POSITION PAPER

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Position on the ECB and EIOPA Paper: ‘Towards a European system for natural catastrophe risk management’

Introduction

FERMA welcomes the efforts of the European Insurance and Occupational Pensions Authority (EIOPA) and the European Central Bank (ECB) in developing a European reinsurance scheme to mitigate the impact of natural catastrophes by addressing the associated insurance protection gap. Such a solution is increasingly crucial as the economic losses from natural catastrophes accelerate due to climate change, threatening both macroeconomic stability and the competitiveness of the EU insurance market. In the past, only approximately one-quarter of EU losses from natural catastrophes have been insured, and this coverage ratio is trending downward. Therefore, private enterprises and governments alike face significant financial vulnerabilities. We believe that the recent proposal by EIOPA and ECB presents an opportunity for public-private collaboration that could effectively mitigate these vulnerabilities.

After careful revaluation of the proposal, FERMA identified important areas of alignment, as well as several concerns requiring further discussions. While this initiative presents a valuable step toward financial stability and resilience, it requires further integration of private sector perspectives to ensure its feasibility and synergy with existing insurance mechanisms. The insights offered in this position paper derive from FERMA’s comprehensive consultations with its 23 member associations, reflecting experience and insights of the private sector.

1 General considerations

FERMA strongly supports the proposed scheme's emphasis on risk-based insurance premiums, which aligns closely with established practices in the insurance sector. Adopting risk-based pricing effectively promotes risk awareness and incentivizes preventive measures, reinforcing best practices already successfully employed by private (re)insurers and their corporate clients. Moreover, narrowing the geographic scope exclusively to the European Union will reduce market volatility associated with global catastrophes. To this day European premiums are influenced by global risk exposure, such as hurricane events in North America or Asia-Pacific catastrophes. We believe establishing a dedicated

EU-wide reinsurance pool would allow Europe to regain pricing sovereignty, mitigate price volatility, and foster greater stability in insurance costs, benefiting businesses, insurers, and consumers.

Since its approach follows private (re)insurance market principles, the proposed EU scheme provides a solution to climate insurance protection gaps which considerably reduces moral hazard. First, it will provide reinsurance coverage to only those (re)insurers and national natcat scheme who contribute to scheme, and payouts will be based on the risks participants chose to transfer to the proposed EU scheme – and thus to the premiums paid –, rather than to the absolute value of the damage sustained. Second, the proposed EU scheme will only intervene as last resort, once the private (re)insurance market and national natcat schemes have covered their share of the losses. Third, the proposed EU scheme will not provide direct financial assistance to private individuals and companies, incentivizing them to obtain insurance coverage through the private market in the first place. These aspects are crucial to incentivize participation in the proposed EU scheme and promote effective climate risk management practices.

In its current form, participation of national natcat schemes and private (re)insurers in the proposed EU scheme would be voluntary and complement national and private market initiatives without imposing additional obligations. While we acknowledge that this voluntary nature would have the benefit of ensuring flexibility and respect for existing and future national natcat schemes and commercial decision-making, the priority should be for the scheme to have sufficient reinsurance capacity in order to effectively fulfil its purpose. In this light, the question of whether to make participation in the scheme voluntary or mandatory should be carefully assessed in cooperation with industry stakeholders.

2 Key considerations

FERMA is committed to playing a constructive role in bringing together forces among the risk and (re)insurance market to help countries and the European Union to push back against systemic risks. Natural catastrophes are at the centre of the attention of our members. Notwithstanding general alignment with the proposed EU reinsurance framework, we want to address the several critical concerns to ensure the initiative's success:

2.1 Reliability and consistency of data

The main concern of the private sector involves the consistency and reliability of data collection and risk assessments across the Member States. Reliable data is essential for accurate risk assessment, fair premium setting, and efficient claims processing.

Currently, there is significant disparity in data collection practices and availability at the national level. Without standardized data, the EU-wide scheme risks leading to incorrect risk assessment and mispricing of premiums, therefore reducing participation of (re)insurers. It is vital for the proposed scheme to gather and integrate reliable data from all Member States, their national schemes and private sector stakeholders such as (re)insurers and corporate risk managers.

For this purpose, the regulators should clarify, in collaboration with industry stakeholders, the kinds of data to be collected in order to quantify natcat risks, the methodologies to apply and the governance systems to implement, among others.

2.2 Managing premium prices

If risk mutualization at the EU level can help prevent a surge in premiums following natcat events on other continents, it will still be essential for the EU pooling to be diversified and of sufficient scale so that the scheme does not inadvertently lead to higher premiums, since a narrower insurance pool could result in higher costs for (re)insurers, thus reducing participation and undermining the scheme's long-term sustainability. To prevent this, we recommend conducting additional studies to determine the optimal scale needed for risk diversification and pricing stability. Based on the results of such a study, there should be a framework developed to guarantee an adequate level of private sector's engagement and establishing a minimum participation threshold to ensure effective risk pooling.

2.3 Stable and clear legal framework

FERMA emphasizes the necessity of a clear and stable legal framework governing the EU-wide reinsurance scheme. Legal certainty in contractual obligations, claims handling, and particularly dispute resolution is crucial for the private-public reinsurance scheme to work. Without defined arbitration mechanisms and clear division of responsibilities, (re)insurers and their corporate clients might face significant uncertainty, undermining trust and potentially discouraging voluntary participation in the scheme. It is recommended that specific European entities or tribunals be clearly identified and mandated to implement the scheme and resolve possible disputes, ensuring fair, efficient, and transparent processes for all parties involved. While the framework governing the scheme will need to be sufficiently harmonized and centralized in order to be effective, care must be taken to avoid undue costly and cumbersome administrative requirements which may disincentivise the participation of private (re)insurers.

3 Recommendations

To enhance the sustainability and support from the private sector of the proposed EU reinsurance scheme, we recommend paying close attention to the following aspects:

3.1 Incentivize long-term stability

The current industry practice of annual insurance policy renewals creates market volatility, as insurers reassess their pricing and availability on a yearly basis. This model introduces uncertainty for businesses and (re)insurers alike, particularly with climate risks intensifying and growing more unpredictable. We recommend including additional mechanisms inside the scheme for evaluating returns over multi-year periods to smooth volatility and ensure greater market stability. Adopting multi-year risk assessments and pricing strategies would significantly enhance predictability and encourage sustained participation from (re)insurers in the scheme, to the benefit of EU policyholders.

3.2 Enhance integration of the private expertise

Continuous dialogue and close collaboration between EU policymakers, (re)insurers, and risk managers should underpin every stage of the scheme's development—from conceptualization and legal formulation to implementation. Leveraging private sector expertise in advanced risk modelling and claims handling can substantially improve operational effectiveness and efficiency of the scheme. A structured, ongoing consultation process with private sector representatives is necessary and would allow the scheme to incorporate proven operational methodologies from the private sector.

3.3 Establish clear governance structures

The structure of the scheme must clearly define roles and responsibilities among EU entities, national schemes, and private sector participants to avoid unintended competition or overlaps. In addition, while the mutualization of risks across the EU can lead to economies of scale, care must be taken to ensure it does not lead to unintended moral hazard or market distortion. In particular, it must be clear that potential compensations of uninsured losses by national authorities will not be covered by the proposed EU scheme.

3.4 Support risk management practices

Global warming has already led to a change in natural catastrophe risks, resulting in increasingly higher damage expenditures each year; and the cost of reimbursing incurred damages is far higher than the cost of climate adaptation. We recommend that EU policymakers and regulators, as well as industry stakeholders, explore how the proposed EU scheme can be leveraged to incentivize and finance risk prevention and risk mitigation measures, in order to ensure sustainable and long-term funding for damage compensation due to natural hazards.

Additionally, good risk mitigation and climate adaptation practices need to be disseminated to reinforce the overall resilience of the system – companies with well-established enterprise risk management (ERM) and business continuity management (BCM) could serve as a reference to enhance risk awareness, foster a stronger ERM culture in the economy, and ultimately lead to more fair and affordable premiums.

Moreover, the data about collected by the scheme on natcat insurance pricing could be used over time to define an indicative list of the average premiums paid, considering different risk scenarios, in order to ensure fair market prices for natcat insurance coverage. Organisations with a certified manager within their staff should be rewarded by reduced premiums.

3.5 Incentivize reserves accumulation

The proposed EU scheme should include adequate incentives – such as tax incentives – for reserves accumulation to encourage EU companies to maintain adequate reserve levels ahead of catastrophic events, which could be done through captives or protected cell companies. Additionally, targeted investments and incentives would enhance businesses' capacity to manage systemic risks effectively and better respond to future crises, ultimately minimizing public sector intervention costs and reduce moral hazard.

4 Conclusion

The proposed EU public-private reinsurance scheme represents an important step towards addressing the growing protection gap in natural catastrophe insurance coverage across Europe. However, the scheme's success will depend on close cooperation with private sector stakeholders, clearly defined structures, reliable data practices, and transparent legal frameworks. Such collaboration would allow to effectively harness the private sector expertise to help build a resilient reinsurance market capable of protecting Europe's economy and society from the growing risks posed by climate change. FERMA remains committed to actively participating in the development, consultation, and implementation of this critical initiative to strengthen Europe's collective resilience against natural catastrophes.

FERMA

The Federation of European Risk Management Associations brings together 23 risk management associations in 22 European countries, representing over 5600 risk managers active in a wide range of organisations. FERMA provides the means of co-ordinating risk management and optimising the impact of these associations outside their national boundaries on a European level.

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