

# Expert Group Greening the European Semester / Environmental Implementation Review

Insurance protection gaps and implementing the EU Green Deal

15 February 2021

EIOPA REGULAR USE

# CLIMATE CHANGE & ENVIRONMENTAL RISK IMPACT ON INSURERS BALANCE SHEETS

- **Transition, physical and liability risks** arising from climate change and environmental degradation can impact on the assets and liabilities of insurers and reinsurers.
  - E.g. flood or windstorm cause physical damage to insured property => 'underwriting risk'
  - E.g. adjustment to low carbon economy cause certain investments to loose value => 'market risk'
  - E.g. liability insurance for environmental damage for failure to mitigate, adapt or disclose by the insured or the insurance company => 'underwriting' as well as 'reputational' risk

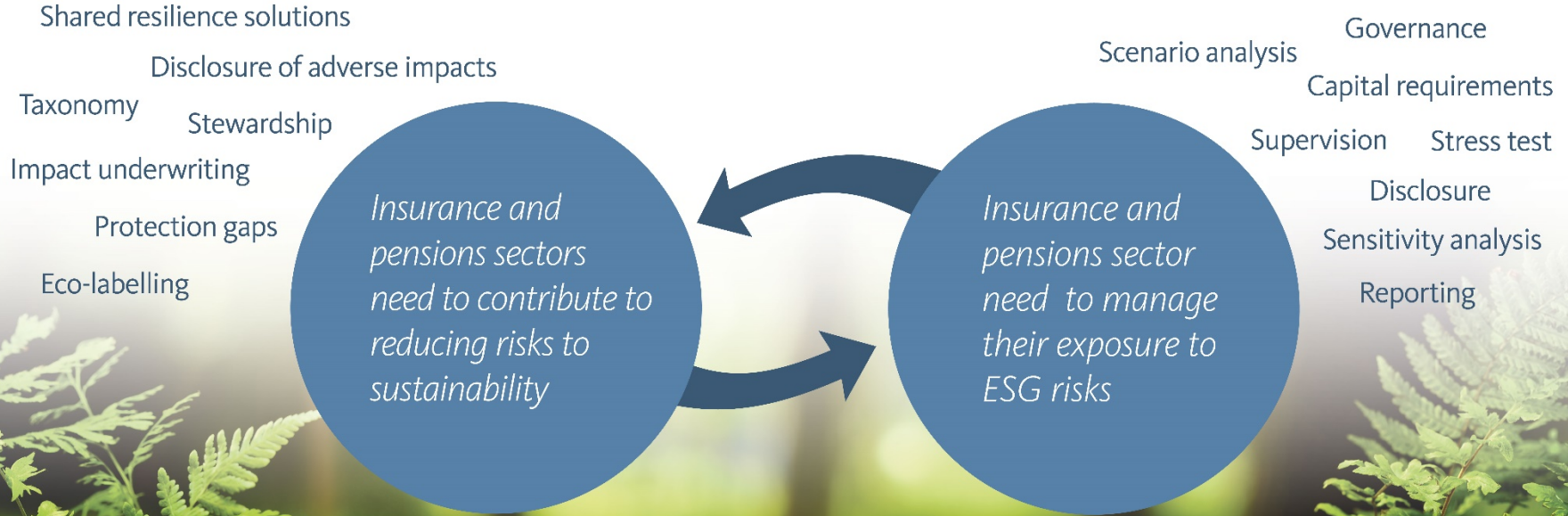
## Reference:

[Technical advice on the integration of sustainability risks and factors in Solvency II and the Insurance Distribution Directive](#)

[Opinion on Sustainability within Solvency II](#)

[Sensitivity analysis of climate-change related transition risks](#)

# DOUBLE MATERIALITY PERSPECTIVE: INSURERS' ROLE IN ADAPTATION AND MITIGATION



# EIOPA ACTIVITIES MAPPED TO EU GREEN DEAL STRATEGY

\* Status end 2020

EU strategy on adaptation to climate change

- Identify the risks: **EIOPA nat cat insurance protection gap dashboard**
- **Promote climate risk adaptation and mitigation through insurance underwriting: 'impact underwriting'**

EU renewed sustainable finance strategy

- Identify sustainable economic activities to invest in: **EU taxonomy**
- **Disclose** on sustainable economic investments and activities: SFDR, NFRD, SII
- Define appropriate prudential and conduct treatment of ESG risks: incl. **through capital requirements**, scenario analysis, product design
- Develop tools and methodologies for identifying macro-prudential risks, e.g. **stress testing, sensitivity analysis**

EU recovery and resilience plan

- **Identify** opportunities for improved risk assessment, prevention, product innovation and risk transfer solutions between public and private sector: **shared resilience solutions**

Global engagement

- Contribute to international standard-setting: member of **Sustainable Insurance Forum (SIF)**, **Network for Greening the Financial System (NGFS)** and **International Association of Insurance Supervisors (IAIS)**

# CURRENT NAT CAT INSURANCE PROTECTION GAP

- Currently, only 35 % of the total losses caused by extreme weather and climate-related events across Europe are insured.
- This indicates a high insurance protection gap risk in Europe for natural catastrophes.
- In particular, the potential systemic impact of situations is a threat across Europe where a lack of coverage is combined with high exposures compared to the size of the economy and public revenues as well as high levels of public debt.

[Reference: Discussion paper on the protection gap for natural catastrophes | Eiopa \(europa.eu\)](#)

# EIOPA AIMS TO ADDRESS THE INSURANCE PROTECTION GAP



- EIOPA is concerned that **affordability and insurability** are likely to become an increasing concern.



- It is therefore key to **understand the insurance protection gap and identify where it comes from.**
- EIOPA has therefore published a **pilot dashboard on the nat cat protection gap.**

# EIOPA'S PILOT DASHBOARD

- The dashboard brings together data on economic and insured losses, vulnerabilities and exposure as well as insurance coverage across the European Union Member States.
- This information should allow for evidence-based decision-making on measures to improve society's resilience against natural catastrophes.
- At the same time, the pilot dashboard should also help increasing the awareness of the protection gap, promote science-based approach to protection gap management and decision-making.
- This approach will help in identifying risky regions at risk, protection gap risk drivers as well as defining proactive prevention measures.

## Reference:

[The pilot dashboard on insurance protection gap for natural catastrophes | Eiopa \(europa.eu\)](#)

[\(98\) Dashboard to address the natural catastrophe insurance protection gap - explainer film by EIOPA - YouTube](#)

# NAT CAT IN SOLVENCY II

- The Solvency II regime codifies and harmonises the EU insurance regulation.
- EU insurance companies must hold enough capital based on their risk profile to reduce the risk of insolvency.
- Insurers need to properly assess their risk to natural catastrophes.



# NAT CAT CAPITAL REQUIREMENT

The standard formula covers the following perils:



Earthquake

Flood

Windstorm

Hail

[Reference: Discussion Paper: Methodology on potential inclusion of climate change in the nat cat standard formula | Eiopa \(europa.eu\)](#)

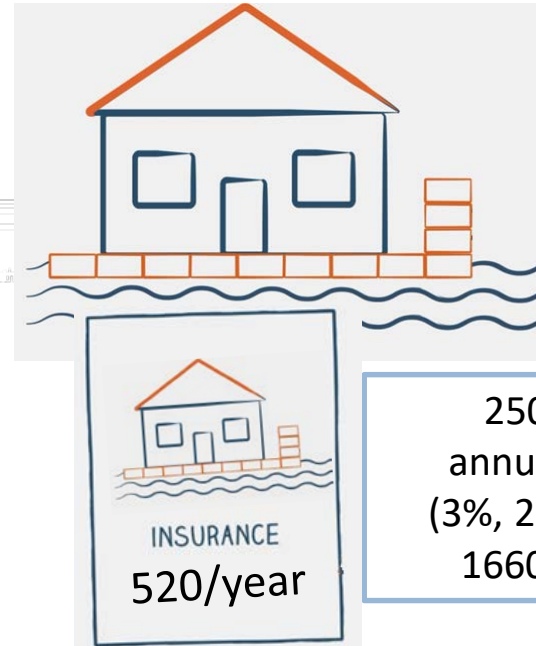
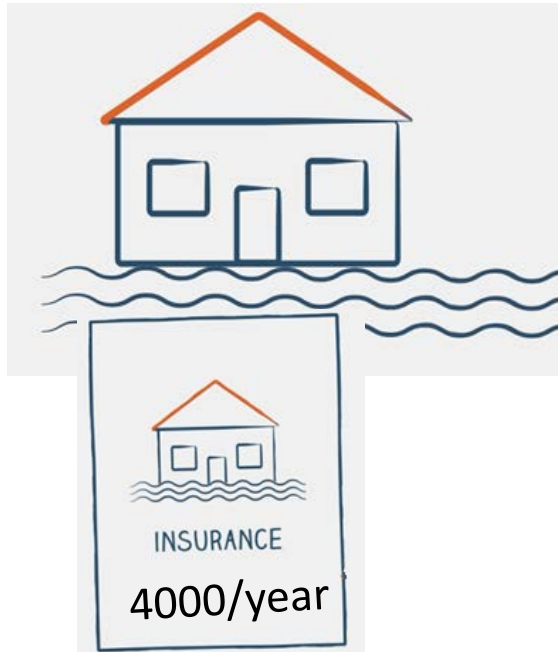
# ROLE OF INSURERS TO MITIGATE NAT CAT RISKS

- Insurers, as risk managers and underwriters, can contribute to climate adaptation and mitigation by incentivising policyholders to mitigate insured risks:
  - via risk-based pricing and contractual terms,
  - and consider in their underwriting strategy measures that contribute to climate change adaptation or mitigation.



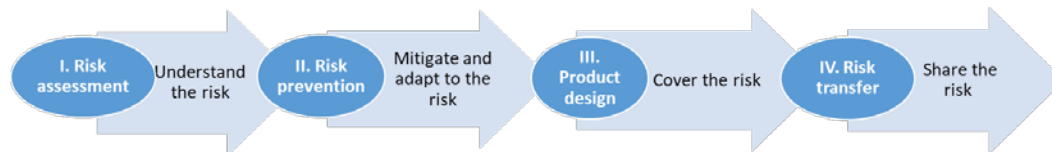
[Reference: Discussion paper on non-life underwriting and pricing in light of climate change | Eiopa \(europa.eu\)](#)

# EXAMPLE: CONTRIBUTE ADAPTATION THROUGH RISK-BASED PRICING



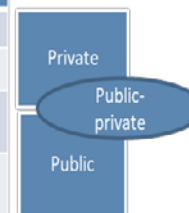
# SHARED RESILIENCE SOLUTIONS

- Limits to traditional insurance solutions to address ‘systemic risks’, such as climate change, pandemics, ...
- Structural solution: shared resilience solutions



1. Costs and responsibilities would have to be shared across the relevant parts of the private and public sector in a meaningful manner (“skin in the game”).
2. An efficient shared resilience solution will require an element of central coordination across public and private entities.
3. Any solution involving public and private sector would be conditional upon implementing efficient and effective prevention and adaptation measures.
4. A shared resilience solution can only insure against a portion of the economic costs.

Risk transfer mechanism
1. Insurance / insurance pool
2. Reinsurance (pool) / alternative risk transfer (e.g. ILS)
3. National government support in excess of the private market participation
4. EU overarching support mechanism, in excess of national level



[Reference: Issues Paper on shared resilience solutions for pandemics](#)

# LINKS TO SOME OF EIOPA'S WORK ON SUSTAINABLE FINANCE

- [Technical advice on the integration of sustainability risks and factors in Solvency II and the Insurance Distribution Directive](#)
- [Opinion on the supervision of the management of environmental, social and governance risks faced by IORPs](#)
- [Opinion on Sustainability within Solvency II](#)
- [Joint Consultation concerning environmental, social and governance \(ESG\) disclosures](#)
- [Survey on product disclosure templates under the Sustainable Finance Disclosure Regulation](#)
- [Consultation on EIOPA advice regarding Article 8 of the Taxonomy Regulation](#)
- [Consultation on the draft Opinion on the supervision of the use of climate change risk scenarios in ORSA](#)
- [Sensitivity analysis of climate-change related transition risks](#)
- [The EU sustainable finance taxonomy from the perspective of the insurance and reinsurance sector](#)
- [Climate risk assessment of the sovereign bond portfolio of European insurers](#)
- [Impact of Green Bond Policies on Insurers: Evidence from the European Equity Market](#)

# LINKS TO SOME OF EIOPA'S WORK ON SUSTAINABLE FINANCE

- [Second Discussion Paper on Methodological Principles of Insurance Stress Testing](#)
- [Discussion paper on the protection gap for natural catastrophes](#)
- [The pilot dashboard on insurance protection gap for natural catastrophes](#) (See also: <https://www.youtube.com/watch?v=8MR1bZu9nwc>)
- [Issues Paper on shared resilience solutions for pandemics](#)
- [Ensuring the availability and affordability of insurance in light of climate change: Discussion paper on non-life underwriting and pricing](#)
- [Discussion Paper: Methodology on potential inclusion of climate change in the nat cat standard formula](#)
- [Integrating sustainability into the supervisory framework: Fourth sustainable finance roundtable](#)
  
- **Further information:** [https://www.eiopa.europa.eu/browse/sustainable-finance\\_en](https://www.eiopa.europa.eu/browse/sustainable-finance_en)