



TOPICS:

Insurance

SOURCE

European Central Bank and European Insurance and Occupational Pensions Authority

ECB and EIOPA Propose European Approach to Reduce Economic Impact of Natural Catastrophes

- ECB and EIOPA explore strategies to address **the growing insurance protection gap for natural catastrophes** in Europe.
- **Rising Economic Losses.** Between 1981 and 2023, natural catastrophes caused €900 billion in direct losses in the EU, with only 25% insured. Climate change has intensified the frequency and severity of disasters, exacerbating the protection gap, especially for low-income households.
- **Challenges.** Insurance premiums are rising, limiting affordability. Many insurers are retreating from high-risk areas due to unpredictability, while low risk awareness and reliance on government aid deter uptake of insurance.
- **Lessons from National Schemes.** Countries with public-private insurance schemes (e.g., France, Spain) show higher insurance penetration (47% on average versus 18% in others). Successful schemes feature broad coverage, risk-based premiums, and incentives for mitigation.
- **Proposed EU Solution.** A two-pillar system: 1) **EU Public-Private Reinsurance Scheme:** Pools risks across Member States to enhance coverage and achieve economies of scale. Funded through risk-based premiums, it targets high-risk scenarios and incentivizes national-level solutions. 2) **EU Public Disaster Financing:** Supports post-disaster reconstruction tied to risk mitigation policies. Funded by Member States, this mechanism encourages proactive risk management and adaptation measures.
- **Policy Goals.** Improve insurance accessibility and affordability while reducing public fiscal burdens. Encourage risk mitigation through premiums, regulatory measures, and public-private coordination.

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