

**Contribution of the Czech Republic to the public consultation on Green paper
on the insurance of natural and man-made disasters**

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?

As it is mentioned in the paper, the European market is heterogeneous due to diverse natural and economic conditions without any significant space for generalization. Thus, we do not see much space to pose this general question to Europe as a whole. More effort might be devoted to studies concerning individual problems of different relatively small regions.

We believe that in cases where insurance is not available, it is just a useful signal given by the market. It is a warning for owners of assets, that their property is probably placed in dangerous and risky areas. The existence of insurance market contributes to evaluation of risks. It is inevitable that certain property or activities are not commercially insurable. Trying to fill in this market gap between the supply and demand for insurance can destroy this useful information and coordination mechanism. If any European measures are adopted, an unwanted consequence of loss of risk mitigating behaviour of European citizens must be avoided.

However, we admit that problems in regions endangered by specific risks that cannot be mitigated might deserve the attention of authorities. It is likely that any solution adopted by the stakeholders would probably bring its costs. It would either cause expenditure of public money (when compensating victims of disasters-without or above the insurance) or would raise costs of insurance for most policyholders. This may occur when authorities compel insurers to relax their risk assessment and to broaden the scope of insured property and thus raising the coverage above the market level, as more risky property would be included in the pool.

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?

We do not support mandatory product bundling as we are of the opinion that the insurance companies can handle risks on their own and no such legal rules are necessary. Moreover, the practice of bundling is quite common as regards the Czech insurance market. Obviously, the insurance market is able to recognise benefits of bundling and use it accordingly.

As regards raising of coverage in a way that is in conformity with market principles, we think that higher awareness of citizens on insurance against natural risks would be appropriate. It could be achieved through existing platforms for financial education.

As regards this matter (page 6 of the paper), we would like to remark that aggregating of risks does not reduce costs of a disaster. It may help to spread costs among more subjects (in case that only some of those were hit by a disaster) or in time, but does not reduce disaster's total costs. Hence, total costs of a disaster stay the same with or without any insurance (and these costs are covered either by premiums or taxes).

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?

Except for motor third party liability insurance and several kinds of professional liability insurance, there is no compulsory insurance in the Czech Republic. Bundling is not compulsory as well. However, bundling is a common practice on the Czech insurance market. Indeed, several undertakings provide possibility to conclude individual insurance contracts that cover only some chosen perils (but it refers to insurance which is not compulsory). We do not see any reason for introducing common European rules in this matter. We would like to emphasize, that any common EU compulsory disaster insurance would not contribute to reduction in damages of a catastrophic event or to lowering the risks (see Q1 above). Moreover, introducing of a compulsory insurance hinders motivations for individuals and for the state as well for initiating preventive measures that lower the risk of future disasters or reduce the impact of a catastrophic event.

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

We are of the opinion that there is no one-fits-all solution for all Member States. Particularities of endangered areas or uninsurable liability stemming from risky activities should be treated individually. The real problems might be directly addressed in order to use means of tax payers as efficiently as possible.

In addition, we would like to emphasise, that information platforms for assessing the risk as regards natural perils are very complex and expensive tools for which insurance companies paid substantial amounts. Thus, we doubt that they will be ready to provide these expert tools in PPP.

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?

As we noted above, systems like models for assessing the risk could be very costly. We are of the opinion that a well functioning system for a reliable index that corresponds to real damages would be very costly as well. As a result, we would like to leave the insurance market free to decide which way is more efficient – if parametric insurance or traditional assessment of the insured party's losses.

Moreover, we have doubts about robustness of such a parametric insurance. For example in case of a really large disaster, there is a question, if the insurer would be capable to cover all claims (independently on real damages). Some aspect of “moral hazard” should be considered as well.

Especially in combination with some potential mandatory insurance we do not support such a measure.

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?

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?

There is a relatively broad difference in assessing of “low-income consumers” term across the EU. The level of incomes among various Member States may vary significantly and costs of living (in percentage) are different part of an income. The insurance costs may also vary significantly. Moreover, the scope of issues such as prevention, adaptation and mitigating natural and man-made disasters is so variable that it is practically impossible to set a flat rate not only at the European level but also at the level of individual Member States (including the Czech Republic). Hence, there is no space for EU-common (flat-rate) compulsory insurance.

We do not support any measures (mandatory insurance, flat rate) suggested above as we are of the opinion that, generally, insurance market fulfils its function well.

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

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?

Contractual information in the Czech Republic, generally, contain such information, however they are of a general consumer protection character, but not specified for the insurance contract purposes. Although we understand that the non-life insurance products are very variable and hence it is difficult to agree on a comprehensive set of obligatory information, we can imagine at least a list of basic information such as risks covered, the amount of benefits, duration of coverage etc.

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?

We would like to remind our previously expressed view on this issue. There is always a trade-off between the cost of insurance and cost of risk reduction. Comparing expenses to insurance protection and expanses to risk reduction, it could be beneficial to limit the insurance cover. Limits of benefits are quite common in the Czech Republic and contribute to the affordability of insurance. Sometimes, it is better to be protected partly than not at all considering that

without limits, the insurance would be too expensive for some prospective policy holders. However, it is necessary to ensure that consumers are aware of limits, deductibles etc. and understand them. The contractual freedom has to be preserved and the mutual agreement between the insurance company and the policyholder has to be respected. Thus, in our opinion, there is no space for harmonisation of contractual conditions as risks, individual behaviour and attitude towards risks vary significantly among Member States. The parties must be given freedom to agree on particular conditions as they fit as regards concrete supply/demand/risks conditions.

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)?

A uniform methodology for data collection, processing and exploiting is an essential precondition. A basic data set should be identified that would describe impact of individual disaster events across the EU and the data quality should be checked. In the Czech Republic, there is sufficient information on natural disasters impact for floods, wind storms, forest fires, or freeze. But for the purpose of assessment of the data on the European level, the methodology has to be unified not only as regards the format. Basic requirements for data collection as regards the most common types of catastrophic event should be stated. At the same time, the early preparations are necessary as regards the future spreading of droughts in areas where this problem has never occurred before.

In the field of providing information on man-made catastrophes, there is the Seveso II directive which is regularly revised (e.g currently approved Seveso III directive). The similar approach should be considered as regards other catastrophic events – except for floods which are already covered.

Information on impacts of past disasters could be further improved. For example in the flood management area, reports summarizing various information relating to the event could analyse the source of the problem and its consequences. The report is usually based on information provided by governments, experts and crisis management systems. The insurers do not participate in this work. However, the insurers make their own analysis and modify their strategy accordingly. We would welcome activities leading to closer cooperation with insurers.

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,29 civil protection cooperation³⁰ and promotion of EU risk guidelines³¹)?

The above mentioned flood risk mapping under the Floods Directive 2007/60/EC, civil protection cooperation and EU risk guidelines are indeed useful and we could further build on these approaches. Risk mapping and assessment are very important components of the civil protection and disaster risk reduction policy.

Currently, the attention should be also focused on research of other risks than floods, especially the assessment of meteorological and climatic long term data in order to innovate early warning systems. In the Czech Republic, extreme meteorological events can be expected and there is also a risk of water insufficiency and therefore the frequency of forest fires will probably rise.

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 policymakers be encouraged in this area?

We would like to emphasise again that expert tools for assessing the risk are being developed by certain private companies and it is very costly as it requires high proficiency tools and skilled personnel. Generating such information and providing it through pan European platform publicly and for free would provide large external benefits. A negative side effect might be experienced by those insurers that have already invested in private solutions and purchased these expensive tools individually, while not anticipating the future common European project. These insurers might perceive the possibility for every insurer to access data for free as interference into competition. On the other hand we welcome activities and close cooperation of public agencies or universities in this field and we agree that their findings should be publicly available, e.g. through Joint Research Centre. The side effect of this solution may be a deeper awareness of the public concerning possible threats and encourage their more responsible behaviour.

Some kind of information on impact of disasters or on preventive measures can be potentially abused.. Also information on man-made catastrophe risks could be the source of security threats. That is why individual Member States have to consider carefully which data could be provided.

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?

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

It can be assumed that in Central and Eastern Europe, the financial security under the Directive 2004/35/EC will be addressed mainly in the form of insurance. The role of insurance companies and discussions with them will therefore be crucial. In Western Europe and in America, however, there are also other, alternative tools, which can be used to address this risk. This may include bank guarantees, Market-Based Instruments, Alternative Risks Transfers, captive insurance, or mutual-insurance (operator puts aside a certain amount of its available cash calculated by actuarial methods to pay for damages). Alternatively, Bank Bonds, which are specialized financial products of Western banks, might be used. Another option might be paying a deposit. All above mentioned options should be addressed in more detail while searching for a solution to the financial security according to the Directive.

The form and amount of the financial security under the Directive must correspond to the nature of the term environmental damage, which itself is not sufficiently clear. Criteria for assessing environmental damage are not unambiguous, which undoubtedly complicates the choice of a form of financial security.

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?

This can probably be only addressed by working groups consisting of representatives of the bodies concerned – insurers, policyholders, state institutions, both at European and national level, and by setting the data transmission system from these negotiations.

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?

There is a question when such information should be provided to the third party, i.e. before or after the event.

We do not see a need for the injured party to know the content of the insurance contract of the liable party. The entitlement to compensation by the liable party of damages does not depend on the contractual conditions of the insurance contract between the liable party and its insurer.

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?

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 underrepresented? If so, which?