



TOPICS:

Credit risk

SOURCE:

European Central Bank

ECB: Safeguarding Real Estate Collateral from Natural Hazards

- The ECB's Supervision Newsletter article addresses the **growing prudential risks posed by climate-related events to banks' real estate collateral**.
- Under Article 208(5) of the EU Capital Requirements Regulation, banks must ensure that **immovable property used as collateral is adequately insured against damage and must maintain procedures to monitor such insurance**. The ECB workshop with EU banks, EIOPA and Banca d'Italia explored implementation challenges, particularly in relation to data collection and monitoring.
- At **loan origination**, banks generally require borrowers to insure collateral. However, insurance policies are typically annual, while loans have longer maturities, creating potential coverage gaps over time. Policies also vary significantly in hazard definitions and scope, complicating assessments of whether relevant risks - especially natural hazards such as floods - are covered. Residential real estate coverage is often limited to fire and standard perils, whereas commercial real estate loans tend to impose stricter insurance

requirements and more systematic information updates.

- For **existing loans**, monitoring adequacy presents additional challenges. Banks frequently rely on borrowers to provide updated information, particularly in the residential segment where data protection rules can restrict access to insurance data. This may result in blind spots when policies lapse or coverage becomes insufficient.
- The article outlines **emerging good practices**, including centralised insurance data systems, proactive monitoring of policy expiry, enhanced borrower engagement and the integration of collateral-focused metrics into risk scoring. Proposals such as shared insurance databases and closer insurer-bank cooperation are also discussed. The ECB signals that these practices will inform forthcoming updates to its climate-related and environmental risk management guidance, reflecting the supervisory priority placed on mitigating insurance-related credit risk.

