EIOPA further contributes to sustainable finance

The European Insurance and Occupational Pensions Authority (EIOPA) issued today three publications as part of its activities on sustainable finance. The work addresses key issues of climate change-related risk for the insurance sector and continues to encourage insurers to play their role of enabling climate change mitigation and adaption. EIOPA’s deliverables support the EU Commission’s new Sustainable Finance Strategy in striving for greater protection against climate and environmental risks through insurance coverage, and integrating sustainability risks in the prudential framework for insurers.

Pilot dashboard for the natural catastrophe protection gap

EIOPA’s first pilot dashboard depicts the insurance protection gap for natural catastrophes in Europe. The pilot dashboard brings together data on economic and insured losses, vulnerabilities and exposure, as well as insurance coverage
across the EU Member States. The data show that only 35% of the total losses caused by extreme weather and climate-related events across Europe are insured. The dashboard will help in identifying regions at risk, the drivers of a climate-related insurance protection gap, as well as defining proactive prevention measures. It should allow for evidence-based decision-making on measures to improve society’s resilience against natural catastrophes at a time when losses to properties and businesses are expected to grow due to climate change.

Methodological paper for integrating climate change in underwriting risk capital charge of the Solvency II standard formula

EIOPA proposes methodological steps which support the need to formalise an approach to re-assess and, where needed, recalibrate parameters for the natural catastrophe risk module of the Solvency II standard formula on a regular basis. The regular re-assessment or recalibration would integrate new considerations such as use of models, which explicitly consider climate change, as well as the possibility to include new countries. The paper also identifies the need to enhance the understanding on emerging perils such as wildfire or droughts. The methodology takes into account that the frequency and severity of natural catastrophes is expected to increase due to climate change. The solvency capital requirements for natural catastrophe underwriting risk therefore need to reflect the expected impact of climate change to ensure the financial resilience of (re)insurers covering natural catastrophes.

Report on non-life underwriting and pricing in light of climate change

The report investigates the opportunity for (re)insurers, as risk managers and underwriters, to contribute to climate adaptation and mitigation, by supporting the insurability of climate change-related risks. Through risk-based pricing, contractual terms, and underwriting strategy (re)insurers should consider implementing measures for climate change adaptation and/or mitigation. EIOPA aims to incentivise (re)insurers’ efforts in taking a forward-looking approach to covering risks arising from climate change.

As the next step, EIOPA will focus on exploring a risk-based prudential treatment of insurance products related to climate change adaptation. EIOPA will also
investigate the integration of climate change adaptation and mitigation requirements in insurance distribution and product oversight and governance requirements. Finally, EIOPA will consider investigating the potential for long-term non-life contracts, considering the need to develop innovative solutions.