



Reducing Europe's insurance protection gap for extreme weather events and supporting the transition

JULY 2026

Priorities for the EU Climate Resilience Framework

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 physical and mental health for EU citizens.
- **Incentivise the insurance sector to support the climate transition.** Insurers can play a more active role not only to finance the transition, but also to de-risk it by providing coverage for low-carbon projects, such as renewable energy infrastructure, battery recycling, or Nature-based Solutions for climate adaptation. The insurance sector should also be included among the sectors subject to Climate Risk and Vulnerability Assessments (CRVAs) at EU and national levels under the EU Climate Resilience Framework.
- **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 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.
- **Develop robust prevention and resilience standards.** Risk-based insurance pricing is important to send economic signals, but it must be supported by strong prevention and adaptation standards, including forward-looking risk assessments, updated building and zoning rules, "build back better" requirements, Nature-based Solutions, and EU-wide resilience certification standards for buildings. The Communication should reflect these objectives as part of the EU Climate Resilience Framework.
- **Promote climate risk awareness to stimulate prevention and demand for insurance.** Boost financial literacy on climate risks, mandate catastrophe risk checks in property transactions, and incentivise property insurance uptake to reduce the divide between well-prepared populations and more vulnerable groups.



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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 In parallel to this persistent protection gap, the insurance sector needs to step up its involvement in climate mitigation, adaptation and transition, given insurers' multiple roles as major institutional investors, insurance underwriters, and risk managers. These issues directly engage the Commission's policy priorities and core mandates of steering the EU towards its climate targets, supporting clean economic development and a fair transition, and strengthening Europe's climate adaptation and resilience, thus positioning the role of insurance as central to the Commission's policy priorities. The Commission's upcoming EU Climate Resilience Framework (to be proposed 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 and the green transition. 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, as well as a key enabler for low-carbon activities, green technologies and Nature-based Solutions.

Why increasing insurance and climate protection gaps matter for the Commission

Reducing climate- and nature-related risks and the insurance protection gap is crucial for Europe's economic and social resilience. Large uninsured losses from extreme weather events can propagate through the fiscal, economic and financial system 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 prosperity², 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

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/wpia2020003-print-pdf.pdf>



costs. In addition, the most socio-economically vulnerable groups are the most exposed to extreme weather events and often have the lowest adaptative capacity and levels of insurance cover.

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

Strategic policy measures 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 and policy measures 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, and so is insuring and de-risking it. Where needed, conditional guarantees or targeted subsidies from governments may help the private insurance sector to assume this role.

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 benchmarking shows that 25% of the largest European insurers still have no

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/>



CLIMATE CHANGE
Increases severity and frequency

EXTREME WEATHER EVENT

NATURE
Resilience buffer

INFRASTRUCTURE

BUSINESSES

HOUSEHOLDS

PRIVATE (RE)INSURANCE

FINANCIAL SECTOR

PUBLIC FINANCES

PUBLIC EXPENDITURE

GOVERNMENT DEFICIT

GOVERNMENT/SOVEREIGN DEBT

REVENUE IMPACTS

INTERNATIONAL CAPITAL MARKETS

SOVEREIGN CREDIT RATING

Claims

Recovery spending

Fewer taxes

Risk of default

Disruption

Damages

Nature loss accelerates climate change

How the Commission can contribute to addressing these challenges

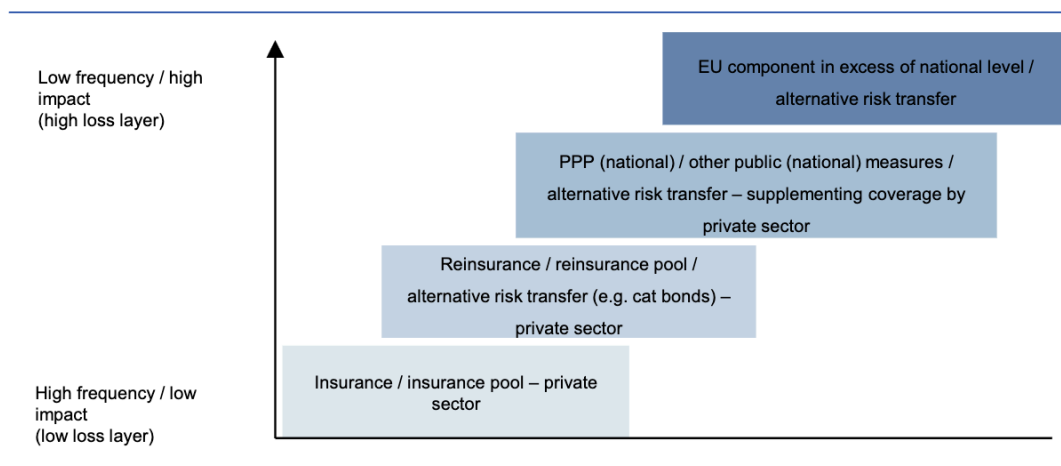
⁵ Insuring Disaster 2026: EU Policy Briefing, Shareaction, https://shareaction-api.files.svdcdn.com/production/resources/reports/What-policy-makers-can-do-to-make-EU-insurers-resilient-and-climate-aligned-2026-06-29-100340_fbsb.pdf?dm=1782727420



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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.

The ladder approach to catastrophe insurance



Graph 27

The 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 paper⁸) 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. Such an EU-level mechanism could help stabilise insurance and reinsurance markets after major catastrophes by spreading risks more widely and reducing abrupt premium increases or coverage withdrawals. It would complement, rather than replace, national schemes and private markets, while strengthening the financial, economic and social resilience of the EU.

EU and national catastrophe risk pools should both include minimum conditions and financial incentives to access public support, in order 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

⁷ 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

⁸ Sharing the risk: a European approach to natural catastrophe risk management, EIOPA-ESM Discussion Paper, April 2026, https://www.eiopa.europa.eu/document/download/c8be856b-b358-4b68-9c34-80672f2e4c28_en

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

Premiums from any 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, for instance as defined in the EU Taxonomy or 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 resilience 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 centered on

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>

nature,¹² or Colorado's regulatory mandate requiring insurers to factor the risk-reduction benefits of nature into pricing models.¹³

Robust prevention and resilience standards must be developed at the national and EU levels. While risk-based insurance pricing is important to send accurate risk signals to economic stakeholders, it must be paired with and supported by strong prevention and adaptation standards, including forward-looking risk assessments, updated building codes, zoning rules (including some targeted “no-go zones” for new economic assets in high-risk areas), “build back better” and “build better before” requirements, Nature-based Solutions, and, where necessary, managed retreat, to reduce the underlying risk and strengthen resilience. The absence of a recognised EU-wide resilience certification framework for buildings, notably, limits insurers’ ability to price risk accurately and reward adaptation investments, weakening incentives for preventive action.

Agriculture and agricultural insurance require specific attention. Although they are largely affected by climate and nature risks, most farmers do not have appropriate insurance coverage. Risk management is marginal in the Common Agricultural Policy’s (CAP) Strategic Plans, with only 15 Member States supporting insurance schemes in 2021-2027. To reduce the protection gap and increase farm resilience, the future CAP should make insurance schemes funded under the CAP conditional on adopting agroecological farming practices that support climate mitigation and resilience (such as healthy soil management, agroforestry, and water retention). Otherwise, Europe risks remaining trapped in vicious climate risk circles (such as providing multiple rounds of subsidies, first for unsustainable agriculture, then for agricultural insurance, and eventually for agricultural disaster relief).

Complementarily, prudential regulation for insurers is a central lever for the Commission because it shapes the pricing and capital allocation that underpin insurers' ability to provide cover and to support the transition. Solvency II’s framing must notably evolve to provide a macroprudential foundation for enabling measures that help close the protection gap, incentivise sustainable investments, and discourage insurers’ exposures to activities that amplify systemic physical risk. EIOPA has notably highlighted that transition risks linked to fossil fuel exposures are not adequately reflected in insurers’ capital requirements and has recommended additional capital charges for fossil fuel-related stocks and bonds.¹⁴ Insurers’ underwriting activities

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

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



should receive comparable scrutiny. Underwriting restrictions and more accurate climate- and nature 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. 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. While prudential insurance regulation is not the direct responsibility of DG CLIMA in the Commission, insurance's key role in underpinning resilience and the climate transition make it a central topic for involvement and coordination with other Directorates.

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.

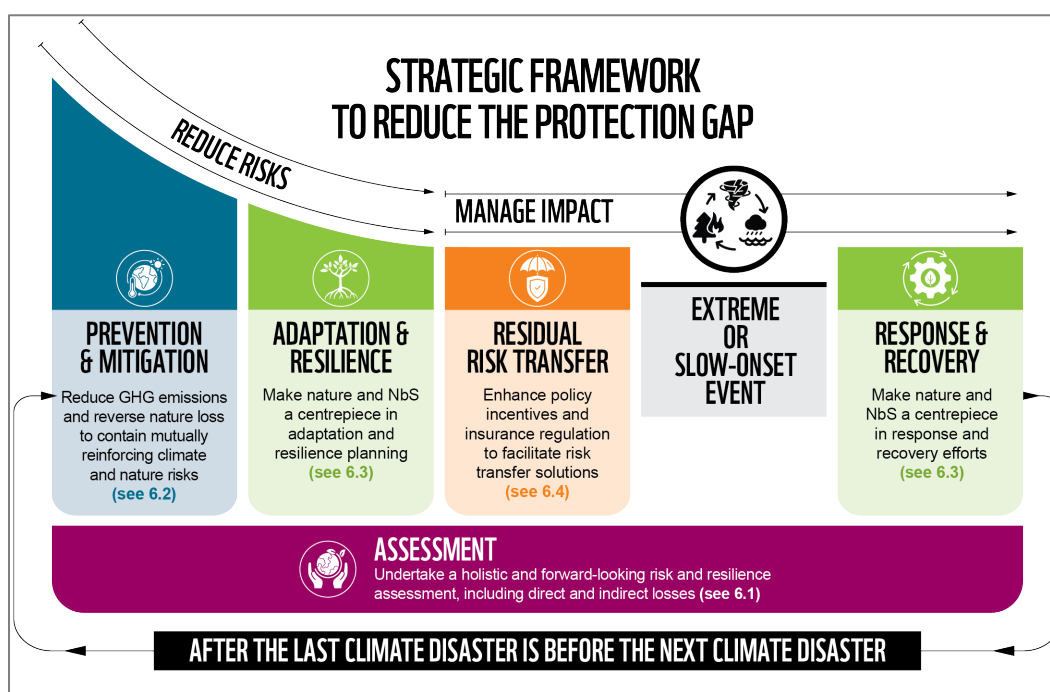
Corporate transition plans remain essential for insurers and for Europe. Despite recent dilution in the CSRD and deletion in the CSDDD due to the Simplification Omnibus package, credible corporate transition plans (including science-based net-zero targets) are necessary to provide the roadmap to a net-zero EU economy and ensure long-term economic benefits and resilience of the European economy. Corporate transition plans (including for insurers) are indispensable components of an orderly and successful climate transition.

The Commission can also promote prevention and reduce the insurance protection gap by supporting demand-side measures. This includes a variety of actions such as supporting financial literacy on the insurance protection gap and risk awareness (as EIOPA has proposed to do with a tool for natural catastrophe risks and prevention measures ¹⁵), encouraging natural catastrophe risk assessments 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). All these efforts would support a fair transition and help reduce the gap between those with sufficient risk awareness and adaptive capacity, and the most socio-economically vulnerable populations.

¹⁵ 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

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 paper¹⁶ (presented at COP30 and at the World Economic Forum) and the 2026 G7 Communiqué from finance ministers and central bank governors.¹⁷ By aligning climate adaptation and resilience policies with insurance policy, public-private risk-sharing mechanisms, prudential regulation, and incentives for Nature-based Solutions and the green transition, it can help reduce the accumulation of unmanaged climate and nature risks in the European economy and financial system, preserve insurability and leverage the insurance sector's capacity to support a fair and orderly climate transition. Strengthening the insurance pillar of climate resilience is therefore integral to the EU's broader objectives of reducing greenhouse gas emissions, fostering climate adaptation and enabling green economic development.



Graph 3¹⁸

¹⁶ TACKLING THE INSURANCE PROTECTION GAP, WWF White Paper, January 2026, <https://wwfint.awsassets.panda.org/downloads/wwf-insurance-protection-gap-report-.pdf>

¹⁷ 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

¹⁸ TACKLING THE INSURANCE PROTECTION GAP, WWF White Paper, January 2026, <https://wwfint.awsassets.panda.org/downloads/wwf-insurance-protection-gap-report-.pdf>

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