

INSURANCE PROTECTION GAPS



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Bridging insurance protection gaps: Regulation, incentives and coordination

The growing frequency and severity of natural catastrophes in Europe—exacerbated by climate change—has exposed a widening insurance protection gap. According to EIOPA's dashboard, only about 25% of losses from extreme weather events in the EU were insured in the past.¹ This threatens both individual and business resilience, and macroeconomic stability and public finances. Addressing this challenge requires a coordinated, multi-layered approach involving regulatory frameworks, national schemes, and EU-level mechanisms.

The role of regulatory frameworks: Solvency II and beyond

Solvency II, the EU's prudential framework for insurers, plays a foundational role in ensuring the financial soundness of

insurers and promoting risk-sensitive capital requirements. Enhancing Solvency II to better integrate catastrophe risk modelling and reward risk mitigation efforts could help as it is very important to reflect the evolving risk appropriately to ensure that the capital requirement is adequate. For instance, in light of climate change, new scientific insights and recent catastrophic events, it is important to ensure that the calibration of the natural catastrophe parameters of the standard formula remain sound. EIOPA recently performed the reassessment of the natural catastrophe risk standard formula capital charges.² Additionally, impact underwriting—where insurers integrate climate adaptation into pricing and coverage—can align financial incentives with societal resilience. Regulators can support this by recognizing the risk reduction effect of adaptation measures in capital requirements. Here, EIOPA is currently working on an assessment of the prudential treatment under Solvency II of adaptation measures in Nat Cat insurance. Moreover, Solvency II could be adapted to better support agricultural and climate-sensitive sectors, where insurance penetration remains low. This would require more granular risk modelling and potentially the development of open-access catastrophe models to improve transparency and trust.

National schemes: Lessons from CCR and CCS

France's Caisse Centrale de Reassurance (CCR) and Spain's Consorcio de Compensación de Seguros (CCS) offer valuable models of public-private partnerships. These schemes pool risks nationally, provide mandatory or semi-compulsory coverage, and are backed by state guarantees. They have proven effective in maintaining insurability and spreading risk across populations and time. Such schemes could be adapted or expanded in other Member States, particularly where market-based solutions are insufficient. However, national schemes must be carefully designed to avoid moral hazard and ensure that premiums reflect actual risk. Coordination with EU-level frameworks can help maintain subsidiarity while promoting consistency.

EU-Level mechanisms: Towards a coordinated response

Recognizing the fragmented landscape of national responses, the EIOPA and the ECB have proposed a two-pillar EU-level solution³:

- An EU public-private reinsurance scheme: This would pool catastrophe risks across Member States, leveraging diversification and economies of scale. Funded by risk-based premiums from insurers or national schemes, or funded fully privately, it would provide a backstop for extreme losses, helping to stabilize insurance markets and maintain affordability.
- An EU disaster risk financing fund: This would support public infrastructure recovery, conditional on pre-disaster risk mitigation measures. It would reduce fiscal shocks and incentivize proactive adaptation.

These mechanisms should complement national schemes, not replace them, preserving subsidiarity while enhancing resilience.

Joint reinsurance arrangements, including EU-wide catastrophe bonds or backstops, could further enhance insurability in high-risk areas. These instruments would provide liquidity post-disaster, reduce reliance on ad hoc public aid, and stabilize insurance markets.

Conclusion

Closing the insurance protection gap requires a comprehensive strategy that combines regulatory developments, market innovation, and EU-level coordination. To effectively address emerging protection gaps, a common EU methodology for identifying and monitoring gaps is essential. EIOPA's dashboard on natural catastrophe protection gaps is a step in this direction. Harmonized data collection, risk assessment, and scenario analysis would enable better policy coordination and targeted interventions. Solvency II must evolve to better reflect climate risks and reward resilience. National schemes like the CCR and CCS offer proven models, while EU-level mechanisms can provide scale and diversification. Finally, financial innovation will be key to maintaining insurability and affordability of Nat Cat insurance.

1. *Dashboard on insurance protection gap for natural catastrophes - EIOPA*
2. *Opinion on the 2023/2024 Reassessment of the Nat Cat Standard Formula - EIOPA*
3. *EIOPA and ECB joint paper: Towards a European system for natural catastrophe risk management - EIOPA*