Commission's call for evidence on climate resilience and risk management

Explanatory note

Europe is increasingly facing substantial losses, destruction and costs from climate-related impacts and risks, including more frequent and intense heatwaves, droughts and heavy rainfall events. These all affect both urban and rural populations.

Both the EU and its Member States must therefore become significantly better at preparing for, and effectively addressing, climate risks. However, a powerful combination of barriers keeps preventing this, including:

- *behavioural barriers (e.g. cognitive biases, short-termism, risk awareness and perception, denialism and misinformation);*
- *financial barriers and market failures (e.g. lack of funding, price signals not reflecting true social costs of growing climate risks, split incentives, moral hazard and freeriding);*
- *institutional barriers (e.g. weak governance, inconsistent or inadequate policies, power dynamics, vested interests, vulnerable groups not having enough share of voice, short electoral cycles, silos and diffusion of responsibility);*
- *regulatory barriers (e.g. inadequate or conflicting regulations, laws, the existing legal requirement to progress on resilience and adaptation is not accompanied with provisions to facilitate its implementation, inadequate risk disclosure provisions); and*
- *knowledge and informational barriers (e.g. limited understanding of climate change impacts, vulnerabilities and adaptation options, limited access to data on current impacts, social media algorithms).*

To overcome these barriers, strong and comprehensive policy intervention is needed urgently.

The consultation aims to fill knowledge and evidence gaps in areas such as climate risk assessments and disclosure, regulatory frameworks and standards, governance and oversight, incentives and enforcement, financial frameworks, cross-border cooperation and consistency, sector policy commitments and contributions, stakeholder engagement and participation, emerging socio-economic trends, and technological innovation.

<u>Deadline: 4 September 2025</u>

FERMA contribution to the call for evidence

FERMA is dedicated to raising awareness and advocating for the closing of climate protection gaps.

As the voice of European risk managers, FERMA possesses a key expertise when it comes to identifying, mapping and mitigating all risks that companies may face. This encompasses risks related to natural catastrophes (NATCAT) as Europe is facing substantial losses, destruction and costs from climate-related impacts and risks, including more frequent and intense heatwaves, droughts and heavy rainfall events. At enterprise-level, Risk Managers are vital to strategically assessing the risks and opportunities in their operations across the value chain. Risk Managers also help manage the physical risks related to climate change, including the increased frequency and severity of natural hazards.

NATCAT are a "**systemic risk**", since they have the potential to break down of a system as a whole, rather than any of its individual constituent parts. Due to their large-scale effects, the private insurance market alone is unable to provide sufficient insurance capacity for the transfer of such a systemic risk – although it is able to provide targeted coverage for disruptions resulting from limited catastrophe (such as floods or fires). Consequently, the private insurance market needs to be supported by appropriate policies to tackle efficiently climate resilience challenges.

FERMA has been a long-time whistleblower regarding the shortcomings of the European insurance market when it comes to mitigating climate resilience through risk management.

- In September 2020, when reacting to the Commission's Blueprint for a new strategy on climate change, FERMA urged policymakers to close the climate insurance protection gap, improve access to climate-related risk data and fostering resilience in cities[1].
- In September 2022, FERMA issued a white paper[2] on insuring the transition, highlighting that **businesses are experiencing restrictions on insurance coverage for their transition-related activities and assets, notably through**:
    - **Limited or unavailable cover** because of past activities, such as links with coal or mining.
    - Lack of coverage for **specific technologies or materials.**
    - **Exclusions of specific risks.** Property damage and bodily injury may be excluded when there is a direct or indirect link with coal plants or mining activities.
- In April 2025, FERMA published a position paper welcoming the ECB and EIOPA proposal calling to **developing a European reinsurance scheme to mitigate the impact of natural catastrophes** by addressing the associated insurance protection gap[3].

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[1] FERMA. (2020). *FERMA's Position Paper on the EU's Blueprint for a new and more ambitious strategy on adaptation to climate change*. https://ferma.eu/fermas-adaptation-strategy-contribution-submitted/

[2] FERMA. (2022). *Insuring the Transition: the issues confronting Risk Managers*. https://ferma.eu/insuring-the-transition-more-support-needed-from-insurers/

[3] FERMA. (2025). *Position on the ECB and EIOPA Paper: 'Towards a European system for natural catastrophe risk management'*. https://ferma.eu/wp-content/uploads/2025/04/FERMA_Position-Paper_ECB-EIOPA-scheme.pdf

Based on its several reports and position papers, FERMA wishes to answer to this call for evidence by stressing the following elements:

- There is currently a market failure regarding the insurance coverage of climate risks, linked with inadequate risk assessments and increasing protection gaps. This is a very concerning state of play as NATCAT are a "systemic risk".
- Several challenges persist, such as the lack of reliable data, the need to spread good climate risk management practices and a variety of uncoordinated solutions between EU member states.
- Therefore, FERMA suggests concrete recommendations, such as granting better access to reliable data, enhancing and developing good risk management practices (both at EU and company-level), implementing innovative tools such as an EU-wide NATCAT public-private reinsurance scheme as suggested by the ECB and EIOPA.

I. EU climate resilience is hindered by a market failure, which is likely to grow more severe without appropriate policy implementation

According to FERMA's 2024 Risk Managers survey[4], the top 3 risks identified by Risk Managers as the most pressing over the next ten years are: climate change adaptation, carbon neutrality transition and natural disasters. At the same time**, 53% of Risk Managers deem that some risks will become uninsurable in the future, NATCAT being by far the most quoted one**. NATCAT protection gap has been a point of concern for the risk managers' community since a long time.

In 2020, FERMA was already stressing that: "*When it comes to systemic risks, such as climate change, it is beyond the capital of the private insurance market to provide material capacity to transfer risk due to the large-scale effect such events have on the economy. In these cases, adequate insurance relies on risk pooling, which increases the market capacity by diversifying risks among a broader base of insurers, or by providing the capacity for businesses to purchase specific types of reinsurance coverage.*

Yet, while risk pools have proved effective in select member states, their coverage is limited to Member State level, and they usually only exist in wealthier countries of the EU, widening the climate risk protection gap within Europe and [...] disproportionately affecting those who may be most exposed to climate impacts. New solutions are therefore needed to ensure a just increase in insurance capacity that will enhance the resilience of the European community overall."[5]

At present, FERMA assesses that the economic losses from natural catastrophes are due to intensify because of climate change, threatening both macroeconomic stability and the competitiveness of the EU insurance market. **EIOPA estimates that, historically, only approximately one-quarter of EU losses from natural catastrophes have been insured**, **and this coverage ratio is trending downward[6]**. NATCATs therefore represent an important risk for the finances of private enterprises and governments alike.

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[4] FERMA (2024). *Global Risk Manager Survey Report 2024*. https://ferma.eu/wp-content/uploads/2024/11/AS_Etude_FERMA_2024_digital_pap-November-2024.pdf

[5] FERMA (2020). *FERMA's Position Paper on the EU's Blueprint for a new and more ambitious strategy on adaptation to climate change*. https://ferma.eu/fermas-adaptation-strategy-contribution-submitted/

[6] ECB, EIOPA. (2024). *Towards a European system for natural catastrophe risk management: The possible role of European solutions in reducing the impact of natural catastrophes stemming from*

II. FERMA members have identified several challenges hampering climate resilience and good risk management

Based on FERMA's expertise, bridging the aforementioned climate insurance protection gaps will prove to be challenging given that obstacles remain on the road to climate resilience, such as:

- **Good risk management practices (notably based on Enterprise Risk Management (ERM) methodology) are not sufficiently promoted by market stakeholders and policymakers**. Risk prevention and mitigation are in the interest of everyone involved, since companies, insurers and public authorities alike benefit from reducing the cost associated with climate risks. Climate adaptation should be encouraged.
- There is a **need to raise awareness for companies and the public** more broadly. Only 60% of organisations interviewed in the 2024 Risk Manager survey identify climate change risks in their risk maps (that figure increased compared to the last survey though). Based on discussions with insurance companies, FERMA understand that people and businesses are not always aware of the insurance policies' coverage and sometimes assume that the State will intervene as a last resort, regardless of the damages that occurred. The first step should be "educational" in our view.
- The **coverage varies greatly between EU member states**, some of them having already set up pooling mechanisms (most of the time the wealthiest ones) whereas others have nothing in place at present. However, a member state level solution only has its flaws, notably regarding premium pricing. For instance, in the case of the French long-established NATCAT regime, **premiums raised from 12% to 20% on all property insurances (housing and professionals) contracts in 2025** as a consequence of the increasing number and intensity of natural disasters. Needless to say that a tailored EU pooling should be able to avoid such disruptions regarding premiums.
- **Collecting reliable and consistent data** remains one of the main challenges. In 2024, 50% of Risk Managers mentioned the limited data to support their ESG analysis and monitoring as one of the key challenges that they are facing.

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climate change. https://www.eiopa.europa.eu/publications/eiopa-and-ecb-joint-paper-towards-european-system-natural-catastrophe-risk-management_en

III. "A new hope": FERMA's recommendations to tackle the climate protection gap and to enhance good risk management practices at the EU level

Based on FERMA's former proposal to **establish a Resilience Framework for Catastrophic Risks (RFCR)**[7], we advocate for a **multi-layered and graduated public-private partnership approach that would function on four levels**:

1. Implement a proper Enterprise-level risk management dedicated to anticipation, prevention, identification and mitigation of climate risks
2. Transfer of risk to private insurance and reinsurance markets when possible;
3. Establishing National Member State pool guarantees;
4. Developing European Union tools while ensuring coordination between national governments.

In order to implement this framework, FERMA proposes the **following recommendations**:

- Implement an EU reinsurance scheme on the basis of the proposal formulated by the ECB and EIOPA.
- Enhance and support good climate risk management practices through Enterprise risk management (ERM) tools.
- Improve the accessibility of reliable and consistent climate risk data.
- Encourage innovation to better transfer risks, notably through the market.

Recommendation 1: Implement an EU reinsurance scheme on the basis of the ECB and EIOPA proposal

First, in their joint paper[8], the ECB and EIOPA called for the establishment of an **EU public-private reinsurance scheme** to increase the insurance coverage for natural catastrophe risk. By pooling private risks and perils across the EU, this scheme would exploit economies of scale and diversify the coverage of high risks at the European level. It would be funded by risk-based premiums from (re)insurers or national insurance schemes.

FERMA strongly supports the emphasis on **risk-based insurance premiums adopting a multi-perils approach**, 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.

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[7] FERMA. (2020). *Building an EU Resilience Framework for Catastrophic Risks*. https://www.ferma.eu/wp-content/uploads/2020/05/FERMA-Position-Paper-on-building-RFCR-FINAL.pdf

[8] ECB, EIOPA. (2024). *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*. https://www.eiopa.europa.eu/publications/eiopa-and-ecb-joint-paper-towards-european-system-natural-catastrophe-risk-management_en

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.

Recommendation 2: Enhance and support good climate 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 take into consideration and promote good risk management practices**. Indeed, 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**[9].

Following a recommendation stressed in FERMA's manifesto[10], **we call to create a permanent function of Risk Manager within the European Commission**. It will make sense to add Risk Management responsibilities to the portfolio of the Commissioner in charge of Strategic Foresight, especially with the perspective of the upcoming implementation of the EU Preparedness Strategy. In the meantime, FERMA advocates for **ensuring a Europe-wide offer of risk management training for public and private organisations**, using the Rimap certification[11] as inspiration.

Continuous dialogue and close collaboration between EU policymakers, (re)insurers, and risk managers should underpin every stage of new policies' development when it comes to climate resilience and risk management — 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.

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[9] AMRAE. (2022). *Risques et opportunités liés au changement climatique : Panorama et bonnes pratiques*. https://www.amrae.fr/bibliotheque-de-amrae/risques-et-opportunites-lies-au-changement-climatique-panorama-et-bonnes-pratiques

[10] FERMA. (2024). *Making Europe Risk-Ready For A Brighter Future: 2024-2029 Manifesto*. https://ferma.eu/publications/ferma-manifesto-2024-2029/

[11] FERMA. (2024). *FERMA – Rimap new Preparatory Course in November 2024.* https://ferma.eu/ferma-rimap-new-preparatory-course-in-november-2024/

Recommendation 3: Improve the accessibility of reliable and consistent 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 or any other tool adopted at national or EU-level will lead to incorrect risk assessment and mispricing of premiums, therefore reducing participation of (re)insurers**. It is vital for any proposed tool 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.

Moreover, in connection with FERMA's first recommendation, the data collected by the EU reinsurance scheme about 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.

Recommendation 4: Encourage innovation to better transfer risks through the market

In addition to its other recommendations, FERMA believes that there is room to **explore other tools and market-based solutions to enhance climate resilience**.

First, it is worth looking into the potential usefulness of **insurance syndicates and co-insurance partnerships to address insurance protection gaps**.

In addition, another option could be to **use the risk capital markets to increase the capacity of central EU emergency funds for catastrophic events across the EU**, through the issuance of **catastrophe (cat) bonds** for example. Invented as an alternative to the traditional natural catastrophe reinsurance market in the 1990s, cat bonds are financial instruments (insurance linked securities) enabling entities with exposure to high impact, low frequency events (typically natural catastrophes) to transfer financial risks to bond investors in capital markets. The aforementioned ECB/EIOPA joint paper highlights this as a possibility: "*The EU reinsurance scheme could seek to transfer part of the risks to capital markets via instruments such as catastrophe bonds. The market for these products is less developed in the EU than in North America. Part of the reason is the smaller scale of the issuances.*"

Finally, the potential of **captives (re)insurance undertakings** should be explored further. A "captive" insurance and/or reinsurance company is functioning as an "in-house" (re)insurance provider for its owner and affiliated entities. Captives can be viewed as a form of self-insurance, financing risk through (re)insurance policies and the collection of premiums. Promoting the use of captive undertakings can help mitigate climate insurance protection gaps, should more effective market-based or public-private solutions fail, while making sure that they still benefit from proportionality under the Solvency II framework[12].

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[12] Directive (EU) 2025/2. *Amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks*

Appendix I

FERMA[13] wish to share key points that we formulate together with **Marsh McLennan**[14]**.**

We both commend the European Commission's commitment to delivering a comprehensive Climate Resilience and Risk Management Framework. This important building block of the forthcoming Climate Adaptation Plan is critical to putting Europe on a path to resilience.

Climate adaptation and resilience will be imperative as organizations seek to protect their workforce and operations, deliver on global objectives and accelerate the transition to a net-zero world. In this context, the European Commission's prioritization of risk management is appropriate, and will support the development of holistic approach to risk management involving three integrated components: risk assessment, risk adaptation and risk financing.

The Framework should leverage the findings of the Climate Resilience Dialogue, to which FERMA and Marsh McLennan contributed along with a diverse group of stakeholders. Notably, the European Commission should prioritize:

- **Risk Awareness**. In the context of the climate protection gap, risk awareness is a pre-condition for preparedness, enhanced resilience, and provides the necessary information for decision-making and long-term planning. It is crucial that public authorities strive to help communities and organisations by sharing either standards or information on climate and natural catastrophe risks and adaptation measures. Developing accessible tools that provide consumers and organizations with first-hand and clear information on the risk they are facing can be helpful in increasing insurance uptakes and fostering climate resilience and preparedness.
- **Risk Transfer and Insurance Solutions**. As per the Climate Resilience Dialogue report, one of the most effective tools to reduce vulnerability and ensure greater risk transfer are public-private partnerships. Designed well and with the right balance of incentives, the joint proposal from the ECB and EIOPA to reduce the economic impact of natural catastrophes, including by introducing an EU level reinsurance scheme, set out in Towards a European system for natural catastrophe risk management, could be a foundational component of the European Commission's Climate Resilience and Risk Management Framework.

and group and cross-border supervision, and amending Directives 2002/87/EC and 2013/34/EU. European Parliament and Council. http://data.europa.eu/eli/dir/2025/2/oj

[13] The Federation of European Risk Management Associations brings together 23 risk management associations in 22 European countries, representing over 6000 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.

[14] Marsh McLennan is the world's leading professional services firm in the areas of risk, strategy and people. Our more than 90,000 colleagues advise clients in 130 countries. We help corporate and public sector leaders navigate an increasingly dynamic environment through four market-leading businesses - Marsh, Guy Carpenter, Mercer and Oliver Wyman. Together, we address the most complex challenges of our time.