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### Sustainable insurance to protect society in the long term

Economic and insured losses, caused by weather related events, have been on an upward trajectory in the last decades. Looking at the consequences of a number of major European natural catastrophes, historically, insurers have been well placed, handling the resulting claims. Looking ahead, insurance capacity is of concern to the European Insurance and Occupational Pensions Authority (EIOPA). The insurance industry's capacity relies to a great extent on reinsurance. An increase in extreme weather events, but also a change in accumulations, is leading to greater demand for reinsurance and higher reinsurance prices, changes in reinsurance conditions and affordability and availability issues. This reduces risk mitigation possibilities for insurers in the near future.

Furthermore, only around a quarter of the total economic losses caused by extreme weather and climate related events across Europe are insured today. If unmitigated, the further widening of this insurance protection gap will have potentially broader

macroeconomic implications and expose insurers to reputational and wider operational risks.

In this context, insurers and supervisors play an important role to ensure sustainable insurance activity protects society for the long term.

The insurance sector's ability to continue to offer financial protection against the consequences of climate-related events relies on its ability to understand the likely impact of climate change and adapt their business strategies. EIOPA's analysis on ORSA showed that climate change risk, if assessed at all, was often treated in qualitative manner, as a reputational risk mainly. EIOPA's physical risk analysis shows that many undertakings are not undertaking climate change analyses yet. The integration of longer-term scenarios in enterprise risk management remains a challenge. EIOPA's pilot exercise on impact underwriting concludes that the European insurance market is at an early stage in terms of standardising the implementation of climate-related adaptation measures in insurance contracts.

EIOPA expects the insurance business to evolve to better adapt to climate change risks and opportunities. Insurers will need to explore innovative product design to keep insurance available and affordable. By including and promoting adaptation measures in insurance products (e.g. investments in property-level resilience to perils such as windstorm or flood), insurers could reduce their exposure to physical risk and potential future insured losses, while policyholders would pay a reduced premium thanks to the reduced risk. Through information sharing, both on risk assessment (modelling, pricing) and possible adaptation measures (e.g. construction standards), insurers could also play a role in raising public awareness to risks posed by climate change and possible ways to address them.

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EIOPA supports these efforts through its sustainable finance strategy. EIOPA will continue its analytical work on physical risks as well as transition risks with an overall aim of supporting further forward-looking views and analysis of risks in light of climate

change. Jointly with EBA, ESMA, the ECB and the ESRB, EIOPA will conduct a one-off scenario analysis to assess the resilience of the financial sector in line with the European Commission's Fit-for-55 package.

At micro-level, EIOPA is conducting supervisory oversight of sustainability risks, including through discussions on the inclusion of climate change in colleges of supervisors. EIOPA supports the transparency, and open access to data and development of scenarios and modelling to allow forward-looking risk assessment of nature-related risks. Efforts to improve the usability of taxonomy and sustainability reporting will play an important role, too.

EIOPA will continue identifying underlying causes of the protection gaps, as well as assessing the macro-economic consequences of a lack of insurance. At the nexus of public and private initiatives, EIOPA is engaging in the EU Commission's Climate Resilience Dialogue and the IAIS Protection Gap Task Force to ascertain the role of supervisors and assess measures to improve insurability of climate risks.

Finally, looking ahead, EIOPA will also seek to engage further on nature-related as well as on social risks, in an effort to improve awareness on the risks and impacts and to allow addressing these risks in a convergent and proportionate manner.

#### Sources:

*Letter from John Berrigan One off exercise (europa.eu).*  
*Impact Underwriting (europa.eu).*  
*European insurers' exposure to physical climate change risk (europa.eu).*  
*Dashboard on insurance protection gap for natural catastrophes (europa.eu).*  
*Sustainable finance (europa.eu).*