

**Answers of the Government of Poland
on the questions included in the document
GREEN PAPER on the insurance of natural and man-made disasters
(COM(2013)213)**

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?

Occurring in recent years floods, flooding, heavy rains and landslides, causing huge losses in both the private property and the property of the local government units, confirmed that in Poland it was necessary to work on dissemination of disaster insurance system. Such work is in progress since February 2013, and therefore their progress is not very significant. It is obvious that their continuation requires a detailed study of the insurance market in Poland. The available data show that at the first quarter of 2013 insurance companies issued 7 988 613 policyholders within the voluntary insurance of apartments and holiday homes. However, the estimated percentage of coverage of the insurance of individual households (buildings in 2009 (not including buildings belonging to farms) from catastrophic events could have reached about 63% (according to the Polish Chamber of Insurance). Thus, the burden of financial assistance for victims falls heavily on the state budget, as part of the benefits payable under social assistance.

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?

Given the unpredictable nature of disaster events, in order to achieve the highest degree of market penetration, combination of different risks should be considered. It would be difficult to separate e.g., the risk of flooding from the risk of heavy (torrential) rains which often results in floods or flooding. In addition, risks combining in one product allows you to actively manage them and avoid anti-selection. It seems that without this mechanism, insurance in areas vulnerable to disaster events (in case of Poland - mainly floods) would be disproportionately expensive and, in exceptional cases, insurance companies would apply the mechanisms to discourage, or even prevent the insurance contract.

However, adoption of concept of combination of different risks as mandatory in the insurance market, would require, on the one hand, detailed public consultation, including insurance companies, on the other hand - the legislative provisions defining the mandatory scope of insurance. It should be noted that this type of intervention of the legislator restricts the freedom of contracting with insurers and the free use of the insurance cover.

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?

The current disaster insurance system in Poland is based on the principle of voluntary insurance.

Compulsory insurance are applied only in respect of buildings belonging to the farm: from fire, hurricane, flood, flooding, torrential rain, hail, snow, lightning, explosions, landslides, subsidence, avalanches or falling aircraft. These risks are bound in the package.

Compulsory insurance also occur in relation to crops of farmers, who received direct payments under provisions on the payments within the direct support system. This insurance covers the risk of damage caused to cereals, corn, rapeseed, colza seeds, hops, tobacco, vegetables, trees and shrubs, strawberries, potatoes, sugar beet or legumes, from sowing or planting to harvest - from the risk of the damage caused by the flood, hail, drought, adverse effects of wintering and spring frosts.

However it should be noted that the introduction of compulsory insurance against natural disasters raises a number of fundamental questions on the compatibility of such insurance with constitutional rules, as well as relating to, among others- to need of establishing a proper system of monitoring compliance with the obligation to insure as well as and of setting out appropriate sanctions in the event of failure to observe or defining the scope of the subject and object of such insurance.

Furthermore, introduction of such a contractual obligation with the need to incur additional costs in virtue of premium will be able to be seen as yet another public tribute. Lack of social acceptance or reluctance to enter into such a insurance contract is particularly evident in case of those entities in which the risk of injury is minimal and basically does not exist (e.g.: flood damage of residents of multi-storey buildings).

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

Due to the lack of a system of universal insurance against natural disasters in Poland and consequently a relatively low percentage of the insurance cover buildings, a significant part of the expenditure related to the elimination of the effects of these events falls on the state budget. In order to support the victims of the specific provisions of the national budget allocated to prevention and removal of consequences of natural disasters social assistance for affected individuals is granted - to satisfy the basic needs of living - including the repair and reconstruction of damaged households and assistance to repair and rebuild damaged municipal infrastructure - such as schools, roads and bridges. It is assumed that expansion of insurance in Poland should contribute to reduction of state budget expenditure on elimination of consequences of natural disasters, so that the measures previously used for this purpose may be used to prevent them. The system should transfer the risk of injury on insurance companies, thereby reduce a share of public funds in repairing the damage.

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?

Parametric index insurance has not been the subject of analysis in the preparation of the dissemination of disaster insurances yet. It seems that the analysis can be carried out only after the definition of the object of insurance.

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 management is an important aspect of the work on dissemination of disaster insurance in Poland. Definition of disaster risk is necessary to make a decision whether to extend insurance on it, so as to eliminate the risks impossible to the insurance. Moreover, it is necessary to specify a catalogue of insurable risks.

In Poland, the ongoing project is "The computer system of protection against extraordinary threats" under which a preliminary assessment of flood risk was conducted and currently flood hazard maps and flood risk maps as well as weather and other hazards maps are being developed. Thanks to these actions people gain the tools to make rational decisions, including investment decisions with respect to natural hazards. Showing hazard-prone areas, enabling conscious decision-making, reduction of casualties in the population and improvement of functioning of crisis management systems in case of natural hazards, will undoubtedly translate into reduction of losses caused by disasters.

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

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

The current advancement level of work in this field does not allow to answer these questions.

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

Insurance contracts for operating the compulsory insurance of buildings belonging to the farm are concluded for a period of 12 months and in respect to crops of farmers receiving direct payments - for up to 12 months. It should be noted that - in principle - an insurance contract is concluded for a period of 12 months with an option to renew any contract for a further period of 12 months. Without prejudging the solution, it seems that long-term insurance would prevent the interruptions in the period of insurance and further- would reduce the administrative costs of insurance companies.

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?

In Poland, the issue of providing (transmitting) information before and after conclusion of insurance contract is regulated by law. National regulations define the minimum scope of general conditions of insurance and the information to be included in the policy or the other document evidencing an insurance contract. Harmonization of transmitting this information at the level of the European Union, on the one hand could enhance confidence of the

insurance contract, but on the other hand levying further reporting obligations would entail additional administrative costs of insurance contracts.

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?

Imposing obligations to cover part of the damage of the property by the insured or to share covering damage by the insured and the insurer would discourage to conclude insurance contracts. And any action taken, both at the national and the European Union level, should aim to spread insurance. Therefore it's necessary to apply solutions, that will help to encourage the conclusion of insurance contracts and to reduce public expenditure on elimination of the consequences of natural disasters.

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)?

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)?

In Poland, actions were taken to manage the risk of natural disasters, especially floods and droughts. In this context the ongoing project "The computer system of protection against extraordinary threats" should be mentioned. Under this programme a preliminary assessment of flood risk was conducted and currently flood hazard maps and flood risk maps as well as weather and other hazard maps are being developed. Developed documents include, among others, historical data on natural disasters.

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?

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?

In Poland, the first step is to perform a detailed analysis of the catastrophe insurance market. Such analyzes will be done as part of work on the dissemination of disaster insurance. Achieved knowledge will constitute the basis for cooperation with international partners. Certainly the experience of the other EU Member States could be used to select the most optimal solution in Polish conditions.

It seems that at the EU level the most rational action will be analytical works and education taking into account both the most common hazards in given area as well as the nature of the regional insurance market. Further efforts should be orientated towards a specific country, taking into account its specific environmental and legal conditions.

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

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?

The availability of data on the risks in the industry mainly refers to companies posing threat of a major accident (plants with high and increased risk of a major industrial accident - subject to the provisions of the Seveso II Directive). For these companies systems of counteracting major accidents, which determine the possible scenarios of industrial accidents and actions to be taken in the event of their occurrence, were created by law. Full risk analysis taking into account the consequences of major accidents is carried out by companies with a high risk of a major accident.

Cooperation in this area can be strengthened through the involvement of stakeholders in conferences, seminars, training courses on industrial safety. In this type of action it is also possible to exchange experiences and good practices.

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?

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

In Poland there are regulations concerning the confidentiality of insurance specified in Art. 19 of the Act on Insurance Business. Only entities that are listed in Art. 19 Paragraph 2 of the Act have access to this information. Thus, consideration of access to the terms and conditions of insurance policies by third parties should take into account the solutions available in individual Member States.

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

Crisis management in the event of cross-border disaster could be subject to greater harmonization at EU level. In particular, you can consider the rules and procedures for informing the neighbouring state about the possible catastrophic and taken actions that may have cross-border effects.

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?

It seems that the most important aspect that should be considered are insured residential buildings. The damage caused in such buildings are most vulnerable socially and require immediate attention of the public authorities. In the absence of insurance costs associated with the reconstruction of a residential substance are actually paid from public funds.