

Investigating the Risk Reduction Potential of Disaster Insurance Across Europe

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The notion that insurance can play a significant role in risk reduction has recently gained increasing attention in the wake of rising losses from natural disasters. While this notion is accepted in theory, we notice that, in practice, little is known about if and how insurance promotes efforts to lower the occurrence probabilities of an event or reduce its impacts. Direct linkages between risk reduction and insurance appear lacking in most existing insurance schemes, and the risk reduction potential is usually not a recognised aspect when designing or reforming insurance schemes. In response, multisectoral partnerships are being developed as innovative mechanisms to address this shortfall. Our analysis seeks to determine how the risk reduction linkages of insurance can be assessed and developed further in a multisector partnership (MSP) setting. We consider four methodologies applied in previous studies and explore them for several European examples of insurance development. While very different in scope and history, our examples share one common feature: they can all be considered as MSPs designed to foster greater collaboration between different stakeholders. We use those examples to act as testing grounds for the assessment of the risk reduction implications of insurance. Our findings show that the potential for risk reduction of new or reformed schemes could be strengthened through multisectoral partnerships. We conclude with a discussion of how the four methods could assist in the development of innovative responses to natural hazard insurance in a multisectoral partnership context.

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Insurance and risk reduction

Insurance is a widely used risk financing instrument that seeks to promote the sharing and transfer of risks and losses including those from natural disasters such as floods and storms.¹ It is purchased by those at risk before an event, offering financial compensation in the case of a loss event. Insurance is either provided publicly, privately or through a public-private partnership; it can be subsidised, or mandated and guided either by the