EU CLIMATE RESILIENCE FRAMEWORK

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From payout to prevention: making insurance work for Europe's climate resilience

Europe is on the front line of climate change. Just recently, an exceptional heatwave gripped the continent, breaking temperature records in several countries. In June, France recorded its hottest day since national measurements began in 1947, while Spain and the United Kingdom set new June temperature records and Germany recorded a new all-time high. These events are among the latest reminders of the growing frequency, severity and unpredictability of climate-related extremes in a rapidly warming world.

As climate change intensifies not only heatwaves, but also floods, storms and wildfires, citizens face growing exposure to physical climate risks. In Europe, each of the past four years ranks among the five costliest for economic losses caused by weather- and climate-related extremes since 1980. Historical data alone is therefore no longer a reliable predictor of future losses. The Network for Greening the Financial System (NGFS) estimates that, by 2050, worldwide losses from climate-related damages could reach up to 15% of GDP under a Current Policies scenario.

Yet, the share of losses that is insured is not keeping pace: only around 25% of natural catastrophe losses in the EU have been insured over recent decades. Take-up remains low, as consumers often misjudge their exposure, perceive coverage as too expensive or expect state compensation after disasters, while rising premiums in high-risk areas make cover harder to afford. As a result, many citizens are likely to bear a larger share of disaster-related costs themselves, and uninsured losses can delay recovery and increase pressure on public budgets.

Strengthening the resilience of European society against risks is one of EIOPA's strategic priorities. EIOPA therefore continues to develop work addressing sustainability risks and natural catastrophe insurance protection gaps as an integral part of its supervisory, regulatory and risk-monitoring activities.

Addressing the insurance protection gap is key to Europe's climate resilience.

A concrete example of this work is EIOPA's dashboard on insurance protection gaps for natural catastrophes. Available since 2022 and currently undergoing a review, the dashboard brings together economic and insured losses, current risk estimates and insurance coverage across 30 European countries, supporting evidence-based decisions on how to reduce losses and improve societal resilience. It is complemented by the Catastrophe Data Hub, which gathers insured exposure and loss data, supporting supervisory analysis, financial stability work and the calibration of capital requirements.

To improve awareness of both risks and prevention, EIOPA has also launched targeted initiatives. In this regard, it proposed the development of PROTECT – a tool to help citizens better understand how vulnerable their properties are to natural hazards, how insurance works in their country and what steps they can take to prevent or reduce damage.

Looking ahead, EIOPA acknowledges the need to continue deploying harmonised, forward-looking tools and indicators for EU-wide climate risk assessments. The forthcoming European Integrated Framework for Climate Resilience offers a further opportunity in this respect: if it embeds insurance as an active instrument of prevention, risk reduction and adaptation, it can help improve risk awareness, incentivise resilience-enhancing investment and, with it, strengthen the resilience of Europe's economy and society.

Within such a framework, establishing a European Observatory on Insurability – as recommended by the Commission's Reflection Group on Mobilising Climate Resilience Financing – could improve the systematic monitoring of insurance coverage gaps and price evolution by peril and region and integrate early-warning indicators from cross-sectoral systemic resilience assessments. The Observatory could build on EIOPA's current work on insurance protection gaps, including the dashboard.

EIOPA could also make use of indicators that track access to insurance (and mortgages) and identify potential consumer detriment due to unavailability of insurance. EIOPA has developed a set of retail risk indicators that could be applied specifically to insurance products covering natural catastrophes to help detect areas or perils affected by increasing exclusions, reduced coverage, higher deductibles, rising premiums or lower availability of insurance.

To conclude, natural catastrophe resilience is a source of economic strength. Yet, the EU and its economy remain insufficiently protected against these risks, and the protection gap will not close on its own. No single sector can solve this challenge, nor can any single country. All stakeholders have a part to play, from citizens and businesses to insurers, reinsurers, national governments and EU institutions. As the insurance sector navigates the complexities of climate change, EIOPA will continue its work to address insurance protection gaps and strengthen resilience, for the benefit of EU citizens and businesses.