Reducing Europe's insurance protection gap for extreme weather events

September 2026

Priorities for the EU Climate Resilience Framework and for a potential EU reinsurance mechanism

Key recommendations for the European Commission:

- **Make nature-based solutions a default resilience option**: incentivise insurance products, risk assessment frameworks, and access to public-private risk sharing schemes to recognise the potential of floodplains, wetlands, peatlands, dunes and forests to reduce hazards and exposure alongside co-benefits like cleaner air and better (mental) health for EU citizens.
- **Develop Solvency II beyond its predominantly micro-prudential framework to explicitly incorporate systemic financial stability considerations**, mirroring banking supervision. This would provide the necessary foundation for systemic risk management and credible measures for closing the insurance protection gap.
- **Begin developing a pathway towards a future EU-level risk-sharing mechanism,** building on the EIOPA–ESM proposals for a natural catastrophe pool with a public loan backstop, and reflect this objective in the Communication as part of the upcoming EU Climate Resilience Framework. A future instrument should also mandate for collected premiums to be invested primarily in sustainable and nature-positive assets.
- **Promote conditionality and incentives within public reinsurance and disaster backstop arrangements**: in national public reinsurance schemes or disaster backstops, and in the development of any future EU-level risk sharing mechanism, encourage requirements for credible transition plans and prevention co-financing from insurers, data sharing, incentives for adaptation (including nature-based solutions and 'build back better' standards), alongside incentives for the insured (e.g., farmers, homeowners) to invest in prevention and sustainability.
- **Align prudential capital requirements with climate and nature risks**: implement EIOPA's recommendation for additional capital charges for fossil-fuel assets so that risk pricing reflects higher transition risk and discourages exposures that amplify systemic physical risk. Simultaneously, encourage insurers to tighten underwriting conditions or increase premiums for activities that degrade the long-term viability of insurance markets, while ensuring prudential frameworks appropriately recognise the risk-reducing benefits of effective mitigation and adaptation measures.

Introduction

Europe's losses from climate-related extremes are rising over time, while insurance coverage is not keeping pace. Over past decades, only about a quarter of natural-catastrophe losses in the EU have been insured, with large differences across Member States.[1] This persistent protection gap increasingly shifts the financial burden of disasters to households, businesses and public budgets, and can transmit shocks into credit markets and public finances. It directly engages the Commission's core mandates of financial stability, economic competitiveness, and consumer protection, positioning insurability and insurance penetration as central to the Commission's policy priorities. The Commission's upcoming EU Climate Resilience Framework (planned for adoption by the end of 2026) is a timely opportunity to embed a coherent approach that aligns incentives across policies to reinforce its impact: reduce underlying risk, keep insurance available and affordable, and create predictable EU-level risk sharing for the most extreme weather events, while avoiding moral hazard and supporting prevention. Insurance is not a substitute for climate mitigation and adaptation, but it is the backbone of effective financial risk management and long-term economic resilience of the European economy.

Why increasing climate insurance protection gaps matters for the Commission

Reducing climate- and nature-related risks and the insurance protection gap is crucial for financial stability and keeping sovereign debt under control. Large uninsured losses from extreme weather events can propagate through the financial system and build up systemic risks by impairing household balance sheets, increasing mortgage and SME credit risk, and weakening asset values in exposed regions. Where insurance coverage is low or withdrawn, disaster losses undermine economic prosperity[2], banks face higher default risks and declining collateral values, while insurers' own balance sheets are exposed to more volatile and correlated losses across both their investment and underwriting portfolios. For public budgets, a lack of insurance also leads to depressed fiscal revenues and increased social security spendings after disasters. Additionally, governments become insurers of last resort through *ad hoc* disaster aid or implicit guarantee. Both mechanisms burden public budgets, increase fiscal volatility and raise sovereign debt and borrowing costs. Addressing the protection gap is therefore not only a resilience objective, but also a preventive macroprudential measure to limit systemic risk build-up in the EU fiscal, economic and financial system.

[1] Policy options to reduce the climate insurance protection gap, ECB-EIOPA Discussion Paper, April 2023, https://www.ecb.europa.eu/pub/pdf/other/ecb.policyoptions_EIOPA~c0adae58b7.en.pdf
[2] Natural Disaster Insurance for Sovereigns: Issues, Challenges and Optimality, IMF Working Paper, March 2020, https://www.imf.org/-/media/files/publications/wp/2020/english/wpiea2020003-print-pdf.pdf

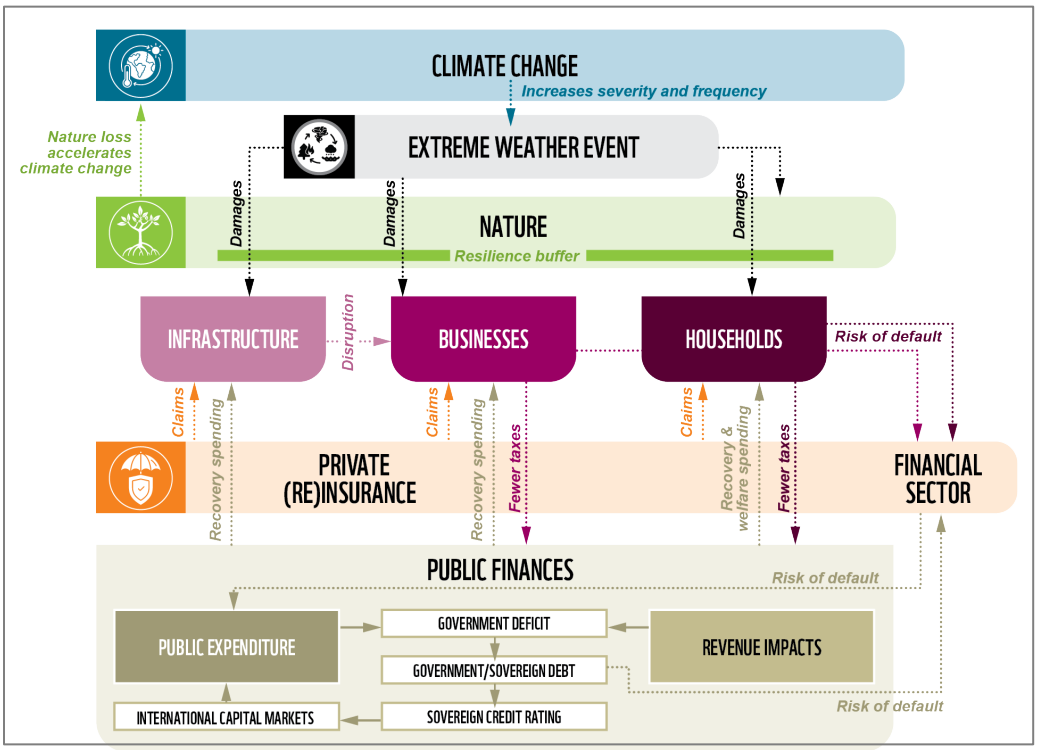
Reducing physical climate and nature risks and protection gaps protects households and business competitiveness. When coverage becomes unaffordable or unavailable, households and businesses are left without the financial protection they need to absorb climate shocks. The protection gap therefore has a competitiveness dimension: for example, Allianz estimates that, due to floods alone, French and German households could respectively lose around €34,000 and €20,000 in cumulative income over 2025–2035 under a high-emission scenario, depressing their demand for other goods and services.[3] Companies, meanwhile, face higher costs for risk prevention and rising insurance premiums, lowering their margins. As insurance becomes scarce, what is not insurable increasingly becomes not bankable, tightening lending conditions and undermining investment and recovery in climate-exposed regions. Climate shocks also cascade through supply chains: for instance, the 2023 Slovenian floods disrupted automotive parts suppliers, halting Volkswagen production across Europe.[4] Modelling of climate damage scenarios for 2027–2030 confirms this: low-insurance, low-public intervention could leave over €190 billion in uninsured losses borne by households and firms.[5]

Strategic policy and regulation for the insurance sector and public(-private) insurance schemes can create incentives for risk prevention, increase insurance penetration and unlock investments into the transition. When public budgets are better protected from large disaster related costs, Member States can re-deploy public investments into EU priority sectors, including the climate transition and adaptation. Public risk pooling and re/insurance schemes should be designed in a way to require and reward risk reduction by those they insure (be it private policyholders, insurance companies, or public entities). Regulatory frameworks should also incentivise insurance companies to play a more active role to support the transition by providing tailored and affordable coverage for low-carbon projects, such as renewable energy infrastructure, battery recycling, or nature-based solutions. Financing the transition is a strategic priority for Europe, hence so is insuring and de-risking it.[6]

However, insurers' own activities can also contribute to the growth of future climate and nature-related losses. Despite increasing commitments, many insurers continue to finance and underwrite activities that amplify physical and transition risks. Recent

[3] Rethinking climate adaptation for global resilience, Allianz Research, April 2025, https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/economic-research/publications/specials/en/2025/april/2025-04-15-climate-adaptation.pdf
[4] Volkswagen to suffer production disruptions due to floods in Slovenia, Reuters, August 2023, https://www.reuters.com/business/autos-transportation/volkswagen-suffer-production-disruptions-due-floods-slovenia-dpa-2023-08-30/
[5] Planning for the rising fiscal costs of climate disasters, Bruegel policy brief, June 2026, https://www.bruegel.org/policy-brief/planning-rising-fiscal-costs-climate-disasters
[6] TACKLING THE INSURANCE PROTECTION GAP, WWF White Paper, January 2026, https://wwfint.awsassets.panda.org/downloads/wwf-insurance-protection-gap-report-.pdf

benchmarking shows that 25% of the largest European insurers still have no restrictions on upstream oil and gas projects and 58% have none on midstream infrastructure, while 50% apply no underwriting restrictions in biodiversity-sensitive areas.[7] This suggests that restrictions are often concentrated where they carry the lowest commercial cost rather than where they would have the greatest impact on reducing future climate and nature-related risks. Ensuring that insurers' investment and underwriting practices are aligned with the EU's climate resilience and transition objectives should therefore be seen as a complementary pillar of any strategy to reduce the insurance protection gap.

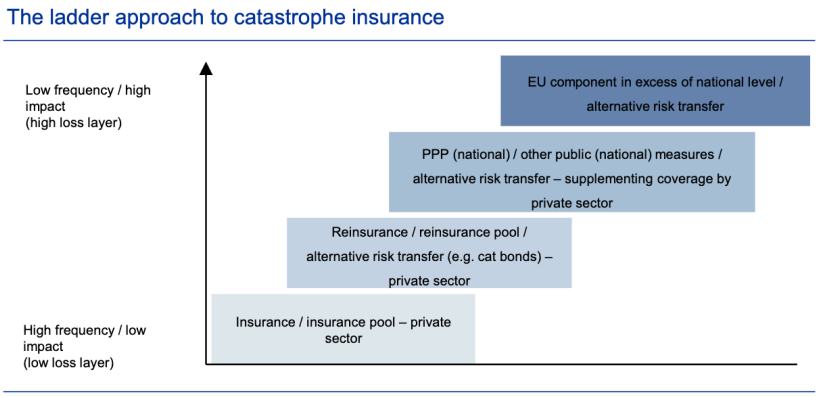


Graph 1

How the Commission can contribute to addressing these challenges

A useful framework is the ladder approach conceptualised by the European Central Bank (ECB) and the European Insurance and Occupational Pensions Authority (EIOPA). The ladder successively goes from private insurance to reinsurance and capital markets, to national governments, and finally to an EU-level risk-sharing mechanism for extreme climate-related catastrophes that exceed national capacities and can be more efficiently pooled across Europe.

[7] Insuring Disaster 2026: EU Policy Briefing, Shareaction, https://shareaction-api.files.svdcdn.com/production/resources/reports/What-policymakers-can-do-to-make-EU-insurers-resilient-and-climate-aligned_2026-06-29-100340_fbsb.pdf?dm=1782727420



Graph 2[8]

The upcoming EU Climate Resilience Framework should help lay the foundations for potential future European approaches to catastrophe risk sharing. Any EU-level risk sharing mechanism (such as the one proposed in the 2026 EIOPA–ESM discussion paper[8]) **should be explicitly linked to the EU Resilience Framework to maximise synergies and ensure it serves not only as a financial backstop but also as a tool for active risk reduction.** As climate-related losses increase and become more correlated across Member States, enhanced European risk-sharing could help stabilise insurance and reinsurance markets after major catastrophes by spreading risks more widely and reducing abrupt premium increases or coverage withdrawals. Such arrangements would complement, rather than replace, national schemes and private markets, while strengthening the resilience of the EU financial system.

EU and national catastrophe risk pools should both include minimum conditions and financial incentives to access public support, to reinforce risk reduction rather than substitute for it. Well-designed public backstops can reduce rather than amplify moral hazard. Conditionality and incentives should be tiered across multiple levels: requiring data sharing and risk assessment standards for systemic transparency, mandating credible transition plans and prevention co-financing for insurers, asking Member States to maintain credible national adaptation strategies, and incentivising households and businesses to invest in preventive measures. This multi-layered approach would ensure that public support acts as a catalyst for climate resilience across the entire value chain, linking financial mechanisms directly to local and national adaptation efforts. Since some private insurers and reinsurers may prefer not to participate in such public-private risk pooling schemes, preferential access conditions (as in France's CCR) or mandatory financing (as in the UK's

[8] Policy options to reduce the climate insurance protection gap, ECB-EIOPA Discussion Paper, April 2023, https://www.ecb.europa.eu/pub/pdf/other/ecb.policyoptions_EIOPA~c0adae58b7.en.pdf

Flood Re) could ensure broader market uptake and support the economic sustainability of the scheme.[9]

Premiums from publicly supported insurance schemes should be invested to benefit the transition and resilience of the economy. A further important, yet often overlooked, aspect of a publicly supported (re-)insurance scheme is how it invests the premiums it collects. To maximize the impact of its balance sheet and align with broader sustainability goals, any such mechanism should be mandated to primarily invest in sustainable activities (as defined in the EU Taxonomy) and sustainable/transition financial products (as defined in the Sustainable Finance Disclosure Regulation (SFDR)) that benefit adaptation and resilience, including natural capital and nature-based solutions. This would create a positive feedback loop between financial stability and environmental protection. A recent example of a relatively ambitious sustainable investment policy is given by the French state reinsurer CCR.[10]

Nature and nature-based solutions (NbS) are uniquely positioned to reduce risks and maintain insurability while also contributing to multiple other objectives of the EU. In practice, risk reduction must explicitly include nature-based solutions as a core resilience tool. Degraded natural buffers (such as wetlands, floodplains, peatlands, dunes, forests and soils) raise hazard intensity and exposure, while NbS can reduce flood peaks, buffer drought and heat, stabilise slopes, lower wildfire risk and provide co-benefits for water quality, biodiversity and public health. Crucially, NbS can deliver significant cost advantages: for instance, technical protection measures cost five to ten times more than maintaining an equivalent area of protective forest[11]. The EU Climate Resilience Framework should therefore operationalise a 'nature-first' approach, making NbS a default option wherever feasible and effective, and requiring that climate risk and vulnerability assessments explicitly identify and, where possible, quantify the role of ecosystems in reducing hazards and exposure. This aligns with emerging best practices globally, such as Japan's national disaster risk reduction strategy cantered on nature,[12] or Colorado's regulatory mandate requiring insurers to factor the risk-reduction benefits of nature into pricing models.[13] Agricultural insurance also requires specific attention: any premium subsidies should be strictly

[9] Financial Protection Against Catastrophic Risks, OECD, March 2026, https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/03/financial-protection-against-catastrophic-risks_9aa93a38/32a3acd7-en.pdf
[10] Rapport d'Investissement Responsable 2025, CCR, June 2026, https://www.ccr.fr/wp-content/uploads/2026/06/2025RAPPORT29LEC.pdf
[11] Schutzwald Schweiz, Fachstelle für Gebirgswaldpflege, https://www.schutzwald-schweiz.ch/de/160.html
[12] Snapshot Japan: Integrating Eco-DRR and nature-based solutions into biodiversity strategies, UNDRR, https://www.eiopa.europa.eu/document/download/c8be856b-b358-4b68-9c34-80672f2e4c28_enhttps://www.undrr.org/media/115049/download?startDownload=20260616
[13] Risk Model Use in Property Insurance Policies, Colorado General Assembly, https://www.eiopa.europa.eu/document/download/c8be856b-b358-4b68-9c34-80672f2e4c28_enhttps://leg.colorado.gov/bills/hb25-1182

conditional on resilient farming practices (such as healthy soil management, agroforestry, and water retention). While some of these measures are not within the direct financial mandate of the Commission, they have significant implications for systemic financial risk, underscoring the need for stronger coordination between resilience and financial policies. Otherwise, Europe risks remaining trapped in vicious financial circles (such as providing multiple rounds of subsidies, first for unsustainable agriculture, then for agricultural insurance, and eventually for agricultural disaster relief).

Prudential regulation is a central lever for the Commission because it shapes the pricing and capital allocation that underpin insurers' ability to provide cover. However, Solvency II's framing remains primarily micro-prudential and must now evolve to explicitly incorporate financial stability considerations (like banking supervision does) to provide a solid prudential foundation for enabling measures that help close the protection gap, incentivise sustainable investments, and discourage exposures that amplify systemic physical risk.

Three prudential priorities are particularly relevant for narrowing the protection gap.

1) **Align capital requirements to reflect climate and nature risks more accurately.** EIOPA's final report on the prudential treatment of sustainability risks within Solvency II notably highlights that transition risks linked to fossil-fuel exposures are not adequately reflected in insurers' capital requirements and recommends additional capital charges for fossil fuel-related stocks and bonds.[14] Insurers' underwriting activities should also receive comparable scrutiny. It would be in insurers' own strategic and financial interest to tighten underwriting conditions and adjust premiums on activities that degrade their business environment by amplifying climate and nature risks.[15] Underwriting restrictions and more accurate risk pricing could steer capital away from risk-building activities, reduce the likelihood of a disorderly transition in Europe, and protect insurers' long-term capacity to provide affordable coverage. This could be clarified in the context of existing regulation through an EIOPA opinion, for instance. Prudential frameworks should also ensure that insurers' risk assessments and internal modelling appropriately integrate and reflect the demonstrable loss-reducing effects of effective mitigation and adaptation measures, including nature-based solutions.

2) **Enforce robust prudential implementation under Solvency II, including clear Regulatory Technical Standards (RTS) for climate and nature risks.** It remains important to avoid the continued under-pricing of climate risks. Although the

[14] Prudential Treatment of Sustainability Risks, EIOPA report, November 2024, https://www.eiopa.europa.eu/document/download/036a149c-bc74-4138-ae1b-40662b7d5914_en

[15] The 'polluter-pays' principle is enshrined in Article 191 of the Treaty on the Functioning of the European Union.

implementation of EIOPA's proposed RTS on sustainability risk plans has currently been delayed until 2027, their original design was robust, and their timely implementation is necessary.[16] The Swiss precedent, via the FINMA circular on climate- and nature-related financial risks, offers a valuable model for integrating such requirements at the supervisory level.[17]

3) **Corporate transition plans remain essential for insurers and for Europe, and they would strengthen the financial stability and prudential agenda.** Despite recent dilution in the CSRD and CSDDD due to the Simplification Omnibus package, credible corporate transition plans (including science-based net-zero targets) are necessary to provide the roadmap to avoid disorderly market adjustments, reduce the risk of stranded assets, and ensure long-term economic benefits and resilience of European countries. While the CSDDD is not under DG FISMA's direct responsibility, the CSRD is. Corporate transition plans should therefore be seen as the natural complement to prudential sustainability risk plans, with significant synergies between the two, as recognised by EIOPA in its proposed RTS.

Complementing this systemic prudential approach, the EU Climate Resilience Framework should include the insurance sector among those subject to Climate Risk and Vulnerability Assessments (CRVAs) at EU and national levels. Rather than duplicating existing prudential assessments, these should take a forward-looking, system-wide perspective on insurability and the insurance protection gap, assessing the future availability and affordability of insurance, regional vulnerabilities, and the fiscal implications of uninsured losses. Building on EIOPA's existing data and protection gap monitoring, these assessments could inform adaptation planning and policy interventions to maintain long-term resilience.

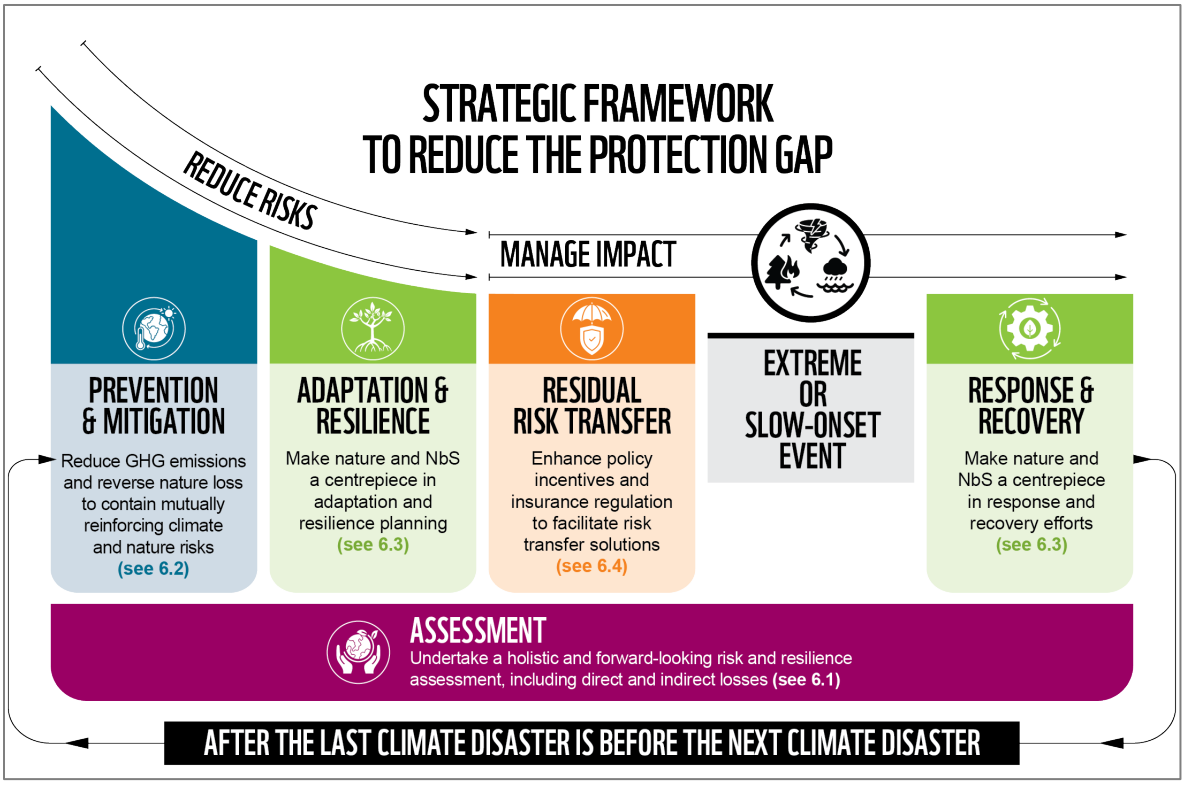
The Commission can also help reducing the insurance protection by supporting demand-side measures. This includes a variety of actions such as supporting financial literacy and risk awareness (as EIOPA has proposed to do with a tool for natural catastrophe risks and prevention measures[18]), encouraging natural catastrophe risk disclosures during property sale and rental transactions, or seeking ways to strongly incentivise the purchase of property insurance (as is the case to various extents in France, Italy or Spain, for instance).

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[16] CONSULTATION PAPER on the proposal for Regulatory Technical Standards on management of sustainability risks, EIOPA, December 2024, https://www.eiopa.europa.eu/document/download/fc18cd82-762f-4fa3-818b-01bc8453bcb8_en

[17] FINMA publishes new Nature-related financial risks circular, FINMA, December 2024, https://www.finma.ch/en/news/2024/12/20241207-mm-rs-2026-01-naturbezogene-finanzrisiken/

[18] PROTECT – a risk and prevention awareness tool for natural catastrophe risks and prevention measures, EIOPA, https://www.eiopa.europa.eu/publications/protect-risk-and-prevention-awareness-tool-natural-catastrophe-risks-and-prevention-measures_en



Graph 3[19]

Conclusion

The EU Climate Resilience Framework should not only be an adaptation strategy, but a part of a broader EU policy for managing and reducing risks from extreme weather events. This approach is supported by the recent WWF protection gap white paper[20] (presented at COP30 and at the World Economic Forum) and the 2026 G7 Communiqué from finance ministers and central bank governors.[21] By aligning insurance policy, prudential regulation, public-private risk-sharing, prevention measures, and incentives for nature-based solutions, it can help reduce the accumulation of unmanaged climate and nature risks in the financial system, preserve insurability and limit future shocks to public and private balance sheets. Strengthening the insurance pillar of climate resilience is therefore integral to the EU's broader objectives of financial stability, consumer protection, and long-term economic resilience.

[19] TACKLING THE INSURANCE PROTECTION GAP, WWF White Paper, January 2026, https://wwfint.awsassets.panda.org/downloads/wwf-insurance-protection-gap-report-.pdf
[20] TACKLING THE INSURANCE PROTECTION GAP, WWF White Paper, January 2026, https://wwfint.awsassets.panda.org/downloads/wwf-insurance-protection-gap-report-.pdf
[21] G7 Finance Ministers' and Central Bank Governors' communiqué, May 2026, https://www.consilium.europa.eu/media/z11e0blz/680_-_cp_-_g7_finance_ministers_and_central_bank_governors_communique_may_19_2026.pdf









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