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INSURABILITY OF EXTREME RISKS IN EUROPE: BETWEEN PROTECTION DEFICIT AND CLIMATE PRESSURES

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Abstract: *The protection gap against catastrophic risks is a major structural vulnerability of the European economy, exacerbated by the intensification of extreme weather events. Empirical data indicate that only about a quarter of economic losses from natural disasters are covered by insurance mechanisms, with the rest borne by the public sector, companies and households. The European institutions underline the need for a systemic and coordinated approach to reduce the protection gap. The proposals aim to develop public-private reinsurance mechanisms, create joint reconstruction funds, increase contractual transparency and promote pricing models based on prevention and advanced risk assessment. In Central and Eastern Europe, including Romania, the protection gap is particularly pronounced, against the backdrop of high exposure to natural risks and low insurance coverage. Cooperation between the public and private sectors, together with the implementation of coherent regulatory frameworks adapted to the new climate realities, are essential conditions for increasing economic and social resilience to natural disasters.*

• Introduction

For extreme weather conditions, insurance is a valuable tool because it helps prevent financial losses from turning into long-term economic damage. If a home or business is damaged, insurance can cover the costs of reconstruction or compensation, allowing those affected to recover quickly.

At the European level, the constant increase in exposure to climatic and geological risks – from floods and droughts to heat waves and earthquakes – highlights important structural vulnerabilities, one of the most relevant of which is the insurance protection gap.

• Material and method

- This research is based on an interdisciplinary analysis of the financial protection deficit associated with catastrophic risks generated by climate change in the European space, with a focus on Romania.
- In order to theoretically substantiate the study, primary and secondary documentary sources from institutional databases and internationally recognized specialist reports were used.

Conclusions

The insurance protection gap represents one of the most important systemic challenges for the insurance sector and for European macroeconomic stability, given that a significant proportion of losses generated by natural disasters continues to be borne by households and public budgets, not by risk transfer mechanisms.

At the same time, the transformation of climate risks requires the modernization of insurance instruments. Innovative solutions such as parametric insurance, the use of artificial intelligence in risk modeling and the development of advanced warning and assessment systems are becoming essential components of a new risk management framework. Adapting the industry is no longer a strategic option, but a condition for its long-term sustainability.

Results and discussions

In Europe, the share of losses covered by insurance is generally lower than globally, given the high population density, asset values and low penetration of natural catastrophe insurance in some areas of the continent.

The table on the protection gap for natural catastrophe risks was launched in 2021 and is updated and republished periodically by EIOPA. (Figure 1.)

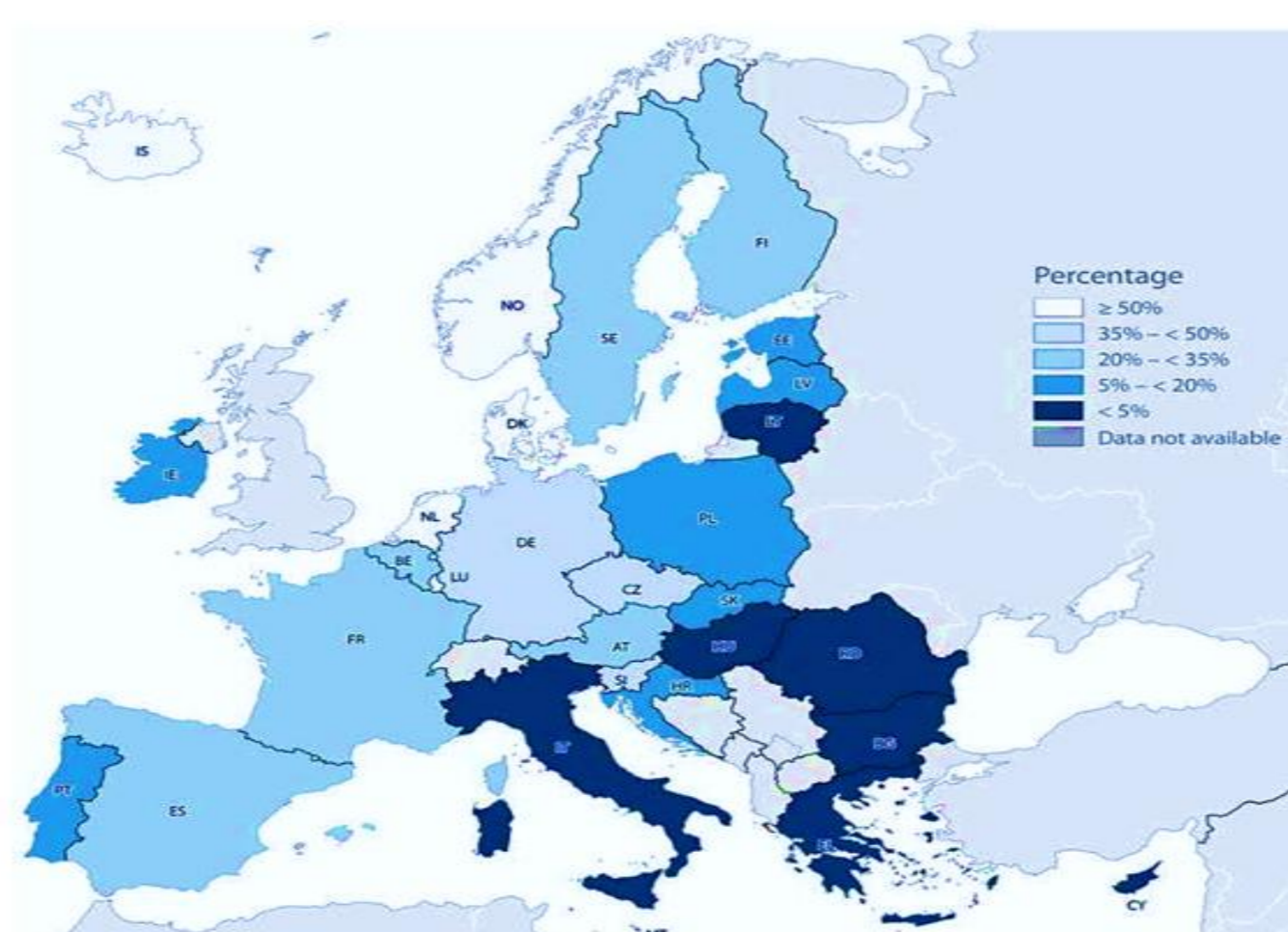


Figure 1. Proportion of insured losses out of total economic damage caused by weather events in Europe

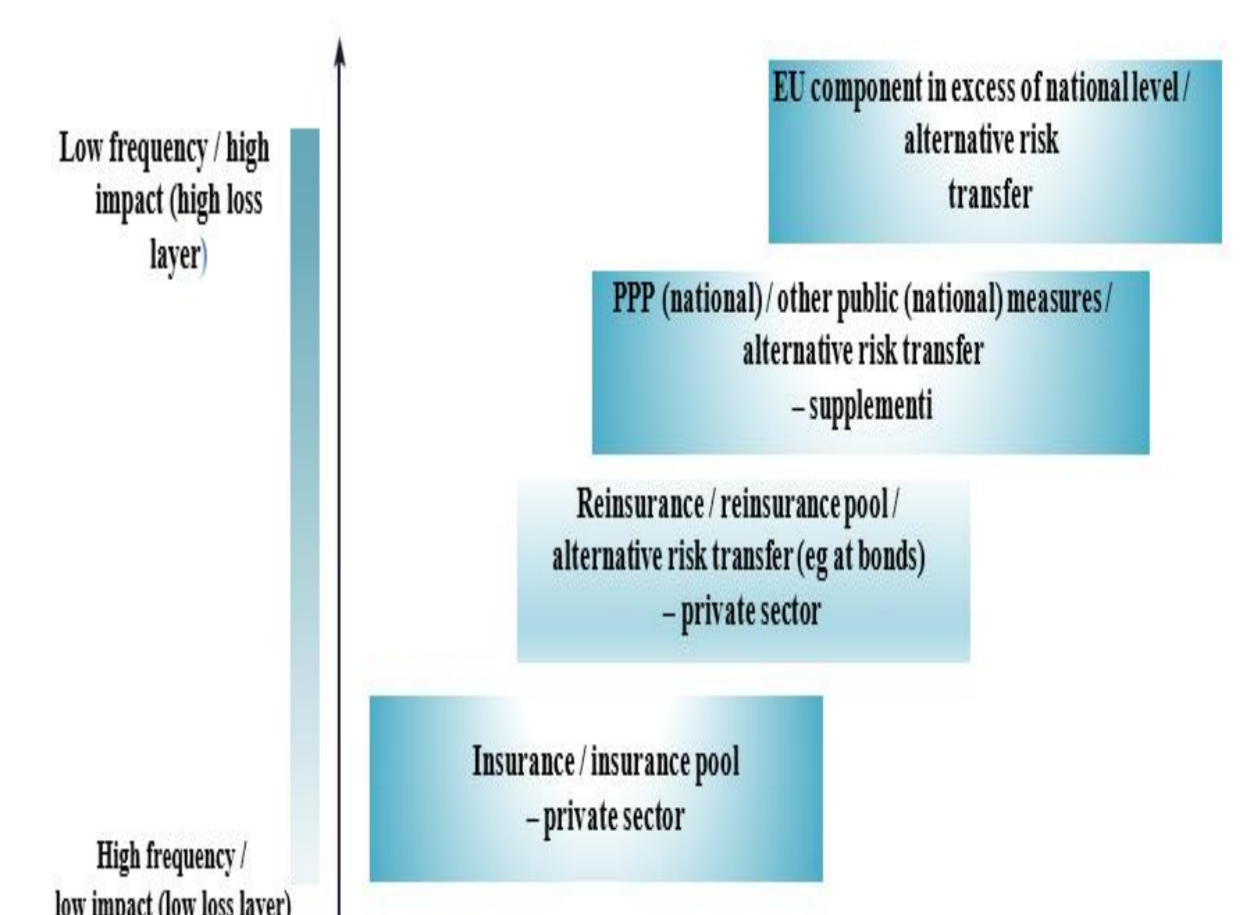


Figure 2. Phased strategy for managing catastrophic risks

Insufficient protection against natural risks is a widespread feature in the Central and Eastern European region. In many countries in the region, less than 20% – sometimes even less than 10% – of losses caused by phenomena such as floods, storms, droughts or earthquakes are covered by insurance policies.

Unfortunately, climate risks manifest themselves regardless of this reality. In recent years, Central and Eastern Europe has been strongly affected by a series of extreme climatic and geological events, which have demonstrated how vulnerable the region is to natural risks – but also how great the need for adequate financial protection is.