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From personal risk to collective responsibility

Insurance was initially built to protect individuals largely from personal risks. As insurance and broader societal development have become increasingly effective at managing many of those risks, public concern has shifted towards risks that individuals cannot meaningfully control on their own. This is driving a renewed debate about where responsibility should be shared among individuals, insurers and the state.

Warning - hot coffee

I have always been interested in the meeting point between personal and public responsibility, and the place of businesses in this tension. While the individual can be expected to know and manage certain risks and decisions, sometimes their ability to do so is limited by a lack of knowledge, inability to act or lack of effectiveness even if they can act. The obvious example is the hot coffee warning. Can I, as an adult, be reasonably expected to know that my coffee might be hot? Or should the corporate entity selling me the coffee warn me about this? Or should the state be required to legislate protections against hot coffee? A more contemporary issue might be whether it is entirely my responsibility, as a parent, to manage the risks of social media or whether the technology companies or government should carry some, if not all, of the responsibility for managing these risks. For the insurance industry, this was one of the key treating customers fairly (TCF) considerations that underpinned the framework, reflecting society's acceptance that responsibility can, in certain circumstances, shift from individuals to institutions.

This debate has significant implications for the insurance industry, and in this article, we explore where these issues converge. In the mid-20th century, a typical policyholder would probably have worried about their house, their homeowners' contents, their vehicles and death. Similarly for insurers, the primary focus was on managing these traditional risks through underwriting, pricing and claims management. More recently, however, both boards and policyholders have become increasingly concerned about risks ranging from floods and fires, energy security, cyber incidents, supply chain disruption and the spread of misinformation.

Are these new risks or has insurance become so effective at managing personal risks that our attention has shifted towards risks that individuals cannot manage on their own? The most important development may not be the emergence of new risks, but the growing prominence of risks that sit beyond individual, and perhaps even corporate, control.

What is the true purpose of insurance?

Insurance exists to pool and transfer risk and convert uncertainty into predictable costs. Its fundamental purpose is to reduce economic uncertainty. However, from a societal perspective, insurance serves a broader role. It gives people confidence to participate in economic and social life despite uncertainty. Historically, it did this by protecting people from the financial consequences of largely individual events, such as a vehicle collision, burglary, house fire or an accidental injury. All of which are risks for which the individual could reasonably influence the outcome.

Individuals increasingly bear the consequences of risks whose causes lie beyond their control.

On the spectrum of risk

The notion of personal and public risks is, like many dichotomies, an illusion. There is a range of risks, which can be spread across a spectrum related to the level of personal versus societal responsibility which can be attached to them. For simplicity we could identify three categories:



Personal risks: these are risks over which individuals have significant influence. Examples include motor accidents, household theft and property damage. For each of these, the individual can manage the risk and be reasonably held responsible for managing it.



Shared risks: such as floods, wildfires, localised cyber-attacks, social media content and public health risks. While individuals can take precautions, they cannot fully control the outcomes. This is primarily because elements of the risk driver are beyond the control of the individual. For example, to manage flood risk, a farmer can build and maintain the dams on their property, but if the farmers upstream of them do not, they may still be vulnerable.



Societal/public risks: these would include climate change, electricity grid failures, political instability, systemic cyber incidents, geopolitical conflict and supply chain disruption. Individuals experience the consequences directly but have very limited ability to influence the causes.

These categories of risk are not always distinct and can overlap. If the government fails to maintain the roads or uphold the rule of law, the individual faces greater risk and uncertainty. Risks can also evolve over time. Coastal flooding, once viewed as a personal risk, is increasingly being regarded as a shared societal risk as sea levels rise and the scale of potential impact grows.

The classification is important as it impacts whether the individual can manage the risk and who bears the burden of managing the risk. However, individuals, political parties and states have differing views on personal versus public responsibility and consequently might reach differing conclusions on where any individual risk might reside on this spectrum.

Insurance and the hierarchy of risk

Borrowing loosely from Maslow's hierarchy of needs, as people's financial security improves, their concerns evolve. Once one level of needs is met, we start pursuing another level of needs.

A household without basic protection worries about food, shelter, crime and medical costs. A household with basic insurance worries about education, retirement and wealth preservation. A well-insured household increasingly worries about electricity supply, political stability, institutional quality, cyber resilience and climate resilience. The success of insurance may itself explain the growing focus on societal risks, especially in higher-income economies. As personal risks become more manageable, attention naturally shifts towards risks that remain unresolved, and many of these are not risks that can be managed by the individual or private institutions alone.

It is worth pausing to acknowledge that this shift in attention does not necessarily imply that today's risks are objectively greater than those of previous generations. Previous generations confronted world wars, economic depression, nuclear confrontation and pandemics, indicating that the prominence of risks changes over time. The change in scale of risks, like hurricanes, is not necessarily indicative of worse hurricanes but can also reflect the fact that there are simply more insured assets in harm's way.

What different countries choose to insure

Different governments choose to provide protection against different risks. It is interesting to observe how countries draw different boundaries between individual and collective responsibility, and which risks they choose to support through dedicated public mechanisms. Focusing primarily on non-life risks, a couple of interesting examples are explored below.





Flooding

The United Kingdom (UK) recognised that certain flood risks are challenging for private insurers to cover on their own and established a public-private partnership, Flood Re, to help ensure that flood insurance remains available and affordable¹. All insurers registered to provide household insurance in the UK are required to pay a levy to Flood Re. A small portion of the flood risk is retained by the insurers, and only catastrophic flood losses are covered by Flood Re. It is notable that Flood Re is only expected to exist until 2039 as it was “established to support a transition to a future insurance market where flood risk is properly understood and reflected.”² This implies that there is a belief that flood risks, once properly understood and managed, can be financed entirely by the private market.

The National Flood Insurance Program (NFIP) in the United States of America (USA) reflects a similar conclusion. “The NFIP has two purposes: to share the risk of flood losses through flood insurance and to reduce flood damages by restricting floodplain development.”³ It enforces flood risk management requirements on communities by only providing cover in those areas that meet the requirements. It is owned and managed by the USA government. Until 2004 the program was entirely covered by insurance premiums, however following a series of large hurricanes, notably Katrina and Sandy, it had to borrow significantly from the USA government to cover losses^{4 5}.



Fires

Fire risk is one of the oldest risks in the world. For centuries, responsibility for managing the economic impact of fire risk rested largely with individuals. That assumption is now being tested in some jurisdictions. Recent wildfire losses in California, Australia and Spain illustrate how risks can shift along the spectrum from personal responsibility to shared societal concern^{6 7}.

The California wildfires provide a clear modern example of the shift in views around insurability and responsibility. Following a series of catastrophic wildfire seasons, insurers became increasingly concerned about concentrations of risk in certain regions⁸. At the same time, rebuilding costs escalated and some insurers reduced exposure or withdrew cover entirely. In response, the California FAIR Plan, originally established as an insurer of last resort, became increasingly important^{9 10}.

The FAIR Plan is not a government-backed insurer, rather it is an insurance pool. It exists because society has become uncomfortable with large numbers of homeowners being unable to obtain insurance for a risk considered fundamental to homeownership.

This raises a fascinating question: **at what point does fire cease to be a private risk and become a societal one?**

Australia provides another useful example. Bushfires are insurable through conventional property insurance. However, following major wildfire events, recovery extended far beyond the settlement of insurance claims. Recovery required emergency relief funding, community support programmes, infrastructure rebuilding, economic assistance measures and disaster recovery grants⁶.

While private insurers compensate policyholders for insured losses, the government funds substantial portions of the broader recovery. The ultimate cost is therefore shared between policyholders, insurers, taxpayers and affected communities.

¹ <https://www.floodre.co.uk/>

² <https://www.floodre.co.uk/our-future/>

³ https://en.wikipedia.org/wiki/National_Flood_Insurance_Program

⁴ <https://www.wsj.com/articles/hurricane-harvey-threatens-largest-flood-insurer-1503771686>

⁵ <https://www.policyintegrity.org/documents/FloodingtheMarket.pdf>

⁶ <https://climatecompass247.com/climate/an-overview-of-major-wildfires-in-the-past-decade-and-their-causes/>

⁷ <https://www.france24.com/en/live-news/20260729-spain-s-three-worst-wildfires-since-1961-happened-in-last-two-years>

⁸ <https://www.merlinlawgroup.com/insurance-companies-cancel-fire-insurance/>

⁹ <https://www.ironpointinsurance.com/california-fair-plan/>

¹⁰ <https://agencyheight.com/california-fair-plan-for-homeowners/>

Wildfire risk provides a compelling example of how modern risks operate across multiple layers of responsibility. At the individual level, property owners can reduce exposure by clearing vegetation, maintaining firebreaks, using fire-resistant materials and preparing emergency plans. At the community level, local authorities can influence outcomes by enforcing zoning rules, managing surrounding land, regulating development and maintaining emergency services. At the state level, governments play a role through forestry policy, funding disaster-response capabilities, investing in resilience initiatives and coordinating large-scale emergency responses. What becomes clear is that no single stakeholder controls the outcome. The risk exists simultaneously at the individual, community and state levels.



Third-party insurance

Third-party insurance touches on another aspect of public and private responsibility: *should individuals be required to insure against risks they may impose on others?* Some risks are socialised not because they are catastrophic, but because they affect innocent third parties. Third-party insurance provides financial protection when the insured (the first party) causes damage, injury or loss to another person or their property (the third party). Motor third-party insurance covers third-party claims when the insured driver is at fault. Often required by law, motor third-party insurance helps ensure that victims receive compensation without placing the full financial burden on the insured party.

It is notable that of the G20 and BRICS countries, South Africa is one of the only countries which does not legislatively mandate third-party motor insurance. This is in part due to the existence of the Road Accident Fund (RAF). However, the RAF “only covers personal injury or death consequences”¹¹ and not damage to vehicles or property. Most other third-party insurance in other jurisdictions covers asset damage. In the USA, the requirement for third-party insurance varies between states. Almost every other G20 and BRICS member country mandates some form of third-party motor insurance. If you create a risk for others, you should not be able to impose the consequences of that risk on them.

The nature and/or extent of the mandate also varies across different jurisdictions. In most it is a private mandate, i.e. the vehicle owner is required to purchase third-party motor insurance from a private insurer.

The UK has a further Motor Insurers’ Bureau, which compensates victims where the driver is uninsured or cannot be identified. This is funded through a levy charged on the mandatory third-party motor insurance policy¹². The European Union states have similar guarantee funds which fall under a broader uninsured motorist fund requirement for each member state¹³.

On the other end of the spectrum is a structure like the RAF in South Africa or the Accident Compensation Corporation (ACC) in New Zealand. However, the ACC provides compensation for many more risks in addition to injury arising from a motor accident. The ACC covers most physical injuries if they are caused by an accident or sexual violence, they also cover injuries caused by treatment, long term injuries from work and certain mental health related outcomes¹⁴. These structures use some kind of public levy to fund their obligations. For example, the RAF is funded through a fuel levy. They also intrinsically place less emphasis on personal responsibility, whether for protection or for guilt.



Terrorism and political unrest

The obvious example of insurance related to terrorism and political unrest in South Africa is Sasria SOC Limited (Sasria). Sasria was established to provide protection for the public against political and special risks. Political violence is recognised as a risk that private markets alone may struggle to absorb or simply not be willing to cover. The July 2021 riots provide a clear example of how this risk played out, with Sasria paying R32 billion in compensation to policyholders¹⁵. However, estimates of the wider economic impact were approximately R50 billion.

The gap was absorbed through a mixture of uninsured losses, self-insurance, state supported measures and existing social protection mechanisms.

¹¹ <https://statuscheck.co.za/what-does-the-road-accident-fund-cover/>

¹² https://en.wikipedia.org/wiki/Motor_Insurers%27_Bureau

¹³ <https://plainlawguide.com/eu/personal-injury/uninsured-motorist-guarantee-fund>

¹⁴ <https://www.acc.co.nz/im-injured/what-we-cover/injuries-we-cover>

¹⁵ <https://sasria.co.za/2024/08/02/the-real-cost-of-the-riots/>

The Unemployment Insurance Fund (UIF), for example, also paid out various claims because of loss of employment arising from the unrest¹⁶. Business also played a role, for example, through a debt management and restructuring program initiated through the Banking Association of South Africa¹⁷. South Africa's response to the July 2021 riots provides an excellent case study demonstrating that when risks become sufficiently societal, recovery is funded through multiple layers of society, not solely through an insurance policy.

Similar terrorism-related insurance structures exist elsewhere in the world. For example, Pool Re is a UK government-backed terrorism reinsurance scheme to cover losses which private markets struggle to absorb. From their 2025-26 Annual Report: "since its establishment in 1993, Pool Re has paid a total of £634 million in respect of 13 certified terrorism events. Pool Re's financial strength stands behind the industry to provide support in the event of a major terrorist incident in the UK. Pool Re is backed by a governmental unlimited guarantee, for which Pool Re pays an annual premium to HM Treasury."¹⁸ A key distinguishing feature from Sasria is that a portion of the terrorism risk is financed by the private sector and only excess risk is placed with the government-backed reinsurance pool.

As I write this article, the USA marked 25 years since the September 11th terrorist attacks. Part of the USA's response was the Terrorism Risk Insurance Act (TRIA) in 2002. "TRIA created a temporary federal program that provides for a transparent system of shared public and private compensation for certain insured losses resulting from a certified act of terrorism."¹⁹

This provides another example of government intervention in response to a reduction in insurance cover provided by the private market. Unlike Sasria or Pool Re, TRIA is not terrorism insurance. Rather, it legislatively requires the USA government to reimburse certain certified terrorism losses over a specified threshold. Through the TRIA, terrorism cover must be offered by non-life (property and casualty) insurers, with the arrangement operating in a similar manner to a reinsurance programme. While the structure differs to other global mechanisms, the objective is much the same: maintaining the availability of terrorism insurance.

And so...?

Different countries draw the boundary between public and private responsibility in different places. Yet many reach a similar conclusion: some risks become so systemic or important to societal stability that they cannot be left entirely to individuals or private insurance markets to bear. In these arrangements, the state is typically not the primary risk carrier; rather, it provides a backstop that enables the primary market to continue offering cover. The scale of the potential economic impact often determines where responsibility ultimately resides. Smaller, routine and individual losses are generally borne by individuals, while large-scale, accumulated and systemic losses fall to the state.

It is also notable that South Africa has neither dedicated fire or flood government-established insurance schemes, nor mandatory third-party motor insurance mechanisms. Institutions like Sasria are more than just insurance mechanisms; they reflect societal judgements about which risks are too important, too systemic or too difficult to leave entirely to individuals and private markets.

The emerging challenge of uninsurable risk

Insurance works best when losses are independent, random, measurable and predictable. Many of the most topical insurance industry risks challenge these assumptions. A cyber-attack may affect thousands of organisations simultaneously. A power infrastructure failure may affect an entire economy. A climate event may affect an entire region. The challenge is not necessarily that these risks are new. The challenge is that they affect many people simultaneously. Insurance was designed to pool risk. It becomes more difficult when the entire pool is exposed to the same event.

Hopefully we can learn from the past and proactively manage some of the changing risks coming our way. Time will tell if similar structures are required for cyber-risks, AI and social media.

Insurance is ultimately a mechanism through which societies decide who should bear the consequences of uncertainty.



¹⁶ <https://newsnote.co.za/uif-pays-out-more-than-r21-million-to-165-businesses-affected-by-the-july-2021-unrests/>

¹⁷ <https://banking.org.za/news/financial-relief-for-victims-july-2021-unrest/>

¹⁸ https://assets.poolre.co.uk/sitefiles/2026/07/Pool-Re_Annual-Report-2025_26.pdf

¹⁹ <https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office/terrorism-risk-insurance-program>

What role should insurers play?

Insurers are skilled at understanding and quantifying risk. They can play a unique role in helping society and government understand the possible implications of risks. With risks like flooding and fires in the headlines due to climate change, or the emerging prevalence of cyber and AI risks, insurers are well positioned to engage with governments. They can help governments understand what these risks could cost their economies and find ways to finance this risk.

Through these structures they can encourage and incentivise local municipalities and communities to adopt more sophisticated risk management techniques.

The South African insurance industry and government could consider establishing a mechanism like Flood Re to help ensure that the aftermath of significant floods does not simply result in higher insurance premiums or the withdrawal of cover for certain risks. Similarly, the establishment of a mechanism like Pool Re, but which covers catastrophe fire risks, would help ensure the penetration into and coverage of insurance for lower income policyholders in South Africa.

Existing insurers and reinsurers are well positioned to establish or administer such mechanisms, but government support would likely be required to provide a backstop or guarantee. The insurer that establishes and administers a Sasria, Flood Re or Pool Re-type mechanism could generate significant fee income while transferring much of the underlying risk to a broader risk-sharing structure.

Similarly, the South African insurance private sector would benefit significantly from a properly administered mandatory third-party motor insurance arrangement. This is not a structure that can be implemented overnight - the average uninsured South African driver would not be willing or able to afford the cost of such cover, and the initial cost of this insurance would be prohibitive.

As with the UK's Flood Re model, a phased approach would likely be required, with the state initially assuming a significant share of the risk while the mechanism is established and develops sufficient scale within the local market. However, the benefits to the local market could be substantial, bringing South Africa more closely into line with global best practice.

Where does responsibility end?

Whilst homeowners can install security systems, a business can improve cyber controls, and a family can save for emergencies, there is a limit. Beyond a certain point, private adaptation begins compensating for what many would regard as societal responsibilities.

Many questions emerge:

Who is responsible for energy security?

Who is responsible for climate resilience?

Who is responsible for maintaining social stability?

And who is responsible for critical infrastructure?

These are not merely insurance-related questions. They are questions about the relationship between citizens, markets, economies and the state. Increasingly, the future insurance debate may be about responsibility rather than risk.

When collective risks are not adequately managed at a societal level, individuals and businesses often respond through self-protection, risk transfer and insurance. Insurance therefore not only reflects risk but can also reveal where resilience is being developed through private rather than public investment.

In closing

Insurance was created to protect people from personal misfortune. That mission remains unchanged. What is changing is the nature of the uncertainty people face. As individuals become increasingly protected against many traditional risks, attention is shifting towards risks that can only be addressed collectively. The defining question for the next generation of insurers may therefore focus not on what can be insured, but on where society chooses to draw the boundary between individual responsibility, market-based solutions and the role of the state.

