

Insurance Europe views on ESM-EIOPA paper

“Sharing the risk: A European approach to natural catastrophe management”

Insurance Europe shares the objective of strengthening Europe’s resilience to natural catastrophes (nat cat) and reducing protection gaps. We welcome the continued efforts of EIOPA and the ESM to explore possible solutions and to stimulate policy discussion on this important issue.

We also agree that further analysis and engagement with stakeholders are essential. Over many years, the insurance industry has contributed insights and practical evidence on the drivers of the protection gap, including lessons on what works in practice. Drawing more systematically on this experience in policy proposals and design can help ensure that well-intentioned frameworks deliver their intended outcomes.

In this paper, therefore, Insurance Europe sets out a contribution to the debate on possible EU-level approaches. The objective is to support this discussion by helping ensure that any initiative genuinely strengthens resilience, builds on what already works at national level, and avoids unintended consequences for long-term insurability and affordability.



Addressing underlying risks is a prerequisite for affordability and insurability

We recognise that the EIOPA-ESM paper builds on earlier work and should not be seen as a new policy proposal as such. We also understand that demand-side challenges and risk mitigation are considered outside the paper's scope and that the proposed mechanism should be seen as part of a broader strategy. From the industry's perspective, however, any European level approach prioritising the "supply side", can offer only a theoretical response to a problem whose drivers are primarily demand-driven, practical and local in nature and best dealt with on a national level. Indeed, the paper does not address the root causes of protection gaps, which extend largely beyond what risk-sharing mechanisms can do.

In this context, it is essential to recall that long-term insurability and affordability depend above all on reducing underlying risk exposures and improving resilience to nat cat perils. Continued progress on reducing emissions alongside robust adaptation and prevention measures is therefore a prerequisite for narrowing protection gaps. Without prioritising risk reduction, financial risk-sharing mechanisms at any level cannot deliver improvements in coverage and may ultimately have the undesired consequence of unduly increasing reliance on public intervention.

The paper places significant emphasis on insurance capacity and volatility linked to reinsurance market cycles. Yet across the EU, (re)insurance capacity is available and affordable. The industry has strong profitability and continued capital inflows, including alternative capital, supporting abundant reinsurance capacity: global reinsurance capital reached record levels of around USD 760–805bn in 2025, reflecting continued growth in both traditional and alternative capital ([Gallagher Re](#), [Aon](#)). Existing protection gaps are rarely the result of a lack of capacity. Addressing perceived capacity concerns in isolation, including by introducing a European-level approach without directly addressing demand-side issues and increasing climate risk exposure, is therefore unlikely to deliver a material and lasting reduction in the protection gap.

More broadly, the paper tends to portray private reinsurance capacity as structurally volatile and inherently fragile. Yet interaction with capital markets and exposure to market cycles are not characteristics specific to reinsurance, but structural features of risk-bearing financial markets more generally. Over several decades, global reinsurers have repeatedly demonstrated their ability to absorb very large catastrophe losses, adapt pricing and capacity over time, and continue providing risk transfer across market cycles. This long-standing contribution should be recognised as a central pillar of Europe's existing catastrophe risk management framework, rather than as a weakness to be substituted.

For these reasons, the industry calls on EIOPA and the ESM to deepen the analysis of the drivers and root causes of uninsured losses, and to more clearly explain how the approaches proposed in the discussion paper would address those causes, in practice. Indeed, from our perspective, it can be misleading to present an approach aimed at reducing massively the protection gap without addressing what we believe are the main structural drivers of the protection gap, notably:

- rising exposure;
- low insurance take-up;
- limited data on vulnerabilities and resilience;
- insufficient prevention and adaptation, including unchecked construction in high-risk areas.

In this context, protection gaps should not be understood solely as a result of market dynamics. They can also reflect how public policies, including disaster relief arrangements, function and interact with insurance markets and influence behaviour. In some Member States, the availability of ex post compensation for uninsured losses may reduce incentives for households and businesses to take up insurance, particularly where expectations of public support become more established. Ensuring that these frameworks are aligned with the objective of increasing risk awareness and insurance uptake is therefore an important element of any comprehensive strategy to strengthen resilience.

The limits of diversification within a European framework

The discussion paper places considerable emphasis on the diversification benefits that could be achieved by pooling nat cat risks at European level. While diversification is a core principle of insurance and risk management, it is important to assess these claimed benefits against Europe's reality. The paper mainly looks at differences in the types of risks that drive the largest losses. While this is helpful, it may not fully reflect today's European risk landscape, where risks are increasingly interconnected and events can affect several countries at the same time.



In addition, it is difficult to fully assess the robustness of the diversification calculations, which appear to serve as a primary justification for the usefulness of the pool, based on the information provided in the paper.

Despite its inherent diversity, the European Union represents a relatively small geographic area, which is increasingly climatically interlinked. In the last 10 years (2016-2025), 8 of the top 10 largest weather-related events in Europe impacted 3 or more countries, underscoring the limited diversification potential of purely European pooling given the cross-border nature of major meteorological events (Munich Re NatCatSERVICE database). Events such as Storm Bernd in 2021, impacted Belgium, Luxembourg,

and the Netherlands, as well as different parts of Germany, Austria, France, Italy, Romania (not to mention Switzerland and the United Kingdom). This illustrates that risks within the EU are often correlated, particularly in the tail of the loss distribution. Indeed, while EU-level pooling may reduce volatility for ordinary losses, its ability to do so for the largest catastrophe losses is limited, because those losses tend to occur simultaneously across several Member States (the proposed pool targets especially largest losses with its high attachment point). In this context, the additional diversification that can realistically be achieved by pooling risks solely within Europe is inherently limited. This stands in contrast to the global reinsurance market, which already provides European insurers and national schemes with broad and effective diversification.

Global reinsurers balance European risks with exposures across other regions and hemispheres, as well as across different lines of business. This global portfolio diversification offers resilience that a European-only mechanism could not achieve. In this context, it is important to more clearly articulate the specific added value of a European pooling mechanism compared to existing access to global reinsurance capacity. In addition, it remains unclear what the fundamental difference would be compared to existing reinsurance solutions available in the global market, particularly where (re)insurers already provide coverage at risk-based prices.

In practice, many of the largest global reinsurers are headquartered in Europe and play a central role in absorbing catastrophe risks and supporting the resilience of European economies. This existing ecosystem constitutes a key strength, which any new mechanism should seek to complement rather than duplicate or displace. It is therefore also important to consider how a European pooling mechanism would interact with the private reinsurance market in practice.

While the discussion paper suggests a pool attaching at very remote loss levels, reinsurers already provide cover at high return periods, in some cases comparable to the thresholds envisaged. Moreover, several of the perils included in the model, such as hail or fire, are already well covered by private markets. A publicly backed mechanism operating in these layers could therefore compete directly with existing reinsurance solutions, rather than complement them.

Even if full crowding out does not occur, public involvement at European level could still have a material distortionary effect. If the presence of a publicly backed pool weakens risk-based pricing signals where this is relevant, this may reduce incentives for insurers, policyholders and public authorities to invest in effective risk mitigation. Over time, this could delay or discourage adaptation efforts, ultimately increasing exposure and losses. There may also be questions around competitive neutrality and the potential preferential treatment of public schemes relative to private reinsurance solutions.

Against this backdrop, the relevant policy question is therefore whether a European pool would add meaningful risk-absorbing capacity and diversification beyond what global (re)insurance markets already deliver. Indeed, overestimating potential diversification benefits risks justifying complex new structures that duplicate existing mechanisms, potentially crowd out private capacity, and weaken market signals, without materially improving resilience or insurance coverage in practice.



The role and limits of protection gap benchmarks

The discussion paper refers to the illustrative objective of reducing the insurance protection gap for properties to around 10% at European level. While this modelling exercise could be useful for exploring potential scenarios, caution is needed in interpreting such figures as relevant policy benchmarks.

The modelling underpinning the 10% figure is framed as a technical, supply-side exercise focusing on risk pooling and capital efficiency. It does not assess whether households and businesses would purchase insurance at risk-based prices, how affordability constraints might affect take-up, or how costs and coverage would be distributed across countries, regions and income groups, nor does it capture how these factors may evolve over time as climate risks and losses intensify.

The paper also does not sufficiently address the technical challenges associated with calibrating common attachment points across Member States. Estimating losses corresponding to a 50-year return period in a consistent and reliable manner requires granular, comparable and forward-looking data, which remains uneven across countries and perils. Loss estimates for extreme, low-probability events are inherently uncertain and difficult to compare across countries, which calls into question the robustness of common attachment thresholds at European level. Typical reinsurance solutions also attach at 20- or 50-year events and extend up to the Solvency II level of a 1 in 200-year event. As a result, the pool could overlap with some existing covers, adding an additional layer of complexity and cost compared to direct cession to reinsurers.

Protection gaps are driven by a wide range of factors, including lack of risk awareness, risk exposure, affordability, behavioural choices and public policy decisions as regards prevention and adaptation. They can also be the result of a conscious and assumed decision not to insure a property against certain risks. In addition, a significant share of natural catastrophe losses is linked to public infrastructure and assets, which are often owned, financed or guaranteed by governments. Strengthening the resilience of critical infrastructure, such as energy, water, transport and emergency communication systems, is therefore essential, both to reduce overall losses and to support faster post-disaster recovery.

As a result, while reducing the protection gaps in Member States where they are high is certainly a desirable goal, bringing them to 10% across Europe is neither realistic nor necessarily desirable without any impact assessment. Indeed, not all losses are economically insurable. The existence of some gaps does not, in itself, indicate a failure of insurance markets or public policy, particularly where risks are difficult to insure at affordable prices. In such cases, prevention measures may offer a more effective approach than risk transfer alone.

For these reasons, Insurance Europe considers that the discussions should focus less on achieving theoretical protection gap targets at EU level and more on strengthening resilience in practice, by improving risk awareness and insurance take-up, preserving risk-based pricing, and prioritising prevention and adaptation. Any EU-level mechanisms should be assessed against these objectives, rather than against numerical benchmarks derived from theoretical modelling assumptions.

Loan-based backstop: importance of clear rules and limits

The proposed loan-based backstop is a novel concept aimed at providing initial financing and/or addressing extremely remote tail risks. In principle, such an instrument could help reduce reliance on ad-hoc public interventions after a severe event. However, several fundamental design aspects remain insufficiently defined.



First, the order of magnitude of such a pool and backstop are unclear in the paper, as several figures are mentioned, but the overall scale does not appear consistent with the stated objective of meaningfully reducing the protection gap, including the suggested target of 10%. Without a clearer indication of the expected size and scope, it is difficult to assess the credibility and effectiveness of the proposed approach.

Second, the implication of relying on loans require further clarification. Loans must ultimately be repaid, typically through future premiums or levies. Yet the paper does not clearly specify repayment timelines, exit conditions, or how legacy debt would be treated over time. Without clarity on these elements, it is difficult to assess how costs would be allocated across policyholders, insurers and generations, or how long financial commitments would remain in place following a major event.

More broadly, the design of participation and risk-sharing mechanisms will be critical to the feasibility of the system. A system that relies primarily on voluntary participation without appropriate safeguards, raises risks of free riding and adverse selection. Higher-risk segments may be more likely to participate, while lower-risk participants may have weaker incentives to join, potentially undermining the risk pool and placing pressure on national markets. The challenge could be further exacerbated if ex-post contributions or levies are not clearly aligned with participants' own risk exposure. In these circumstances, market participants may see limited added value in opting into the scheme, particularly where established reinsurance solutions already provide transparent, risk-based and predictable coverage.

To mitigate these risks, the framework would need to establish clear and binding participation rules, governance arrangements and risk principles from the outset, including mechanisms to ensure sufficiently broad and balanced participation, appropriate risk diversification, and incentives for well-diversified and financially sound participants.

These challenges are compounded by the fact that participants may benefit from support in extreme scenarios without having contributed proportionately beforehand, while future policyholders could bear the cost of past losses through higher premiums or levies. Without clearly defined participation rules, pricing principles and repayment conditions, it remains difficult to ensure a fair distribution of costs over time or to assess the long-term sustainability of the system.

Furthermore, if a backstop is not clearly framed as temporary, transparently priced and governed by binding repayment and exit rules, it risks postponing necessary risk mitigation efforts and creating expectations of permanent risk mutualisation. Over time, this could weaken risk-based pricing in markets where this plays an important role, dilute incentives for prevention and adaptation, and increase dependence on public intervention.

Preserving existing market structures

The insurance industry appreciates the intention expressed in the discussion paper to crowd in private sector participation. Whether this objective can be achieved in practice will, however, depend on the precise design of any European-level mechanism and on how it interacts with existing market structures.

Nat cat risks across Europe vary widely. Some countries have historically been more exposed to flooding, others to wildfires, earthquakes, storms or different hazards altogether. Even as certain risks, such as wildfires, begin to affect areas that were previously less exposed, the scale of impacts, levels of preparedness and resilience still differ significantly from one country to another. Differences in insurance penetration, infrastructure, and the role played by insurers also shape how countries anticipate, respond to and recover from extreme events. These differences reflect each country's history, market practices, and the targeted measures it put in place to strengthen resilience.

In several Member States, public-private partnerships have been established to manage certain climate-related risks. These schemes differ in design, funding and operation, reflecting local risk profiles, governance frameworks and market conditions. Many of these national systems tend to function as intended within their specific context and scope. As a result, EU-level initiatives tend to be most effective when they complement and support these established structures, rather than introducing parallel mechanisms.



Without very clear and strictly market-compatible design features, there is a risk that a European pooling approach could overlap with, rather than reinforce, existing national and private solutions. This could unintentionally weaken risk-based pricing and the price signals that underpin prevention, adaptation and sound local risk management.

Ensuring that risk-based pricing can be applied consistently across all participants is a key condition for the effectiveness and long-term sustainability of any European-level mechanism.

This requires sufficient flexibility to reflect the very different risk profiles across countries, regions and perils. Approaches that are overly prescriptive, or that try to impose a one-size-fits-all model, risk limiting this flexibility in practice. Over time, such approaches can lead to unintended effects, such as cross-subsidisation, weaker incentives to reduce risk, adverse selection, lower levels of prevention and ultimately higher losses.

Experience also shows that public schemes which lack clear limits, over time, lead to greater reliance on public support and weaken incentives for risk reduction. This risks undermining long-term insurability and transferring risks to the public balance sheet rather than strengthening resilience. Any European-level mechanism would therefore need to be designed with precise safeguards, clear boundaries and strong market compatibility, to effectively support the diversity of national approaches and private (re)insurance solutions, which already play a central role in managing nat cat risks across Europe.

More broadly, the effectiveness and market compatibility of any European-level pooling or backstop mechanism is not warranted, depending notably on its design, but also on how clearly and coherently it would be embedded within the existing EU prudential and supervisory framework. This includes questions around its interaction with the Solvency II regime, notably the treatment of own funds, solvency capital requirements, the recognition of risk transfer and mitigation effects, and its classification for supervisory and group supervision purposes. Without such clarity, there is a risk of regulatory fragmentation, the emergence of parallel prudential arrangements, and unintended competitive distortions vis-à-vis existing insurance and reinsurance structures.



Final remarks

From a practical perspective, the implementation of a European mechanism would raise a number of operational challenges. These include, for instance, the calibration of return periods across countries with different risk profiles and data availability, as well as the interaction with existing national pools, given significant differences in protection frameworks and market structures across Member States.

Questions also arise as to how the proposed pool would interact with existing private reinsurance solutions in practice. For certain risks, such as windstorm, where protection gaps are relatively limited and private capacity is available, it is not clear how a European pool would improve efficiency or outcomes compared to existing arrangements.

In addition, diversification benefits are already achieved by reinsurers across different lines of business and regions. Adjustments to the current allocation of risks could therefore have broader implications for the functioning of reinsurance markets and their capacity to provide coverage across a wide range of risks.

Some important risk types appear to fall outside the scope of the proposed approach. For example, drought-related losses, which are often recurrent rather than event-based, raise distinct challenges that may not be fully addressed by an event-driven pooling mechanism. Most importantly, efforts to reduce the nat cat protection gap should focus on the demand side. This means increasing awareness of risks among private building owners, corporates, SMEs and local communities, helping them better understand their own exposure, and encouraging them to invest both in resilience measures and in insurance coverage.



Key questions for future reflection

Based on the considerations outlined in this position, the industry sees a number of strategic questions that would merit further reflection and analysis. Addressing these questions in a transparent and evidence-based manner would be essential before any policy conclusions are drawn.

1. What is the specific problem the proposed European mechanism is intended to address: a lack of insurance capacity, volatility in pricing, insufficient insurance take-up, growing exposure, or gaps in prevention and adaptation? If the core issue is the protection gap, why does the discussion shift primarily from the demand side to the supply side, when limited insurance uptake remains a key underlying challenge?
2. How can European risk-sharing mechanisms be designed so that they support, rather than dilute, incentives for risk reduction and resilience at national and local levels? How can they avoid creating cross-subsidisation that weakens incentives for adaptation or places disproportionate burdens on lower-risk countries and policyholders?
3. How would a European mechanism interact in practice with the private market and public-private partnerships that are already tailored to local risk profiles and governance structures? If the objective is greater cooperation and risk-sharing, how will the (re) insurance industry be involved in the design and implementation of such solutions, particularly given the industry's willingness to provide additional capacity at risk-based prices?
4. What is the additional value of a European pooling mechanism when assessed against the existing reality of globally diversified reinsurance markets and capital market solutions? At which level would such a pool (and associated loan backstop) be calibrated?
5. How would the proposed mechanism translate into higher insurance take-up in practice, particularly among households and SMEs, while preserving risk-based pricing? What lessons can be drawn from non-EU markets with lower protection gaps, many of which do not rely primarily on state-backed solutions?
6. Under what conditions can a loan-based backstop be credibly considered fiscally neutral and limited to a true last-resort function? This question is particularly pertinent in cases where repeated public compensation for uninsured losses may already weaken incentives to purchase insurance.
7. How would repayment timelines, exit conditions, legacy debt and intergenerational allocation be defined to avoid free-riding, moral hazard or over-reliance on public funding?
8. Given the complexity and potential market implications of a European mechanism, how will policymakers ensure that different impacts and policy options are assessed in a balanced manner, including their advantages, limitations, operational complexity and unintended consequences?

Insurance Europe is the European insurance and reinsurance federation. Through its 39 member bodies — the national insurance associations — it represents insurance and reinsurance undertakings active in Europe and advocates for policies and conditions that support the sector in delivering value to individuals, businesses, and the broader economy.

June 2026



www.insuranceeurope.eu



Insurance Europe



Rue du Champ de Mars 23
B-1050 Brussels - Belgium