposure to hazards. This supports a better allocation of limited public resources and helps ensure investments deliver both development and resilience outcomes.

Using insurance-based risk insights in national investment plans can help EMDEs bring together public policy, development funding, and private investment around common goals. Improved understanding of risk exposure and protection gaps makes resilience strategies more credible, strengthening the case for accessing concessional and blended finance. Risk analytics can also help coordinate across government ministries by showing how climate risk affects budgets and the broader economy, and over time, this can support stronger credit ratings.

Case Example 1

The IFC’s Building Resilience Index (BRI)

The BRI is a web-based assessment tool that evaluates the resilience of buildings to natural hazards such as floods, storms, earthquakes, and fires. It uses location-specific hazard data and a structured questionnaire to assess a building’s design, construction materials, and operational features. The tool assigns a standardised rating (e.g., AA, A, B) to indicate the level of resilience, with an additional “+” designation for buildings that include features supporting operational continuity during a disaster, such as backup power, water supply, and emergency protocols. Insurers have been involved in providing risk data analysis and sharing their experience in developing geohazard risk tools.

BRI is intended for use by a range of stakeholders. Developers and builders can use it to assess resilience in the planning and construction process. Financial institutions and insurers may reference the index in evaluating risk exposure. Governments and policymakers can apply the framework in shaping building codes, land-use policies, and disaster risk management plans. The tool has been piloted in countries including Vietnam and the Philippines.

3.2 Insurers as underwriters

Insurance underpins financial resilience by enabling individuals, businesses, and governments to manage the financial impact of unpredictable shocks. When risk is assessed and transferred effectively, countries can attract investment, safeguard fiscal space, and avoid costly, destabilising borrowing after disasters. As underwriters, insurers support disaster risk finance through three interrelated functions: (1) pooling and transferring risk, (2) pre-arranging crisis finance, and (3) incentivising risk reduction. Together, these help EMDEs manage volatility, unlock capital, recover faster, and preserve fiscal space.

3.2.1 Pooling and transferring risk

Pooling spreads risk and ensures predictable payouts that stabilise economies after shocks. Underwriting is the process of evaluating risks and pricing them when they are insurable. Insurers then pool risks across clients and geographies. When risks are assessable (their probability and severity can be measured), random (not predictable or influenced by the policyholder), and economically viable (with premiums aligned to expected losses), insurance provides a powerful form of financial protection.³³ This pooling enables predictable payouts and stabilises economies during shocks without derailing long-term plans. The industry pays out an estimated USD 5–5.5 trillion annually in claims.³⁴ This figure reflects the system’s ability to distribute and pre-finance losses across time and geographies, serving as a mechanism to smooth costs, improve liquidity, and ensure that the funds are available at the right time.

33. Geneva Association, “The Role of Insurance in Promoting Social Sustainability”, (2022).

34. Kharas et al., “For the World’s Profit: How Business can support Sustainable Development”, (2025).

Insurance plays a foundational role in enabling both project and corporate finance. In practice, it is often a prerequisite for bank lending, providing essential risk mitigation that underpins creditworthiness. Whether through property and casualty cover, business interruption, or political risk insurance, these instruments are integral to securing capital and ensuring the viability of investments—without which many transactions would not reach financial close.

Insurance also strengthens financial systems by enabling MDBs to scale lending through credit-risk transfer. MDBs, including the International Finance Corporation (IFC), African Development Bank (AfDB), Asian Development Bank (ADB), and Inter-American Development Bank (IDB), are increasingly leveraging credit-risk insurance to optimise their balance sheets and grow their lending capabilities. For example, the IDB's USD 300 million credit risk insurance supported up to four times that amount in new lending.³⁵ AfDB's Room2Run transaction created approximately USD 2 billion of new lending capacity by insurers guaranteeing USD 400 million of portfolio losses.³⁶ Credit rating agencies are increasingly recognising these instruments in MDB assessments, encouraging broader adoption.³⁷

3.2.2 Pre-arranging crisis finance

Pre-arranged finance offers faster and more effective responses to disasters. Pre-arranged crisis finance refers to funds secured in advance and disbursed rapidly after a disaster, such as contingent disaster loans and grants, insurance, and catastrophe bonds. The instruments reduce fiscal disruption, enable faster recovery, and lower the long-term cost of disasters.

Yet only 2% of international crisis finance is currently pre-arranged, and just 1.4% reaches low-income countries.³⁸

Underinsurance in EMDEs delays recovery and increases vulnerability. Recovery time correlates with insurance penetration—1% more coverage can shorten recovery by 12 months. EMDEs, however, remain underinsured: approximately 90% of catastrophe losses go uncovered, and, on average, recovery takes four years longer than in high-income countries.³⁹ To address this, there are global ambitions to raise the share of pre-arranged finance to 20% by 2035—a tenfold increase.⁴⁰

Innovative tools like parametric insurance and catastrophe bonds (cat bonds) can provide faster, more predictable post-disaster funding. Parametric insurance is gaining traction due to its speed and predictability.^{40, 41} Building trust in parametric solutions requires transparency around triggers, clarity on expected payouts, and independent verification of hazard data—especially in lower-income and vulnerable communities. Case Example 2 illustrates the difference in payouts after a disaster between two countries, Grenada and St Vincent, who had different levels of coverage. These instruments are often accessed through regional risk pools—such as the African Risk Capacity (ARC), the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), and the Pacific Catastrophe Risk Insurance Company (PCRIC)—that enable countries to access these instruments affordably, pooling risk and building local market capacity.⁴²

35. IDB, "IDB Completes First Credit-Risk-Insurance Transaction with the Private Sector", (2023).

36. Risk control, "Risk transfer efficiency for MDBs", (2024).

37. Moody's, "Credit Enhancement Methodology Whitepaper", (2024).

38. CDP, "The State of Pre-Arranged Financing for Disasters", (2024).

39. University of Cambridge, "Optimizing Disaster Recovery", (2020).

40. IAIS, "Uncertain Waters: Can Parametric Insurance Help Bridge NatCat Protection Gaps?", (2024).

41. Generali GC&C, "Parametric Insurance to Build Financial Resilience", (2024).

42. World Bank Disaster Risk Financing and Insurance (DRFI) program, UNDP Insurance and Risk Finance Facility

Cat bonds, such as those issued under the World Bank’s IBRD Capital at Risk Notes Program (over USD 4.8 billion to date) and the Inter-American Development Bank, allow countries to tap capital markets for disaster protection.⁴³

However, the full power of insurance lies in its ability to incentivise investments in resilience. Finance and insurance alone are not enough. To be most effective, these tools must not only respond to risk, but also reduce it by making risk visible, pricing it appropriately, and rewarding actions that lower future exposure. This is the focus of the next section.

Case Example 2

The role of insurance in the aftermath of Hurricane Beryl

Hurricane Beryl’s devastating impact in July 2024 offered a stark contrast between countries with and without sufficient disaster risk insurance. Both Grenada and St. Vincent and the Grenadines received prompt parametric insurance payments through a risk pool, the Caribbean Catastrophe Risk Insurance Facility (CCRIF), eight days after the hurricane. Notable differences in payout sizes are attributed to Grenada benefiting from preparedness with coverage of weather events and critical sectors to address a significant portion of its disaster costs, whereas St. Vincent and the Grenadines did not have such comprehensive coverage.

| | St. Vincent and the Grenadines | Grenada |
|--------------------------|--------------------------------|-------------------------|
| Damage (% of GDP) | USD 230 million (22%) | USD 219 million (16.5%) |
| Insurance payout | USD 1.9 million | USD 55.6 million |

3.2.3 Incentivising risk reduction

Insurance can incentivise risk reduction through improved pricing, product design, and risk advisory services. In particularly high-risk or underinsured regions, this benefit-cost ratio can rise as high as USD 10 for every USD 1 spent.⁴⁴ Insurance signals where investments in risk reduction are needed through pricing and policy terms. Premium discounts, improved terms, or coverage extensions can incentivise resilience, for example, elevating buildings or reinforcing flood defences.

Market failures limit resilience investments without public policy support. Many large-scale infrastructure projects (e.g., flood defences in high-risk areas) provide public benefits but lack private returns, so insurers alone cannot drive investment. Without regulatory and policy support to correct this, the system favours short-term solutions over long-term resilience. Challenges become most visible in the aftermath of disasters, when insurance covers large claims and serves its role as a shock absorber, but pricing of insurance becomes unaffordable or some insurers withdraw from the market.

43. Artemis, “World Bank Has Now Facilitated Over US \$4.8 Billion in Catastrophe Bonds”, (2024).

44. Swiss Re sigma, “Restoring Resilience: The Need to Reload Shock-Absorbing Capacity”, (2023).

Following Hurricane Maria in 2017, in many cases insurance premiums in Puerto Rico increased between 300-400% placing coverage beyond the reach of small businesses and households, jeopardising recovery and leaving many permanently uninsured.⁴⁵

Sustainable insurance markets depend on reducing future losses and ensuring affordability. To maintain insurance viability in high-risk regions, reducing future losses must be prioritised. This requires collaboration between insurers, governments, policymakers, regulators, and relevant business actors (such as builders) to align incentives, invest in prevention, and ensure insurance coverage remains affordable and inclusive.

Also, as insurers grow their underwriting exposure in EMDEs, they are more likely to invest in local assets to match their liabilities—ultimately creating a reinforcing mechanism where deeper insurance penetration drives greater investment into local markets. This builds on the foundation for the next role: insurers, along with other institutions, as potential long-term investors in resilience. However, without strong public policy support, insurance markets in EMDEs are unlikely to scale. Risk reduction often produces public goods—benefits that accrue broadly but cannot be monetised—making purely commercial models insufficient without public co-investment.



45. Center for Investigative Journalism, “The Hidden Reason for the Lack of Insurance Payments After Hurricane Maria”, (2019).

3.3 Insurers as long-term investors

Insurers can play an important role as direct long-term investors in climate and resilience projects, and as key partners in blended finance structures that help unlock additional sources of capital.

3.3.1 Incentivising long-term resilient investment

Insurers manage USD 40 trillion in assets, one of the largest pools of long-term capital in the financial system. This capital is guided by asset-liability management principles, which ensure their assets are aligned with future payout obligations. They invest to match the timing, currency, and risk profile of their liabilities. Typically, future claims are paid months or even years after premiums are collected. This results in relatively conservative, long-duration portfolios across asset classes such as fixed income, equities, real estate, and cash. A smaller portion is allocated to alternative assets, including infrastructure, private equity, and emerging market debt, which could offer higher returns and diversification. However, there is a case to increase this small portion.

Because insurers are exposed on both sides of the balance sheet, they have a unique dual incentive to invest in resilience. Insurers face accumulation risk or “double drop” when assets and liabilities are concentrated in the same vulnerable sectors or geographies, such as coastal cities or drought-prone agricultural zones. A natural disaster could trigger large insurance payouts while simultaneously eroding the value of related asset holdings.

For example, the 2015–2016 El Niño droughts in Asia led to severe crop failures and asset losses in agriculture and infrastructure across countries like Cambodia, the Philippines, and Vietnam.⁴⁶ Insurers covering agricultural risks faced a surge in claims while also seeing declines in asset values tied to the same drought-impacted sectors. This dual exposure creates a clear incentive for insurers to invest in resilience measures—such as drought-resistant agriculture and water management systems—to both reduce claims and protect related investments.

However, very little of this capital currently reaches the EMDEs that need it most. Despite the incentives described above, only around 2% of total insurance AUM is invested in EMDEs.⁴⁷ Where investment does occur, it is often limited to middle-income countries with growing insurance penetration and concentrated in low-risk, highly liquid assets. Redirecting even a fraction of insurance capital toward resilience-focused investments in EMDEs could help close the estimated USD 1.3 trillion climate finance gap. This requires a multistakeholder effort to overcome well-documented barriers that all institutional investors face, such as political, regulatory, currency, data quality and counterparty risk.

While insurers are increasingly committing to sustainability, few have translated this into real capital flows for EMDEs. Over USD 9.5 trillion in assets have been pledged to net-zero investment strategies, but these commitments have not yet driven significant volumes of risk-adjusted capital flows that directly support resilience and adaptation in EMDEs.⁴⁸

46. UNDP, “Enhancing Resilience to Extreme Climate Events: Lessons from the 2015–2016 El Niño Event in Asia and the Pacific”, (2017).

47. OECD, “Mobilising Institutional Investors for Financing Sustainable Development in Developing Countries”, (2021).

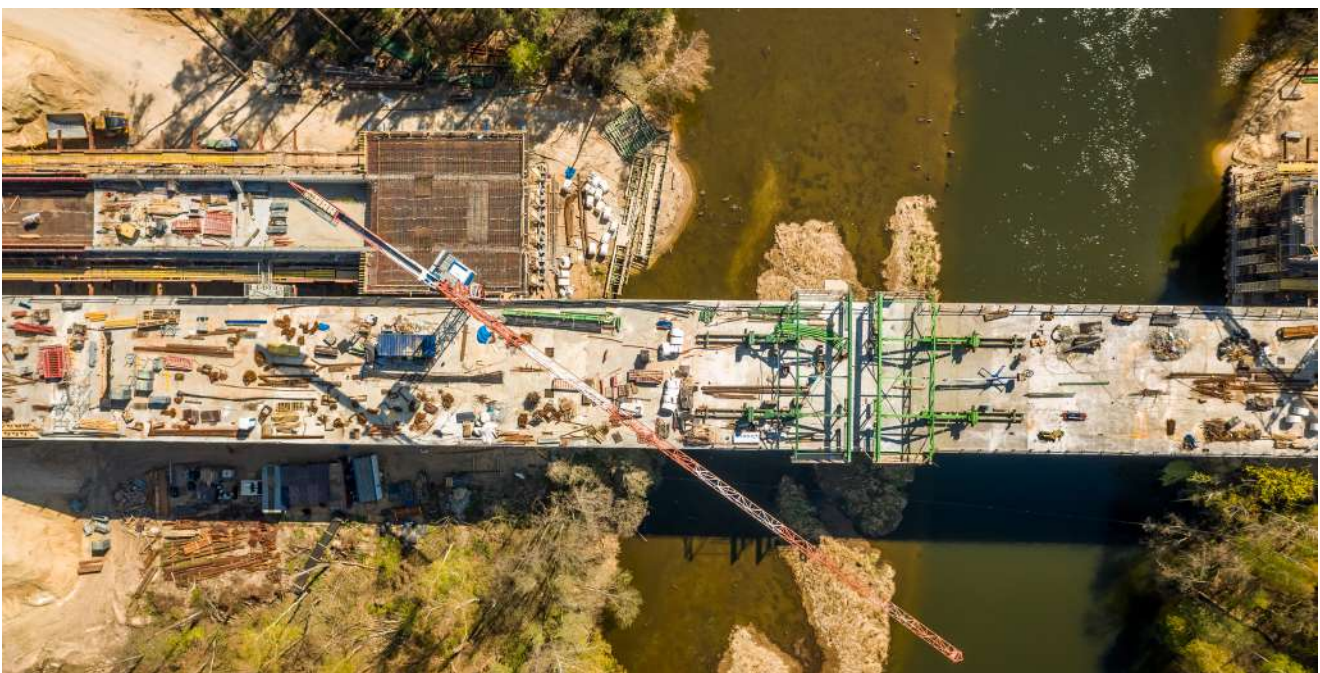
48. UNEPFI, “UN-convened Net-Zero Asset Owner Alliance”, (2025).

Infrastructure and resilience-aligned assets could be well-suited to insurance portfolios but unlocking this potential often requires establishing creative business models and de-risking partnerships under conducive market rules and conditions. Resilience investments, such as renewable energy infrastructure, transport and digital sectors can already generate predictable, long-term cash flows that align with insurers’ obligations. However, when they are not yet commercially viable or do not have direct revenue streams, such as flood defences, water loss reduction systems, and undergrounding electricity transmission lines, it will require public partners (governments, MDBs, and donors, including both bilateral development partners and philanthropy) to transform savings into cash flows or help improve the risk-return profile for insurers. While far from simple, innovatively designed business models, such as one being explored by Singapore that combines critical coastal defences to protect against existential sea-level rise (public goods) with real estate development (commercial asset), can address the challenge of revenue streams.⁴⁹

In terms of improving returns to investors, blended finance mechanisms, such as first-loss guarantees and concessional financing are proven approaches that have been implemented in many countries and contexts, for example in Jamaica’s BMR wind energy project that included a combined commercial-concessional financing package from IFC, the US’ Development Finance Corporation (DFC) and the Government of Canada.⁵⁰

Co-investment from insurers into climate resilient infrastructure is showing promise.

While in a starting phase and relatively small scale relative to the need and the opportunity, models such as the IDF’s Insurance Resilience Development Fund and Allianz’s SDG Loan Fund offer concrete examples of how insurers can and are co-investing in EMDEs when appropriate risk-sharing mechanisms are in place (see Case Example 3). As local insurance and financial ecosystems mature, and the risk-reducing nature of these investments is better recognised, such assets should increasingly attract insurance capital without the need for ongoing public subsidy. The goal is to create well-functioning private insurance markets that are self-sustaining over time.



49. Government of Singapore, “Long Island to Be Studied as Part of Singapore’s Coastal Protection Efforts”, (2023).

50. IFC, “Blended Investment in Wind Energy Ready to Fly Solo in Jamaica”, (2022).

Case Example 3

IDF Infrastructure Resilience Development Fund

The Insurance Development Forum’s Infrastructure Resilience Development Fund (IRDF) facilitates the investments of the insurance sector in resilient infrastructure in EMDEs. The fund is aimed at mobilising insurance industry investments into the development of smaller to mid-size commercial infrastructure projects in EMDEs. This includes investing in a diversified portfolio of greenfield and brownfield commercial infrastructure projects geared towards enhancing the resilience of vulnerable communities in EMDEs to climate risks and other natural disasters.

Investments will be made through senior and mezzanine secured debt with a credit profile that is compatible with the requirements of the global insurance industry. The structure of the fund reflects the need to partner with DFIs and other credit enhancement providers to create new investments that meet the credit quality requirements of insurers and reinsurers. The fund also seeks to create a pipeline of infrastructure projects that match insurance sector investment requirements.

Managed by BlackRock, the fund is aligned with the purpose and objectives of the IDF to optimise and extend the use of insurance and its related risk management and financial capabilities to build greater resilience to climate change risks and other natural disasters.

3.3.2 Driver for capital mobilisation

Beyond investing their own capital, insurers can catalyse broader private investment by participating in structured finance solutions. Examples of this catalytic role include:

- › **Credit enhancement and risk-sharing structures:** Insurers can improve the credit quality of development finance via guarantees, insurance wraps, or participation in debt-for-nature swaps. By providing contingent risk coverage or backing insurance-linked features in restructured debt, they help lower perceived risk, improve creditworthiness, and accelerate post-shock liquidity. These tools attract capital while supporting resilience and conservation goals.

- › **Co-investment in pooled vehicles:** Insurers can play a dual role in pooled vehicles. As investors, they can contribute long-term capital to diversified portfolios, benefiting from risk-adjusted returns aligned with their liabilities. They may also act as de-riskers—either directly or in partnership with donors—by providing credit enhancements such as first-loss protection or guarantees. This dual role can improve the credit profile of a portfolio and attract additional private investment at greater scale. IFC’s MCPP is a successful example of this (see Case Example 4).



Case Example 4

IFC's Managed Co-Lending Portfolio Program (MCP)

MCP enables large institutional investors, including insurers, to co-invest alongside IFC in diversified, risk-managed portfolios of lending to developing countries. IFC originates, structures, and manages the loans, while insurers provide both investment capital and credit risk protection. If a borrower defaults, the insurance pays out. This structure exemplifies how insurers can invest within regulatory limits whilst also de-risk the portfolio for other investors. Over the past 10 years, MCP has mobilised more than USD 16 billion into EMDEs.

Unlocking the industry's investment potential in EMDEs will therefore require highly coordinated actions to address structural barriers.

But the potential reward is clear: a deeper, more stable capital base for resilience and development, backed by long-term-oriented public and private financial institutions.

4. Leveraging the insurance industry to scale resilience in EMDEs

Chapters 1–3 laid out the **why**, what, and **how** of insurance for resilience: the scale of the protection and climate finance gaps, the capabilities of the industry, and the enabling conditions required. This chapter now focuses on **where to accelerate**. Four practical leverage points are outlined that, if pursued together, could significantly accelerate insurance-backed resilience in EMDEs:

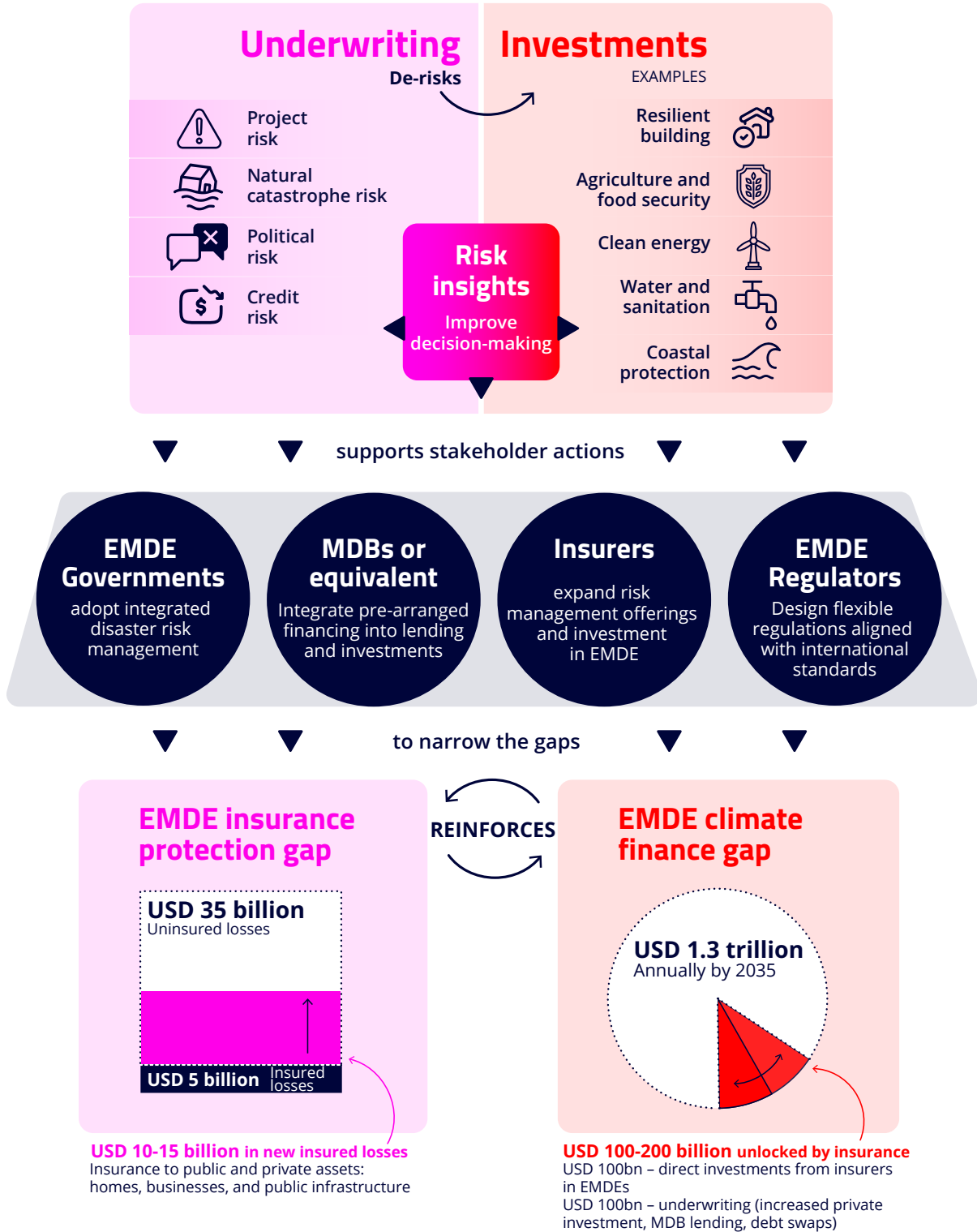
1. **Adopt integrated disaster risk management in EMDEs** with governments quantifying protection gaps and integrating pre-arranged finance (PAF)⁵¹ into budget processes and financing strategies.
2. **Integrate pre-arranged finance into MDBs lending and investment frameworks**, including through risk layering, contingent components, risk transfer and shock-resilient loan instruments.
3. **Expand insurers' risk management offerings** to incentivise risk reduction and unlock insurers' potential to deploy investments in EMDEs.
4. **Design EMDE regulatory frameworks** to encourage experimentation, facilitate inclusive insurance models, and align with international standards for innovative solutions.

These leverage points are mutually reinforcing. Together, they can unlock better coordination, more capital, and scalable solutions across the risk financing ecosystem—from governments and insurers to MDBs and regulators (see Figure 6).



51. Pre-arranged finance refers to financial resources that are secured before a disaster strikes, so funds can be quickly accessed when a shock occurs. This includes insurance, catastrophe bonds, contingent disaster loans and grants.

Figure 6: How insurance capabilities and actors can support greater resilience in EMDEs



Leverage Point 1

Adopt integrated disaster risk management in EMDEs with governments quantifying protection gaps and integrating PAF into budget processes and financing strategies

The opportunity

Many EMDEs face high exposure to disaster and climate-related risks but lack the financial tools to manage them effectively. Without pre-arranged finance, shocks often force governments to divert development spending, raise taxes, or borrow at high cost—reinforcing a cycle of vulnerability. One in three developing countries spends more on post-disaster response than on education or health, highlighting how climate shocks force funds to be redirected away from critical development investments.⁵² Shifting from reactive to proactive risk management enhances countries' fiscal planning, can build resilient economies, attract long-term investment, and eventually improve credit ratings.

Recommendations

Governments can integrate disaster risk management by embedding risk financing in national development strategies, short- and medium-term budgets, and sovereign debt frameworks through a range of measures:

1. **Quantify protection gaps** to inform policy, budget allocation and financing strategy by assessing risk exposure and uninsured risk by using probabilistic and geospatial models. The Global Shield—a collaboration with the Vulnerable 20 Group (V20)⁵³—has supported this quantification process already in 9 countries, including Ghana, Bangladesh and the Philippines.
2. **Develop national disaster risk strategies with dedicated budget lines** for risk-layered financial instruments such as reserve funds, contingent credit, insurance, and adaptive social protection, informed by an assessment of their cost-effectiveness.

3. **Strengthen coordination across government ministries, disaster risk agencies and regulators**, drawing on technical assistance from MDBs', insurers' and IGOs' risk expertise (see Case Example 5), and streamline procurement for government purchase of risk transfer and financing tools. This could include establishing a national chief risk officer role within government that reports to the head of state.
4. **Integrate risk transfer mechanisms into debt issuances** such as insurance-linked disaster clauses to help preserve fiscal stability during shocks and engage with credit rating agencies to ensure these mechanisms are properly recognised.
5. **Accelerate domestic insurance market development** by building capacity in data systems and risk modelling, and creating supportive regulatory and policy frameworks to enable insurance innovation.
6. **Promote inclusive insurance models** that extend coverage to vulnerable populations through public-private partnerships.

Embedding disaster risk management that align with national strategies is a foundational step for EMDEs, but governments cannot do this alone. MDBs play a critical enabling role by structuring sovereign finance to include pre-arranged instruments that align with national risk strategies. The following leverage point focuses on how MDBs can mainstream pre-arranged finance in their operations, creating a more anticipatory development finance system and reinforcing country-led resilience efforts.

52. UNDP, "Insurance and Risk Finance Facility", (2024).

53. Global Shield, "Global Shield Overview", (2023).

Risk transfer, risk retention and risk reduction

To increase resilience against catastrophes, governments may benefit from designing and adopting risk-layered disaster financing strategies. These strategies can broadly be divided into two types of instruments reflecting different types of risks, plus a strategy for investing in risk mitigation:

- **Risk transfer instruments**, including indemnity insurance, parametric insurance, and catastrophe bonds, are more appropriate for rare but high-impact shocks that often exceed the fiscal capacity of policy holders.
- **Risk retention instruments**, such as budget reserves or contingency funds, are best suited for frequent but low-impact events.
- **Risk reduction investments**, such as coastal barriers whose value is revealed from pricing the risk of typhoon flooding.

| | | | | |
|-----------------------------|---|-----------------------|---|---|
| Country risk profile | High severity and low frequency events | Risk transfer | Risk transfer instruments (indemnity/parametric insurance, cat bonds) Insurance of public assets | |
| | Low severity and high frequency events | Risk retention | Contingent credit lines | Post-disaster borrowing Increased taxation |
| | | | Government reserves, contingency budget, reserve funds, budget reallocation | |
| Pre-disaster | Investment in resilience and risk reduction | | | |

Source: CDP, World Bank, IADB, ADB

Case Example 5

Uzbekistan is building an enabling environment for disaster risk finance

Uzbekistan transformed its disaster risk finance ecosystem through targeted reforms, institutional coordination, and public-private collaboration – laying the groundwork for scalable, inclusive risk financing.

The programme’s success rested on three pillars:

- **Legal reform:** Regulatory caps were lifted, enabling risk pooling and innovative insurance solutions.
- **Local market engagement:** Domestic insurers were involved from the start, with tailored capacity-building to ensure commercially viable, locally owned products.
- **Public-Private Insurance Partnership (PPIP):** A subsidised multi-peril insurance product was launched for 17,000 low-income smallholder farmers, with public funds de-risking initial uptake. This was delivered with support from the IDF, Europa Re, Swiss Re, UNDP, and BMZ, as part of the Tripartite Program.

As a result, Uzbekistan has created an enabling environment to scale disaster risk finance, expand sovereign tools, and support inclusive insurance market growth.

Leverage Point 2

Integrate pre-arranged finance into MDB or equivalent lending and investment frameworks

The opportunity

Currently, the majority of MDB support for disaster and climate shocks is reactive.

Over the previous decade, more than 90% of international disaster-related finance was provided post-event.⁵⁴ However, pre-disaster mechanisms deliver better value for money—each dollar in pre-arranged finance can save up to USD 15 in post-disaster recovery costs.⁵⁵ This also helps to protect development and social spending, allowing countries to maintain public investment plans when shocks occur.⁵⁶

A shift to pre-arranged financing at the MDB level is where the value of insurance becomes most apparent.

As providers of risk insights, the industry can support MDBs in assessing disaster risk and climate-related hazards at macro, portfolio, and project levels, ensuring that lending decisions are grounded in robust, forward-looking analytics. As underwriters, insurers can absorb extreme risks from investment projects or lending portfolios, helping MDBs manage exposure and mobilise capital.

Recommendations

MDBs have the opportunity to lead in mainstreaming pre-arranged risk financing in their operations and to support countries in embedding such instruments. This includes:

- 1. Integrate risk diagnostics into country risk assessments** and incorporate them from the earliest stages of project and programme design by assessing disaster and climate risks systematically. For example, the World Bank tracked its IDA commitments with disaster risk management co-benefits and introduced a Resilience Rating System to guide investment decisions and improve climate resilience in project design and outcomes.⁵⁷
- 2. Set PAF targets** and embed them in core features of development bank operations and country support for structured, risk-layered financial strategies.
- 3. Integrate risk-layered financial instruments** into loan packages, including options like parametric insurance or contingent credit within budget support and climate resilience programmes.
- 4. Addressing gaps in post disaster financing toolkits to enhance liquidity support to climate-vulnerable countries.** The World Bank's Cat DDO offers fast, pre-arranged financing after crises, but uptake remains low with only 31 countries covered. The Bank could explore and address barriers to uptake to ensure all countries have access to post-disaster liquidity.

54. Centre for Disaster Protection, "The Role of Pre-arranged Finance in Disaster Response", (2021).

55. UNDRR, "International Cooperation in Disaster Risk Reduction", (2021).

56. World Bank & GFDRR, "Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters", (2017).

57. World Bank, "IDA Results Measurement System", (2024).

5. **Create institutional incentives for sovereign borrowers** by offering concessional finance or policy-based lending tied to clear risk management milestones.
6. **Expand the use of insurance-backed disaster clauses and other flexible mechanisms.** Evolving disaster clauses allow coupon and principal repayments to be covered, rather than simply deferred, in the event of a major shock—thus reducing fiscal stress. This reduces the fiscal burden on governments while maintaining debt service continuity (see Case Example 6).
7. **Institutionalise collaboration with Ministries of Finance, debt managers and insurers** to incorporate disaster risk insurance features into sovereign bonds, loans, and budget support. This can include parametric triggers, premium reserve funds, or insurance-backed disaster clauses.
8. **Strengthen collaboration across MDBs to share best practices and harmonise approaches to resilience-linked lending.** Some MDBs, including the World Bank Group, IADB, and ADB, already have deep expertise in disaster risk and climate finance. Greater coordination and collaboration can accelerate the mainstreaming of pre-arranged risk financing.

Case Example 6

New Shock Resilient Loans increase financial stability during natural catastrophes

Shock Resilient Loans (SRLs) fund climate protection and resilience projects and include a component of parametric insurance. If a specific climate event occurs, like a set number of dry days, the insurance covers loan repayments for a certain period. This means borrowers can use their limited funds for emergency aid and recovery instead of debt payments. Their credit ratings are also protected, since the loan does not default. The SRL model is being tested with the West African Development Bank, in partnership with MunichRe, African Risk Capacity and KfW. In this pilot, insurance covers loan payments after floods or droughts, giving countries quick access to cash in a crisis. Some challenges remain, such as local insurance rules and scepticism about insurance. However, the project encourages cooperation and learning between governments, development partners, and insurers to build better tools for climate resilience.

When MDBs integrate pre-arranged finance into sovereign lending, they not only improve fiscal resilience of EMDEs, but also signal demand for new types of insurance products and investment strategies.

This creates powerful feedback loops with the insurance industry, particularly when insurers also align their underwriting, capital management, and investments with risk reduction outcomes—creating a reinforcing cycle of resilience. The next leverage point centres on expanding insurers' business models to make resilience more investable and insurable.

Leverage Point 3

Expand insurers' risk management offerings to incentivise risk reduction and unlock potential to deploy investments in EMDEs

The opportunity

Natural catastrophes are reshaping the global risk landscape and insurers must cope with an increasingly complex, volatile, and costly reality. The insurance sector remains, however, uniquely positioned to mitigate and transfer risk, influence decision-making and support long-term resilience through how it assesses, prices and underwrites risk, allocates capital and guides clients' investment and behaviour.

Linking insurance more expansively to resilience outcomes offers long-term value for both insurers and climate-vulnerable countries. On the liability side, risk-based pricing and resilience-linked mechanisms can incentivise risk reduction, support insurability over time and unlock new markets, especially in EMDEs.

This creates commercial opportunities for insurers who are increasingly offering value-added services such as resilience advisory, analytics, and risk engineering services. On the asset side, insurers can mobilise capital into resilient infrastructure by participating in risk-mitigated investment vehicles that support standardising asset classes in EMDEs. This dual role of underwriting risk and investing in resilience not only strengthens domestic financial ecosystems but also aligns capital flows with long-term risk reduction. The result is a virtuous cycle of lower exposure, improved creditworthiness and expanded financial protection for the most vulnerable.



Recommendations

On the **underwriting and risk management** side, insurers can amplify risk reduction efforts in multiple ways:

- 1. Incorporate resilience-linked underwriting terms** that reward risk-reducing measures through premium discounts or enhanced coverage. This requires improved pricing models to better incorporate the avoided cost or benefits of risk reduction, which can drive prevention, improve affordability, and support long-term insurability.
- 2. Develop dynamic pricing models and resilience-linked coverage options** that reward proactive risk reduction—such as reinforced structures or early-warning systems—while maintaining affordability. Public subsidies may be needed to ensure vulnerable populations are not priced out.
- 3. Adapt resilience-linked insurance models to sovereign and sector-specific applications in EMDEs**, such as agriculture and public assets, by expanding access to forward-looking hazard modelling, risk mapping, and resilience services. While common in corporate settings, these tools are still underutilised in sovereign and sub-sovereign contexts.
- 4. Share risk intelligence proactively with clients and policymakers** to improve awareness, drive prevention and support the development of innovative risk-transfer solutions, particularly in high-risk sectors such as agriculture, MSMEs, and infrastructure.
- 5. Establish public-private partnerships and joint platforms with governments and MDBs** to co-develop resilience platforms and prioritise investments; insurers can draw on models such as the UK’s Flood Re scheme, which links subsidised insurance to household-level resilience through its “Build Back Better” initiative for high-risk properties, or support the development of IFC’s Building Resilience Index.
- 6. Invest in open-access geospatial risk platforms and support capacity-building** for local insurers and national disaster risk agencies to strengthen local data ecosystems and enable better resilience decision-making.
- 7. Engage early with supervisors** to ensure that risk reduction measures are recognised and promoted (in risk management, governance, solvency capital, pricing or disclosure). Regulatory flexibility is key to enabling innovative, fit-for-purpose insurance products and improving oversight of climate-related exposures (see leverage point 4).
- 8. Prioritise early engagement with regulators and governments to design inclusive insurance models.** Targeted subsidies, risk pooling and microinsurance have shown promise in pilots such as parametric drought insurance for farmers in Mexico and flood cover in Ghana, and should be scaled to reach last-mile populations.

On the **investment and asset side**, insurers can create opportunities to increase investments in EMDEs:

- 1. Implement responsible investment frameworks** with strong incentives to increase inclusion of green, social, and responsible investments in EMDEs.
- 2. Engage with supervisors to improve regulatory treatment of resilience-aligned investments.** Aligning capital requirements with risk mitigation benefits generated in EMDEs, such as through climate-adjusted risk weights or resilience-linked incentives, would contribute to reducing high charges for investing in climate-resilient infrastructure in EMDEs.
- 3. Increase participation in blended finance funds through structured entry points,** including risk tranches aligned with regulatory and portfolio needs. Fund managers should engage insurers early in product design to ensure alignment with investment mandates, as seen in platforms like the IDF's Insurance Resilience Development Fund (Case Example 3).
- 4. Support the standardisation of securities documentation** and work toward broader harmonisation of legal frameworks, as seen in initiatives like the Hamburg Sustainability Platform. Standardisation lowers transaction costs, enhances liquidity, and supports replication of investment models to attract institutional capital to EMDEs.

- 5. Co-develop and standardise risk mitigation instruments with MDBs** tailored to EMDE contexts, including political risk insurance, first-loss guarantees and currency hedges. Bundling these tools with investment vehicles can enhance the risk-return profile and reduce barriers to entry for insurance capital. The World Bank guarantee platform, hosted by MIGA, is a leading example.
- 6. Contribute to market data-building initiatives** by supporting the development of reliable time series for EMDE asset classes, including data on returns, spreads, defaults and recoveries. Improving access to quality investment data enables better calibration of risk models and supports long-term investor confidence.

For insurers to fully activate their potential in driving resilience through underwriting, investment, and advisory, supportive regulatory and policy environments are essential. Regulation plays a critical role to unlock innovation, improve affordability, and expand coverage to underserved markets, laying the groundwork for scalable disaster risk finance. The final call for action highlights the role of regulators in enabling inclusive, forward-looking insurance ecosystems that support systemic resilience.



Leverage Point 4

Design regulatory frameworks to encourage experimentation, facilitate inclusive insurance models, and align with international standards for innovative solutions

The opportunity

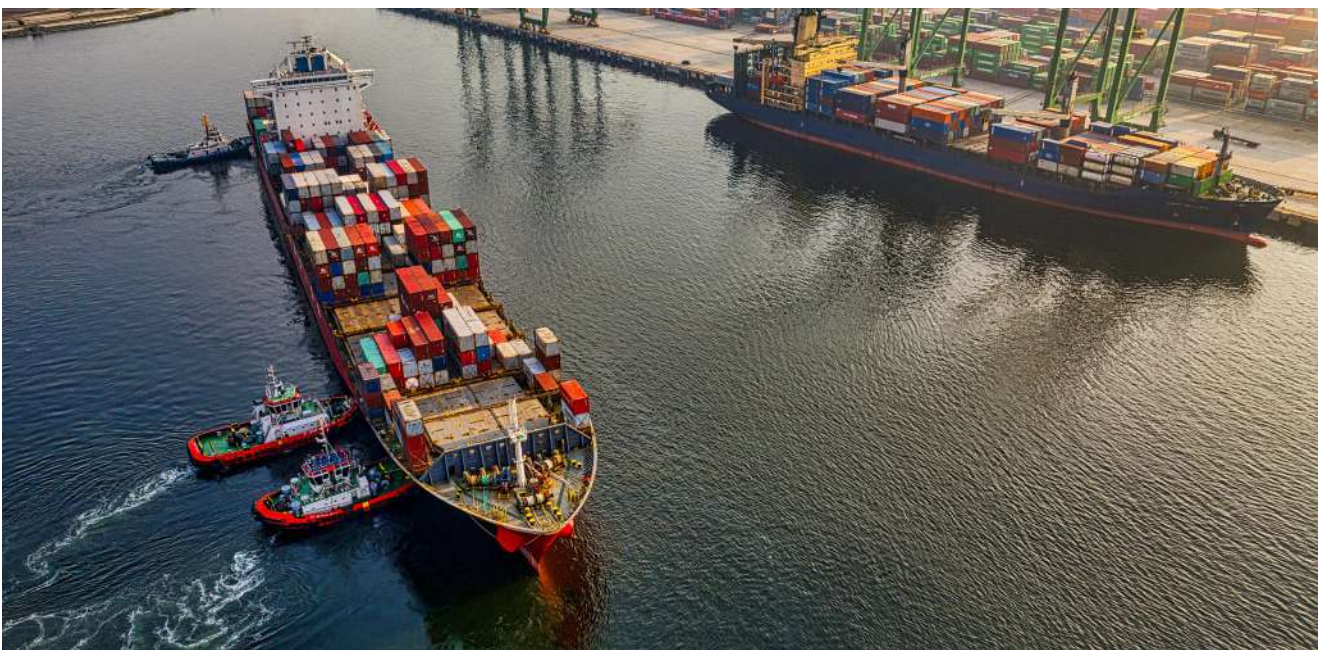
Innovation in disaster risk insurance is advancing rapidly, with solutions such as parametric products, microinsurance, and geospatial risk tools expanding risk assessment and insurance access in underserved markets.

In EMDEs, risk-based and flexible regulatory frameworks are essential to send market signals, tailor requirements to market characteristics, and keep pace, especially where domestic insurance markets remain underdeveloped. By facilitating market access and enabling new product structures, adaptive regulation helps accelerate innovation and market development.

Flexible regulatory environments can shorten time-to-market for solutions that are effective and scalable. They also facilitate cross-border risk pooling and capital flows, particularly where regulatory harmonisation and supervisory collaboration exist.

As capacity grows, regulatory confidence is strengthened, supporting the development of stable domestic markets. Flexible frameworks can also enable governments to tailor solutions for high-priority sectors such as agriculture, MSMEs, housing, and infrastructure, helping align insurance innovation with national climate and development goals.

Domestic market depth is a key enabler of strengthening disaster risk insurance. Strong local institutions and capital markets support faster, more efficient payouts and expand access to coverage. Yet insurance penetration remains uneven between immature markets and developed markets. Building domestic capacity goes beyond increasing insurance coverage as it also strengthens financial stability, mobilises savings and enhances economic resilience.



Recommendations

Regulators in EMDEs can take practical steps to foster innovation, improve market access, raise risk awareness and ensure supervision evolves alongside product advances:

1. **Engage with insurers and governments to raise awareness on disaster risks and the role of insurance**, promoting the importance of pre-arranged finance and addressing some EMDEs governments' apprehension of insurance products.
2. **Facilitate approval processes for innovative products** (such as parametric and index-based products) to support market development. Some governments have only recently recognised parametric instruments as insurance products, while the demand for such products by public sector actors has been increasing.
3. **Improve solvency treatment of innovative products and sustainable investments**, ensuring capital requirements reflect the actual risk profile and benefits of these products and investments.
4. **Support cross-border operations to enable the development of risk pools and broader market access**. Many jurisdictions still limit market access or impose restrictions limiting optimal risk diversification.
5. **Adopt proportionate regulation for inclusive insurance**, recognising that micro and meso-level products have different structures and risk characteristics than traditional insurance.

6. **Establish innovation sandboxes** with impact monitoring to adapt regulation based on pilot results, helping supervisors manage risk while supporting product development.
7. **Support better procurement processes** for government-purchased insurance solutions, which are often slowed by complex, time-consuming procedures that hinder timely protection.
8. **Align national regulatory frameworks with emerging global standards**, such as those issued by the International Association of Insurance Supervisors (IAIS), to support sound insurance supervision and market developments.

An enabling regulatory environment provides a foundation for a well-functioning disaster risk financing ecosystem. It connects supply with demand by allowing fit-for-purpose insurance solutions to enter the market while ensuring adequate oversight and consumer protection. It also builds the trust required for long-term capital mobilisation by signalling stability and transparency to both domestic and international actors. This regulatory foundation supports the other leverage points outlined in this paper and, when implemented in tandem, can create dynamic and supportive change across the disaster risk financing landscape.

5. The way forward: an action plan

Realising the full potential of insurance to support disaster risk reduction and climate resilience in EMDEs will require **bold leadership, multi-stakeholder collaboration, and targeted actions**.

The four leverage points outlined in this paper represent high-impact opportunities to **help mobilise USD 100-200 billion in climate finance and help close the protection gap**. While some individual recommendations may not on their own be new, taken together they bring a holistic approach to solving complex challenges that can cripple economies and for which insurance can and must be part of the solution.

What is now urgently needed is focused, coordinated, and sustained implementation to capitalise on the full potential of the insurance industry at a time when all possible options must be brought to the table to manage the impacts of natural disasters and address the climate crisis.

These actions cannot be delivered in isolation. The inter-related nature of disaster and climate financing calls for **coalitions of action**, bringing together public and private actors to co-create solutions, adapt existing tools, and hold each other accountable.

IDF and the Bridgetown Initiative will take these recommendations forward through structured dialogue and technical engagement with committed partners, including:

- › **Country-level demonstration programmes** to assess protection gaps, embed pre-arranged finance in investment planning, operationalise national risk financing strategies, and scale inclusive insurance solutions.
- › **Public-private initiatives to unlock the investment potential of the insurance industry in EMDEs**, enhancing data quality, addressing investment barriers and improving standardisation of investment documentation.
- › **A shared learning and evidence platform** to track development impact using socio-economic metrics, disseminate case studies, and mobilise capital and political support.
- › **Engagement with standard-setting bodies** (e.g. IAIS, IMF, FSB), as well as credit rating agencies, to align financial rules and incentives with disaster and climate resilience goals.
- › **Technical working groups** to advance regulatory innovation, implement risk reduction solutions, develop resilience-linked pricing models, and support the integration of risk metrics in sovereign risk assessments and lending frameworks.

With the collective will to build on existing tools and a small but growing momentum for impact, the global financial architecture can support a more resilient future in the most vulnerable countries. IDF and the Bridgetown Initiative invite partners willing and able to contribute boldly to this agenda to join us in this next phase of action.

Acknowledgements

The insights and recommendations in this paper were developed through expert interviews and consultations, literature review and desktop research. The paper was co-authored and substantively contributed to by Pepukaye Bardouille for the Bridgetown Initiative; by Ekhosuehi Iyahun, Philippe Brahin, Ivo Menzinger and Claudia Thyme on behalf of the IDF by Betty Wang, Pippi Durie, Veerle Haagh, Lara Rabinowitz, and Mattia Romani at Systemiq.

The authors would like to thank the following people for their time, insight and expertise: Céline Boulay, Catherine Simonet (AFD); Thomas Kessler (ADB); Erik Berglof (AIIB); Mostafa Ziaee Estarabadi, Karina Whalley (AXA); Jeff Abramson, Navid Shahidinejad, Stuart Barrowcliff (AXA XL); Bridget Gainer (Aon); Naoki Matsumura (CDEMA); Shakira Mustapa, Sophie Evans (Centre for Disaster Protection); Anaar Kara, Sophie Sirtaine (CGAP); Ina Hoxha (Climate Bonds); Nigel Brook (Clyde & Co); Rachel Delhaise (Convex); Pankaj Singh (CVFV20); David Bresch (ETH Zurich); Christiaan Henning, Sarah McPhail (G20 SFWG); Simon Young (GeoSCy); Nilesh Prakash (Global Shield); Minister Ivan Tiago Machado Oliveira (Government of Brazil); Hector Santana Suarez,

Juan Sergio Santana (Government of Mexico); Kavita Sinha (Green Climate Fund); Paula Pagniez (Howden Re); Rowan Douglas (Howdens); Francisco Ramón Ruiz García, Juan Josed, Ramon F. Ruiz Garcia (IADB); Conor Donaldson (IAIS); Bill Marcoux, Kipkorir Koskei, Nick Moody, Pedro Pinheiro, Ruth Lux (IDF); Diep Nguyen-Van Houtte, James Smouse, Jamie Fergusson, Mohammed Gouled, Ommid Saberi (IFC); Helke Waelde, Luise Richter (KfW); Steffen Dyck, Thorsten Nestmann (Moody's); Arend Kulenkampff (Nature Finance); Mariana Jimenez - Huerta (Prudential); Katherine Stodulka (QCF); Jeffrey Manson (Renaissance Re); Zoe Greindl (Systemiq); Callum Bray, Mark Davies, Nicola Jenns, Phil Stevens (UK FCDO); Ceandra Faria, Lauren Carter, Tuga Alaskary (UNDP); Emiko Todoroki, Evie Calcutt, Michael Bennett, Naomi Cooney, Rashmin Gunasekera, Sumati Rajput (World Bank); Saoirse Jones, Marc Radice (Zurich).

With thanks to support from the Danish Ministry of Foreign Affairs to the Bridgetown Initiative and to Quadrature Climate Foundation for the development of this analysis.

Appendix

The following summary outlines the potential contribution of insurers to climate finance. These illustrate key roles that insurers can play—both by enabling investments through their underwriting activities (liabilities) and by investing directly (assets). While not exhaustive and based on publicly available data, the estimates are intended to provide a directional order-of-magnitude and guide future analysis.

The estimated contribution is benchmarked against the external climate finance gap of USD 1.3 trillion, as identified by the Third Report of the High-Level Independent Expert Group on Climate Finance. This figure forms part of the “Baku to Belém” COP30 roadmap, which calls for scaling external finance, through private investment, MDBs, bilateral flows, South-South cooperation, and other concessional sources to reach USD 1.3 trillion annually by 2035.

| Insurers contribution | Number | Calculation | Sources |
|--|---|---|---|
| Liability side of the balance sheet | USD 10-20 billion Additional lending capacity for MDBs | Data: Four transactions demonstrate how insurers can be enhancing MDB lending capacity—through credit insurance with IDB and IFC, and synthetic securitisation with AfDB. Calculation: Average amount transferred versus total outstanding loan portfolio: 1% for sovereign, 5% for non-sovereign; Average ratio of increased lending capacity: 2x for sovereign, 3x for non-sovereign. Assumption: Application to outstanding loans portfolio of five other MDBs—IBRD, IDB-Invest, AIIB, EBRD, ADB—split by sovereign (total outstanding loans of USD 420 billion) and non-sovereign (total outstanding loans of USD 70 billion). Total: USD 20 billion, rounded to nearest 10 | Systemiq analysis Transaction data from: Risk Control, “Risk Transfer Efficiency for MDBs”, (2024). |
| | USD 5-10 billion Enabling climate debt swaps | Data: IIED analysis finds USD 100 billion potential climate finance from debt swaps. Assumption: Based on debt swap transactions a conservative estimate is a 90:10 ratio split of guarantees: political risk insurance and reinsurance as the key enablers. Total: USD 10 billion | Systemiq analysis IIED, “Averting the crises: how a new approach to debt could raise US\$400 billion for climate and nature”, (2022). |
| | USD 35-70 billion Increasing FDI through better sovereign rating | Data: Global FDI data indicates that there is a 1% increase in FDI for every one level increase in sovereign credit rating. Assumption: A more formal recognition of the protection gap in sovereign credit rating methodologies could lead to 1 credit rating uplift for higher insurance coverage and penetrations. Credit rating agencies already recognise the ex-post fiscal costs from disasters and that mechanisms like cat bonds, regional risk pools, contingency reserves and contingent credit lines play important roles to protect governments; ratings agencies continue to integrate these tools into country assessments. Total: Applying this assumption and a 15-30% attribution to climate finance (based on infrastructure finance being ~50% total EMDE FDI) results in an uplift to FDI of up to USD 35-70 billion | Systemiq analysis World Bank, FDI as a % of GDP S&P long-term sovereign ratings/ Expert input Fitch Ratings, “Special Report: Latin America Sovereign Catastrophe Risk in Latin America and the Caribbean”, (2017)/ Expert input UNCTAD, “International investment trends”, (2024). |
| Asset side of the balance sheet | USD 50-100 billion Increasing insurers AUM in EMDEs into climate resilience | Data: OECD estimates that insurers have 2% of their portfolios in EMDEs and if 3.7% of institutional investor portfolios were transferred to sustainable development financing gaps would be filled; Conservative estimate that insurers have 50% of their portfolios in sustainable investments today. Total: USD 40 trillion x 2.7%= USD 1,080 billion over 10 years = USD 108 billion | Systemiq analysis OECD, “Mobilising institutional investors for financing sustainable development in developing countries”, (2021). |
| Total Asset + Liability contributions | USD 100-200 billion per year | | |

Figures 5 and 6 in the paper highlight the natural catastrophe protection gap in emerging markets and developing economies (EMDEs). The diagrams also provide an illustrative comparison of how this gap could be narrowed, showing the potential reduction in uninsured losses if EMDEs had increased insurance coverage. See estimate method and sources below.

| Estimated category | Number | Method | Source |
|--|--|--|---|
| EMDE insured losses and protection gap (2024) | <p>Total economic losses for EMDEs in 2024: USD 40 billion</p> <p>Total insured losses: USD 5 billion</p> <p>EMDE insured losses (%): 11%</p> | <p>Data: Regional data from Swiss Re 2024. Data for Africa and Latin American included in full. Data for Asia apportioned between AEs and EMDEs using % GDP (China excluded).</p> <p>Insured losses: assumed as 10% for Asia, per average for developing countries (Munich Re).</p> | <p>Systemiq analysis</p> <p>Swiss Re sigma, "sigma 1/2025: Natural catastrophes: insured losses on trend to USD 145 billion in 2025", (2025).</p> <p>Munich Re, "Natural disasters – the risks", (n.d.). accessed via https://www.munichre.com/en/risks/natural-disasters.html</p> |
| New EMDE insured losses (with increased coverage by 2035) | <p>Protection gap 2035: USD 67 billion</p> <p>Total insured losses 2035: USD 15 billion</p> <p>EMDE insured losses (%): 22%</p> | <p>Data: Swiss Re finds the losses are growing by 6% per year, this means the gap could have grown to approximately USD 70 billion by 2035.</p> <p>Calculation: If insured losses in EMDEs double from 11% to 22% (half of insured losses in advanced economies which is 40-50% on average, so it is not unfeasible), this would result in USD 15 billion of insured losses in 2035.</p> | <p>Systemiq analysis</p> <p>Swiss Re sigma, "sigma 1/2024: Natural catastrophes in 2023: Resilience tested", (2024).</p> <p>Swiss Re, "Europe and global: Natural catastrophe losses in 2023", (2024).</p> |