Climate protection gap

Why does it matter to intermediaries?

Given the increase in the severity and intensity of climate related events, public authorities are mainly responsible for climate change adaptation. However, insurance intermediaries play a pivotal role in contributing to climate adaptation, as many have expertise in the modelling of climate risk and the development of resilient and sustainable business models. Intermediaries also have a role in raising awareness of climate risks, in covering new risks (especially for SMEs), preventing a possible "protection gap/insurance gap" by developing adapted and innovative insurance solutions.

State of play

Natural Catastrophes

EIOPA-ECB Joint Paper

In December 2024, EIOPA together with the European Central Bank (ECB) published a joint paper: "*Towards a European system for natural catastrophe risk management - The possible role of European solutions in reducing the impact of natural catastrophes stemming from climate change*". This paper builds on the policy options presented in an earlier 2023 joint ECB-EIOPA discussion paper which advocated a "ladder approach" to natural catastrophe insurance involving both the private and public sectors. In 2023, EIOPA also consulted on a staff paper on barriers and possible solutions on the demand side and published its final staff paper in April 2024 (see BIPAR's annual report from last year for more information).

The current joint paper looks into the challenges and the lessons learnt from national insurance schemes, to then considering a possible EU approach. It looks at a two-pillar solution including pooling private risks to increase insurance coverage and strengthening EU public disaster risk management:

1. An EU public-private reinsurance scheme to increase the insurance coverage for natural catastrophe risk. By pooling private risks and perils across the EU, this scheme would exploit economies of scale and diversify the coverage of high risks at European level. It could be funded by risk-based premiums from (re)insurers or national insurance schemes. Access to the scheme would be voluntary.

2. A mandatory EU fund for public disaster financing to reinforce public disaster risk management in Member States. Financed by contributions from Member States, this fund would help rebuild public infrastructure following natural disasters, subject to Member States having implemented agreed risk mitigation measures prior to the event to minimise moral hazard. Payouts are conditional on risk mitigation measures and contributions would be adjusted to reflect the respective risk profiles. The existing EU Solidarity Fund, which aims to support governments in the wake of severe disasters, has proved to be too small to provide meaningful support for reconstruction efforts so the public disaster financing fund would be an extension of this.

The institutions state that a combination of both pillars (they are to be complementary) could help achieve the objective of lowering overall expenditures by public and private entities alike and extend insurance coverage against natural hazards.

EIOPA and the ECB state that their proposal is meant as a basis for discussion to be contrasted and compared with alternative solutions. Whether an EU mechanism is established, as well as its design and implementation, however, is to be decided at political level.

EIOPA's consultation on an awareness tool for natural catastrophe risks and prevention measures

In December 2024, EIOPA launched a public consultation on a "*Blueprint for an awareness tool for natural catastrophe risks and prevention measures*". This relates to the possible development of a digital awareness tool that can be used by citizens to better understand the potential impacts of climate change on their properties, the benefits of adequate insurance coverage and what prevention measures can be taken to reduce potential losses.

The scope is property insurance, regarding earthquakes, river floods, windstorms, wildfires and potentially coastal floods. Additional perils could be considered.

Contrary to the already existing tools (which EIOPA has studied), EIOPA is suggesting that its tools capture specific layers of key information in a sort of checklist:

1. Understand your risk - The risk score to natural hazards of a property based on its location
2. Reduce your risk - Risk prevention measures available for the most common types of perils (before/during/after the event)
3. Check your insurance contract - Measures related to insurance coverage, providing information on the importance of being aware of exclusions, on potential

national insurance schemes in place for natural catastrophes, among others.
4. Discuss with your intermediary – provider - Raise awareness about risk-based benefits of prevention measures (risk-based premium)

BIPAR, together with its Working Party on NatCat, responded to the consultation and participated in the dedicated webinar that EIOPA organised. BIPAR, in particular, pointed out that intermediary associations and their members, intermediaries, can play a proactive role in this discussion and that intermediaries can play a role in raising awareness and assisting consumers.

EIOPA's dashboard on insurance protection gap for natural catastrophes

In November 2024, EIOPA published a dashboard to present the drivers of a climate-related insurance protection gap in order to identify measures that will help in decreasing society's losses in the event of natural catastrophes. It brings together data on economic and insured losses, risk estimations as well as insurance coverage from 30 European countries.

The data is presented in four different views:
1. Current view. Using modelling data, this view indicates the current protection gap according to a particular peril (e.g. flood, earthquake).
2. Historical view. Using data of insurance coverage and economic losses from 1980 to 2021, this view presents a historical protection gap according to a particular peril.
3. Country view. This view presents additional information of the current protection and historical protection gaps for each country.
4. Country insurance view. This view presents information on how natural catastrophes are covered by country.

EIOPA will regularly update the dashboard.

EIOPA's study on NatCat coverage in household insurance

On 19 May, EIOPA published a study "*Natural Catastrophes, Is your home covered? Findings from a sample-based analysis on the clarity of NatCat coverage in Household Insurance Product Information Documents*" (Croatia, Italy, Romania, Estonia, Latvia, Greece, Portugal, and Slovakia). EIOPA finds that even when insurance is available, many consumers choose not to buy NatCat coverage (see also EIOPA's Staff Paper on demand-side factors). EIOPA now investigated existing Insurance Product Information Documents (IPIDs) and terms and conditions to see how to promote more clarity. Five areas were investigated:

1. The degree and quality of information presented in IPIDs;
2. Whether limitations are clearly explained;
3. The granularity of the target market – here the study states amongst others that high-level target markets may limit distributors' ability to assess whether add-on coverage is needed;
4. How insurance manufacturers monitor and review products in light of NatCat events,
5. Initiatives put in place by undertakings to raise consumer awareness about NatCat coverage.

The report presents good examples identified and areas for improvement, such as:
- Unclear, vague and inconsistent **language** in IPIDs,
- IPIDs relying too heavily on **separate policy documents**, making it difficult for consumers to understand the full scope of coverage and the exclusions that apply.
- **Definitions** of NatCat events across insurers also varied greatly or were only partially explained (see definition of "flood").
- **Add-on coverage options** were sometimes not clearly presented as optional, giving consumers the false impression that NatCat risks were automatically included.
- **Coverage limitations** –geographical, frequency-related or connected to the type of hazard or the magnitude of the damage – were not always clearly disclosed.

The study includes illustrative examples of how insurance undertakings can improve disclosures. This includes the "provision of guidance to insurance intermediaries regarding coverage limitations and effectively monitoring whether a product is being sold inside or outside the target market".

EIOPA will make use of the findings of the report for its activities and continue to monitor market trends and development and promote consumers' financial resilience. This could include looking at disclosures to reduce the burden on consumers, insurers, and intermediaries and improve consumer understanding.

EU Climate Resilience Dialogue

The Climate Resilience Dialogue is a forum set up by the European Commission (its two Directorates-General FISMA and CLIMA) at the end of 2022. The objective of this dialogue is to create a forum for discussion that will strengthen the collective understanding of insurers, reinsurers, intermediaries, businesses, consumers and other stakeholders about the climate protection **gap. The climate protection gap is the share of non-insured economic losses caused by climate-related disasters. The launch of** the Climate Resilience Dialogue was announced in the Commission's 2021 EU Strategy on adaptation to climate change, as well as in its 2021 Strategy for Financing the Transition to a Sustainable Economy.

BIPAR welcomed the initiative and was an active member of this Climate Resilience Dialogue (via its excellent and committed experts and the BIPAR permanent Secretariat).

In early September 2024, the Dialogue published a final report. BIPAR welcomes the report as a useful and powerful piece of work.

The Report:

- provides a brief overview of the main climate-related perils and hazards to which people, businesses, and assets are currently exposed in Europe.
- analyses the key contributing factors of the climate protection gap, such as risk awareness, risk assessment, as well as other supply and demand factors such affordability of the products, mistrust vis-à-vis insurance, and limits to the insurability of risks. **The Report explains that insurance intermediaries together with public authorities and insurers, play a critical role in informing policyholders with regard to the risks to which they may be exposed. It refers in this respect to agéa's "White Paper on Climate-related Insurance Issue" and to some large intermediaries' surveys.**
- includes an analysis of possible solutions focusing on risk reduction, risk sharing and risk transfer approaches, such as public-private partnerships and other insurance-based solutions, such as mandatory insurance, multi-hazard bundling. This includes evolving insurance-based approaches (for example, parametric insurance or multi-year insurance) with the potential to overcome some of the barriers of the climate protection gap. In this respect, the Report underlines the importance of an adequate legal and regulatory framework that could allow innovation and encourage SMEs and consumers to purchase climate- related insurance (for example, to explore the viability and feasibility of muti-year insurance contracts for climate risk in the European market).

Amongst the proposed actions that could be implemented by the insurance industry, some promote, for example, the development of tailored approaches to resilience, risk awareness and financial education and customer support. BIPAR believes that intermediaries can play an important role in some of the above-mentioned actions.

Next steps

Natural Catastrophes

EIOPA will analyse the feedback received to the consultation on the awareness/prevention tool and publish a report. It has not yet decided if and when a concrete tool could be developed and how this would be financed. In parallel to the public consultation, EIOPA is carrying out a consumer survey (testing, for example, the best approach to visualising a tool).

Climate Resilience Dialogue

Together with its member associations, BIPAR will promote some of the actions proposed by the Dialogue's Report, such as the development of tailored approaches to resilience, risk awareness and financial education and customer support.

Links

- EIOPA-ECB Joint Paper
- 2023 joint ECB-EIOPA discussion paper
- EIOPA's consultation on an awareness tool for natural catastrophe risks and prevention measures
- EIOPA's dashboard on insurance protection gap for natural catastrophes
- EIOPA's study on NatCat coverage in household insurance
- EIOPA's Staff Paper on demand-side factors
- Climate Resilience Dialogue-Final Report – Press release
- agéa's White Paper