Policy options to reduce the climate insurance protection gap
Protection gap and climate change

• Only 1/4 of climate-related catastrophe losses are insured in Europe.

• This insurance protection gap could widen as a result of climate change.

• More frequent and intense events may lead to higher insurance premiums.

• Higher losses due to climate change put pressure on the macroeconomy and financial stability.

Source: EIOPA dashboard on insurance protection gap for natural catastrophes, European Environment Agency CATDAT.
Macroeconomic and financial stability impact

- The negative impact of large-scale disasters on GDP growth rates is higher when insurance coverage is low.

- Widening insurance protection gap may also pose financial stability risks.

Impact of insured vs uninsured losses from a large-scale disaster on annual GDP growth rate

(y-axis: impact on annual GDP growth rate (%); predictions up to three quarters ahead after a large-scale disaster)

High share of insured losses

Low share of insured losses

Source: “Climate change, catastrophes and the macroeconomic benefits of insurance”, Financial Stability Report, EIOPA, July 2021
Objectives of ECB EIOPA collaboration

- Publish a joint discussion paper outlining policy options to address climate insurance protection gap in Europe.
- Highlight need to complement ambitious mitigation policies to tackle climate change with more efficient financial protection against climate-related catastrophes.
- Aim to raise awareness, solicit feedback and foster debate on potential solutions.
Policy options are designed to:

• help provide prompt insurance claim pay-outs after a natural disaster;
• incentivise risk mitigation and adaptation measures;
• be complementary to existing insurance coverage mechanisms;
• require the sharing of costs and responsibilities across the relevant stakeholders to ensure “skin in the game” and reduce moral hazard;
• lower the share of economic losses from major natural disasters borne by the public sector over the long term.
A ladder approach to natural catastrophe insurance

- **Low frequency / high impact (high loss layer):**
  - EU component in excess of national level / alternative risk transfer

- **High frequency / low impact (low loss layer):**
  - PPP (national) / other public (national) measures / alternative risk transfer – supplementing coverage by private sector
  - Reinsurance / reinsurance pool / alternative risk transfer (e.g. cat bonds) – private sector
  - Insurance / insurance pool – private sector

Enhance efficiency in the way public funds are used and reduce moral hazard

Primary line of defence – impact underwriting an important element
Next steps

The ECB and EIOPA:

• welcome comments and feedback on all aspects of discussion paper, ideally by 15 June 2023 via email: ecb_eiopa_staff_protection_gap@eiopa.europa.eu;

• are jointly hosting a workshop on 22 May 2023 where these policy options will be discussed with regulators, policymakers, insurers and academics;

• will continue to undertake further analysis of these policy options, taking into account comments received on discussion paper.