The European Federation of Insurance Intermediaries

BIPAR Aisbl
Avenue Albert-Elisabeth, 40 - 1200 Brussels – Belgium
Tel: +32-2-735.60.48 - bipar@bipar.eu - www.bipar.eu
EU Transparency Register ID: 349128141758-58 –
Company no: BE 0562 817 754

The role of insurance intermediaries in closing the climate protection gap

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BIPAR Draft discussion paper

Contents:

Executive summary

This paper aims to provide information to the European Commission and other policy makers in their work and study on "narrowing the climate-related protection gap". This paper outlines key questions and provides information for further discussion and study.

There seems to be a clear political will to identify solutions that expand coverage for NatCat risks, particularly those that are currently uninsured. While some risks will remain or will become uninsurable from a climate risk point of view, some risks that are currently uninsured may become insurable over time, depending on how frameworks, legislations, rules and solutions are developed.

BIPAR recommends that the Commission establish a dedicated working party bringing together insurers and intermediaries to explore strategic approaches to NatCat and other climate related risks.

This document explains how intermediaries can contribute to this work, drawing on the expertise gathered within the BIPAR working party and based on the input from specialists across relevant fields. It also clarifies how coinsurance and co-reinsurance work, which role intermediaries play in co-reinsurance and provides some definitions of key concepts linked to NatCat insurance.

Many different players collectively need to take a range of concrete measures and policy reforms in order to jointly strive to decrease the NatCat protection gap.

This paper also reaffirms BIPAR's availability, via its network of experts, to assist policymakers in providing additional expertise in relevant fields, as needed.

Regarding the methodology used in this document, this paper is based on interviews and discussions with BIPAR members and members of the BIPAR NatCat working party, complemented by definitions and desk research. This is absolutely not a scientific paper but rather a collection of real-life expert and practical insights.

The document serves as a basis for further discussion and does not represent a formal BIPAR position.

It draws on input from two subgroups within the working party:
1. *One subgroup contributing to the topics addressed in sections one and two.*
2. *A second subgroup focusing more specifically on distribution-related issues.*

For additional context on the role of intermediaries, readers may also refer to the annexes of this document, to BIPAR's website, and to other BIPAR (or its national member associations' publications).

Introduction

Insurance intermediaries are important partners in providing assistance to narrow the NatCat protection gap.

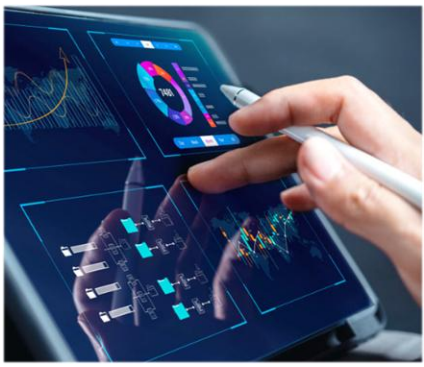
Thanks to the strong presence of intermediaries across all corners of the EU, citizens and businesses are effectively protected by insurance. People do not typically wake up intending to look for insurance; their decisions are shaped by how they perceive and understand risk, and by their awareness of the solutions available to transfer all or part of that risk to a third party. Intermediaries play a crucial role in this process. They sharpen insurers' focus, operate in a highly competitive environment, often on a "no-cure-no-pay" basis, and work within a strictly regulated and supervised framework.

With climate-related events becoming more frequent and severe, **intermediaries leverage their proximity to clients and their expertise in "prompting" citizens and businesses to think about and to evaluate the risks they are exposed to.**

Beyond the mere distribution of insurance, intermediaries sit down with citizens and businesses to discuss their financial situation and the risks to which their assets, families, or activities are exposed. Thanks to their experience, intermediaries act as a mirror for clients, helping them understand their vulnerabilities and the types of protection they may need.

In the context of climate-related risks, their role becomes even more important: intermediaries raise awareness, guide consumers, businesses and SMEs toward appropriate coverage, and support public authorities in shaping effective adaptation strategies. This work often includes providing risk-management and risk-prevention suggestions. This is even more important in the current context, given that each Member State has a different approach to addressing these natural disaster issues; consequently, existing public-private partnerships will vary from one Member State to another. When a peril[1], risk[2], or claim[3] occurs, the intermediary is typically the first point of contact and plays a key role in coordinating the claims-handling process. It is important to emphasise that any action taken at EU level on this issue should take account of existing national arrangements.

This paper highlights the lesser-known activities carried out by some intermediaries. In all markets, there are intermediaries with deep expertise in risk modelling and data analytics who make this knowledge available to the wider market, including insurers, reinsurers, and fellow intermediaries. Leveraging these skills, they innovate by developing products, solutions, and schemes that combine traditional insurance with alternative capital and capacity.



Through their unique ability to connect local risk with global capital, intermediaries drive innovation across the risk-transfer ecosystem, from parametric and index-based solutions to catastrophe-bond structures, enabling faster recovery and supporting more resilient rebuilding.

[1] Peril: The specific, direct cause of a loss, such as a fire, flood, or earthquake. It is the event that causes the damage.
[2] Risk: The potential for financial loss or the uncertainty regarding an event that could cause a loss. It is the overall possibility of damage, injury, or loss.
[3] Claim: A formal request made by a policyholder or his insurance company for compensation, asking the insurer to cover a loss caused by a covered peril.

The role of some intermediaries goes far beyond distribution: intermediaries are data-driven advisors, connectors of expertise and capital, and key contributors to the development of sustainable, future-proof insurance markets.
The intermediary's ecosystem includes retail intermediaries close to the client, wholesale brokers (often bringing capacity of various insurers together for more specific solutions) and reinsurance brokers (situated between insurers and reinsurers). The intermediary market, directly and indirectly, has an important function of spreading risk and finding solutions for risks that are difficult to insure.

Intermediaries, therefore, serve as a bridge between identifying available capacity and matching it with the demand for coverage, ensuring that all layers of the insurance value chain come together in a competitive and efficient manner.

Each layer adds specific value, with intermediaries now employing data scientists, engineers, and industry specialists to understand complex risks that traditionally could not be easily evaluated.

"Some intermediaries also provide a suite of risk management consultancy services that allow clients to optimize their mitigation strategies...it enables them to take more innovative decisions in a controlled risk environment. All of which powers the businesses and citizens to be more productive and drive growth in the economy." [4]

Back to basics

How does coinsurance and co-reinsurance work?

Coinsurance is the splitting or spreading of risk among multiple parties.
Co-reinsurance is the arrangement in which two or more reinsurance companies share premiums and split the financial risk tied to major insurance claims.

Example:
A major flood or earthquake risk in a country. One insurer alone cannot (and should not) carry the entire burden. Instead:

- Several insurers share the risk with each other (this is coinsurance).
- These insurers then pass on part of their risk to several reinsurers (this is reinsurance).
- When both insurers and reinsurers jointly participate in the same layer of risk, we call it co-reinsurance.

Co-reinsurance (and coinsurance) is a mechanism to mobilise additional capacity and spread risk at EU/international level, reducing volatility for insurers and exposed sectors. In practice, coinsurance works as follows:

- A lead insurer ("leading underwriter") negotiates and drafts the policy terms.
- Following insurers agree to participate under the same terms ("follow the leader").
- Premiums and claims are split according to each insurer's percentage share.
- The policyholder interacts mainly with the lead insurer and/or the intermediary.

[4] LIIBA report on the innovative imperative: "Why brokers matter more than ever", 2025

This model achieves consistent coverage while enabling each insurer to rely on the lead's underwriting and administrative processes.

What is the role of intermediaries in coinsurance?

Intermediaries can enhance market functioning by:

- Expanding access to capacity for large or emerging risks,
- Building aggregate demand for new solutions to make it more attractive for insurers to provide them.
- Ensuring transparency and integrity in multi-insurer arrangements,
- Stimulating competition, improving price and coverage outcomes for clients,
- Reducing the administrative burden for clients and insurers,
- Supporting cross-border cooperation, crucial for enterprise and international risks.

What is the role of intermediaries in co-reinsurance?

Intermediaries are the "architects and engineers" of these risk-sharing structures. Intermediaries can:

- Connect risk → modelling → structuring → capital → clients → governments = making the whole system efficient.
- Build syndicate style platforms where insurers, reinsurers, and even investors participate in well-defined layers of risk.
- Design risk layering so that each participant takes a suitable share.
- Bring in alternative capital (investors, ILS)
- Provide the data and modelling needed so insurers/reinsurers can trust the structure.
- Utilise non-insurance risk transfer financial instruments to make solutions more attractive to other sources of capital.

Without intermediaries, most co-reinsurance schemes would never come together; they act as translators, matchmakers and engineers.

What is risk repricing and volatility reduction, why is it important?

Risk repricing is adjusting insurance prices to reflect real climate risk and avoiding under-pricing today that would cause market failures tomorrow.
Reducing volatility is making sure insurers do not face a financial "shock" after each disaster and creating predictable conditions for long-term investments.

Intermediaries, through modelling and risk layering, help support accurate pricing and volatility reduction because better pricing brings more stable insurance markets and better protection for society.

What are Insurance-Linked Securities (=ILS)? What are CAT bonds?

ILS are financial instruments that let insurers and reinsurers transfer insurance risk to capital markets instead of keeping it all on their own balance sheets. ILS is a category of investments that moves insurance risks to investors. (For more detailed explanation on ILS, see Annex III of this document).
CAT bonds are one type of ILS, focusing on catastrophic events. These let investors (pension funds, asset managers, etc.) take on a portion of catastrophe risk.
Concretely, if a catastrophe does not occur, investors earn yield. If it does occur, part of their invested money pays the claims.

Intermediaries can:

- ***channel alternative capital (CAT bonds & ILS) into the system,***
- ***"package" risks in a way investors understand,***
- ***provide transparency so investors trust the process.***

What is parametric insurance? What is the difference with traditional insurance?

EIOPA describes **parametric insurance** as *"a type of insurance covering the occurrence of a pre-defined external event, instead of indemnifying actual losses incurred by the policyholder"*[5]. This means compensation is triggered automatically when a measurable parameter reaches a set threshold. Parametric solutions are useful for increasing available coverage for specific natural perils when traditional insurance capacity is limited. Because payouts are based on objective parameters, such as wind speed, rainfall levels, or earthquake magnitude, funds can be disbursed quickly, helping insureds recover faster even when physical damage assessments are still pending.

Traditional insurance and parametric insurance serve different but complementary purposes within an overall risk-transfer strategy[6].

Traditional insurance is designed to protect physical assets. It relies on well-established underwriting practices, standardised policy wording, and familiar coverage options. After an event, claim payments are based on the actual loss incurred, as defined in the policy. In most cases, a payout depends on physical damage occurring, and the compensation is intended to help repair or replace what was damaged.

Parametric insurance, by contrast, is triggered by the occurrence of a predefined event, not by the size of the actual loss. This means its scope of protection can be much broader. It can cover losses that traditional insurance may find difficult to underwrite, such as financial impacts, hard-to-insure assets, or exposures that are otherwise excluded.

What are secondary perils? Why are they important?

Secondary perils are frequent, lower-severity natural hazards, such as hailstorms, flash floods, wildfires, and severe thunderstorms that often cause significant, localised damage. Unlike primary catastrophes (e.g., earthquakes, hurricanes), they are often secondary effects of larger weather systems. They represent a seriously underestimated risk, as businesses often overlook these, causing significant business interruptions and property damage. Today, many so-called "secondary" perils may represent recurring risks rather than residual or marginal ones. In this context, it may be increasingly appropriate to refer to these hazards as "targeted perils", reflecting the need for more granular risk assessment, geographically adapted product design, and tailored risk-transfer solutions. It is essential to distinguish between retail household risks and corporate risks, while also explicitly recognizing public risks, including infrastructure and other public assets.

The role played by insurance intermediaries is important, as they can help improve risk awareness and understanding, promote risk prevention and adaptation measures. As local actors, they can target consumer's and business needs linked to their geographical exposure (and specific perils linked to it).

[5] EIOPA, Staff Paper on measures to improve the insurability of business interruption risk in light of pandemics, 2021.

[6] Swiss Re, "What is parametric insurance?", July 2023

The role of intermediaries in the design of new products and solutions

What is the role of intermediaries in collecting sustainability or transition-relevant data from their clients?

In general, intermediaries are positioned closest to clients and, therefore, play a key role in gathering the demands and needs information. If there are no solutions in the market, the intermediary may encourage insurers to design new products (for example, related to sustainability, transition and climate risk).

Some intermediaries, using sophisticated tools, data and modelling capabilities, help the market to design these products/ solutions. These intermediaries understand which elements of, for example, NatCat risk profiles can be transferred, mitigated, or avoided. In this respect these intermediaries have a good insight in (or can test) what capacity would be available under what circumstances and conditions.

Working closely with clients or decision makers which can be (local) governments, intermediaries translate qualitative information into actionable datasets that support insurers' underwriting processes and policymakers' risk prevention, and micro or macro economical risk mitigating strategies.

This is also true when they collaborate with governments: insurance intermediaries can help public authorities (local, national or supranational) assess risk strategies, identify gaps, and determine where innovation or capital market involvement is useful or necessary.

Extensive onsite data collection via risk engineering networks
Some intermediaries highlight their systematic approach to collecting data directly from clients, using risk engineering networks, global engineering platforms and on-site assessments.

Use of the latest catastrophe models and regular model updates
There is a strong emphasis on consistent use of the newest catastrophe models to ensure that risk profiles/exposures are not based on outdated assumptions. This includes ongoing model upgrades and recalibrations, through, for example, research partnerships.

Catastrophe models have been designed for large re/insurance portfolios rather than small commercial assets. When assessing single or industry specific assets with unique vulnerabilities. It is important to use the right tools and approach such as engineering and survey led assessments which can be used to calibrate the portfolio view.

Examples:

- Institutions such as the Willis Research Network and their partners (such as Exeter University) and Willis Re help improve model accuracy and provide an independent view of risks; for example, through calibration of the European windstorm model. This ensures risk views reflect current science and observed hazard patterns.
- AON's Climate Risk Monitor tool integrates inputs from academic partners to generate detailed, science-based insights into climate perils. These collaborations allow for deeper analysis of current and future peril behavior over 5–50-year horizons. They help clients understand how risks evolve over future decades, using scientific datasets to explore how climate change will affect specific perils. This supports better decision-making for resilience, pricing, and long-term planning.
- Willis NatCat Risk Engineers collaborate with the Loss Control Engineers to collect as much vulnerability/ building information (primary and secondary modifiers) to improve accuracy of expected losses. For

single and large sites, Willis undertake NatCat surveys and desktop assessment to accurately model site specific physical and operational vulnerabilities, develop a bespoke Business Interruption model and provide risk mitigations and resilience recommendations as well as cost benefit to support investment decisions.

What is the role of intermediaries to price climate risks more accurately?

Because some intermediaries work with catastrophe models and risk-layering approaches, they have a deep understanding of how risks accumulate and where they may concentrate. This know-how must obviously be combined with the know-how of insurers, reinsurers, governments and supervisors. Risk layering is *"a common-sense approach"* for intermediaries: it starts by analyzing the underlying drivers of risk and then structures a protection strategy that aligns with the client's risk appetite. Its ability to integrate modelling tools, supply-chain vulnerability assessments, and global hazard data makes it a good partner in helping to improve the accuracy of climate-risk pricing. Intermediaries can advise insurers and reinsurers on the one hand, and retail clients on the other hand.

Examples:

- The Cape Lookout Resilience Catastrophe Bond placed by GC Securities for the North Carolina Underwriting Association. It links storm-resistant construction with financial markets and exemplifies how insurance can incentivise resilience investments rather than just pay for recovery. Initiatives like Flood Performance Certificates and Property Flood Resilience Scoring aim to create consistent standards for resilience measures, enabling risk-based premium discounts and better communication of property risks. Mutual insurers can leverage their trusted relationships to promote these tools and support members in enhancing resilience.
- Development of some tools such as the climate health cost calculator from Mercer (Climate Health Cost Forecaster) the Marsh's Sentrisk**,** that can help organisations to spot and address vulnerabilities early.
- Marsh and the European Federation of Financial Analysts Societies developed the Certified Climate Risk Analyst (ECRA) programme to equip finance and investment professionals with expertise to navigate the complex interplay of climate risks and their economic implications.
- Development of tools such as WTW Climate Diagnostic and bespoke climate analytics to assess financial impact of climate change can help organisations be more prepared, stress test their insurance and support decisions around risk mitigation and climate adaptation investments.
- Considering hidden and correlated risks, such as a NatCat event impacting both the client site and the wider supply chain, i.e. utility supplier. Traditional facility-only assessments and planning often overlook these connected risks. For example, many business continuity plans work on the assumption utility providers will restore services quickly, but the same natural disaster impacting a facility can also damage utility providers' infrastructure. Willis has recently developed a NatCat utility assessment that helps clients negotiate increased utility capacity.
- The Nature Conservancy and Willis, a business of Willis Towers Watson PLC announced an insurance policy that considers efforts to mitigate fire risk. The wildfire resilience insurance policy was developed and placed to demonstrate lower premium pricing and improved availability where ecological forest practices have taken place.

- Funk's climate scenario analysis illustrates how intermediaries can sharpen climate risk pricing by combining insurance expertise with climate analytics and adaptation planning. The approach identifies physical and transition risks across the value chain, quantifies potential losses, and translates them into resilience measures, investment decisions, and insurance solutions. Effective adaptation strategies can reduce future costs from climate-related damage[7].
- Willis recently announced an innovative parametric policy which is activated automatically when a red weather warning is issued by the UK Met Office or Met Éireann, the Irish National Meteorological Service. This has been designed in collaboration with Swiss Re Corporate Solutions, who will act as the insurer.

How can intermediaries help in the development of innovative insurance products, e.g., (index-based) parametric approaches or performance guarantees?

Insurance Intermediaries act as connectors between clients and insurers but some also connect clients with insurers, reinsurers, and capital-market investors. This places them at the center of possible product innovation: for example, the development of parametric and index-based products.

Examples of concrete solutions developed by brokers:

- Marsh's report "Rooted in Resilience" highlights risk transfer solutions that incentivise investments in nature restoration, as well as re/insurance solutions to de-risk these investments and increase their appeal.
- Marsh's work on parametric innovations, as showcased in Triggering Change: Parametric solutions, which focuses on new solutions emerging for businesses, the public sector, and vulnerable communities.
- Chronic Risks such as extreme cold, heat and drought can lead to significant direct and indirect losses (i.e. power outages, business interruption, etc.). Willis is working with clients and their engineering consultants to develop new engineering-based models to better quantify physical damage to specific assets and

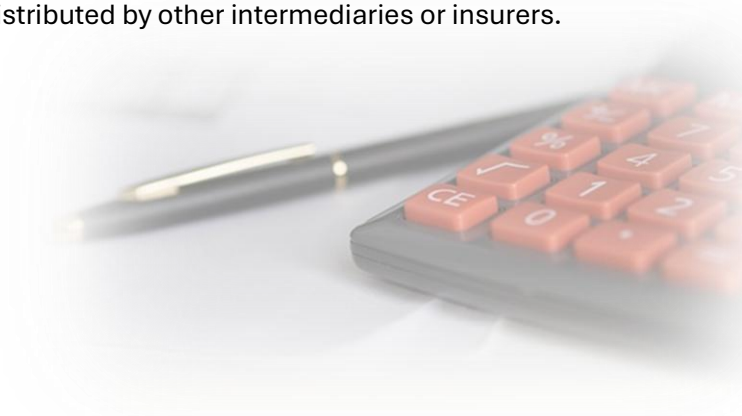
  operational disruptions from key emerging and non-insurable risks, such as heat stress and cold. Furthermore, Willis is working to advise on early climate-resilient design (or *resiliency by design*) and strategic site selection.

Intermediaries in some cases, use risk layering and modular "jigsaw" approaches to combine different protection tools, particularly useful, for example for farmers, corporates, and regions exposed to NatCat risks.

Parametric solutions offer fast payouts, enabling quicker economic recovery and more resilient rebuilding (or restarting of activity) after disasters.

With more clients now willing to explore such products, intermediaries facilitate their adoption and integration into broader risk-management strategies.

Some of these solutions are built by specialised intermediaries and are then also further distributed by other intermediaries or insurers.



[7] Funk & MunichRe white paper on Insurable Performance Guarantees.

Mobilising alternative capital and structuring new solutions
By understanding both insurance and financial market dynamics, intermediaries can design structures such as catastrophe bonds, co-reinsurance arrangements, and performance-based guarantees that attract additional capacity. They bridge gaps between traditional insurance markets and institutional investors seeking insurance linked returns. Capital providers need to understand what their potential return and risk is.

A particularly relevant example is the joint Funk–Munich Re White Paper Insurable Performance Guarantees: driving new Business Models for digitalised Mechanical Engineering Companies. It shows how intermediaries can help transform innovative business models into insurable propositions by structuring performance guarantees around clearly defined customer-relevant KPIs such as availability, uptime, throughput, scrap rate, detection rate, or energy efficiency. The Paper explains that brokers and risk consultants help identify the relevant performance aspects, define a sales-effective guarantee, model the accumulated guarantee risk, and place the resulting exposure with a suitable insurer. In that way, the intermediary does not only connect client and insurer, but actively helps design the product architecture, align it with customer value creation, and make innovation scalable without overburdening the provider's balance sheet

Using captives for long-term resilience
Can captives play a bigger role in delivering more efficient climate risk management? To address long-term and potentially catastrophic risks, clients may need to shift risk management mindsets, moving away from the traditional, short-term focus on annual insurance renewals towards longer-term horizons and risk financing strategies.

Supporting innovation for emerging sectors
Intermediaries increasingly lead in developing solutions for new technologies, such as hydrogen production and storage, by assembling the right expertise, modelling capabilities, and market partners.

Promoting resilience and "build back better" approaches
Intermediaries and insurers challenge and prompt the market and governments to make resilient rebuilding a standard practice. The lack of investment in prevention and resilience has contributed to increased exposure and vulnerability. Intermediaries' know-how can assist in designing prevention driven solutions and combining the right tools, actors, and innovations to make resilience economically viable in the longer term.

The combination of approaches is important in risk layering for flooding and other hazards. Only a holistic approach can help increase resilience[8], and this applies, for example, to flood risk management and insurance, as proposed by Marsh in its report[9] along three ways forward: learning to live with floods, building strategic protection and preparing for relocation.

There is a need for a cross-value chain conversation around insurability, involving financial institutions and other stakeholders.

[8] How a holistic risk approach increases resilience

[9] Staying above water: a systemic response to rising flood risk

Examples in the public sector context:

- Marsh McLennan report on How the analytical tools and methods used in the (re)insurance industry can support Ministries of Finance in their understanding of physical climate risks and their efforts to support climate adaptation - Macroeconomics of Green and Resilient Transitions. This report shows that holistic risk management (= risk assessment, mitigation and financing) can help manage disaster impacts on people, infrastructure and economies. It also underlines the importance of risk layering and of understanding the insurance protection gap to support policies that improve resilience and economic stability (and de facto, reduce government financial burdens).
- Marsh report on "Turning down the heat", where concrete initiatives are proposed to governments to address extreme heat risk and protect their population such as heat-response strategies, protective actions and the strengthening of long-term policies.

What are the respective roles of reinsurance, co-insurance, syndication, and capital market–based instruments in bridging coverage gaps?
Reinsurance can help stabilise the market by reducing volatility and can expand insurers' capacity to offer NatCat covers.

Coinsurance allows sharing larger risks, ensures stable coverage and reduces risk concentration.

Syndication allows insurers, reinsurers and sometimes investors to participate together in defined layers of risk. Syndicated structures are more relevant for large-scale climate risks, where diversification is essential (and shared underwriting).

ILS (and Cat bonds) can channel external investor capital into insurance markets.

Are these tools complementary, or do experts recommend prioritising or sequencing certain instruments over others?
They are complementary, as they spread risk across insurers, reinsurers and capital markets. They reduce volatility, maintain affordability and the availability of coverage.

How do these private-sector tools interact with public backstops promoted by European and/or national institutions and agencies?
They act as a safety net and are complementary to private-sector tools. Nevertheless, they can either stimulate or hinder market development. On the one hand, they can stimulate by pushing innovation when the market is confident enough to offer coverage for emerging risks, for example. On the other hand, they can create moral hazard concerns, where businesses may expect government intervention instead of engaging with insurance tools.

Do public backstop[10] proposals stimulate market development and constructive debate, or do they encourage a wait-and-see attitude in the private sector?
Public policy influences the efficiency of private-sector tools. Certain public backstops can proactively "nudge" private sector engagement. For example, tax incentives[11] for NatCat insurance, risk-prevention initiatives, awareness campaigns, … Furthermore, regulatory fragmentation regarding reconstruction rules, timing of the indemnity payments, can be a barrier to efficient risk spreading, even when public backstops exist.

Their interaction is complementary as private markets build efficient structures/pricing and public authorities ensure systemic resilience where markets alone would fail.

[10] "Public Backstops" in the context of NatCat are financial mechanisms (= safety nets) supported by public authorities (e.g. governments) that step in when private insurers cannot fully absorb extreme losses. It could be public funds, public-private insurance pools, states guarantees, …

[11] Tax benefit for homeowners, reduced insurance premium tax (IPT), income tax deduction, premium loan financing supported by public authority, …

If they contribute to a wait-and-see approach, what policy actions could incentivise more proactive efforts to close existing protection gaps?
Promote innovative climate risk diversification and/or transfer approaches to mitigate the concentration of risk within specific sectors or regions.

Cooperate with public authorities and other key stakeholders to increase awareness about climate risk in general and more specifically about possible risk reduction and risk transfer measures. This includes joint initiatives to help consumers and businesses assess their risks and understand the role of insurance in climate change adaptation.

Develop accessible tools to provide customers with first-hand and clear information on the risks they are facing, including potential financial loss information from a NatCat event and how to mitigate the risks. In particular, make tools and references available to property owners such as hazard maps, infographics, manuals, and guidance documents[12].

Explore the appropriateness of making climate insurance compulsory, mandating hazard bundling (to cover all or a subset of climate relevant perils) or providing subsidies or tax exemptions to customers for climate insurance at national level. The creation of a penalty system for harmful environmental subsidies, based on the EU ETS[13] system, could also be studied further.

Encourage market-based solutions that connect those who can afford to finance risk with those seeking climate risk coverage, which helps ensure business continuity and avoid disruptions caused by natural catastrophes.

The Consorcio de compensacion de seguros example:
The Consorcio de Compensación de Seguros (CCS) is Spain's public scheme covering extraordinary risks through a public–private insurance model. It compensates losses from events typically excluded from standard policies, such as floods, earthquakes, volcanic eruptions, severe storms, as well as terrorism and civil unrest.

Coverage is automatically included in most property, motor and personal insurance policies via a mandatory surcharge paid by policyholders and collected by insurers on behalf of the CCS.

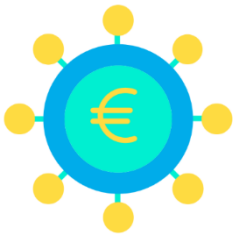
When an extraordinary event occurs, claims are made directly to the CCS, which assesses and pays compensation.

The system is self-funded, financially autonomous, and not reliant on ad hoc state aid, enabling rapid and predictable payouts after major disasters.

[12] EIOPA Dashboard on insurance protection gap for natural catastrophes.

[13] European Union Emissions Trading Scheme.

Issues around new capital sources



How can intermediaries contribute to attract more capital/capacity to back climate-related insurance products?

1. **Designing market structures that mobilise additional capacity:** Intermediaries help design coinsurance and co reinsurance structures that spread large climate risks across insurers, reinsurers, and international markets. This risk spreading makes the market more attractive and reduces volatility for capital providers.

2. **Supporting risk repricing and reducing volatility:** By improving modelling, risk layering, and pricing accuracy, intermediaries help ensure that climate risks are properly priced. This reduces uncertainty, a key requirement for institutional investors considering entering climate risk markets.

3. **Channelling alternative capital (ILS, Cat bonds):** intermediaries can play a central role in connecting insurance markets with capital-markets investors.

4. **Using advanced analytics and structuring skills to "de risk" climate exposures:** Intermediaries deploy modelling, engineering, and risk layering capabilities to make climate risks more understandable and therefore more investable.

5. **Spreading risk at EU / international level.** International diversification could make insurance more affordable. Risks should be spread at European level but also internationally.

6. **Supporting risk re-pricing and reducing volatility.**

7. **Shifting investment allocation towards climate risks.**

Intermediaries are the actors with experience who connect risk → modelling → structuring → capital → clients → governments = making them efficient.

Some insurance intermediaries are positioned to help designing solutions which expand the capital base that supports climate-related risks. Their contribution spans market design, syndication, risk analytics, investor engagement, and innovation.

There is no shortage of potential case studies: many intermediaries are already involved in resilience-focused initiatives with humanitarian organisations[14], combining risk transfer with long-term risk-reduction objectives. These examples can help illustrate how syndication, structured markets, and intermediary expertise can work together to provide both coverage and resilience benefits.

[14] About us | Humanity Insured

Risk facility: the example of Lloyd's Disaster Risk Facility?

A useful international example is the Lloyd's Disaster Risk Facility, a consortium of reinsurers operating within Lloyd's market. It was created to support resilience challenges in the Global South, particularly for risks that cannot be insured through traditional markets. The Facility, chaired by Hiscox, has implemented several initiatives, including a reinsurance layer placed on top of the Disaster Response Emergency Fund of the International Federation of the Red Cross. This illustrates how reinsurance can be leveraged to strengthen long-term resilience and provide structured support for humanitarian responses.

The model demonstrates how a centralised market mechanism can back resilience-focused risk solutions by pooling expertise, capital, and underwriting capacity. While primarily used outside Europe, a similar structure could be considered for European climate risks if insurers were willing to coordinate. Brokers, such as Aon, which help assemble and execute these deals, play a crucial role in bringing such arrangements together. Drawing from this Global South experience, a Lloyd's-style central market supporting resilience initiative could provide a useful blueprint for Europe.

Syndication?

A platform is often mentioned as a prerequisite for syndication, but in reality, it is unnecessary. If a European client wants to purchase syndicated risk today, a broker can already arrange this, it is part of what intermediaries routinely do. It is therefore important not to focus solely on the question of "having a platform," even if platforms can certainly be useful tools in some contexts.

That said, there are several relevant examples worth highlighting:

- For instance, a platform in Rotterdam already facilitates this kind of structured risk participation, and it may be useful to draw attention to it. The VNAB, the Dutch co-insurance association, acts as a hub where insurers, risks carriers and brokers coordinate and structure co-insurance and risk participation arrangements.
- More broadly, a deeper look at how the Excess and Surplus (=E&S) market operates in the United States and Canada could provide valuable insights.
- In British Columbia, for example, the province covers most of its natural catastrophe exposure through the E&S market, demonstrating how syndicated or non-standard structures can effectively support large-scale NatCat risks.
- There are relevant dedicated teams for that within Guy Caprenter for example: Global Capital Solutions with a full range of financial solutions including catastrophe bonds, insurance-linked securities, debt and equity issuance and M&A[15].
- A significant development at COP30 was the creation of the "House of Insurance," a platform organised by the Brazilian insurance association CNSeg in partnership with Marsh McLennan and others. This initiative brought together insurers, governments, businesses, and NGOs to explore how the insurance industry is innovating to support the transition to a low-emission, resilient economy. At its core was the message that insurance is more than a mechanism for compensating losses, it is a strategic tool for building resilience and enabling sustainable development within communities.[16]

[15] Mergers and Acquisitions

[16] Insurance's evolving role in climate resilience: perspectives for mutual and cooperative insurers from COP30 - International Cooperative and Mutual Insurance Federation

What relationship do intermediaries have with institutional investors and what can they achieve in raising interest in this group for insurance-linked returns?

Some intermediaries have a trusted, technical and catalytic relationship with institutional investors. Some intermediaries have the know-how to translate, structure, de-risk and professionalise insurance linked opportunities, making them investable at scale.

Through modelling, transparency, product design and relationship building, they can significantly raise investor interest and unlock new streams of capital to support climate related insurance markets.

- ✓ Intermediaries translate insurance risk into investor friendly- language.
- ✓ Intermediaries build investor confidence through data, modelling and transparency.
- ✓ Intermediaries highlight the benefits of insurance linked-returns for diversification.
- ✓ Intermediaries package risks and structure vehicles appealing to institutional investors.

What can intermediaries do to bridge the gap between traditional insurance and alternative capital sources?

Some intermediaries can act as connectors between underwriting driven insurers and return driven investors. Intermediaries can connect:

- ✓ Insurers' focus on risk selection, long-term relationships and capital requirements, with investors' interests in returns, transparency and risk diversification.
- ✓ They "unlock" additional capital by standardising processes and fostering trust.
- ✓ Design solutions which feel familiar to both parties. For instance, a fully collateralised ILS vehicle (where a special purpose vehicle is created) can allow institutional investors to provide capital through security trade but the vehicle can provide an insurer with a traditional reinsurance policy.
- ✓ Intermediaries also facilitate (where necessary) the documentation, reporting, triggers and modelling practices, which reduces transaction costs and makes the asset class more scalable for investors.
- ✓ Some intermediaries also have know-how in terms of tokenisation and distributed ledger applications (=smart contracts)

What should the appropriate access points (= platforms, vehicles, etc.) for the defined capabilities/capital/markets look like?

According to the EC, Europe needs SII-compatible, standardised, transparent, and scalable market structures that allow insurers, intermediaries, and institutional investors to connect efficiently. These access points must be designed to plug together risk, modelling, structuring and capital (=the full chain that intermediaries can uniquely bridge).
Already today (and in fact since the existence of insurance) intermediaries build syndicate-style, SII compliant "platforms" for important risks (see, for example, co-insurance and also all other techniques mentioned before) that allow insurers, reinsurers, ILS funds and institutional investors to co-participate in well-defined risk layers under a unified structure. There is a need to enable the formation of protected cell companies across EU Member States, as is already the case in Malta.

The example of Cat bonds in Bermuda:
Catastrophe bonds (CAT bonds), a category of Insurance-Linked Securities (ILS), are valued for their low correlation with traditional financial markets, making them an attractive and now well-established investment option. Bermuda has become the leading global hub for ILS, largely due to its distinct regulatory culture. Its supervisory authority adopts a collaborative and pragmatic approach, working closely with sponsors from the moment they express interest in establishing a new ILS vehicle. Because regulators engage early and constructively, applications are effectively co-developed, resulting in rapid approvals and an environment that actively supports innovation. This example could encourage supervisory authorities to take a more "solutions oriented" approach. The difference in regulatory philosophy, supportive and solution-oriented in Bermuda versus more cautious and restrictive elsewhere, helps explain the uneven growth of ILS markets and affects how easily captive structures or alternative risk-transfer tools can be expanded for NatCat and long-term climate-risk solutions.

Barriers to the development of wide scale solutions

Regulatory barriers (for example):

- Recognition of certain "syndication" models in Solvency II?
- IDD related "POG rules"?
- Co-insurance-related rules (competition related)?
- Barriers to spread risk cross-border in the EU or internationally?
- Supervisory culture?
- Others?

Concrete examples of barriers:

- A potential barrier arises from the **different rules that exist across countries** regarding indemnity payments and reconstruction. For example, in Sicily, there is currently a debate about whether buildings destroyed by a NatCat event should be rebuilt in the same location. Such requirements can become significant obstacles to cross-border risk-spreading.

- Another example concerns **indemnity payments** in Italy: new legislation is being introduced that obliges insurers to make 30% of the indemnity available to clients only 10 days after the event. While well-intentioned, such rules can complicate efforts to "build back better," as reconstruction sometimes requires relocation rather than rebuilding in the same place. These regulatory differences make it more difficult to design harmonised, efficient solutions for risk sharing across countries.

- A key issue in understanding and managing the protection gap is ensuring that **asset valuations are accurate and up to date**. If clients' assets are undervalued, whether due to outdated information or underestimated replacement costs, the resulting insurance coverage will be insufficient. This mismatch directly contributes to a widening protection gap. A concrete example comes from recent severe convective storms in North America. Insured losses rose sharply not only because of the intensity of the events but also due to a significant increase in construction and material costs, particularly roof materials. In some cases, roof replacement costs increased by as much as 200%. When valuations do not reflect these real rising costs, actual losses far exceed the sums insured, leading to large shortfalls in compensation. This challenge affects both property damage and business interruption coverage. For both types of exposure, outdated or inaccurate valuations distort modelling results, weaken risk assessments, and ultimately undermine the effectiveness of insurance solutions. Ensuring that valuations remain current is therefore essential to reducing the protection gap and improving climate-related resilience.

- In Belgium, the situation also illustrates how awareness alone does not translate into effective coverage, and how uncertainty about whether coverage will actually be available acts as a barrier to effective NatCat coverage. Although several initiatives exist to improve risk awareness, such as tools that allow citizens to assess their exposure based on historical data, awareness alone is insufficient. A key challenge for intermediaries is the difficulty of explaining whether coverage will ultimately be available, as this depends on the aggregate outcome of NatCat events in a given year. In practice, this means that an intermediary may be selling a product while having to acknowledge that, if a major event occurs and aggregate losses exceed certain thresholds, coverage availability may be uncertain. This complexity, combined with uncertainty about the availability of capital after a large event, significantly affects the advisory role of intermediaries.

- Another challenge relates to **behavioural science**. Many individuals and companies tend to underestimate their own exposure ("it will not happen to us") or rely on the expectation that, should something happen, the government will intervene. During a recent exercise on systemic risks in Belgium, not limited to NatCat but covering broader systemic threats, the dominant conclusion among participating companies was precisely that: in the event of a major shock, government support would ultimately fill the gap. This creates a form of moral hazard that undermines market-based solutions. While some argue that public involvement should be limited as much as possible, this behavioural dependency on government intervention shows that the issue is more complex. It highlights the need for coordinated communication, better incentives, and clearer frameworks to ensure that both clients and market participants understand when and how insurance mechanisms, and not public funds, should be the primary response tool. In some countries, this reaction is understandable: whenever a major incident occurs, governments often step in to bail people out. But if public authorities want the insurance market to function properly, they need to move away from this approach and clearly signal that automatic compensation will not always be provided. The *Humanity Insured* model offers an interesting alternative: a charity initially pays people's premiums, giving insurance the opportunity to demonstrate its value. Similarly, there could be a case for governments to temporarily subsidise premiums, especially if this support is combined with a clear announcement that there will be no future bailouts. This creates the right incentives for individuals, insurers and policymakers, allowing the insurance market to mature and operate effectively over time.

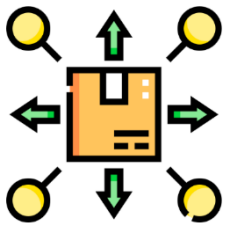
- A further point relates to behavioral change and the **potential role of premium-financing mechanisms in strengthening resilience**. Considering, for example, a farmer transitioning to regenerative agriculture: insurance is essential to protect yields and margins during this transition. If a loan-financing scheme exists to help pay the insurance premium, and the farmer later receives a payout, the value of insurance becomes immediately tangible. This illustrates how financial mechanisms can help demonstrate the benefits of insurance in a very practical way.

This raises a broader question: how can premium-financing models be used to encourage behavioral change without distorting the market?

Simply offering free insurance is neither sustainable nor economically sound. Instead, partnerships could be explored between governments, development banks, and the wider private sector to develop blended-finance approaches. Such models could support communities, farmers, and infrastructure operators in understanding the role of insurance, while also helping them afford the necessary protection.

The moment a payout occurs is particularly powerful: it reinforces trust in insurance as a resilience-building tool, strengthens long-term recovery, and helps prevent the development of protection gaps. By providing liquidity at critical moments, insurance supports "building back better," encourages risk-aware behavior, and contributes to sustainable resilience over multiple years. However, for such premium-financing schemes to function effectively, public-sector involvement is necessary. A governmental or quasi-public body would need to underpin the mechanism to ensure affordability, scale, and stability. When designed appropriately, such schemes can accelerate behavioral shifts, enhance risk preparedness, and enable communities to strengthen their resilience trajectories over a five-year horizon and beyond.

Services and distribution by intermediaries



How can an intermediary assist in insuring that clients understand the need for NatCat insurance and/or are aware of NatCat insurances?

An intermediary plays a crucial role in helping clients understand both the importance and the relevance of NatCat insurance. It begins with personal consultation, where the intermediary recommends the product that best fits the client's individual situation, prioritising suitability over price. Still, it is important to acknowledge that the ideal product is not always available on the market.

Intermediaries act as the key link between a technically complex insurance product and the client's actual exposure to natural catastrophe risks. Their added value goes far beyond arranging a contract. They:

- Clearly explain the risk, tailoring it to the client's specific property and geographic context.
- Detail the scope of cover, ensuring the client understands exclusions, coverage limits, deductibles, and the consequences of being underinsured.
- Use real-life claims scenarios to make risks tangible and relatable.
- Connect insurance solutions with risk-mitigation measures and assess how well the client is prepared for a potential NatCat event.

From a distribution-quality perspective, intermediaries should not be seen merely as sales channels. Their role is that of a professional adviser on household risk management, helping clients understand why NatCat insurance matters and ensuring they make informed decisions.

Are consumers keen on buying NatCat insurance? Even if there are enough offers? What are the major barriers for clients buying NatCat cover?

Client interest in NatCat insurance is highly variable and depends strongly on both personal experience and regional exposure. In general, customer demand tends to be reactive rather than proactive. Interest typically increases only after:

- a personal loss experience,
- a NatCat event in the surrounding area, or
- moments of major financial decisions, such as purchasing a property (e.g., in connection with a mortgage).

Therefore, even when there are enough products available on the market, this does not automatically translate into adequate insurance coverage.

Major barriers preventing clients from purchasing NatCat cover:

1. Financial considerations: This is the primary reason many properties remain uninsured. Even when customers believe NatCat insurance is important, they often lack the immediate trigger or motivation to take action. Intermediaries therefore play a crucial role; without their guidance and initiative, only a small share of current policies would likely exist.
2. Risk underestimation and behavioural biases: Many clients assume that a natural catastrophe is unlikely to occur to them personally, leading to inertia and inaction. One potential solution could be to introduce premium loan financing, as a mechanism to encourage behavioural change and increase the uptake of insurance. Another solution is exploring partnerships with government bodies and development banks to support the impact of this initiative and enhance community resilience.
3. Insufficient understanding of insurance coverage: Clients often mistakenly believe that basic home insurance already includes all relevant NatCat risks. This misunderstanding reduces their perceived need for additional cover.
4. Partial distrust in claims handling: Concerns about reduced payouts, rejected claims, or past negative experiences can discourage clients from taking out cover. The use of claims experience is a powerful tool to refine and improve solutions.

In terms of services, what is the role of local/ intermediaries when NatCat occurs? Are infrastructures at local level well prepared? Need for better coordination and awareness at local level?

Insurance intermediaries are important partners in narrowing the (climate) protection gap. Thanks to the strong presence of intermediaries across all corners of the EU, citizens and businesses are effectively protected by insurance. People do not typically wake up intending to look for insurance; their decisions are shaped by how they perceive and understand risk, and by their awareness of the solutions available to transfer part of that risk to a third party. Intermediaries play a crucial role in this process. They sharpen insurers' focus, operate in a highly competitive environment, often on a "no cure no pay" basis, and work within a strictly regulated and supervised framework. With climate-related events becoming more frequent and severe, intermediaries leverage their proximity to clients and their expertise in "prompting" citizens and businesses to think about and to evaluate the risks they are exposed to.

Local intermediaries play a crucial frontline role when a NatCat event occurs. Their function goes far beyond pre-contractual advice. In the immediate aftermath of a catastrophe, they act as the primary contact point for affected customers, providing practical guidance at a moment of high stress and uncertainty.

Their responsibilities typically include:

- Supporting the claims-notification process by helping customers understand what to report and how to proceed.
- Assisting with documentation requirements, ensuring that the insurer receives the information needed for efficient claims handling.
- Facilitating communication with the insurer, acting as a coordinating interface between the customer and the claims department.

While intermediaries are extremely important in ensuring smooth claims settlement, local infrastructures are not always fully prepared for large-scale NatCat events. The effectiveness of the response often depends on the level of coordination between insurers, intermediaries, and public authorities.

Therefore, there is a clear need for stronger collaboration with policymakers, especially regarding preventive measures, emergency protocols, and communication channels during

crisis events. Improved local-level coordination and greater awareness, both among customers and public institutions, would enhance the overall resilience and response capacity in NatCat situations.

A concrete example of effective collaboration between intermediaries and local authorities is the recent initiative launched by the Italian Region of Friuli Venezia Giulia, which aims to incentivise insurance coverage against natural disasters and mitigate financial risk thereby helping to remove some of the barriers described above.

In Italy, the Regional Council Decree 4724/2026 set up a dedicated fund to help residents cover the cost of NatCat insurance. In practice, the region offers non-repayable grants that reimburse part of the NatCat premium paid by private citizens who own residential properties and photovoltaic systems in the region. This is considered innovative because it targets private individuals (in addition to businesses), aligning with legislation that requires NatCat coverage and, in doing so, widening the group encouraged to buy policies and supporting a stronger "culture" of NatCat protection. The requests for access to the funds must be made through the intermediaries responsible for issuing the coverage, and not by the policyholders themselves, whose applications would otherwise be rejected. Eligible policies must relate to owned property or other real rights (excluding leases and loans) and can cover both existing buildings and buildings under construction, provided the owner has already obtained the relevant building permits. Grants are awarded until the budget is exhausted, and in any case no later than 30 June, on a first-come, first-served basis.

Insurance intermediaries already play an important role in improving awareness and understanding of what can and cannot be insured in the context of climate risks. At national level, the sector regularly works with public authorities to provide clear, practical guidance to citizens and businesses. Another concrete example of this collaboration is the Dutch infographic on the insurability of climate risks, developed in cooperation with government actors, which helps explain different climate hazards, coverage limits and risk-prevention responsibilities. Such initiatives demonstrate how intermediaries contribute to transparency and informed decision-making by sharing best practices tailored to local risk profiles, rather than relying on abstract regulatory information.
For businesses, intermediaries also play a role in protecting economic continuity through business interruption insurance. The Dutch experience following the floods in Limburg illustrates the value of professional advice: companies that had received appropriate guidance and had business interruption cover in place were able to resume operations more quickly after the disaster. This rapid return to activity is often decisive for business survival and recovery.

These examples show how intermediaries combine risk awareness, tailored advice and appropriate coverage solutions to strengthen resilience well before a catastrophe occurs.

What are the issues to be resolved at EU level (for example, in the case of cross-border catastrophes)?

At EU level, several challenges still need to be addressed to ensure effective prevention and response in the case of cross-border natural catastrophes. A key issue is that European policymakers must establish a stronger and more coherent framework for prevention measures. This includes ensuring that all Member States put in place adequate protective infrastructure (such as water-protection systems for example) and enforce appropriate land-use planning rules, including prohibiting new building permits in high-risk (red) zones.

Since natural catastrophes do not stop at national borders, fragmented national approaches can significantly weaken overall resilience. Therefore, greater alignment is needed across Europe on:

- Prevention standards and infrastructure investment,
- Risk-zone management and building-restriction policies, and
- Coordinated cross-border emergency planning.

Strengthening these areas would support a more harmonised and effective EU-wide approach, reducing vulnerability and ensuring that responses to cross-border catastrophes are more consistent and better prepared.

Conclusions

Does the protection gap mean that the system does not work?

The system works, but the existence of a protection gap signals that adjustments may be needed. The first questions are therefore: which natural catastrophes can or should be insured, and which measures should be taken to prevent or mitigate natural catastrophes?
The next question is to what extent "the system" can cope with the scale, frequency and complexity of climate-related or NatCat risks.

Addressing these challenges requires a broader debate at both European and national level (and probably also local authorities level), as well as stronger public–private co-operation aimed at expanding prevention and mitigation, risk-sharing mechanisms and improving awareness and understanding of climate-related risks.

As this paper illustrates, **insurance intermediaries can help governments, institutions and individual clients identify practical ways to narrow the climate protection gap.** By leveraging data analytics and modelling capabilities, they contribute to a more accurate understanding of climate risks, which in turn supports more appropriate underwriting and pricing by insurers. Over time, this creates a virtuous cycle in which better risk insight leads to more sustainable and affordable coverage.

Operating at the intersection of risk assessment, modelling, structuring, capital markets and client engagement, intermediaries are well placed to connect public and private actors. Their close relationships with households, SMEs and large corporates, combined with advanced catastrophe and analytical expertise, enable them to contribute meaningfully to discussions on long-term solutions, resilience and "build back better" approaches. As improved risk understanding and risk reduction reinforce one another, protection gaps can gradually shrink, allowing public–private schemes to play a transitional role until private markets can sustainably take over in the longer term.

ROLE OF INTERMEDIARIES IN THE CLIMATE PROTECTION GAP

☑ Designing and Structuring Risk Sharing Mechanisms (Coinsurance & Co-reinsurance)

- Intermediaries can architect multi-insurer and multi-reinsurer structures that spread large climate risks, stabilising capacity and reducing volatility for insurers and clients.

☑ Improving Climate Risk Pricing Through Advanced Modelling & Data Analytics

- By using catastrophe models, risk layering, and updated climate exposure data, intermediaries help ensure risks are accurately priced, avoiding under-pricing and reducing shocks in reinsurance cycles.
- They also partner with academic institutions to refine model accuracy and future risk projections.

☑ Mobilising Alternative Capital (ILS & CAT Bonds)

- Intermediaries structure and channel alternative capital (e.g., catastrophe bonds, ILS funds) into the insurance system, expanding capacity for peak NatCat risks and improving system resilience.
- They translate insurance risk into investor friendly terms and build investor trust via modelling, transparency and documentation.

☑ Developing and Scaling Innovative Products (Parametric & Index-Based Solutions)

- Intermediaries convert climate-risk data into measurable triggers, enabling rapid payouts and addressing gaps where traditional insurance struggles (e.g., drought, low-water river levels, windstorms).
- They design payout curves, reduce basis risk, and coordinate between data providers, reinsurers, clients, and investors.

☑ Distribution of solutions , Enhancing Risk Awareness, Prevention, and Client Engagement

- Intermediaries act as first-line advisers helping clients understand exposures, assess vulnerabilities, and adopt prevention strategies.
- They provide tools, onsite risk engineering, hazard maps, and guidance documents to support risk mitigation and more informed decisions.

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Annex II: Parametric solutions and the role of intermediaries, by Alexander Skorna, Managing director, Funk Gruppe

Parametric (including index-based) insurance is increasingly relevant as climate change amplifies systemic natural catastrophe (NatCat) risks and traditional indemnity insurance faces limits in speed, insurability, and scalable loss adjustment. Unlike conventional covers that require proof of loss, parametric solutions pay a pre-agreed amount once an objective, independently observable trigger (for example, river gauge levels, rainfall, wind speed, or soil moisture indices) is met. This design can provide rapid liquidity after disasters, helping address the widely observed post-event liquidity gap that delays recovery even when insurance exists (World Bank, 2017).

Why parametrics matter for systemic NatCat risk?
Systemic hazards (such as widespread floods, droughts, or storms) create correlated losses and operational disruption across supply chains and regions. The IPCC Sixth Assessment highlights that climate-driven changes in extremes are already affecting all regions and increase the relevance of risk management and risk finance instruments (IPCC, 2021). Parametric structures can be scaled across portfolios because settlement does not rely on onsite loss adjustment; this can reduce claims-processing bottlenecks and speed up disbursement when many policyholders are affected simultaneously. In practice, parametrics are typically positioned as a complement to indemnity insurance to covering defined cost exposures, non-damage business interruption, or high-frequency layers rather than as a full substitute (Carter et al., 2017).

Role of intermediaries?
Converting hazard data into insurable protection. Intermediaries are central to parametric innovation because they sit at the intersection of client operations, insurers/reinsurers, and data/model providers. Their core value-add is to translate a client's financial exposure (for example, extra logistics costs, revenue shortfall, or procurement cost spikes) into:

(i) a measurable hazard proxy,
(ii) a transparent payout curve,
(iii) an auditable data governance process.

This requires cross-disciplinary capabilities i.e., risk engineering, modelling, legal structuring, and placement plus the ability to coordinate multiple parties (data providers, carriers, reinsurers, and, in some cases, capital market investors).

Evidence-based design principles and the basis risk question:
The principal technical challenge in parametrics is basis risk: the trigger may not perfectly match the policyholder's actual loss (loss without payout, or payout without loss). Reviews of index insurance consistently find that reducing basis risk is a first-order determinant of value and adoption, and recommend combining technological (better data), contractual (smarter payout functions), and institutional (clear disclosure and governance) measures (Carter et al., 2017).

Intermediaries can reduce basis risk by selecting indices with strong empirical correlation to the exposure, using multi-location or blended indices where appropriate, calibrating strike/exit points and payout gradients to reflect the client's loss function, and establishing transparent independent data sources and verification pathways.

German market examples illustrate how intermediaries operationalize these concepts. First, agricultural drought or input-cost exposure can be insured using satellite-derived soil moisture indices. A German case study describes a bespoke parametric solution for a biogas and heat-supply business whose feedstock depends on maize yields; the cover uses satellite-based soil moisture observations (daily measurements) and a defined risk period with automatic payout once the trigger is breached (Funk Forum case study, 2021). This approach aligns with peer-reviewed research showing the potential of satellite-retrieved soil moisture indices to support drought index insurance design (Cornelsen and Chrysanthopoulos, 2021).

Second, low-water logistics cost risk can be covered using river gauge levels. A German case study structures protection against additional costs associated with low water levels on the Rhine. The index is defined as the average daily gauge level at specified measurement points (for example, Duisburg, Cologne, Kaub) during the risk period, with a payout schedule linked to threshold levels that correspond to escalating cost surcharges. This is a typical parametric application for non-damage business interruption or extra expense, where the economic harm is real but not tied to physical property damage. Attracting additional capacity: linking insurance and capital markets.

For peak NatCat layers and hard market conditions, intermediaries can also support capacity by structuring and placing risk with reinsurers and alternative capital (for example, catastrophe bonds and other insurance-linked securities). The academic literature describes catastrophe bonds as a securitized form of reinsurance that can broaden the risk-bearing base beyond traditional carriers, potentially helping to close protection gaps for catastrophe risk (Barrieu, Braun and Makariou, 2023). Parametric triggers are particularly compatible with such structures because they are transparent, data-driven, and designed for fast and objective settlement—features valued by institutional investors. Policy relevance: key takeaways for decision-makers.

Parametric insurance can be a pragmatic tool to enhance resilience by ensuring fast, rules-based post-event liquidity, especially for systemic hazards that overwhelm traditional loss-adjustment capacity. However, it works best when embedded in a broader risk-layering strategy (prevention and adaptation, indemnity insurance where feasible, and parametric liquidity for defined gaps). Policymakers can accelerate responsible uptake by supporting (i) open and trusted hazard data infrastructure, (ii) standardised disclosure of trigger methodology and basis risk, and (iii) regulatory clarity for hybrid insurance–capital market solutions that add capacity without weakening consumer protection (Sustainability review article, 2025).

Annex III: Insurance-Linked Securities (ILS) and Catastrophe Bonds, by Alexander Skorna, Managing Director, Funk Gruppe

Insurance-Linked Securities (ILS) are capital-market instruments that transfer clearly defined insurance risks most prominently extreme natural catastrophe ("NatCat") risk from insurers and reinsurers to investors. The best-known form is the catastrophe bond ("cat bond"). In a typical structure, a sponsor (an insurer, reinsurer, or sometimes a public entity) issues a note through a bankruptcy-remote special purpose vehicle (SPV). Investors provide collateral upfront, the SPV invests that collateral in high-quality liquid assets, and the sponsor pays a risk premium to the SPV. The premium plus collateral earnings fund the coupon. If a defined catastrophe event occurs and the trigger conditions are met, all or part of investors' principal is used to indemnify the sponsor; if not, principal is repaid at maturity. By being fully collateralised, these structures are designed to reduce counterparty credit risk compared with many bilateral reinsurance arrangements and to ensure predictable post-event funding once triggers are met (Weistroffer, 2010; Ben Ammar, Braun & Eling, 2015).

From a public-policy perspective, ILS are not merely a niche investment product; they are a mechanism for widening and internationalising the pool of risk-bearing capital available to finance climate-related extremes. The economic rationale is straightforward: climate-driven NatCat losses can be highly correlated across regions and can strain the balance sheets of individual insurers, as well as the reinsurance capacity available in a given market. When capacity tightens, prices can reset sharply ("repricing"), deductibles rise, and coverage can contract—effects that propagate into exposed sectors such as housing, infrastructure, logistics, agriculture, energy and manufacturing through higher insurance costs, tighter lending terms, delayed investment and, in severe cases, uninsured losses. The ILS market has grown precisely because it can complement traditional (re)insurance by transferring a portion of peak risk to global investors and thereby expanding the overall capital base supporting catastrophe protection (Weistroffer, 2010; ZfV, 2015).

Intermediaries are central to making this system work in practice. While the instruments are issued in capital markets, the underlying risk originates in real-economy exposures that must be measured, modelled, structured and distributed. Specialist intermediaries (brokers and capital-markets intermediaries) frequently provide the technical and operational bridge that connects risk identification, exposure data, catastrophe modelling, trigger and contract design, syndication and placement, investor distribution, post-event settlement and claims governance. Their contribution spans market design, risk analytics, investor engagement and transaction execution, and it directly supports the policy objective of spreading risk at EU and international levels.

A first intermediary function is the mobilisation of additional capacity through co-insurance and co-reinsurance. For large climate-exposed portfolios, intermediaries can syndicate risk across multiple carriers and reinsurers, reducing concentration on any single balance sheet and enabling more granular risk layering. In a layered programme, higher-frequency loss layers may be retained or placed with traditional markets, while low-frequency, high-severity layers are transferred via collateralised reinsurance or cat bonds. This modular approach is economically relevant because it allocates capital more efficiently across return periods: scarce and expensive capital is reserved for the most extreme tail risk, while more predictable layers are handled through conventional mechanisms. The result can be more stable availability of protection for exposed sectors and a lower probability of sudden coverage withdrawal after major catastrophes.

A second intermediary function is facilitating EU and international risk sharing. Climate hazards do not respect borders, but capital markets are global. ILS can distribute European catastrophe exposures to investors across jurisdictions, reducing the extent to which any single region's insurance sector must absorb the full shock of an extreme event. This internationalisation supports economic resilience by smoothing catastrophe losses over a broader base of risk bearers and can mitigate the risk that an extreme event becomes a regional fiscal stress event. Intermediaries enable this by standardising risk information and disclosure in a form investor can underwrite, coordinating modelling opinions, and running placement processes that reach global ILS funds, asset managers and private capital pools.

A third intermediary function is helping markets manage repricing and volatility. Reinsurance cycles and post-event repricing can translate into volatile insurance pricing and capacity for households and firms. Intermediaries can dampen these cycles by bringing alternative capital into the market when traditional reinsurance is constrained, by structuring multi-year instruments that stabilise capacity supply over time, and by improving transparency and comparability through consistent analytics and documentation. As highlighted in market and academic discussions, reduced volatility of risk-transfer capacity has broader economic value because it improves planning certainty for exposed sectors and reduces the risk of pro-cyclical cutbacks in insurance supply after disasters (Weistroffer, 2010; Ben Ammar, Braun & Eling, 2015).

A fourth intermediary function is the channeling of alternative risk finance turning catastrophe risk into an investable asset for institutions and family offices. Investors do not invest in "insurance risk" in the abstract; they invest in instruments with defined cash flows, measurable risk metrics and robust governance. Intermediaries translate catastrophe exposures into investor-friendly terms (expected loss, attachment and exhaustion points, probability of principal impairment, trigger mechanics, and model assumptions) and assemble the transaction infrastructure (SPV set-up, collateral arrangements, calculation and verification agents, legal frameworks, and settlement procedures). This professionalisation addresses key barriers to scaling ILS, such as transaction complexity, high fixed costs and the need for credible and consistent risk disclosure (Ben Ammar, Braun & Eling, 2015).

The investor case - especially for family offices - typically rests on three pillars: diversification, risk premium, and access to precisely defined exposures. First, catastrophe risk is largely driven by physical hazards and tends to be weakly correlated with equity and corporate credit cycles; ILS are therefore often used as a diversifier within multi-asset portfolios. Second, investors earn a risk premium for bearing low-probability, high-severity loss risk, which can be attractive in environments where traditional yields are compressed. Third, ILS allow targeted exposure selection (peril, geography, attachment level), enabling family offices to implement focused allocations rather than taking broad insurance-sector equity risk. Market commentary notes that pension funds, high-net-worth individuals and family offices often access the asset class via specialised ILS fund structures that provide portfolio diversification across deals and professional risk management (Weistroffer, 2010; ZfV, 2015).

Policy discussions should also acknowledge the limits and risk controls needed for sustainable investor participation. ILS are exposed to tail risk by design; model risk and climate-change-driven shifts in hazard frequency and severity can affect expected losses; and liquidity can be lower than for mainstream fixed-income assets. Intermediaries support market integrity by strengthening disclosure, promoting conservative collateral practices, clarifying trigger mechanics and settlement governance, and, where appropriate, implementing alignment features that address moral-hazard concerns. The academic and practitioner literature frequently points to alignment and transparency as critical to long-term market growth and investor confidence (Ben Ammar, Braun & Eling, 2015).

In sum, ILS and cat bonds can deliver system-level benefits by expanding the pool of capital available to finance climate-related catastrophe risk and by enabling international risk sharing. Intermediaries are the enabling infrastructure: they connect risk to modelling, structure risk into tradable layers, syndicate across (re)insurance markets and distribute to global investors and thereby support more stable and scalable protection for climate-exposed households and sectors. For policymakers, the implication is that facilitating high-quality data infrastructure, robust disclosure standards and predictable legal frameworks for collateralised risk transfer can help unlock private capital while ensuring that alternative risk finance complements, rather than replaces, prevention, adaptation and resilient rebuilding.

Annex IV: Participants' list

Chair of the working party

- **Karel Van Hulle,** Prof. em. KU Leuven and Honorary Professor Goethe University Frankfurt.

Members of the working party

- **Audigier Isabelle**, BIPAR Legal Director
- **Calavia Ester**, WTWCO
- **Carty Paul**, BIPAR EU Affairs Committee Chair
- **Croft Christopher**, LIIBA
- **De Bruijn Ludger**, Adfiz
- **De Maesschalck Nic**, BIPAR Director General
- **De Nie Rebekka,** BIPAR EU Policy Manager
- **Gause Bernhard**, BDVM
- **Hillegaart Yorck**, BIPAR Chair
- **Lopez-Chicheri Borja**, Adecose
- **Myhill Andrew,** AON
- **Negri Pietro**, AIBA
- **Nolens Valérie**, Becobra
- **Paymans Onno**, BIPAR Vice- Chair
- **Skorna Alexander**, Funk Gruppe
- **Surminski Swenja**, Marsh - Oliver Wyman
- **Tamman Jessica**, AON
- **Van hamme Zoé**, BIPAR EU Affairs Advisor
- **Wiertsema Enno**, Adfiz

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(Aruna Manickam: layout and proofreading)