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MEETING DOCUMENT

From: General Secretariat of the Council
To: Financial Services Committee
Financial Services Attachés

Subject: FSC 22 January 2025 - Item 4 - Joint ECB and EIOPA presentation: Towards a European system for natural catastrophe risk management



EUROPEAN CENTRAL BANK

EUROSYSTEM



eiopa

European Insurance and
Occupational Pensions Authority

Towards a European system for natural catastrophe risk management

Financial Services Committee



22 January 2025

Presenters: [REDACTED]

Introduction

Historically, only about a quarter of losses incurred from natural catastrophes in the EU were insured

This insurance protection gap is expected to widen due to the increasing severity and frequency of natural disasters caused by climate change

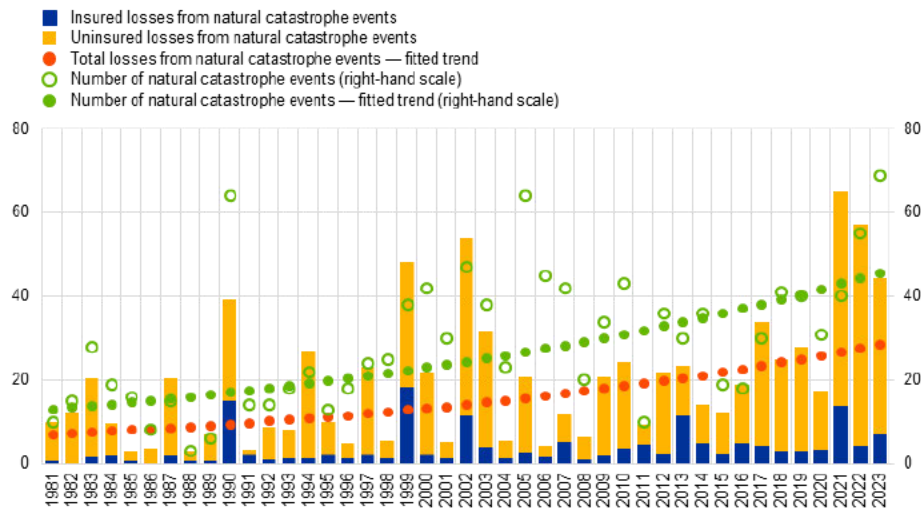
The gap has implications for the macroeconomy and financial stability

- In 2023, the ECB and EIOPA presented policy options to reduce the gap, based on a 'ladder of intervention'
- Since then, more devastating catastrophes have underlined the importance and urgency of solutions

EIOPA and the ECB propose a possible European approach to reduce the impact of natural catastrophes, building on existing national and EU structures

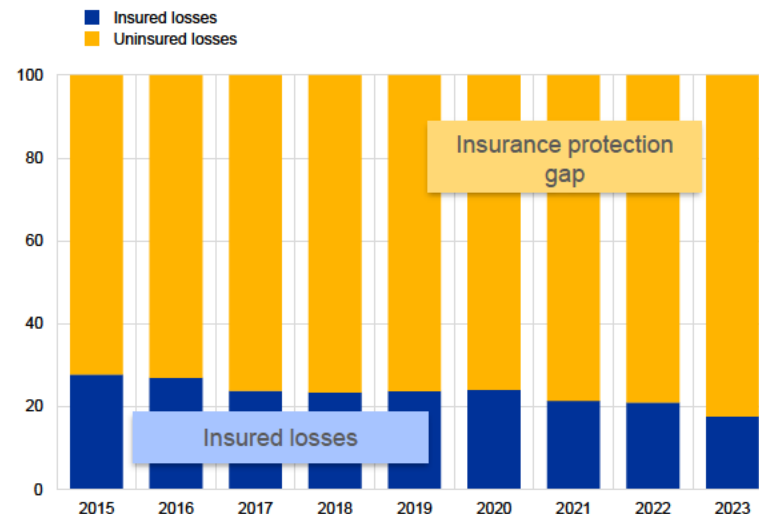
The growing challenge of insuring natural catastrophes in the EU

Rising natural catastrophe events and economic losses



Sources: CATDAT (Risklayer GmbH - Europe Climate related impact Analysis Project), EIOPA's [Dashboard on insurance protection gap for natural catastrophes - European Union \(europa.eu\)](#) and EM-DAT.

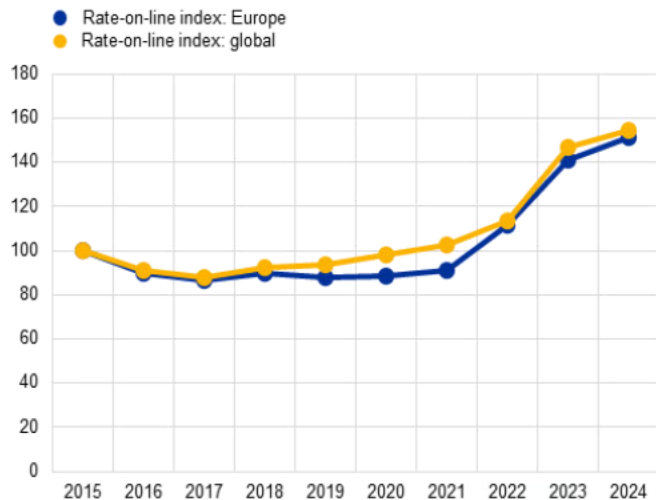
The share of insured and uninsured losses in total losses caused by natural catastrophes in the EU (percentage, 10-years moving average)



Sources: CATDAT (Risklayer GmbH - Europe Climate related impact Analysis Project), EIOPA's [Dashboard on insurance protection gap for natural catastrophes - European Union \(europa.eu\)](#).

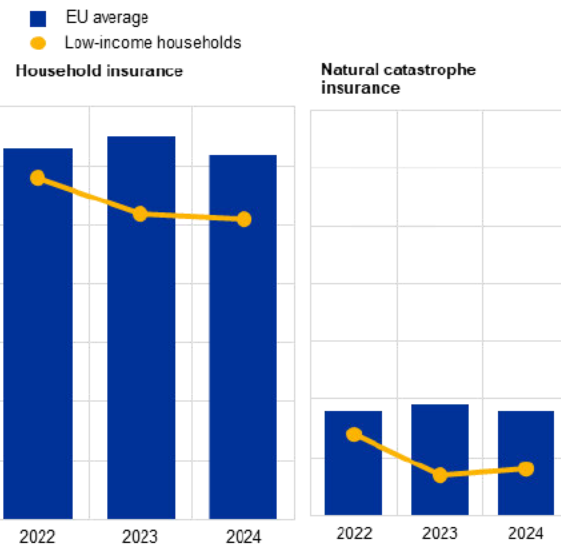
Multi-faceted issue involving supply and demand

Rising reinsurance costs (index normalised to 100 in 2015)



Notes: 'Rate-On-Line' (ROL) refers to the rate of reinsurance premium to loss recoverable in a reinsurance contract. Source: [Guy Carpenter Regional Property Catastrophe Rate-On-Line Index \(artemis.bm\)](#).

Household and natural catastrophe insurance coverages (2022-2024, percentages)



Source: EIOPA 2022-2024 Eurobarometer analysis.

The insurance protection gap reveals a market failure

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→ Individual insurers and consumers do not factor in broader economic benefits of insurance

- Faster recovery after disasters
- Less burden on fiscal budgets
- Reduced costs through better risk management

→ **Moral hazard** (expectation that governments cover losses)

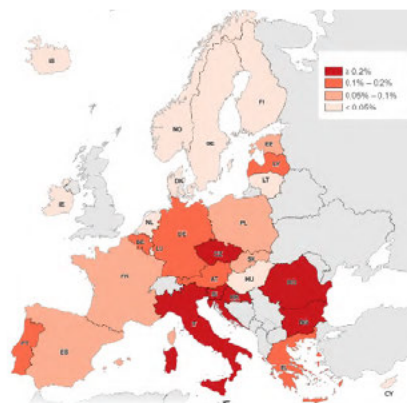
+ Rising risks lead to increasing public involvement

➤ **Lessons from national insurance schemes**

➤ **Possible EU-level approach**

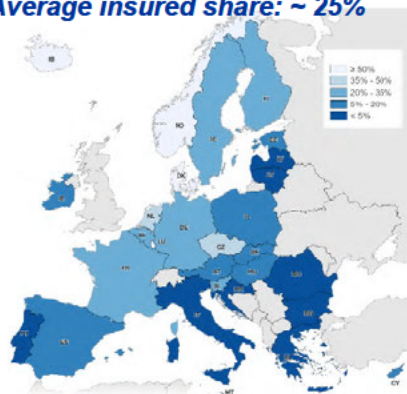
National (re)insurance schemes help improve insurance coverage

Average annual economic losses from five natural perils scaled by GDP across EEA countries (1980-2023; percentages)



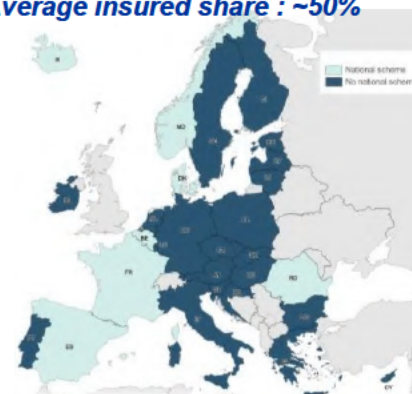
Share of insured economic losses related to natural catastrophes across EEA countries (1980-2023; percentages)

Average insured share: ~ 25%



EEA countries with a national insurance scheme for natural catastrophes (schemes in place as of 2024)

Average insured share : ~50%



Notes: Left panel: The five natural perils are coastal floods, earthquakes, floods, wildfires and windstorms.

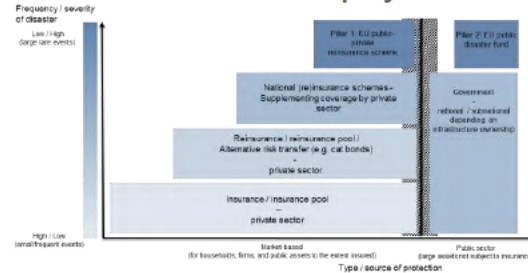
Sources: Left panel: CATDAT (Risklayer GmbH - Europe Climate related impact Analysis Project), EIOPA's [Dashboard on insurance protection gap for natural catastrophes - European Union \(europa.eu\)](#) and Eurostat. Middle panel: [EIOPA dashboard on insurance protection gap for natural catastrophes](#), European Environment Agency CATDAT; Right panel: EIOPA and OECD (2021).

Possible EU-level approach

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Objectives:

- Clarify private and public responsibilities and ensures complementarity of actions taken
 - Encourage ex ante risk mitigation
 - Ensure efficient use of private and public sector funds for natural disaster payouts
 - Reduce moral hazard
 - Improve insurance coverage
 - Limit public costs after natural catastrophes
- Two-pillars aimed at (i) pooling private risks to increase insurance coverage and (ii) strengthening EU public disaster risk management, supplementing national and EU-level initiatives



EU public-private reinsurance scheme

Pillar 1: EU reinsurance scheme

Increase insurance coverage and supply	Goal
(Re)insurers and national schemes	Participants
Public-private	Set-up
Voluntary	Membership
Risk-based premia from participants (and capital market funding incl. cat bonds)	Funding
Payout according to contract conditions	Payouts

Design builds on 5 lessons from national insurance schemes:

1. Broad scope (multiple perils, assets, geography)
→ greater risk pooling & diversification opportunities
2. Public-private reinsurance scheme
→ complements private (re)insurers and national schemes
3. Risk-based premiums
→ no cross-subsidisation, while balancing risk mitigation, affordability
4. Financing through premiums and capital markets
→ not necessarily dependent on public financing
5. Initiatives supporting risk mitigation and adaptation
→ open-source tools, models, data to enhance risk assessment

EU public disaster financing

Key design features:

1. Builds on EU's current approach for post-disaster relief
 - currently EU Solidarity Fund (pure solidarity, limited size)
2. Risk-adjusted contributions
 - incentivise risk mitigation, while allowing for solidarity
 - pre-agreed national adaptation and resilience plans
3. Mandatory for all EU Member States
 - to maximise effectiveness in terms of risk sharing
4. For reconstruction of eligible public assets
 - assets not covered by private insurance
 - investment in resilient infrastructure
5. Sufficient "skin in the game"
 - payouts meaningful but not above a certain share of national losses

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Pillar 2: EU disaster fund

Goal	Incentivise risk mitigation and limit public outlays
Participants	Governments
Set-up	Public
Membership	Mandatory
Funding	Risk-adjusted contributions from governments (and possibly debt issuance)
Payouts	Payout calibrated to event and dependent on implementation of national plans

Policy and legal considerations

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Proposal acknowledges political and legal realities:

- 1) It requires a **decision at political level** with involvement of all relevant decision-makers, notably Member States.
- 2) It is designed to **supplement and reinforce** existing national and EU initiatives.
- 3) It would be in compliance with **Treaty on the Functioning of the European Union**.

Thank you

