Insurance Europe feedback to EIOPA Consultation on the Assessment of the prudential treatment under Solvency II of adaptation measures

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Contact person:	Prudential team	E-mail:	prudential@insuranceeurope.eu
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General comments

Insurance Europe welcomes EIOPA's work to explore possibilities to better reflect take adaptation measures in solvency requirements.

As outlined in the paper, the integration of adaptation measures into standard formula SCR calculations is not straightforward. Any methodology will be constrained by the limitations of the standard formula, any new operational and calculation complexity and by data quality and availability. Care must therefore be taken to avoid introducing excessively complex reporting or calculation requirements.

In this context, Insurance Europe supports further investigation of how the agreed, regular NatCat SCR reassessment process could better consider adaptation measures. This could potentially lead to increased risk sensitivity of the standard formula without introducing disproportionate complexity and operational burdens for insurers. This proposal represents a valuable and pragmatic way forward. However, recalibration at EU level cannot fully capture portfolio-specific characteristics or regional/local differences in natural catastrophe risks and should therefore be considered as a complementary mechanism.

In future, it is important that there is increased transparency from EIOPA on the reassessment process and the work of the natcat expert group to allow the wider industry to understand how, why and by whom any future calibrations have been derived. Insurance Europe stands ready to contribute to EIOPA's future recalibration endeavours and to the work of the natcat expert group, in general.

Discussion of the materiality of different peril/region in the SF

Insurance Europe aisbl • rue Champ de Mars,23 B-1050 Brussels
Tel: +32 2 894 30 00 • E-mail: info@insuranceeurope.eu
www.insuranceeurope.eu

Q1. *Do you have any comments about the discussion for windstorm?*

- Regarding Q1-Q3, the differences in adaptation measures between countries outlined in the consultation paper are derived from a country-by-country comparison of the gap between risk exposure and the SCR.
- However, this approach should be nuanced: the comparison between the proportion of exposure and the proportion of SCR may reflect factors other than adaptation alone.
- For illustration, geographical distribution can influence the gap between exposure and risk. More concretely, in France:
    - Geographical factor linked to a 'natural' cause: This can be illustrated with earthquakes. France shows high exposure because this exposure is spread across the entire national territory. However, the actual risk is mainly concentrated in a specific area of the country, around the Nice region.
    - Geographical factor linked to a 'human' cause: This can be illustrated with flood risk. A higher-floor apartment and an adjacent house may have the same sum insured, and therefore the same exposure. However, relative to exposure, the flood SCR of a CRESTA zone with mostly houses will be higher than that of a CRESTA zone with mostly apartments, due to greater vulnerability factors. This can be seen, for example, when comparing the Paris region (high density and many apartment buildings) with other regions.
- In Greece, the current design of standard formula does not adequately reward insurers for newly constructed buildings and generally does not take into account the Year of Construction of the risk, despite the very high materiality of seismic risk. This creates a significant obstacle to incentivizing impact underwriting and improving seismic resilience. Recognition of specific vulnerability improvements is essential for Greece.

Q2. *Do you have any comments about the discussion for earthquake?*

- See Q1

Q3. *Do you have any comments about the discussion for floods?*

- See Q1

Discussion on a dedicated treatment on adaptation

Q4a. *Do you think that considering adaptation in the reassessment process is a valuable option?*

- Yes

Q4b. *Which other pros do you see from this option? Please explain.*

- Efforts to better calibrate the Standard Formula are welcome, where this can be carried out within the established procedures. Reflecting adaptation measures through the regular reassessment process allows such measures to be captured for all undertakings through updated catastrophe models and exposure data. This approach ensures that both macro- and micro-adaptation measures can be reflected at a system-wide level.
- Building on the existing reassessment framework avoids the additional complexity, and validation requirements associated with undertaking-specific parameters or internal model approaches, while improving risk sensitivity with limited implementation burden.
- It is important that the reassessment considers both hazard models and protection measures.
- It is noted that certain calibration parameters, such as the flood factor for motor risks, could merit further review in light of the specific characteristics of those exposures.

Q4c. *Which other cons do you see from this option? Please explain.*

- There is limited transparency on the reassessment process (ie. the data sets used, the expert judgement applied) for the wider industry. Increased transparency should be foreseen as part of any improved process which aims to take into account adaptation measures.
- The Standard Formula may not capture natural catastrophe risks with sufficient granularity. For example, the classification into CRESTA zones can be coarse. As a result, macro adaptation measures may only be reflected with limited precision. In some markets, Germany for example, more granular national classification systems are available (ZÜRS Geo).
- Another potential drawback is that the review of the Standard Formula parameters for the SCR CAT is scheduled roughly every 3 to 5 years. However, adaptation measures may evolve more quickly, meaning this approach may require more frequent monitoring than a 3- to 5-year cycle.
- A higher number of vendor models should also be considered. Particular attention should be paid to the models most frequently used in Member State markets. This will allow for an objective assessment and reduction of excessive capital requirements in the future.
- Incorporating future developments into the reassessment process could further enhance its accuracy.
- In addition, recalibration at EU level cannot fully capture portfolio-specific characteristics or regional differences in natural catastrophe risks and should therefore be considered as a complementary mechanism.
- Furthermore, EIOPA could explore the possibility of publishing two parameter sets per CRESTA zone: one reflecting primarily macro-level adaptation measures, and another additionally taking into account typical micro-level measures. This could provide undertakings with a degree of flexibility to better align the Standard Formula with their risk profile, while remaining within a standardised framework. Any such approach should, however, be carefully assessed against proportionality and operational complexity considerations.

Q5a. *Do you think that considering USP to better reflect adaptation measures is a valuable option?*

- Yes, if the scope of application is expanded.

Q5b. *Which other pros do you see from this option? Please explain.*

- The Standard Formula is considered to overestimate some NatCat risks. In this context, opening the standard formula and allowing insurers greater flexibility could be beneficial. However, for the calculation of Undertaking Specific Parameters (USPs), a clear derivation is necessary, and the requirements for such derivations should be specified in the Delegated Regulation. One possibility could be using an established system in a certain region to derive USP factors (e.g., as mentioned in Q4c., ZÜRS Geo for German insures).
- Additionally, a more targeted extension of the USP approach could be considered. In particular, USPs for NatCat parameters could allow certain portfolio-specific characteristics — such as underwriting policy, deductibles or compulsory insurance schemes, as currently being discussed in the German market — to be better reflected. Adaptation measures may be seen as one example of such specificities, provided that this can be supported by robust data and methodology.

Q5c. *Which other cons do you see from this option? Please explain.*

- The use of undertaking-specific parameters would likely generate significant additional workload and data requirements. For example, verifying whether adaptation measures are in place and effective at policyholder level would be challenging. This approach could therefore introduce considerable operational and methodological complexity and may not be feasible for all undertakings.
- Furthermore, USPs would require regular updates and supervisory approval, driven by ongoing changes to adaptation measures in the portfolio. The resulting increase in approval processes may place significant strain on national competent authorities and could delay implementation.
- From a proportionality and cost-benefit perspective, it is essential that insurers relying on the Standard Formula remain able to operate within that framework without excessive operational or supervisory burdens.

Q6a. *Do you think that considering Risk Mitigation to better reflect adaptation in the SF is a valuable option?*

- No

Q6b. *Which other pros do you see from this option? Please explain.*

Q6c. *Which other cons do you see from this option? Please explain.*

- The approach is not considered advantageous. While adaptation measures can contribute to risk reduction, they are structurally different from the risk mitigation techniques envisaged under the SCR framework for NatCat risk, which are primarily based on reinsurance arrangements.
- The proposal could be difficult to implement, as the Standard Formula does not differentiate risks with sufficient granularity.
- This option may make it harder for the supervisor to analyse certain QRT data, since the mitigation effect would be composed of several different elements (which would therefore require creating two sub-categories of mitigation).

It may also create distortions, as it leaves significant flexibility in how adaptation measures are taken into account. As a result, it would need to be accompanied by guidelines to avoid inconsistencies between market participants.

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Q7a. *Do you think that considering new parameters to better reflect adaptation measures is a valuable option?*

- No

Q7b. *Which other pros do you see from this option? Please explain.*

- Specifically for earthquake risk in Greece, where strict construction types are mandated by law, this would be the most favorable approach. It provides companies with the necessary incentives to promote risk awareness, enhance data collection, and integrate adaptation measures into core activities such as product design, pricing, and underwriting.

Q7c. *Which other cons do you see from this option? Please explain.*

- The industry expresses significant concerns regarding practical implementation, particularly given the limitations in data availability and data quality. Introducing additional parameters could lead to substantial methodological complexity, which may not be feasible at this stage.
- More broadly, adding an additional factor would not necessarily improve the calibration of a formula that is already considered imprecise, while further increasing implementation challenges for insurers.
- It will be very difficult for an insurance company to assess the portfolio's effectiveness of the adaptation measures in the portfolio compared to the market average.

Q8a. *Do you agree that considering IM to better capture adaptation measures is a valuable option?*

- Yes, in principle, for undertakings already using IMs, subject to proportionality and materiality. Internal models should not be viewed as a mandatory route to reflect adaptation measures for all undertakings, and the Standard Formula must remain fully operable for those relying on it.
- The primary challenge of introducing new parameters is the burden of collecting granular, verified data on building characteristics. However, in markets like Greece, this could be easily mitigated by leveraging existing state infrastructure, such as the mandatory 'Electronic Building Identity' (Ηλεκτρονική Ταυτότητα Κτιρίου) and strict anti-seismic building code registries, which provide verified property data without creating administrative friction for the insurer.

Q8b. *Which other pros do you see from this option? Please explain.*

- Allowing the use of partial internal models (PIMs) for selected modules only could provide useful incentives for insurers to better reflect specific risk profiles.

- In particular for NatCat risks, the risks reflected in the Standard Formula may deviate from the actual underlying risks. Therefore, it may not be necessary to model other modules in the non-life underwriting risk category – i.e. premium and reserve risk- internally.
- PIMs could therefore help address limitations of the Standard Formula, including its relatively coarse geographical zoning, without requiring insurers to model all risk modules internally.
- Where appropriate, national supervisory authorities could support insurance undertakings in the development of partial models tailored to their needs.
- For undertakings already using internal models, this channel can reflect macro-level adaptation measures (e.g. updated flood maps to reflect major protection efforts), where evidence and data are robust and the effect is material to the risk profile.
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Q8c. *Which other cons do you see from this option? Please explain.*

- Internal models and PIMs are inherently complex and resource-intensive, which may limit their practical use.
- The use of (partial) internal models may therefore not be suitable for all insurers, particularly where data availability and data quality are limited.
- It is important that insurers relying on the Standard Formula remain able to operate under that framework, as developing a (P)IM may not be feasible in all markets.
- Macro-adaptation measures should be reflected in updated hazard and vulnerability assumptions within the YLTs of NatCat models. As model vendors update these only in multi-year intervals, recognition in internal models tends to lag actual developments.
- Supervisory expectations should be applied in line with proportionality and materiality principles, such that adaptation measures are reflected only where supported by robust data and where their impact is material to the risk profile.

Q9a. *Do you see other valuable options to better capture adaptation measures?*

- Yes

Q9b. *Please explain. Which options? What would be the pros and cons?*

- The industry notes that **retentions and annual aggregate limits are currently fully not taken into account in the Standard Formula**, although these measures increase granularity and could therefore also be allowed to reduce the SCR. In particular, they may support **more risk-adequate pricing**.

Implementing Option A appears to be the most promising approach. In this context, it could be useful to assess whether and how different solution approaches can be combined. One possible approach could be the publication of two parameter sets per CRESTA zone (see Q4c).

Assessment of further development of adaptation measures

Q10. *Do you have any comments on the assessment of micro adaptation measures for windstorm?*

- Yes
- Regarding windstorm, the industry sees limited scope for additional adaptation measures beyond the use of resilient construction materials, which should be reflected in building codes.

Q11. *Do you have any comments on the assessment of micro adaptation measures for earthquake?*

- Yes
- Regarding earthquake, the industry sees limited scope for additional adaptation measures beyond the use of resilient construction materials which should be reflected in building codes.
- The assessment of micro adaptation measures aligns with independent risk capital assessments performed using actual exposure figures, including construction type, occupancy type, and number of stories. Furthermore, we strongly highlight the Consultation Paper's own findings (Paragraph 7.6), which demonstrate that recognizing seismic retrofitting and high-level building codes in Greece yielded an 80% decrease in the modeled country factor. This compelling quantitative evidence proves that failing to reflect these micro measures in the SF results in a severe and unjustified over-capitalization for the Greek market. Finally, the Greek government is actively pursuing measures to increase insurance penetration, such as legislating mandatory property insurance for businesses with annual revenues exceeding €0.5 million. This policy shift underscores the urgent need to appropriately incorporate adaptation measures into the SF in the near term. Otherwise, the expected surge in Sums Insured will inevitably generate higher capital requirements, forcing insurers to incur increased reinsurance costs simply to maintain healthy SCR ratios.

Q12. *Do you have any comments on the assessment of macro adaptation measures for flood?*

- Yes
- In Member States such as Poland, numerous investments in flood safety are underway and planned. These include the construction of retention reservoirs and dry basins, the modernization of existing infrastructure, the raising of embankments, and the naturalization of rivers. Investments are also being made in the digitalization of river and water flow monitoring, which will help provide relevant information to water management authorities in the future.
- All of these investments have had a positive impact on social and economic security. The question arises: what should be the method for assessing and documenting this impact, as discussed above? To what extent can the positive impact of this infrastructure investment be incorporated into flood models? Answering these questions is crucial for further cooperation between the insurance market, water management authorities, and model providers.

Q13. *Do you have any comments on the assessment of micro adaptation measures for flood?*

- Yes
- The industry notes that micro-level adaptation measures may work relatively well for large corporate clients, where risk information is typically more detailed and systematically collected. In the retail segment, reasonably good information may be available in some markets on structural characteristics such as construction type, building materials and building age, for example due to building codes. However, additional adaptation measures — such as flood protection doors or similar property-level flood defences — are much more difficult to capture systematically.

Q14. *Do you have any other comments on the consultation paper?*

- It is also noted that presenting, in Section 6, the risk of selection by insurers and a potential increase in the protection gap as a drawback may undermine the rationale for recognising adaptation mqeasures.

- Further, concerns are raised regarding references to building codes and the underlying vulnerability data used in the consultation paper (EIOPA-BoS-26/005). The paper makes several references to building codes without specifying which building codes have been considered for particular countries and perils. The only clear reference relates to earthquake building codes in Section 4.11 (Figure 6), which refers to building codes with rules for seismic design. Questions therefore arise as to whether other references to building codes relate only to earthquake codes or whether additional building codes have been taken into account. This is particularly relevant for markets where earthquake risk is negligible, raising questions as to whether such references could have any unintended impact on solvency capital requirements.
- In addition, concerns are raised regarding the vulnerability data used in previous EIOPA work, notably in the pilot dashboard on the insurance protection gap for natural catastrophes. In that exercise, a large share of buildings in certain markets appeared to be classified as outbuildings or as buildings constructed without code, and the vulnerability assumptions seemed inconsistent with the characteristics of the national building stock and with comparable markets. Clarification is therefore sought on the sources used for the building code and vulnerability data referred to in EIOPA-BoS-26/005, as inaccurate assumptions could lead to overstated vulnerability factors, higher expected losses and, ultimately, inflated solvency capital requirements.