

Climate insurance protection gaps

1. A widening, systemic protection gap: managing the boundary between insurable and uninsurable risks

1.1 Climate change as a risk multiplier: reducing, not redistributing, rising risks

A Policy Maker opened the panel by noting that widening climate protection gaps are increasingly recognised as a systemic challenge for Europe's resilience, fiscal sustainability and financial stability. Physical climate risks are rising in frequency, severity and geographical spread, and climate change now acts as a risk multiplier, with damage cascading across supply chains, public finances and labour productivity.

An Industry Representative noted that climate-related losses already exceed \$100 billion annually for the fifth consecutive year and are set to double every seven to eight years especially for perils as thunderstorms and hail, floodings and bush fires — reaching eight times current levels in 20 years without adaptation or mitigation measures. Neither member states nor insurers can absorb such a burden, which would ultimately fall on taxpayers or policyholders. The imperative is therefore to reduce, not redistribute, rising risk. Decarbonisation remains essential, even as the trajectory shifts from 1.5°C towards 2.3–2.5°C.

An Official noted consensus on the diagnosis but not on solutions. Climate risks produce direct fiscal impacts: Ireland has suffered significant flooding and a wind event worth €300–400 million in losses. The European Climate Risk Assessment highlights complex and cascading risks across systems and borders, showing that Europe is not adequately prepared, with adaptation policies lagging the pace of change required.

1.2 Growing insurability pressures: mandatory cover and shared responsibility across markets, states and the Union

A Policy Maker explained that rising premiums, tighter coverage and a lack of insurability in some high-risk areas are widening protection gaps, raising difficult policy questions about affordability, risk awareness and post-disaster public compensation. As private risk-sharing comes under strain, the potential transfer of climate risks to households, national budgets and European solidarity instruments is an increasingly important concern. The key challenge is no longer whether gaps exist, but how Europe manages the evolving boundary between insurable, hard-to-insure and uninsurable risks, and how responsibility is shared between markets, member states and the Union.

An Industry Representative observed that, with the natural catastrophe protection gap at around 60%

based on last year's losses, insurers have a critical role to play. This is precisely why several European countries have introduced mandatory coverage laws asking insurers to help fill the gap.

An Official noted that not every loss can be prevented: some claims will remain uninsurable because cover would be too expensive, and public money will then have to step in. Efforts must therefore focus on what is genuinely insurable. Ultimately, not everything can be insured: some phenomena, such as coastal erosion, are certain by nature and fall outside the scope of insurance.

1.3 Low take-up and insurance literacy: the Italian case for compulsory cover and transparency

An Industry Representative drew on research by the Centre GREEN, an Italian consortium funded by the Recovery and Resilience Facility. Around 91% of Italian municipalities face at least one geological, hydrogeological or seismic risk relevant to catastrophe insurance. Up to end-2024, before compulsory catastrophe cover for Italian SMEs was introduced, only 9% of companies were insured against earthquakes and floods and just 0.1% covered for all NatCat perils; take-up has since increased but remains far from sufficient.

Awareness has only recently taken hold, driven by a sharp rise in extreme events — roughly four times as many over the past two years, including Sicily's sea storms and major landslides. A negative correlation is observed between risk level and take-up: even where risk is clearly visible, take-up remains low.

Several hurdles need addressing. Insurance literacy in Italy is generally low, as for other financial products. A stronger insurance culture requires tailored, clearly explained products with full transparency on what is covered. Some risks — such as Campania's daily bradyseism — are intrinsically hard to price. After the recent coastal storms, many policyholders discovered they were not covered for storms above a certain intensity threshold. This is less a question of taxonomy than of transparency. Adapting will require interventions that go well beyond insurance itself.

2. Insurers' broader role: prevention, adaptation and impact underwriting as imperatives to keep risks manageable

2.1 Pricing risk as a single, understandable financial signal: impact underwriting to reward adaptation

A Regulator noted that, since this topic had already been discussed at the previous Eurofi conference without improvement, progress is all the more urgent. The insurance sector plays a core role in resilience

through its pricing of risk: insurers translate a highly complex climate hazard into a single, understandable financial signal. This supports economic stability, helps society gauge risks and contain fiscal impact. Pricing also rewards adaptation and mitigation: the more a policyholder does to reduce risk, the lower their premium.

This role of incentivising adaptation — what EIOPA calls impact underwriting — remains in its early stages. EIOPA has just published a consultation paper on whether dedicated treatment in the Solvency II capital calibration could be justified by adaptation measures, looking at risk sensitivity, materiality and proportionality. Industry feedback would be very valuable; such a treatment would be risk-based and would have a positive impact on society.

A Policy Maker encouraged industry to contribute to the consultation. An Official added that climate change also presents opportunities for the sector: insurers can act as assessors, managers and carriers of risk, and as investors, providing critical economic signals through risk-based pricing about the changing risk environment.

2.2 A striking business case for prevention: push and pull to build resilience by default

An Industry Representative argued that public infrastructure investment must be part of the answer: natural catastrophes flood not only homes but also streets, hospitals and critical infrastructure. Initiatives such as Build Back Better show what can be done, but investment in prevention — dikes and flood barriers such as the Thames Barrier, which has delivered a remarkable return over 50 years — is equally essential. Without prevention, such risks become almost uninsurable. Yet the business case is striking: every €1 invested generates €4–10 of losses avoided per major event.

A combination of push and pull factors is required. The push side involves robust building codes restricting construction in high-hazard areas; the pull side offers incentives supporting prevention and resilience, including public-private partnerships. Given the billions being invested in infrastructure and housing, climate resilience should be built in by default, just like energy efficiency standards. Replacing an oil tank with a heat pump, for instance, improves both carbon footprint and resilience. Investment in resilience and prevention must take place now, to keep areas insurable, affordable and habitable.

An Official emphasised that the link between insurance and prevention must be reinforced — as France already does nationally. This can be reflected in the price or the conditions of the contract. Where prevention is not carried out, costs will be considerably higher afterwards.

2.3 Not single events but a series of interconnected events: from claims compensation to systemic resilience and relocation

An Industry Representative observed that risk transfer is the natural starting point: insurers relieve part of the burden borne by states, homeowners and businesses. Beyond risk transfer, their role should broaden into

advising individuals, enterprises and governments, becoming more holistic over time. Insurers cannot act alone: a multi-stakeholder approach is essential, supported by granular weather data and EU programmes such as Copernicus and ECMWF.

An Industry Representative, echoing the Regulator on adaptation, argued that what is being observed is not a single event but a series of interconnected events. Adapting has implications beyond insurance: it will affect investment decisions, drive relocation choices and require interventions aimed at building systemic resilience rather than simply paying claims. For some regions it is becoming existential. Social cohesion support — reskilling affected populations and supporting relocation — deserves attention: Christchurch, where a whole city was relocated after an earthquake, is a powerful reminder.

An Industry Representative added that insurers bring two further forms of value: significant data and experience, critical to channel limited resources towards areas where prevention can genuinely change the risk profile; and risk transfer itself, where broader coverage reinforces the mutuality effect that keeps insurance affordable.

3. Sharing responsibility: common tools, skin in the game and public-private partnerships

3.1 Fragmented national approaches: a harmonised EU observatory of emerging protection gaps

A Regulator argued that a consistent view of emerging protection gaps across member states would improve transparency for citizens, businesses and authorities. Current approaches are fragmented, making it difficult to assess where risks are becoming uninsurable and where affordability is the issue — two problems that do not always arise together. An integrated EU solution is needed so national measures do not worsen conditions elsewhere. A harmonised perspective would support early warning systems drawing on signals such as rapid premium rises, reduced capacity or coverage withdrawal; a dedicated observatory building on EIOPA's dashboards could bring public and private sectors together.

An Official added that addressing insurability requires combining bottom-up and top-down approaches, since insurability depends on geology, climate, market structure, risk appetite and local claims. France is developing an observatory uniting the CCR, insurers and the official geological survey, producing a granular analysis of 35,000 administrative areas, plus a public website for citizens to check their exposure. Data consistency and availability is crucial.

An Industry Representative noted that many protection gaps also stem from misperceptions: people assume they are not at flood risk because they do not live near a river, whereas global warming now produces heavy rainfall far from rivers. Maps and tools already allow anyone to check their exposure at an address.

3.2 Balancing public backstops and private market discipline: skin in the game in national schemes

An Official observed that several models exist for NatCat insurance, from fully private to public-private, the right choice depending on each territory's risk profile. Two separate questions must be distinguished: structure and level of coverage. In France, solidarity among policyholders combines with a public backstop for natural disaster, the private market handling the bulk of the risk. The backstop intervenes for those specific risks where the private market alone would not intervene. The Nat Cat system is funded by a surcharge on the damage insurance contract. If the surcharge is too high, insurers turn to other private reinsurance markets, and thus, national authorities need to pay close attention to maintaining effective market conditions. With a projected 30–50% rise in claims, coverage level must be addressed distinctly from structure: France recently raised its household surcharge from 12% to 20% and car surcharge from 6% to 9%, having run the scheme for over 40 years.

An Official agreed that national schemes are probably not robust enough to absorb projected losses. They supplement private cover, and public-private partnerships can narrow the gap. A 2023 ECB–EIOPA paper emphasised the need to share costs and responsibilities — the 'skin in the game' principle. Policyholders should retain part of the responsibility against moral hazard: those investing in prevention should benefit from lower premiums. Government-backed protection is more justified for low-frequency, high-severity events than for frequent ones, better left to the private market. Policy intervention must not undermine incentives for risk reduction; inaction carries its own macro-economic costs.

3.3 Common principles for a common problem: from national schemes to regional and EU frameworks

A Policy Maker highlighted several EU-level initiatives, notably the Climate Resilience Dialogue launched by DG CLIMA and DG FISMA, whose July 2024 report analysed drivers of protection gaps. Recent communications on Agriculture, Preparedness and Water Resilience have underlined the need for better financial preparedness; Commissioner Hoekstra is to present a policy initiative later this year. EIOPA and the ECB's 2024 joint paper set out options including an EU-level public-private reinsurance scheme and a reconstruction fund.

An Industry Representative proposed demand-side measures — awareness campaigns, transparency, scheme benchmarking, clearer pricing — and supply-side measures: data-sharing through loss-event pools and a taxonomy of combinational events. This is arguably not classical market failure but a 'planned failure' calling for public-private partnerships. Links between physical and financial events, particularly insurance and banking, also need understanding, since catastrophic events can cause substantial SME defaults.

An Industry Representative argued that common principles suit a common problem: resources ensured through reinsurance or a common backstop, with all parties sharing 'skin in the game'. An Official added that regional frameworks also have a role, France having been approached for technical assistance in that regard. A Policy Maker closed by emphasising continued collaboration, the Commission's door remaining open to ideas and proposals.