

(1) What is your view on the penetration rate of disaster insurance in the European Union? Please provide details and data to support your arguments. Is more research needed to understand any possible gaps in insurance supply and demand, insurance availability and coverage?

First of all, the aim of such research should be specified. We do not deem it necessary simply to carry out a study for the sake of it. The disaster-insurance market has developed in a context of free competition according to market needs and launching some kind of a pan-European harmonised solution is in any case not possible. There are many reasons for this, not least the fact that disaster risk itself is very different across Europe. For instance, Italy has floods, earthquakes, etc. every year, while natural disasters in Estonia are limited to storms and localised flooding. Damage amounting to disaster proportions is many times less frequent. The same goes for asset concentration: population density and housing concentration around major sites of attraction are factors in the effect of natural disasters on insurable risk. This effect is considerably more localised in Estonia than, say, in the Netherlands, where a tornado, for instance, would inevitably cause major property damage. In conclusion, we see no need or sufficient justification for research unless it is clear what precisely is to be achieved and unless one is convinced that these aims are actually feasible. There have been repeated dissuasive instances in Estonia of attempts to make some insurance service or other compulsory, but it has always emerged that there are no providers of specific compulsory insurance on the market.

(2) What further action could be envisaged in this area? Would mandatory product bundling be an appropriate way to increase insurance cover against disaster risks? Are there any less restrictive ways, other than mandatory product bundling, which could constitute an appropriate way to increase insurance coverage against disaster risks?

As indicated in our reply to question 1 above, simply adding a compulsory insurance component is not the solution. The solution must involve a combination of building standards, improved monitoring of building compliance, realistic implementation of preventive measures, and compulsory insurance. Insurance is the final link in this chain and not a way of compensating for deficiencies in these other areas. In conclusion, adding a compulsory insurance component uniformly across Europe is in no way justified or indeed possible. It could, however, be considered as an idea at national level if it is preceded by actual building standards, effective building-standards monitoring, and preventive measures. At one time, when Estonia was part of the Soviet Union, we had in place a civil protection system, which was dismantled after independence. A possible initial step could be to resurrect this system, as they have done in Switzerland, where it works fairly well. I am also not currently convinced as to how effective building and planning monitoring is in the private housing sector, which is clearly one of the main potential audiences for mandatory insurance. This cautious attitude is illustrated by the recent news from Sindi (a municipality of Estonia), where not a single private dwelling has been allowed to be built as the area in a yearly flood zone. If anything pan-European is being considered, a pan-European GIS solution would certainly be of help, enabling insurers adequately to assess insurance risks in flood areas.

(3) Which compulsory disaster insurance, if any, exists in Member States? Are these insurance products generally combined with compulsory product bundling or obligation for insurers to provide cover? Is compulsory disaster insurance generally accompanied by a right

for the customer to opt out of some disaster risks? What are the advantages/possible drawbacks? Would EU action in this area be useful?

There is no compulsory disaster insurance in Estonia and, as indicated above, it would not be appropriate to introduce it without first improving other measures. EU measures to introduce harmonised compulsory disaster insurance across Europe will not work in practice – for the reasons set out above – and we do not consider it necessary to do so. One could, however, consider action at EU level to provide general guidelines and instructions for the introduction of compulsory disaster insurance at local and Member-State level, together with more effective implementation of the measures listed above. Launching compulsory disaster insurance in this way could even be useful. In the context of Estonia, we would expect this type of general requirement to enable us to make private-dwelling fire insurance compulsory, too. This is clearly much more important socio-politically for Estonia than compulsory disaster insurance; each year some 2 000 residences burn down in Estonia. Most are uninsured and their residents generate additional problems for the social security budget after the fire. If instead compulsory fire insurance were launched, together with prevention and monitoring measures and financial support measures (e.g. for insurance premiums), this would reduce pressure on public budgets.

(4) How can state or state-mandated disaster (re-)insurance programmes be designed and financed to prevent the problem of moral hazard?

We can see no way. The State should rather contribute to strengthening measures aimed at the prevention of damage and developing building standards and monitoring compliance with them.

(5) Do you see any difficulties, barriers or limitations in using information to generate parametric insurance? Which factors could scale-up the promotion and uptake of such innovative insurance solutions?

There is certainly a future in such insurance solutions, but firstly the State needs to begin contributing much more than it is now to collecting data, extensive data collection being necessary for such services. Specifically regarding insurance, we would very much welcome State support for developments aimed at better risk-mapping. The future we see for Estonia is one where the current thorough online collection of traffic insurance data (including all information on risks and damage) is accompanied by comprehensive data collection for other large-scale services, such as vehicle and home insurance. Without comprehensive and reliable data collection we see no prospects for “parametric solutions” and compulsory insurance would not work.

(6) Could risk-based pricing motivate consumers and insurers to take risk reduction and management measures? Would the impact of risk-based pricing be different if disaster insurance was mandatory? Do insurers in general adequately adjust premiums following the implementation of risk prevention measures?

Risk-based pricing to a greater or lesser extent is the only possible basis for a sustainable compulsory insurance solution. It clearly influences consumer choice, whether it be for compulsory or voluntary insurance. However, as we indicated above, the introduction of compulsory insurance without other accompanying measures is not sensible and, in certain cases, not even possible. Insurance premiums are shaped by the size and frequency of damage, on the one hand, and market competition, on the other. Fire-prevention measures clearly improve insurability and obviously have a positive impact on insurance premiums.

(7) Are there specific disasters for which flat-rate premiums should be suggested? Should flat-rate premiums be accompanied by caps on pay-outs?

We do not consider such a solution to be economically sustainable.

(8) What other solutions could be offered to low-income consumers who might otherwise be excluded from disaster insurance products?

If all other conditions are fulfilled and if, consequently, it is indeed possible actually to introduce disaster insurance, it would be appropriate to provide for national support schemes to fund prevention projects and compensate low-income consumers for insurance premiums. In the long term, such measures are more effective than national social-security-type measures following harmful incidents.

(9) Is there a case for promoting long-term disaster contracts? What would be the advantages/drawbacks for insurers and the insured persons respectively?

We should in no circumstances start regulating such things, especially not at European level! Classic disaster insurance is for one year and its value for both parties to the contract lies in the fact that it is possible to negotiate for the next period better conditions than those agreed upon contractually for the previous period. The possibility of entering into long-term contracts with an automatic extension clause is well-established practice even today. We do not consider additional measures for promoting long-term contracts necessary. The disadvantage of long-term contracts is that it is expensive for customers to terminate them early and that they become too expensive if market prices go down. It is also a problem for insurers to cover the insurance risk in the long term if they are not able to adapt their prices according to damage experience.

(10) Do you think there is a need to harmonise pre-contractual and contractual information requirements at EU level? If so, should the approach be full or minimum harmonisation? What requirements concerning the commitment should be included, for instance:

- the nature of the insured risks,
- adaptation and prevention measures to minimise the insured risks,
- features and benefits (such as compensation of full replacement costs, or depreciated, time value of assets),

- exclusions or limitations,
- details for notifying a claim, for instance, if both the loss and its notification must fall within the contract period,
- who and to what extent bears the costs of investigating and establishing the loss,
- contractual effects of a failure to provide relevant information by the insurer,
- the remedies, costs and procedures of exercising the right of withdrawal,
- contract renewals,
- complaints handling?

There are currently several (partially overlapping) legislative initiatives running at EU level; adding another would rather confuse the situation and would not substantially help the consumer. For example, the introduction of Solvency II has already taken ten years, while in the meantime the draft Omnibus II Directive been introduced (and got similarly bogged down)! IMD 2 deals with pre-contractual information to some extent, but processing of this Directive is also lagging behind. Priority should be given to definitively adopting these rules, evaluating them on the basis of real practical experience and assessing whether or not additional pan-European requirements for the collection of pre-contractual information, etc. are needed. At the moment, a new initiative in this field would not be of any help and would make the current situation (already confusing due to the parallel and protracted processing of different legislative initiatives) even more confusing.

(11) Do deductibles, excesses co-insurance and other exclusions effectively prevent moral hazard? What alternative terms and conditions could be appropriate for disaster insurance, given that the insured party may be unable to take effective risk reduction measures against a disaster?

Such measures are not of considerable help in reducing moral hazard. Implementing such measures is, however, useful as regards establishing whether or not a given risk is insurable at all. Mandatory requirements together with effective monitoring and the implementation of preventive measures could help prevent moral hazard.

(12) How could data on the impacts of past disasters be improved (e.g., by using standard formats; improved access to and comparability of data from insurers and other organisations)?

State support for the development of risk inventories is very welcome; it would certainly improve safety, reduce the burden on public finances and also have a positive effect on average premiums. We indicated one possibility in our reply to question 3 above, which dealt with the collection of private-dwelling damage statistics into a central repository and the possibility of using GIS to analyse and utilise the data to assess risk and set prices across markets. An efficient and effective European standard for the development of risk databases would contribute, among other things, to the development of cross-border insurance services.

(13) How could the mapping of current and projected/future disaster risks be improved (e.g., through current EU approaches in flood risk mapping under the Floods Directive 2007/60/EC, civil protection cooperation and promotion of EU risk guidelines)?

It would be of great help to set up some kind of pan-European possibility to enable insurers to assess their own risks (e.g. on the basis of Solvency II) and use disaster-risk information to help price their services. One problem both in Estonia and across the EU is that the authorities dealing with different areas do not currently interact amongst themselves adequately. As a result, initiatives and developments which in theory could benefit society as a whole suffer from a lack of communication and end up benefiting just a few specific groups. A recent practical example in this field is the Floods Directive, under which flooding areas should be defined across the EU, but Member States are free to do so at their own discretion. Estonia initially took the path of least resistance and dealt with the situation in such a way that the results are of no practical use to the insurance sector, or probably any sector. Neither the insurance sector nor the insurance sector regulators were aware of this development. We are currently working with the financial sector regulator to find ways to sort out this situation so that the insurance sector in Estonia may also enjoy real benefits.

(14) How could better sharing of data, risk analysis and risk modelling methods be encouraged? Should the available data be made public? Should the EU take action in this area? How can further dialogue between insurance industry and policy-makers be encouraged in this area?

There is no ideal solution but better communication between the different fields is clearly needed, since the decisions made by the regulatory authority in one field can significantly affect the work of the institutions and bodies active in another field. The development of central databases by means of collaboration between the regulators and practitioners in different fields could be a priority.

(15) How can the Union most effectively help developing countries to create solutions for financial protection against disasters and shocks and what should be the priority actions? What types of partnerships with the private sector and the international institutions should be pursued for this purpose?

We would propose solutions similar to those of the EU itself: setting effective standards, monitoring standards, and subsequently implementing State, PPP or private insurance solutions.

(16) What are the most important aspects to look at when designing financial security and insurance under the Environmental Liability Directive 2004/35/EC?

As regards compulsory liability insurance, we also see restrictions in the first phase of introducing pan-European compulsory solutions. It should rather remain up to the Member States to decide on how to address the specific mandatory liability issues deriving from the Environment Directive. At EU level, it could also be helpful to foster a common understanding of the extent of the risk, the principles governing how the extent of damage is determined and the details of the calculation methodology.

(17) Are there sufficient data and tools available to perform an integrated analysis of relevant and emerging industrial risks? How can data availability, sharing and tool transparency be ensured? How can co-operation between insurers, business and competent authorities be strengthened to improve the knowledge base of liabilities and losses from industrial accidents?

In Estonia information on major accident risk is relatively easy to obtain; our geoportal even enables us to graphically monitor impact areas and accumulations. It is another matter whether these data are accurate, i.e. whether or not they should be regularly checked and changed. The main problem from the point of view of insurance risk assessment is not the availability of data but sufficient assurance that they are accurate and reliable. In this regard, it is possible at least at local level to strengthen cooperation between the national and public sector and umbrella organisations representing specific sectors of the economy. We feel, however, that this is primarily a regulatory and monitoring issue, in which umbrella organisations can do no more than express their support.

(18) Considering the specificities of the offshore oil and gas industry, what kind of innovative insurance mechanisms could be appropriate? Are there ways for the insurance industry to reduce the uncertainty regarding the assessment of risks and calculation of premiums? What type of information should be publicly available to promote the development of insurance market products to cover major accidents?

This issue concerns Estonia only partially. Information on companies' major accident risks is sufficiently available; the problem is the reliability of the information, as described in our reply to the previous question.

(19) Should contractual conditions of third-party liability insurance policies be disclosed to third parties in case of man-made disasters? If so, how?

We do not consider it necessary to disclose specific insurance policy information. That said, information on standard insurance contract terms is publicly available. Insurance is just one means of mitigating risk – the person causing the damage is fully liable irrespective of whether and under what conditions an insurance contract was entered into.

(20) Are there specific aspects of loss adjusting which would benefit from more harmonisation? And if so, which ones? Are there practical difficulties for loss adjusters to operate cross-border?

In general, central registers and databases could be developed in those fields where, in addition to providing insurance services, it could help in loss adjusting. It would also be helpful to have standards for assessing the extent of damages, as explained in our reply to question 16 above.

(21) This paper addresses specific aspects related to the prevention and insurance of natural and man-made disasters. Have any important issues been omitted or under-represented? **If so, which?**

No, none.