

**Market penetration of natural disaster insurance:**

1. What is your view on the penetration rate of disaster insurance in EU? Please support your arguments with data. Is more research needed to understand any possible gaps in insurance supply and demand availability and coverage?

**Answer:** The penetration rate of disaster insurance is different in each country, an important factor being the legislation regarding insurance against Natural Disasters from each country, as well as the people education regarding risk awareness.

Because of the inhomogeneous mass of the States part of the EU, we consider that more research is needed in order to see the specific of each country and to create proper risk coverage or layers of cover more suitable to the needs of each country, especially for man-made type of disasters. More research is needed for agriculture catastrophe risks.

For instance, in Romania the penetration ratio of insurances against natural disaster for residential risks was improved after implementing of mandatory insurance law starting from 2010. **The penetration rate increased mainly considering the number of policies, but not in the same trend in terms of GWP or coverage (as these items are in many cases limited in amount).** Previously, the main driver of the residential insurance was the bank mortgage loans.

There are countries within EU where both supply and demand are well represented, while in others, especially those which joined EU after 2004, there are still gaps in both supply and demand, the former being much more represented (i.e. insurance availability), tailored to customers' needs (coverage) and adequately priced (affordability).

**Product bundling**

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?

**Answer:** A mix of mandatory and facultative risks could be more appropriate, as people who are risks awareness are concluding facultative insurance policies that cover more risks than the mandatory one, and they will always prefer a policy that they are familiar instead of a mandatory one. In Romania such a project is in progress involving also improvement of legislation in force concerning the mandatory residential insurance, combining mandatory minimum insurance with flat premium with facultative additional cover against main natural disasters.

Besides the mandatory bundle products, there are multiple other solutions, which, once implemented, might increase the insurance cover against disaster risks in the EU countries. Any of these solutions should be first identified, assessed and, most importantly, tailored to each country specific.

While product bundling can work much better in countries where insurance plays a significant role in people's life, in others, private insurance companies should find innovative solutions to cope with customers' lack of willingness in buying disaster risks which are unlikely to directly impact them, people's perception and insurance culture and ultimately, the pricing factor.

In particular, in Romania, the fire risk is relatively homogenous across the country and the customers, especially householders, pose a high degree of understanding of fire risk financial and non-financial consequences, but it is not the same case when disaster risks are brought into discussions which are widely perceived as severe, but too infrequent.

An aggressive, but yet educational long-term media campaign, can be a solution at EU level, but such action should be initiated once the research conclusions, specific to each EU country, have been revealed. Another alternative which might work is for the member states to recognize people's and companies' premium expenses with the disaster risks as tax deductible, but such solution can have a significant impact if only they become compulsory.

### **Compulsory disaster insurance**

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?

**Answer:** In Romania it is compulsory to have household insurance for 3 major risks bundled: Earthquake, Flood and Landslide for a minimum sum insured with flat premium. The mandatory bundling of the 3 natural disaster risks balances the risk potential of different geographical regions in the country in respect of the 3 main risks.

For companies properties no compulsory insurance is in place, but usually facultative policies covers as basis: Fire (Flexa) plus natural catastrophic events.

For mortgage loans the Banks are imposing to have insurances, covering natural disasters (main risk earthquake) based also on National Bank Risk Management requirements (regulations).

The advantages of a compulsory insurance are the higher penetration rate and risk awareness. It is useful to have some actions at EU level regarding compulsory disaster risks as long as these actions are aiming to design a set of principles for all EU Member States. There can be local solutions to be implemented, but these should follow the principles set at EU level.

### **Governments as reinsurers and reinsurers of last resort**

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

**Answer:** In order to prevent the problem of moral hazard possible solution could be that a part of the risk (lower losses cases) to be supported by the insured (deductible or co-insurance) and only the medium-larger losses to be transferred to the (re)insurance market.

State intervention in the aftermath of a natural catastrophe should be seen as an ultimate solution in countries where competitiveness and insurance penetration are high. Insurance risks and in particular disaster risks are spread among many risk carriers either by ways of co-insurance or reinsurance which are in essence the most reliable mechanisms for absorbing the monetary value of natural catastrophe type of losses.

These types of arrangements, which can take forms of any kind, are also the main drivers when disaster risks pricing is set up which can have, in certain countries, a significant impact on affordability. EU countries disaster risks are usually covered by the available capital of the worldwide reinsurance community, but in an increasing trend of occurring catastrophes, backed by financial turmoil and increasing cost of capital, the capacity of the reinsurance community, hence the necessary capital insurance companies need, becomes more and more restrictive.

Here is where state can actually play a role, either by setting the legal framework stipulating when and how interventions can be made (e.g. once the market capacity has been exhausted) or actively be involved in developing, together with the industry, of certain schemes with the aim of minimizing the financial burden of all involved parties. To a certain extent, states can also limit, by legal levers, the undesired effects of disaster risks (e.g. regulation in construction, tax deductible expenses for disaster risk management, disaster management policies, infrastructures for irrigations etc.) and act as a promoter by encouraging citizens to buy disaster risks insurance.

Ultimately, state can be of a real financial support under certain reinsurance agreements (e.g. stop-loss or parametric solutions) for that part of capital which is either no longer available or too expensive at less restrictive costs. Another way of funding the potential financial burden for a state is the issuance of catastrophe bonds on the internal market making individual, families and companies co-interested and thus raising the level of awareness among its citizens.

#### **Parametric index-based weather insurance and other innovative solutions**

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?

**Answer:** For draught in agriculture is one of the best solution, but lack of history information makes this variant quite difficult to apply. In the same time the system should be explained to make it easy understandable by the small farmers.

In our country, the project for floods mapping is just in progress, so to set up a parametric insurance in respect of floods is still difficult.

As regards, earthquake risk, according to historical map of events it could be easier to design a parametric insurance in line also with the historical construction codes based on intensity seismic scales (eg: Richter scale).

Parametric index based insurance or a combination of parametric and traditional insurance can be a solution, especially in Romania, highly exposed to quake and flood, but can be primarily used as a method of transferring disaster risks by way of reinsurance, rather than insurance, mainly because it requires a high degree of expertise, modeling tools and risk management policies. Among the indexes which can be used for Romania, magnitude of a quake, number of buildings affected, rivers flow levels, number of affected population can be considered.

#### **Insurance pricing as market-based incentive to promote risk awareness prevention and mitigation**

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 were mandatory? Do insurers in general adequately adjust premiums following the implementation of risk prevention measures?

**Answer:** Taking into account that the local insurance market has not encountered a big natural disaster and loss ratio is not very high, players from the market are very aggressive in terms of pricing. This reflects in the consumer's behavior who is not motivated to take risk reduction management measures, which are involving higher costs.

On large accounts if prevention measures are fulfilled and the overall grading is resulting good, premium reductions are offered.

In case of mandatory disaster insurance with higher penetration ratio, the impact of risk-based pricing could be different in the way that with no punitive measures, consumers less exposed to catastrophe risks would pay the fair price, while those highly exposed would pay a higher price being motivated by a different risk perception.

In Romania, a risk-based pricing approach has been mainly considered for the identification of areas riskiness, especially for earthquake, due to insurance companies' accession to the quake hazard maps provided by major insurance groups present in Romania or reinsurance companies active on the local market.

However, a risk-based pricing method has relatively recently been considered at the core of insurance companies' pricing policy, especially for quake, for which probabilistic models are currently available from several vendors. It has been proved that risk-based pricing for disaster risks does not trigger a higher responsibility among individuals and companies, but it is currently used by many of the insurance local players as basis for their rating techniques, however a balance should be maintained to avoid adverse risk selection.

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

**Answer:** We consider that for some disaster risks like windstorm and floods very difficult to be predicted by region could be used flat-rate premiums. On the other hand, flat-rate premiums might trigger higher prices for consumers with properties located in less risky areas in the benefit of those with properties located in risky areas and hence can be a solution for disasters affecting huge areas.

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

**Answer:** one solution for low-income consumers could be to accept a medium value deductible or co-insurance with policyholder for a part of risk. Another possible solution would consist of a partial or total subsidy of insurance premium from public funds, but only if we are discussing about risk-based rating or flat-based rating. Micro-insurance can also be a solution (limited cover and very low prices), but any limitation in cover brings insufficient indemnity in case of disaster.

#### **Long-term disaster insurance contracts**

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

**Answer:** in case of long-term disaster contracts the premium could be maintained during the insurance period reducing the operational and acquisition costs. In case of unpredictable increasing of reinsurance costs for natural disasters, long-term contracts with fixed annual premium can generate profit problems to insurers.

#### **Pre-contractual and contractual information requirements**

10. Do you think there is a need to harmonize pre-contractual and contractual information requirements at EU level? If so, should the approach be full or minimum harmonization? What requirements concerning the commitment should be included, for instance:
- a. The nature of the insured risks
  - b. Adaptation and prevention measures to minimize the insured risks
  - c. Features and benefits (such as compensation of full replacement costs, or depreciated, time value of assets)
  - d. Exclusion or limitations
  - e. Details for notifying a claim, for instance, if both the loss and its notification must fall within the contract period
  - f. Who and to what extent bears the costs of investigating and establishing the loss
  - g. Contractual effects of a failure to provide relevant information by the insurer
  - h. The remedies, costs and procedures of exercising the right of withdrawal
  - i. Contract renewals

j. Complaints handling?

**Answer:** Harmonized pre-contractual and contractual information could be a benefit in favor of policyholders and insurance market and development of common insurance culture based on best practice. The minimum requirements would be: covered risks, characteristics and benefits, exclusions, claim notifications and handling of complaints.

**Insurance terms and conditions**

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 disasters?

**Answer:** Higher deductibles and limitation can limit moral hazard for insurers, making the Insured more responsible in terms of prevention measures.

A reasonable deductible in case of disaster is appropriate, as for minor losses Insurance Companies will not be notified, the number of reported claims being reduced (also the claims volume), so Insurers can focus on the relevant losses suffered by the policyholders solving the core issues.

**Data, research and information**

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 organizations)?

**Answer:** Cooperation between states for losses recorded for the same event (eg. Floods) can provide a better overview for disasters affecting several countries. Cooperation between state institutes and academies can help to the creation of a better database. Standard formats and reporting compatibility at EU level might be useful.

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, civil protection cooperation and promotion of EU risk guidelines)?

**Answer:** Similar directives for Storms mapping at EU level can improve along with the flood risk mapping the disaster risks mapping.

14. How could better sharing of data, risk analysis and risk modeling 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?

**Answer:** In Romania, the project for floods mapping is in progress based on cooperation between state institutes and authorities. The available data could be made public in order to motivate property owners to take risk reduction measures; for instance to accept the

national projects measures for reinforcement of older building structures (designed based on old engineering codes) to be able to resist against earthquake or to prevent as much as possible the construction in flood exposed areas, if possible.

**Promoting risk financing initiatives as part of EU development cooperation policy**

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?

**Answer:** We consider each country has its own particularities, but creating a unified reporting database, as well as making available the know-how from other countries can have a good impact on the creation and implementation of prevention solutions in case of major disasters.

An important part is represented by the need of developing countries to create effective protection infrastructure in case of natural disasters, mainly in respect of Floods. The possibility to access funds at good rates is a core issue, in order to develop emerging countries protection systems and the involvement of EU is extremely important.

**Environmental liability and losses from industrial accidents**

16. What are the most important aspects to look at when designing financial security and insurance under Environmental Liability Directive?

**Answer:** Each state has specific legislation in respect of Environmental Liability so the proper solution must fit with the particularities of each state legislation.

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?

**Answer:** At this moment we consider that aren't sufficient data and tools to perform integrated analysis relevant for all countries. For emerging countries, taking into account all the changes, from political environment to the transition to new economical approach, lack of transparency makes the available database to be reduced.

The implementation of a standard model of cooperation and reporting at EU level and the knowhow sharing by making available the reports (or part of them) of major industrial accidents can prevent future ones by "learning from experience".

**Third-party nuclear liability insurance, oil and gas operators' liability**

18. Considering the specifications 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?

**Answer:** As locally, we don't have developed a potential market for such special risks our experience is limited on this segment.

**Information rights of victims of man-made disasters**

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

**Answer:** Taking into account moral hazard risk (higher on liability in respect of man-made disasters) and the high necessity of implementing and maintaining safety and protection measures in this respect we consider to be inopportune to be disclosed all contractual conditions to third parties for the present. The policyholder must remain liable in front of third-parties, and also be interested to avoid with any frauds attempt that can appear in such events.

**Loss adjusting**

20. Are there specific aspects of loss adjusting which would benefit from more harmonization? If so, which? Are there practical difficulties for loss adjusters to operate cross-border?

**Answer:** Harmonization of loss adjusting and legal regulations can lead to similar procedures in case of natural disaster in benefit of policyholders by reducing time of loss assessment involving support of cross-border cooperation.

**General remarks**

21. The 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?

**Answer:** Due to increase frequency of weather major events we consider that an interesting issue to be debated could be the losses caused by an order of authorities in order to mitigate a higher damage (eg. Dam overtopping critical measures) – harmonization of legislation on possible solutions to cover.