Memo for action

To: Sustainability WG, Solvency II WG
From: Personal and General Insurance Department
Date: 30-01-2025
Reference: GEN-SUS-25-004

Subject: Input requested: EIOPA/ECB joint paper on a European approach to reduce NatCat economic impact

Input requested

Members are invited to:

- review the joint paper by the European Insurance and Occupational Pensions Authority (EIOPA) and the European Central Bank (ECB) on a European system for natural catastrophe (NatCat) risk management;
- share their preliminary views on the paper's proposed EU solution for NatCat risk management.

For transparency reasons, feedback should be provided by using the **extranet validation tool by COB 10 February 2025**.

Summary

On 18 December 2024, the ECB and EIOPA released a joint paper titled "*Towards a European system for natural catastrophe risk management: the possible role of European solutions in reducing the impact of natural catastrophes stemming from climate change*". This joint paper builds on the discussion paper issued by the two organisations in 2023, on which Insurance Europe provided feedback.

In particular, building on the insights of an analysis of 12 existing national insurance schemes, the joint paper proposes a possible European solution to reduce the NatCat insurance protection gap in Europe. This solution would supplement national solutions and would be based on the following two pillars:

- **Pillar I - EU Public-Private Reinsurance Scheme**:
  - The EU reinsurance scheme, established as a not-for-profit entity, would aim to enhance affordable insurance coverage for NatCat by complementing the private markets and the national schemes. In particular, primary insurers, reinsurers, and national schemes could voluntarily participate by paying risk-based premiums to increase their insurance capacity. The offered reinsurance capacity would be subject to existing (re)insurance coverage and it would not be a prerequisite to have a national insurance scheme for (re)insurers to be able to participate in the EU scheme.
    The EU reinsurance scheme could explore using catastrophe bonds to transfer part of risks to capital markets. To this end, it could explore the feasibility of a pan-European catastrophe bond covering more perils than the bonds currently issued.

- **Pillar II - EU Public Disaster Financing**:
  - The aim of this second pillar would be to help governments manage a share of NatCat losses following major disasters, particularly for damages to key public infrastructure that are either inefficient or too costly to insure privately.
    The fund could be set up as an extension of the EU Solidarity Fund and would be financed by contributions from member states, adjusted to reflect their individual risk profiles. Risk-adjusted contributions would be based on exposure, losses, and risk-mitigation efforts for public infrastructure at national or subnational levels, including compliance with EU climate targets and national adaptation and resilience plans. Payouts would be capped at an agreed

percentage of losses, providing substantial support but covering no more than half to encourage insurance-based solutions. They would be used exclusively for investment in resilient public infrastructure.
Participation in the fund would be mandatory for all member states.

The paper aims to serve as a basis for dialogue among stakeholders. The secretariat believes it is important for Insurance Europe to position itself on the proposals in the paper, in order to contribute constructively to this important debate for the insurance sector, which we expect the European Commission to engage in in the coming weeks or months. EIOPA plans to discuss the paper during its annual Sustainable Finance conference on 13 March 2025.

In this context, members are invited to share their preliminary views on the proposals outlined in the ECB/EIOPA paper by 10 February 2025. The secretariat will compile the input received and share a discussion document on this basis, to be reviewed during the ad hoc Sustainability Working Group meeting on 14 February 2025.

Next steps

- **COB 10 February 2025**: deadline for members to provide input
- **14 February 2025 at 13:00-15:00 (CET)**: ad hoc Sustainability Working Group
- **13 March 2025**: EIOPA conference on Sustainable Finance