reinsurance advisory board

Closing the gap, not the market

A reinsurer's blueprint for NatCat resilience in Europe

January 2026

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Insurance Europe's Reinsurance Advisory Board (RAB) is a specialist representative body for the European reinsurance industry. It is represented at chairman and chief executive officer (CEO) level by the seven largest European reinsurance firms: Gen Re, Hannover Re, Lloyd's, Munich Re, PartnerRe, SCOR and Swiss Re, with Insurance Europe providing the secretariat.

Through its member bodies, the RAB represents more than 50% of total worldwide reinsurance premium income. The RAB promotes a stable, innovative and competitive market environment. It further promotes a regulatory and trading framework that facilitates global risk transfer through reinsurance and other insurance-linked capital solutions.

Executive summary

The natural catastrophe (NatCat) protection gap in Europe remains a pressing concern, exacerbated by climate change, urbanisation, and increasing asset values. It is in everyone's interest, in Europe, and globally, to reduce this gap so that a larger share of economic losses from NatCat events are covered by the private insurance industry.

The Reinsurance Advisory Board (**RAB**) highlights that, through their unique global diversification capabilities, risk modelling expertise, and ability to support both pre- and post-disaster resilience, reinsurers are well-positioned to partner with a well-functioning insurance market to address the supply-side aspect of this gap.

The European Commission is considering a broad range of options to tackle the NatCat protection gap as part of its climate resilience framework, and the RAB stands ready to contribute its insights and perspectives to the discussion. In the meantime, several international and European public institutions have proposed public-private insurance partnerships to tackle this issue. While a public-private reinsurance scheme is at times presented as part of the solution, the RAB argues that the private reinsurance market is well equipped to provide coverage and manage NatCat risks. Public authorities should, in turn, relay the risk signal produced by the insurance/reinsurance market and support preventive measures, e.g., through land-use and building code regulations, fostering demand for insurance protection, enabling the design of adequate solutions for areas with frequent or regular NatCat events, and investing in adaptation strategies.

This paper provides insights into the causes of the NatCat protection gap, outlines why reinsurers are central to reducing it, highlights specific concerns with (supranational) public reinsurance schemes focused on the supply of risk capacities, and offers policy recommendations to ensure self-sustainable, risk-based, and market-compatible solutions for the demand side. Efforts around NatCat resilience should be targeted towards removing the roots of existing demand issues without disrupting the market mechanisms that facilitate effective risk transfer and financial protection.

Understanding the protection gap

- The reinsurance market has the capacity to provide NatCat coverage to citizens and businesses across Europe.
- The insurance protection gap is primarily driven by demand factors, while recognising affordability also plays a signifficant role: increasing the take-up rate of home insurance covering natural perils is essential.

Reinsurers as catalysts for financial resilience

- Reinsurers have the appetite, expertise, and global diversification capabilities to carry European NatCat risks on their balance sheet.
- Key enablers to promote free and open markets, risk-based pricing and regulation, and allowance for internal models for assessing and managing risks.

Focusing on what matters most

- The RAB expresses caution regarding proposals for (supranational) public reinsurance schemes focused on supply of capacities.
- Greater priority should be given to adaptation strategies for climate-related hazards and policy measures aimed at boosting the penetration of insurance covers for natural perils.

Policy recommendations

The following recommendations are designed to address the required balance between public intervention and private innovation, ensuring that NatCat risks in Europe remain effectively insurable against the backdrop of a continuously evolving risk landscape.

1. **Ensure private market leadership**
2. **Increase penetration of insurance cover for natural perils**
3. **Enable access to global reinsurance**
4. **Build back better… or elsewhere**
5. **Don't shoot the (price) messenger**

Key message

It is essential that policymakers align public interventions to reinforce rather than hinder private reinsurance risk signals and the market's capacity, thereby providing efficient, risk-based solutions. A competitive and well-functioning insurance and reinsurance market remains the most appropriate mechanism for ensuring both the insurability and affordability of natural catastrophe risk coverage in Europe. The roles of the private sector and (EU) public authorities are mutually supportive, each enhancing the effectiveness of the other. Public-private approaches that leverage private capacities and risk management to cover natural disasters, alongside government initiatives to stimulate demand for such coverage and adaptation, require adaptive frameworks that evolve with emerging climate and socioeconomic risks to ensure effectiveness and long-term sustainability in achieving their full potential.

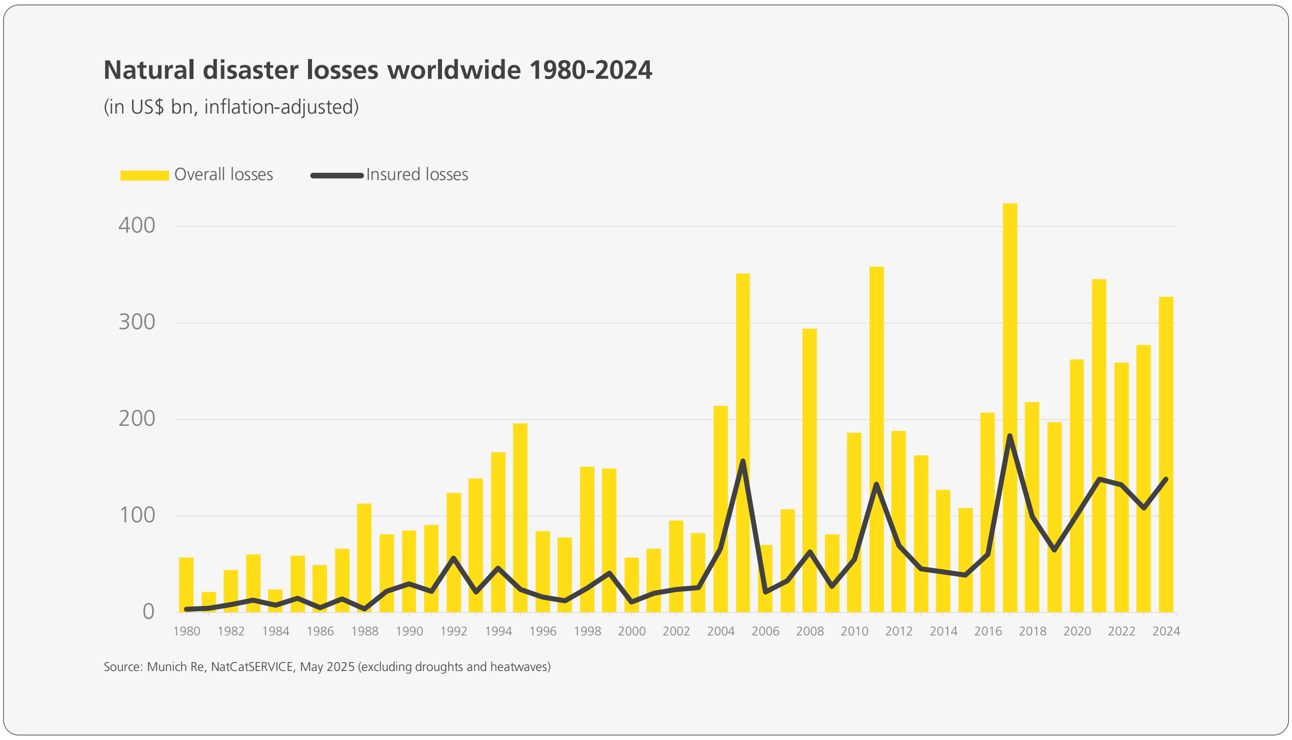
1. Understanding the protection gap in 6 facts

This section highlights 6 facts to frame the protection gap debate:

1. Economic losses from natural catastrophes have increased by 250% in recent years.
2. Yet, the EU's NatCat protection gap has remained steady at around 65%.
3. Home insurance prices in Europe have stayed within affordable bounds, lower than 1% of disposable income.
4. There is no clear link between the protection gap and the existence of a state reinsurance scheme.
5. The strongest indicator of the protection gap is the insurance penetration for natural perils.
6. It should be borne in mind that the NatCat protection gap can never be closed entirely.

1. Economic losses from natural catastrophes have increased by 250% in recent years.

Globally, average annual economic losses from NatCat events increased by a factor of 2.5 between 1980-2020 and 2020-2024. In other words, annual losses in the last 4 years were 2.5 times larger than the previous 40 years[1].



This is driven by exposure increase (e.g., increased asset value concentration in urban areas), inflation of replacement and repair costs, as well as an increase in frequency and intensity of weather-related natural disaster events.

[1] Natural disaster risks - Rising trend in losses | Munich Re, May 2025.

2. Yet, the EU's NatCat protection gap has remained steady at around 65%.

The NatCat protection gap describes the difference between the economic losses caused by an event and the portion of those losses that are reimbursed by insurance companies and/or state schemes. It is usually expressed as a percentage of the economic losses. It measures how much of the damage remains uninsured and must be borne by households, companies or governments. The economic losses used as reference typically capture only the direct and immediate damages from a natural catastrophe, not the longer-term economic and societal impacts.

The protection gap against natural catastrophes and extreme weather in the EU27 sits at around 65% for the years 2015-2024, above the global average of 60%, which is largely driven by the lower gap in the U.S.A. of around 45%. According to the NatCatSERVICE (MR) Data[2], these gaps are slightly lower than the overall period on record from 1980-2024.

The protection gap among the EU27 countries is very heterogeneous. Among the 10 largest economies of the EU27[3], accounting for approx. 90% of NatCat losses, the gap ranged between approx. 45% (Austria, Ireland) and approx. 80% (Poland, Italy) for the 2015-2024 period. In Greece the gap reached approx. 90%.

A contributing factor to a higher protection gap is the proportion of properties in high-risk zones, i.e., zones with high-frequency NatCat events, which varies vastly across the EU27 countries.

- In Germany, around 1-2% of residential buildings are located in high-risk flood zones (i.e. ZÜRS4), the dominant natural hazard, and around 10-15% in Poland.
- Some countries are exposed to combined hazards, including floods, landslides, and earthquakes: in Italy, about 15-20% of the properties are in high-risk zones for these hazards, and in Greece, around 20-25% are.

[2] Munich Re's NatCatSERVICE records direct losses from NatCat events globally since 1980 (excl. drought).

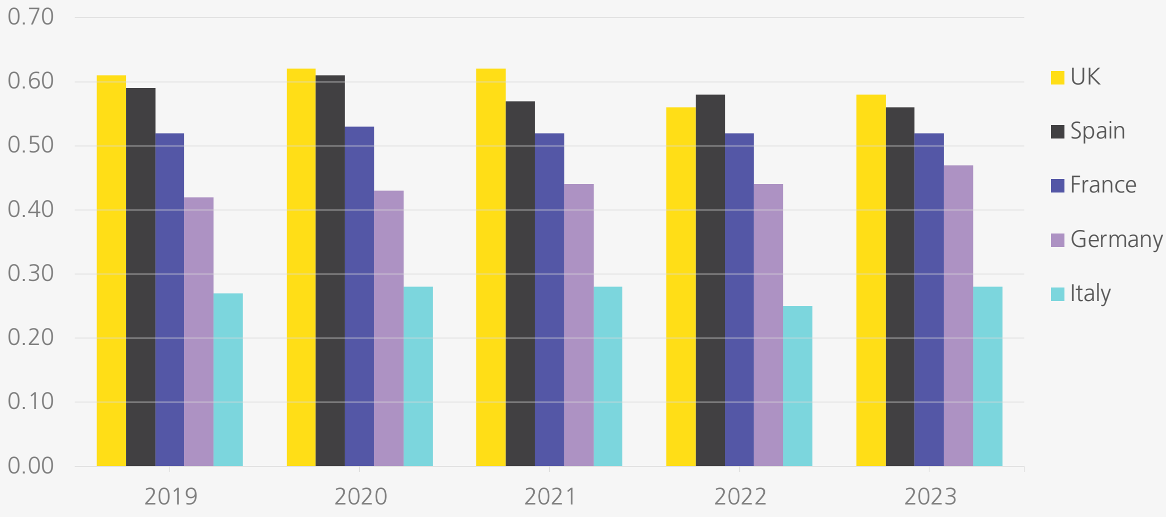
[3] Germany, France, Italy, Spain, Netherlands, Poland, Belgium, Ireland, Sweden, Austria, Statista, 2025.

3. Home insurance prices in Europe have stayed within affordable bounds, lower than 1% of disposable income.

Homeowner insurance in Europe is, on average, stable and still affordable at a range of between 0.3% and 0.6% of available income over the period 2019-2023[4].

Average home premiums as a share of average disposable household income

(in %)



Source: McKinsey & Company, Global insurance report, 2025

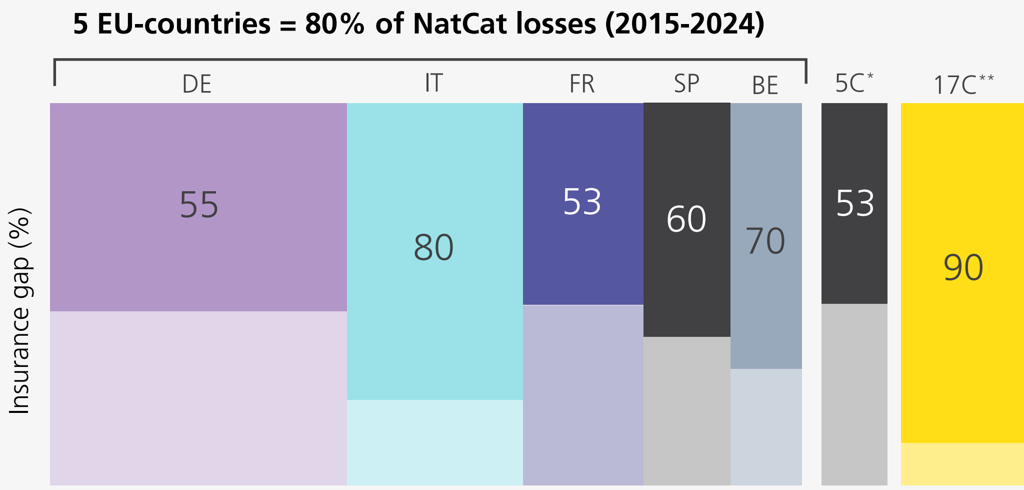
Underinsurance may also be considered as another factor contributing to the insurance gap, affecting both homeowners and commercial policyholders. This occurs when the insured value of assets or buildings is not updated in an insurance contract, resulting in coverage that does not reflect current replacement costs or market values. Consequently, when a natural disaster strikes, individuals and businesses may discover that their insurance is insufficient to cover actual losses. This issue widens the protection gap, even when insurance policies are in place, and affordability is not the main barrier.

[4] McKinsey & Company, Global insurance report, 2025.

4. There is no clear link between the NatCat protection gap and the existence of a state reinsurance scheme.

The figure below illustrates the insurance protection gap across the EU27 countries, with specific examples of NatCat coverage in 5 EU countries with the highest NatCat economic losses between 2015-2024 (responsible for 80% of the EU27 losses and approximately 75% of the NatCat protection gap). The relatively high protection gap in Spain (60%) and France (53%), where a state NatCat scheme is in place, compared to Germany (55%) with no state scheme, illustrates that a state scheme does not automatically reduce the protection gap, and that other factors, such as home insurance penetration and the take-up of optional NatCat add-ons, play a crucial role.

These varying insurance market cultures are further illustrated by the take-up rates of the optional natural hazards add-on for home insurance, which is around 55% in Germany and below 10% in Italy, across all home insurance policies.



	DE	IT	FR	SP	BE
National NatCat scheme (Yes/No)	N	N	Y	Y	Y
NatCat add-on (mandatory/optional)	Y/o (~55%)	Y/o (<10%)	Y/m	Y/m	Y/m
Home Insurance Penetration (%)	>90	<50	>90	~75	>90

*5 countries NL, AT, PL, IR, SW
**17 countries Other EU27 countries not mentioned above

5. The strongest indicator of the protection gap is the insurance penetration for natural perils.

European insurance markets are providing NatCat cover for customers across the EU:

- The standard home insurance policy in Europe usually **covers storm, hail and fire** (incl. wildfire). It is seldom mandatory but can be provided in combination with rent or mortgage.
- Many countries offer cover for other perils like **flood** as an **optional add-on** (e.g., Germany, Italy).
- There are state schemes which are **NatCat add-ons to standard policies and can cover several perils and be mandatory** (e.g., France, Spain). Such schemes may be automatically linked to standard home (or motor) insurance. It should be noted that some “white spots” or gaps in the insurance coverage scheme may remain where a declaration of natural catastrophe is required by the scheme, such that smaller events remain uncovered.

However, NatCat insurance penetration remains insufficient in the retail space due to a lack of risk awareness, optimism bias, and moral hazard, where state intervention is expected. The situation is different for commercial lines, as commercial assets are usually better insured than personal lines, as their stakeholders have a higher risk management maturity. Also, for public assets, penetration is generally insufficient, and in some jurisdictions, there are legal restrictions on private insurance coverage of public assets.

The take-up rate (the proportion of eligible insurance policies) for standard home insurance varies from below 20% (e.g., Greece) to above 90% in markets like Germany or France. Additionally, there may be differences in which perils are covered by the respective standard insurance policies, meaning that, for specific perils, insurance penetration is lower (for example, flood risk in Germany). We consider increasing the take-up rate of available NatCat insurance products to be one of the **most relevant drivers to reduce the NatCat insurance gap.**

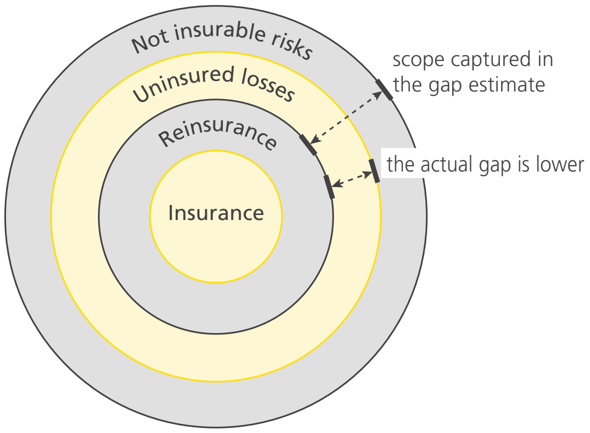
6. It should be borne in mind that the NatCat protection gap can never be fully closed.

Several factors contribute to the size of the insurance gap. These include low insurance take-up rates, especially for optional add-ons to primary insurance contracts; underinsurance, where the insurance contract does not fully cover the actual value of the assets; and exclusions, limits, and deductibles.

It is also important to emphasise that the protection gap can never be reduced to zero. This is a flaw of the basic metric, which is commonly used for its convenience, but overestimates the gap.

Economic losses include elements that are not insured, for risk-sharing purposes or following the decision of the asset owner, such as:

Understanding the protection gap figure



- Retention of risks (e.g. deductibles, limits) in place to prevent moral hazard and incentivise own prevention measures by the insured.
- Public assets and infrastructures that are mostly self-insured by governments.
- Assets that are economically inefficient to insure (e.g. easier to replace).
- Underinsurance, occurring when the insured decides not to purchase all available coverage options, such as NatCat add-ons or home content insurance.

A more apt definition is "the uninsured portion of losses that could have been insured but were not[5]". A variant of this definition is "the difference between the amount of insurance that is economically beneficial—taking into account some rational self-insurance or alternative ways of risk transfer—and the amount of coverage actually purchased[6]".

Both definitions look at the insurable protection gap rather than the total protection gap. This would result in a narrower NatCat protection gap than usually reported. However, data is not readily available to use these definitions as metrics. Therefore, we continue to use the commonly referenced definition for the purpose of this paper.

Key message

Although the insurance sector has absorbed the increase in NatCat losses seen in recent years, the protection gap remains elevated. While a share of economic losses is structurally conceived to be retained or managed outside private insurance, the gap in the remaining part can be reduced through higher insurance penetration and adaptation strategies in high-risk areas.

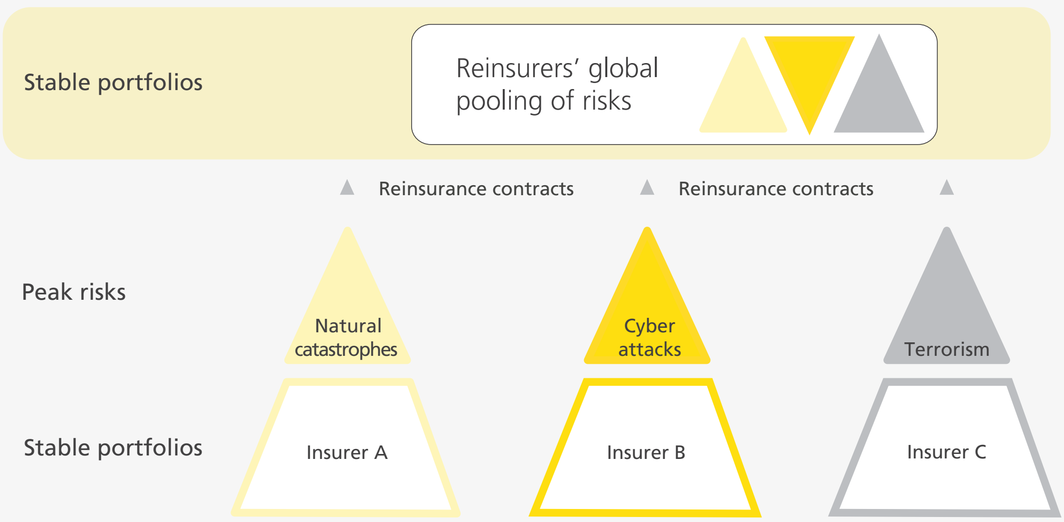
[5] IAIS, G20 Sustainable finance working group input paper: identify and address insurance protection gaps, 2025.
[6] Geneva association, understanding and addressing global insurance protection gaps, 2018.

2. Reinsurers as catalysts for resilience

When it comes to natural catastrophes, reinsurers are society's shock absorbers– assuming the reinsured impact of such events so that insurers and consequently businesses, households and economies more generally can continue operating with resilience and stability.

When a person purchases home insurance, the insurer covers common losses, such as those caused by water leaks or household fires. Insurers assess that it is improbable for numerous similar incidents to occur simultaneously within the same area on the same day. However, when events such as tropical cyclones, earthquakes, or heavy flooding affect a city, thousands of claims can arise simultaneously, which is why primary insurers are keen to transfer NatCat risks. Fortunately, reinsurers are ready to step in to handle these larger peak risks on their own balance sheet.

Figure 1: Reinsurers diversify insurers' peak risks



Reinsurers are positioned to address the protection gap through:

- **Unique willingness to take on NatCat risk:** The Reinsurance industry is specifically designed not only to be able, but also willing, to carry substantial NatCat risks on its balance sheet, thanks to its capital strength.
- **Unique expertise to price the risk:** Reinsurers invest heavily in sophisticated models and decades of data to price risk accurately, ensuring sustainability.
- **Unique global diversification:** Internationally active reinsurers pool risks across geographies worldwide and a wide range of different perils, offering broader global diversification and lower risk-based prices than any local insurer or country/regional scheme could achieve.
- **Innovative risk-sharing solutions:** Reinsurers can structure NatCat risks, connecting insurance systems with capital markets, or design parametric solutions that deliver a quick payout when disasters strike.

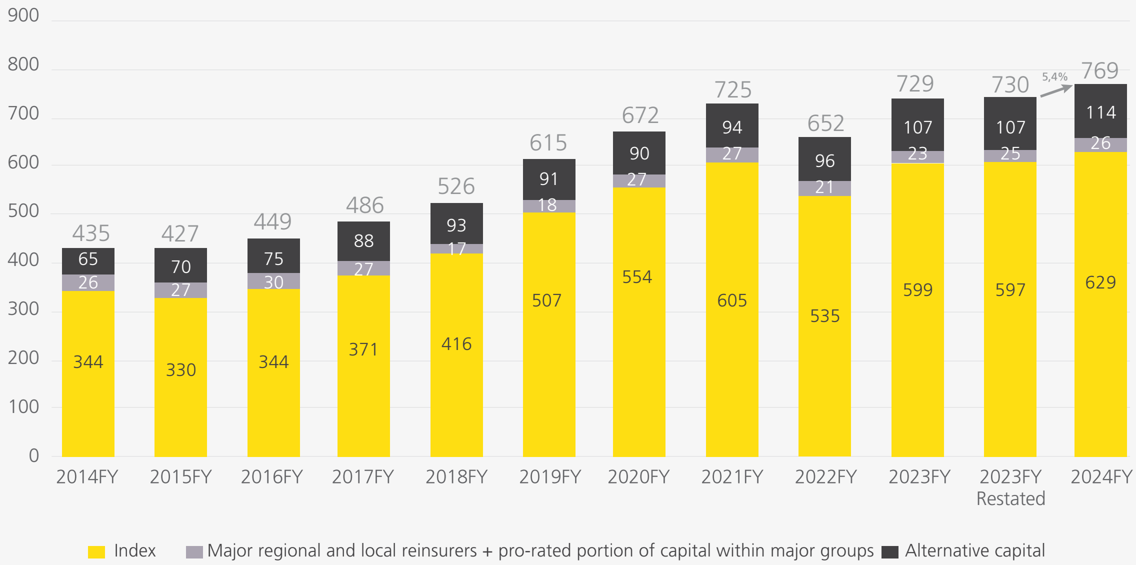
Willingness to take on NatCat risk

Global reinsurers, like the members of the Reinsurance Advisory Board[7], have the capital strength to withstand natural catastrophe risks. They exhibit solvency positions well above regulatory capital targets and upward trending[8], strong credit ratings, established risk management systems, and disciplined underwriting. This, in turn, attracts investors to expand reinsurance capacities.

The available reinsurance risk capital over the period 2015-2024 nearly doubled, growing from 357 Bn USD to 655 Bn USD according to Gallagher Re. Furthermore, 114 Bn USD of alternative capital is also available[9]. This ensures sufficient capacity to cover NatCat events globally and in Europe.

Reinsurance dedicated capital rises to a new peak

Total reinsurance dedicated capital (USD billion)



[7] See last page for membership of the reinsurance advisory board.
[8] IAIS, global insurance market report (page 84), 2024.
[9] Gallagher Re, reinsurance market report, April 2025

Expertise to price the risk

With access to decades of historical data and advanced catastrophe modelling tools, reinsurers can put a price tag on NatCat risk with a high degree of accuracy. This ensures that premiums reflect the true underlying risk exposure, promoting both financial sustainability and responsible risk-taking. Accurate pricing also sends important signals to the market, encouraging investment in risk mitigation and adaptation. By aligning premiums with actual risk, reinsurers help create a more resilient and transparent insurance ecosystem[10]. The importance of a risk-based perspective is underscored by the fact that insurance supervisory systems have developed towards a risk-based approach for determining solvency capital requirements and beyond.

Reinsurers consider risk-reducing measures such as improved building codes or flood defences into their pricing mechanisms, thereby incentivising resilience and stability in premiums despite growing risks. This creates a positive cycle: better risk management leads to stable insurance access, which in turn encourages further investment in resilience. Catastrophe models are continually refined, and more models are being developed to cover a broader range of perils and regions worldwide. This helps clients to improve their understanding of the risk situation, of potential losses in a certain scenario and to better manage their exposure.

Aspects of reinsurance NatCat risk pricing

Sophisticated risk modeling

Decades of historical data and progress in catastrophe modeling enable precise risk pricing.

Global diversification

Global diversification allows higher capacity at lower prices.

Market signals

Risk-based premiums reflect true exposure, promoting financial sustainability and incentivising resilience.

Positive feedback loop

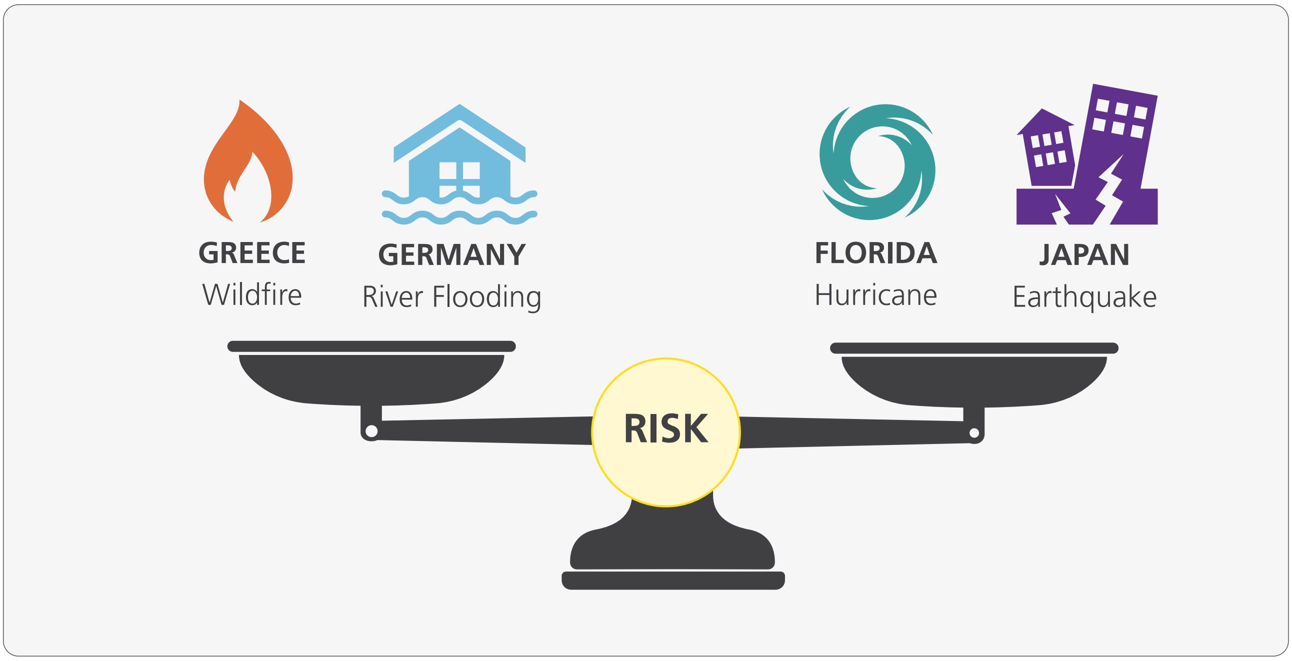
Buyers with effective risk management attract stable insurance access, which in turn, encourages investment in resilience.

[10] FSI Insights No. 65., mind the climate-related protection gap – reinsurance pricing and underwriting considerations (page 90), March 2025.

Global diversification

Unlike most insurers and national or regional schemes, which are often exposed to geographically concentrated risks, reinsurers operate across borders and across a wide range of perils, enabling them to pool risks from different regions and sectors. They can balance the risk of river flooding in Germany and of wildfire in Greece with the risk of an earthquake in Japan or of a hurricane in Florida.

This broad risk spread allows reinsurers to provide capacity even in high-risk or underserved markets, supporting resilience on a global scale[11]. This ability to diversify risk globally is particularly important as climate change increases the frequency and severity of natural disasters. In that regard, reinsurers play a vital role in stabilising economies by absorbing shocks that could otherwise overwhelm local insurance markets[12].



Innovative risk-sharing solutions

While reinsurers have traditionally borne the brunt of NatCat risk, financial markets are increasingly attracted to it in their search for diversified investments. Reinsurers leverage their expertise to transform this insurance risk into an asset class for capital markets through a variety of vehicles.

Another example of how reinsurance fosters innovation is its support for the deployment of parametric insurance structures, which trigger payouts through predefined events and are particularly useful when quick access to capital is needed. Unlike traditional indemnity-based insurance, parametric payouts are not triggered by the actual monetary amount of losses. While the basis risk of potential divergence between the parametric trigger and actual loss outcomes can be problematic in some scenarios, these solutions provide, for example, an efficient risk-transfer mechanism for governments, including at the local level, to pre-arrange contingent financing for public assets and infrastructure that may otherwise not be insurable.

[11] Reinsurance advisory board, the power of reinsurance, 2023. FSI Insights No. 65., mind the climate-related protection gap – reinsurance pricing and underwriting considerations (page 12), March 2025.
[12] CCRS & AXA XL, optimising disaster recovery (page 3, page 26, page 31), 2020.

Key enablers for global reinsurance

Transacting reinsurance globally is indispensable to the ability of the private reinsurance market to play its role as a shock absorber. A priority for policymakers and insurance regulators should be to unlock access to global reinsurance with the following key enablers:

- **Free and open markets:** Reinsurers need to be able to assume risk on a cross-border basis, to invest their premium income globally, and to move their capital efficiently from one jurisdiction to another. Restrictions on the free flow of capital for reinsurers make reinsurance cover more expensive13.
- **Risk-based regulations:** From the primary insurers' side, an appropriate, risk-based, prudential regulatory regime should incentivise comprehensive reinsurance strategies by providing capital relief appropriate to the levels of risk transferred.
- **Internal models:** From the reinsurers' side, the global diversification of risks needs to be reflected when assessing economic capital requirements. Internal models have long been used by reinsurers to holistically measure complex risk and the effects of diversification for sound risk management and business steering[14].

[13] Reinsurance advisory board, the power of reinsurance, 2023.
[14] Reinsurance advisory board, internal models: a reinsurance perspective, 2018

3. Analysis of potential risks in state schemes

The RAB stresses the importance of a prudent approach when considering introducing state reinsurance schemes. While these schemes may have positive effects in the short term, they generally do not address the root causes of rising risks and may create adverse side effects on (re)insurance market dynamics, affecting broader and long-term economic resilience. This concern is especially pronounced when the scheme is intended to be centralised at the supranational level, and when reinsurance capacity is available in the private market.

While the affordability intention behind these proposals is laudable, state schemes cannot be as cost efficient as global reinsurance due to their limited diversification. Global reinsurers who diversify across multiple countries and continents, climate zones, tectonic regions, lines of business and economic environments offer a more effective solution over the long term.

If state schemes mask the signal from reinsurance risk-based pricing, for example, by providing generous or underpriced rates, the development of private insurance and reinsurance markets will be hindered. This will discourage resilience measures and will make the whole system unsustainable, including its own solvency. Finally, overly generous state schemes can also create moral hazard, e.g., by attracting particularly high risks, ultimately increasing NatCat losses and reducing society's resilience.

The (re)insurance industry provides risk-based coverage, thereby incentivising private actors to adopt resilience building measures to manage NatCat risks. The State, on the other hand, can leverage the private sector's transparent risk assessment to implement enforceable land-use regulations, appropriate risk-zone-based building codes, and targeted investment in infrastructure and broader resilience measures, ultimately contributing to the reduction of exposure to high-risk zones.

In this type of collaboration, all stakeholders can align to establish a future-proof and financially reliable NatCat risk management framework.

Risk of crowding out private reinsurance and moral hazard

The following factors must be considered for any proposed state (re)insurance scheme:

- **State schemes may increase moral hazard:** Guaranteed payouts regardless of risk behaviour may lead individuals or businesses to forgo insurance or investment in protective risk mitigation measures (e.g., flood barriers, fireproofing). This is especially true if the aid is not conditional on prior risk management efforts. Similarly, insurance companies participating in the scheme may be incentivised to adopt an overly aggressive underwriting approach, allowing them to retain profits during favourable years while transferring catastrophic losses to the government during adverse periods. Moreover, reliance on a public backstop may weaken the rigor of claims due diligence and loss adjustment processes, given the expectation that the financial burden will ultimately be absorbed by the government.

- **Subsidised or underpriced coverage:** Many state schemes charge flat or subsidised premiums, which can result in high-risk properties paying the same as low-risk ones. This removes the financial signal that would normally encourage people to avoid or reduce exposure to risk and forces the private market to compete against artificially low premiums. Furthermore, individuals and businesses may opt out of purchasing private insurance if given the choice to be covered directly by state schemes. Distorted perception of NatCat exposure's true cost and reduced customer base makes it harder for insurers and reinsurers to operate profitably and can incentivise market exit.

- **Uncertainty and regulatory risk:** If states intervene unpredictably after disasters (e.g., by imposing retroactive compensation or price caps), it creates uncertainty for private insurers. This discourages long-term investment and innovation in catastrophe risk products.
- **Limited market development:** In countries with dominant state schemes, the private insurance market may remain underdeveloped and unable to substitute the state schemes if they become unsustainable. This also hinders competition, innovation, and the emergence of sophisticated risk transfer mechanisms such as parametric insurance or catastrophe bonds.
- **Rebuilding in high-risk areas:** State programs often fund rebuilding in the same vulnerable locations, rather than encouraging relocation or adaptation. This perpetuates exposure and increases long-term costs.
- **Political pressure to bail out everyone:** Governments face pressure to provide relief broadly, even to those who chose not to insure or who ignored known risks. This creates a precedent that undermines personal responsibility and the role of private insurance.
- **One-size-fits-all limitations:** National differences in risk profiles, insurance culture and structures require tailored solutions, not a centralised public backstop.

Impact of underpriced state reinsurance schemes

Introduction of subsidised or flat-rate premiums by state schemes
Creates artificial pricing signals in the market

↓

Reduced competitiveness of private insurer due to unsustainable pricing
Private insurers struggle to match state-backed rates

↓

Decline reliance on state schemes and insurer exit
Shrinking private capacity and reduced competition

↓

Increased reliance on state schemes for coverage
Market becomes dependent on government intervention

↓

Reduced innovation and investment in private insurance products
Stagnation in risk transfer solutions like parametric insurance or catastrophe bonds

↓

Emergence of systemic risk due to lack of diversification and market resilience
Higher vulnerability to catastrophic events and economic shocks

4. Policy recommendations

In light of these concerns and potential pitfalls, any policy action to improve NatCat resilience should support both the strength and adaptability of the insurance and reinsurance markets. The following recommendations are designed to address the delicate balance between public intervention and private expertise and capacity, ensuring that NatCat risks remain effectively insurable in a sustainable manner. For public authorities, it matters to check whether these most helpful recommendations are implemented to their fullest potential before considering further interventions.

Recommendation 1: Ensure private market leadership

A foundational principle for sound policy is the recognition that NatCat risks in Europe are fundamentally insurable within existing private markets. Robust private reinsurance markets have demonstrated the capacity to absorb and diversify risk, foster innovation, and provide accurate, risk-based pricing. Policymakers should therefore ensure that private insurance and reinsurance remains the primary channel for coverage of non-systemic, insurable risks.

Recommendation 2: Increase penetration of insurance covers for natural perils

The NatCat protection gap is caused primarily by insufficient take up of available covers offering financial protection against natural perils, as noted in Section 1.

Public education and risk awareness campaigns are vital components of a resilient insurance ecosystem. Stakeholders – from individual homeowners to local governments – should be equipped with the information necessary to understand their exposures, adopt appropriate mitigation measures, and buy adequate cover.

Demand-side incentives to foster the take up of private insurance also enhance the mutualisation of risks, by broadening the base of insured parties. This makes insurance premiums more affordable, thus creating a virtuous circle.

Recommendation 3: Enable access to global reinsurance

Competition within the reinsurance sector is indispensable to ensure both price efficiency and resiliency. Policymakers are encouraged to cultivate an attractive regulatory environment that facilitates the entry and sustained operation of private reinsurers, thus boosting the overall supply and diversity of risk transfer solutions, including new forms such as parametric insurance. This may involve simplifying licensing requirements, facilitating cross-border business, and promoting risk-based prudential standards that give primary insurers due credit for reinsurance and allow reinsurers to use internal modelling (see Section 2).

An open and competitive market enables a broader array of products and pricing options, ensuring that reinsurance coverage reflects real-world risk rather than artificial constraints or distortions created by centralised schemes.

Recommendation 4: Build back better… or elsewhere

Loss prevention and loss reduction policies are indispensable for the long-term viability of risk-transfer markets. Policymakers should develop and enforce standards that reward proactive risk mitigation, whether through regulatory incentives, tax credits, or direct investment in public risk-reduction projects.

Promoting risk-resilient infrastructure, stringent building codes, and prudent urban planning are cost-effective strategies for reducing the growth of NatCat losses over the long term. For instance, public authorities should restrict new construction in high-risk flood zones, or at least increase risk-prevention requirements for such construction (for example, only permit it under the clear condition that the risks are borne by the parties involved).

Recommendation 5: Don’t shoot the (price) messenger

Central to the long-term sustainability of both insurance and reinsurance is the principle of risk-based pricing. By aligning premiums with the true risk profile of insured assets, the market discourages moral hazard and adverse selection, ensuring that incentives are correctly structured to reward prudent behaviour. Uniform or subsidised premiums can mask risk signals and encourage concentration of exposure, particularly in high-risk regions or sectors with regular NatCat events.

To this end, government policy should support actuarially sound underwriting frameworks, requiring periodic review and adjustment in the face of shifting climate patterns, urban development, and technological innovation.

For the highest-risk zones in Europe, where affordability concerns might arise when implementing risk-based pricing because of the high frequency of severe NatCat events, any state intervention or government backstop should be designed at the national level, time-limited, and targeted at selected policyholders. These measures should build on market-based mechanisms to avoid distorting private insurance markets. This public-private partnership approach would facilitate the development of solutions tailored to each market’s needs and characteristics, thereby supporting greater acceptability. Reinsurers have showcased an instrumental role, for example, in the UK, in easing access to flood coverage in high-risk zones.

Conclusion

Reinsurers are strategic partners in building a resilient Europe in the face of increasing NatCat risks. Their global reach, financial strength, and technical expertise make them indispensable partners in narrowing the NatCat insurance protection gap.

The current protection gap signals a need to increase demand for insurance coverage for natural perils and to invest in adaptation measures. Reinsurers are uniquely positioned to accept additional NatCat risk resulting from expanded insurance penetration in their balance sheet.

Policymakers must ensure that public interventions support, rather than hinder, the private reinsurance market's ability to deliver sustainable, risk-based solutions. A well-functioning, competitive reinsurance market remains the most effective tool to ensure both insurability and affordability of NatCat risks in Europe.

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