

Interview on the future of natural catastrophe underwriting



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Mélanie Courvoisier : "Hello Florence and Frédéric. You both spoke about the challenges surrounding natural catastrophe risk and insurance at the annual conference of AMRAE, the French corporate risk and insurance management association, held in February 2025*. In a few words, how do you see the key challenges posed by the evolution of natural catastrophe risk and its insurability?"

Florence Louppe : "The escalating economic toll of natural catastrophes on both policyholders and insurers has, unfortunately, become a stark reality.

Policyholders are being forced to absorb increasingly large out-of-pocket costs, due both to rising retention levels imposed by the market and uninsured losses resulting from risks that have become uninsurable under current market conditions. Moreover, these impacts tend to be amplified across their supply chains.

Policyholders must also invest in prevention, while at the same time incurring significant costs to demonstrate their resilience to various stakeholders—such as lenders, contractual partners and public authorities—particularly under the reporting requirements of the CSRD in Europe, although that pressure has eased somewhat following the recent extension of the compliance deadline."

Frédéric Durot : "This Position Paper highlights risks that are already critical and are expected to intensify in both scale and frequency. In this context, it is clear that the market will need to evolve and restructure to respond to this new reality."

Mélanie Courvoisier : "What do you mean by that?"

Frédéric Durot : "Although not a desirable outcome, as such a development would inevitably lead to higher risk costs, it appears likely that within the next 10 years the property insurance line will be split and a dedicated natural catastrophe underwriting line will be carved out.

The idea is that property insurers will want to focus on localised 'per risk' exposures, while dedicated underwriting centres will take responsibility for underwriting 'per event' exposures.

Initially, this would apply to high-intensity risks, meaning that property insurers would continue to provide a basic level of cover. It is likely that these exposures, which are legally tied to property insurance, will continue to be covered—similar to the "Cat Nat" scheme in France and the "Extraordinary Risks" system in Spain.

Mélanie Courvoisier : "Florence, do you agree with Frédéric's prediction?"

Florence Louppe : "I fully support the idea of a gradual specialisation of natural catastrophe insurance, distinct from traditional property risks. This will likely be a prerequisite for maintaining adequate cover for clients—something we are monitoring very closely. In this regard, I believe the inflationary aspect Frédéric mentioned is not inherent to insurance, but rather stems from the evolving nature of the risks themselves. It will, in a sense, be a necessary evil."

Mélanie Courvoisier : "Can you tell us more about the reasons for this split?"

Frédéric Durot : "The forthcoming evolution of natural catastrophe underwriting mirrors that of certain political violence risks, which traditionally were bundled within property insurance.

Terrorism risks were abruptly removed from property insurance as of 1 January 2002, following the 11 September 2001 attacks in the United States—with the exception of small residual capacities in certain programmes. Damage caused by strikes, riots and intense civil unrest is gradually being excluded from property insurance programmes in the case of the most exposed risks, such as high-profile commercial and property assets. This will also be true for natural catastrophes, for the same reasons:

- The deterioration of property insurance results requires underwriting to be segmented into separate units;
- Risk planning driven by distinct technical characteristics, involving analysis and prevention methods that differ from those used in traditional property insurance, which primarily covers fire, explosion, machinery breakdown, electrical damage, and water damage;
- Divergent views on risk quality. A well-rated technical or fire risk may still be highly exposed to natural catastrophe risks—and vice versa. The same is true for the level of preventive measures.

Florence Louppe : "And, of course, the financial implications are assessed differently. Having headed a major French insurer (HDI Global) for a number of years, I can attest that technical and fire risks differ significantly from natural catastrophe risks in terms of both financial impact and reinsurance treatment. This is evident from the figures presented in the Position Paper. In particular, financial loss exposures—especially under the well-known CBI cover—are highly sensitive in the context of natural catastrophe insurance, due to the high accumulation potential. And while technical and fire risks are becoming increasingly well controlled, the opposite is true for natural catastrophe risks."

* On Friday, 7 February, Florence Louppe spoke at the round table "New Financing Models and Natural Catastrophe Prevention". The day before, Frédéric Durot contributed to Workshop A7 on 6 February: "Are Insurers and Policyholders Partners on Climate Risk?"

Mélanie Courvoisier : *"So, under these circumstances, what initiatives are you taking as a broker?"*

Florence Louppe : "We are making significant investments in risk analysis, in particular through the Cat Analytics tools developed in collaboration with Stanislas Le-gait's Analytics and ART team. Furthermore, we plan to invest in prevention engineering and to develop specialised expertise within our teams for the placement of natural catastrophe risks."

Frédéric Durot : "To follow up on Florence's remarks, our Analytics and ART team is innovating actively, in particular by developing artificial intelligence initiatives capable of integrating the most granular analyses possible."

In the fields of risk analysis and prevention, it is essential to move beyond the bespoke 'haute couture' approaches currently offered by the major market players. We need to develop 'off-the-rack' solutions that are accessible and practical, targeted at mid-cap and SME/SMI clients, as well as certain key accounts with structurally or cyclically reduced profit margins."

Mélanie Courvoisier : *"How do you anticipate this split unfolding?"*

Frédéric Durot : "I expect that the separation of natural catastrophe risks underwriting will be implemented in three successive phases over the next 10 or so years:

1. Initially, the separation may be gradual, with the appointment of 'Cat underwriters' granted dedicated authority within the property insurance teams. This division already exists at certain referral levels, with early indications of this move already emerging in some insurance companies. The recently established scheme in Italy already allows for the underwriting of Cat risks independently of any property insurance cover.
2. Next, dedicated Cat teams would be created, which could remain under the broader property line, as is the case in some insurance companies for Energy or Political Violence underwriting, for example.
3. Ultimately, the split is likely to become more clearly defined. Links would remain in place to the property line, which would still be required to provide a basic level of cover, as well as any cover that the legal schemes may continue to attach to the property line (e.g. Cat Nat in France and Extraordinary Risks in Spain).

Mélanie Courvoisier : *"What steps do you plan to take in this context?"*

Florence Louppe : "We must take both strategic and operational action to navigate the transition period between now and the creation of this dedicated line. We recommend the following measures:

- Assisting our clients in enhancing underwriting data quality through our digital tools, the expertise of our Analytics teams, and the progressive strengthening of the capabilities of our technical placement and prevention teams;

- Reinforcing Cat Analytics and field-based risk assessment methods, and ensuring they are more accessible, both financially and operationally, as Frédéric mentioned;
- Enhancing our agility in accessing all specialist markets, as outlined in the Position Paper.

Frédéric Durot : "In the field of Cat Analytics, one key priority is to improve access to next-generation mapping techniques that capture both the geographical vulnerability of sites and the inherent sensitivity of the risks themselves. It will also be essential to make Cat risk modelling more accessible, both by broadening its use and by improving the tools to lower their cost."

Modelling offers the following benefits:

- It provides the tools for assessing capacity needs and supporting them at the decision-making level;
- It identifies the most critical sites to prioritise for detailed risk analysis and targeted prevention measures. We call these sites Key Driving Locations.
- It estimates the expected annual average loss from insured natural catastrophes, providing an effective tool for negotiating premiums with the markets.

Mélanie Courvoisier : *"Any final thoughts you'd like to share?"*

Frédéric Durot : "It is essential to face reality and not swim against the tide, and to equip ourselves with the technical, analytical and operational means to navigate the transition ahead. The worst response would be denial and a failure to anticipate, under the pretext of preserving existing gains. We are actively engaged in this effort."

Florence Louppe : "Our role is to optimise the overall cost of risk for our clients, while maintaining—and, where possible, enhancing—the financing solutions tailored to their needs."

This cost will inevitably rise as natural catastrophe risks grow more severe. Our challenge is clear: we must equip ourselves with the tools enabling us to help our customers optimise the overall cost of risk in an environment facing mounting constraints, while maintaining—and ideally expanding—effective risk transfer and retention solutions.

This development is a genuine opportunity for all stakeholders in the sector—brokers, policyholders, insurers and adjusters—who will be required to collaborate in an increasingly challenging environment."

Mélanie Courvoisier : *"Thank you both very much. I'm sure everyone will be looking forward to reading the Position Paper."*





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