

## Response to EIOPA consultation on the insurance protection gap dashboard for natural catastrophes

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Referring to: [EIOPA pilot insurance protection gap dashboard for natural catastrophes](#)

Related documents:

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### Questionnaire

**Q1.** Do you agree with the overall approach used in the dashboard? Please explain the rationales of your positive or negative answer

No

Insurance Europe welcomes the European Insurance and Occupational Pensions Authority's (EIOPA) initiative of providing transparent natural catastrophe (natcat) information in a dashboard. However, some adjustments are needed for it to meet this goal.

To provide public information about a natcat protection gap one needs a multifactorial approach and should assess the situation in different EU countries individually. The historical context, legal situation, exposure to natural hazards, product design, state intervention, prevention level, free-market/semi-mandatory/mandatory solutions, insurability/uninsurability of certain perils in different EU member states are just some of the crucial and necessary points for assessing the protection gap in a particular market, however they are not fully taken into account by the dashboard. As a result, the statements on the dashboard are not fully accurate and therefore are likely to be misleading. This oversimplification means the dashboard as it stands will not necessarily be a good basis for policy decisions in all countries.

Furthermore, prevention is not adequately reflected in the dashboard's set-up. Therefore, and because of the role of prevention, dashboard users may not be able to conclusively confirm or reject concerns about adequate and affordable insurance protection against natural hazards. Indeed, if buildings are erected today on the basis of insufficient or even missing building codes for mitigating or effectively lowering the risk of losses due to floods, heavy rain, hail, heat, etc., this deficiency will have a negative impact on the affordability and insurability of climate-related perils in the future. The fact that this aspect is largely absent from the dashboard is an issue that needs addressing. Maintaining, or indeed improving, the affordability and insurability of insurance against climate-related risks cannot be achieved without specific prevention measures.

Also, as mentioned above, additional information such as historical context, market-specific information and



legal background needs due consideration. The key figure “insurance density/market penetration” alone does not provide any substantial information about whether private homeowners or businesses are adequately protected. Relying on the dashboard’s “insurance penetration” may therefore not show the full picture nor be a good basis for political or regulatory decision-making.

“Insuring as much as possible” in itself is unlikely to contribute to maintaining or improving the insurability and affordability of natcat. For instance, a political decision to cover all buildings, even those that are technically and structurally not adequately built to withstand the expected changes in weather and climate, will not improve the affordability of cover. This is because these buildings will be more frequently and more severely affected by natcat losses in the future and therefore more likely to be economically uninsurable with risk-based pricing. Likewise, closing the protection gap — for instance by raising the number of insured buildings — does not change the distribution of risk, because the previously uninsured buildings suffered losses too; they were simply previously not covered by insurance. Hence, closing the protection gap raises both parameters at the same time: volume of premium and volume of claims. If the ratio of premiums to claims does not change significantly, closing the protection gap has no noticeable effect on affordability. Insurance Europe therefore believes that focusing on insurance density alone will not make EU member states more resilient or cut the cost for ad hoc disaster relief.

Additionally, when closing the protection gap, the relevant bundling of perils should be considered. The protection gap should not be addressed in isolation but considered as part of a combination of different natcat risks. This could help with adverse selection, would make the risk pool bigger and would help with diversification. In general, it is important to keep in mind that while insurers can play a vital role in adaptation and mitigation, insurance cover is simply a way to provide financial compensation for an event. This compensation does not prevent drought, bring water to dry soils, reduce the death toll due to heat or prevent buildings from being exposed to the effects of climate change.

Finally, it would be interesting for the dashboard to also refer to the cause of a protection gap and provide background information on which to base decision-making. This could help better understand the situation of countries such as France and Spain where the government provides unlimited reinsurance cover for natcat via the Caisse Centrale de Réassurance and the Consorcio de Compensación de Seguros, respectively.

Given the importance of the project, Europe’s insurance sector wishes to offer EIOPA its full support in determining the information required for an effective and transparent dashboard and developing a workable concept.

**Q2: Do you have any comments about the dashboard in general?**

The pilot dashboard can be a comprehensive and useful tool. However, the use of standard formulas to derive the scores can sometimes lead to inaccurate results.

For example, in Portugal, while earthquake risk is probably the biggest natural catastrophe peril to which the country is exposed, insurance coverage is still very low, with only around 15% of households covered. In the dashboard, however, the score given to earthquake in Portugal is 1.8 out of 4; clearly below the level of a “material” gap. This provides a distorted view of the reality of the insurance gap and sends a contradictory message to society in terms of risk awareness and the protection gap.

Insurance Europe welcomes the proposal to include drought as a peril. Drought will result in serious challenges for EU member states in the future: shortages of drinking water; threats to nature and to food supplies; and distribution challenges and resulting increases in migration.

Insurance Europe also believes that other perils such as tsunamis and hailstorms should be incorporated into the model as they are a considerable component of seismic risks and heavy storms respectively.

**Q3: Do you have any comments on the methodology used to derive the scores?**

As mentioned in response to Q1, Insurance Europe is of the opinion that amendments are required for the dashboard to be a reliable tool. Simply relying on scientific data and comparing it to insurance density does not give the full picture.

Furthermore, there are some aspects of the exposure to hazard risk elements that should be adjusted in order to have more precise and accurate results. For instance, using a 50-year period to calculate earthquake exposure hazard seems insufficient to model this risk. Instead, estimations should be based on a 300-, 400- or 500-year return period. Increasing the timespan would result in a more accurate score for “heavy potential damage zones”.

Additionally, the exposure to hazard formula does not normalise the results by GDP but rather by country area, as the two GDP elements in the formula cancel each other out. The formula should therefore be adjusted to include GDP considerations in the final score.

It is also unclear whether public infrastructure and property owned by the state and municipalities are taken into account. Privately owned property accounts for only part of the losses caused by natural catastrophes, so the level of insurance penetration for privately owned property does not answer the question of how large or small a protection gap is. In Germany, for instance, municipalities are required to buy natcat cover from the insurance industry for their schools, city halls or swimming pools but, in practice, fail to do so. As a result, only a fraction of the public buildings in municipalities are insured. Moreover, high insurance density does not help if power plants do not supply electricity, water and gas do not flow, trains do not run, and roads and bridges are damaged because they were too vulnerable to the effects of climate change. Bridging the protection gap must take this into account.

With regard to the data, the technical report should also mention country areas.

**Q4: Do you have any comments on the input data used in the dashboard?**

Insurance Europe understands the complexity of the underlying data needed and that the available data cannot be complete. However, there is no information available on whether and to what extent it is ensured the data incorporated in the dashboard is in line with the findings of other already established systems. Trust in the system can only be engendered if all data sources are open and can be objectively compared.

**Q5: Do you have any other data sources which could be used for the dashboard? Please describe the data.**

- Yes

National recurring datasets are most likely suitable for regular reporting in the dashboard. For example, in Germany this might be the case with data and time series provided by the German Weather Service (DWD), such as records of the amount of precipitation and the soil moisture index for the risk of drought. Furthermore, Insurance Europe believes that EIOPA could benefit from the insurance industry’s expertise. Insurance companies have been developing risk-zoning mapping systems for decades. These could be a valuable source of information when it comes to identifying natcat perils.

**Q6: Some parts of the methodology to derive scores for the dashboard use expert judgements. Do you agree**

*with the expert judgement calls or would you have suggested another approach? Please explain.*

Insurance Europe agrees with the use of expert judgement to derive scores when scientific data is not available. However, expert opinions should be clearly marked as such and sources must be named. Opinions should be updated on a regular basis because they change over time as more knowledge becomes available. Furthermore, any expert opinion should be based on a large group of respondents in order to avoid individual opinions being overestimated, even if they are of a scientific nature.

Insurance Europe also believes that some of the scientific data available for certain scores in the dashboard may have been overlooked. For example, the scores for insurance coverage are only based on NCAs judgement and available literature whereas objective data is largely available to measure insurance penetration.

Insurance Europe suggests prioritising the use of available scientific data to ensure the most accurate result possible.

**Q7:** *Do you have any other comments on the work made by EIOPA on the protection gap? If yes, please provide these other comments.*

- Yes

Insurance Europe offers EIOPA its assistance in determining the information required for an effective and transparent dashboard and in developing a workable concept. EIOPA should consider the creation of an expert group, with the involvement of the insurance community, to enhance the concept and establish an effective tool.

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