

## **Answers to questions asked in the Green Paper**

Although Estonia lacks any significant experience in the area of disaster risks, we still consider this topic extremely important. All in all, we have to agree that the risks related to natural disasters and man-made disasters are covered relatively modestly by insurance contracts, a fact which suggests that providing additional motivation to be insured against such risks is necessary. We agree that insurance against risks is important in the context of economic development, as uninsured losses may become obstacles to economic growth. However, disaster insurance, whether voluntary or compulsory, is not the solution to all of the problems caused by disasters.

The additional value of insurance emerges in the case of unexpected losses with a frequency and extent that can be forecast. This means that a comprehensive concept, which also covers effective prevention methods, e.g. requirements for building and structure design and planning (special requirements for construction in coastal areas, etc.) can be a sustainable solution both in social terms and in the context of the public financial burden. Compulsory disaster insurance is not sustainable without a functioning whole.

The differences between Member States must be considered and appropriate risk assessment, which would, among other factors, not cause a significant increase in the administrative burden of companies, must be guaranteed when measures for the entire European Union are created. As different Member States face different threats, implementing legal measures in the area of disaster insurance at EU level may prove to be impractical. Launching compulsory insurance that would cover minute or non-existent risks (e.g. in the case of Estonia insurance of losses caused by earthquakes, which are a significant risk some other countries), may not be practical from the viewpoint of a Member State.

We do not support the establishment of compulsory disaster insurance at EU level. However, we welcome initiatives which make it possible to develop standard databases and data processing solutions across Europe that are related to mapping risks and describing their consequences. Such standard solutions would benefit consumers, insurers and also the public sector.

Below are our answers to the questions asked in the Green Paper.

**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?**

Provision of disaster insurance has developed in free competition according to market demands. Disaster risks themselves differ greatly throughout Europe. Italy suffers from floods, earthquakes, etc. every year, but in Estonia natural disaster risks are limited to storms and regional floods. Population density also plays an important role. The impact of the forces of nature is considerably greater in densely populated regions. This is why the impact in

Estonia is considerably more local than in a more densely populated country in the European Union. We doubt that a study of the supply and demand of disaster insurance would be able to generate any added value here. However, studies and analyses are necessary to assess the scale of various disaster risks and their potential impact when the establishment of compulsory insurance is considered.

**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?**

Our opinion is that the establishment of compulsory insurance alone is not a solution to problems caused by possible disasters. A solution can only emerge through a combination of several measures (construction standards, improving monitoring of construction requirements, implementation of other preventive measures, insurance). Insurance cannot be regarded as a measure that compensates for other shortcomings.

In our opinion, establishing compulsory disaster insurance at EU level is not justified. Establishing this insurance obligation at Member State level could be considered, provided that the implementation of other measures is also dealt with at the same time. It may be practical to bundle different risks into the same insurance contract, e.g. flood and storm insurance is provided together with fire 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?**

There is no compulsory disaster insurance in Estonia.

We have established a voluntary financial guarantee system under the Environmental Liability Directive. Insurers do offer various insurance products, including third-party liability for compensation of the damage caused to the property of third parties, but at the moment they do not guarantee liability insurance to compensate for the damage caused to the environment.

As a result of the implementation of the Floods Directive 2007/60/EC the Ministry of the Environment is currently preparing maps of flood-prone areas and risk areas with flood risk, which will also indicate the number of people affected by flood risk and the probability of this happening. These maps will be ready by the end of 2013. It is necessary to carry out in-depth research on the possible impact of floods before we can start considering the necessity of flood insurance measures at Member State or EU level.

In Estonia compulsory insurance has not been implemented in the area of agriculture either. Entering into an insurance contract to obtain cover against agricultural risks (including damage caused by extraordinary climatic conditions) is voluntary for agricultural producers. Agricultural producers thereby have the right to apply for partial reimbursement of insurance

premiums from the Estonian Agricultural Registers and Information Board. Insurance premiums are partially reimbursed according to the European Union's Common Agricultural Policy and Regulation No 40 of the Minister of Agriculture "Requirements for obtaining agricultural insurance support, applying for support and processing of applications" of 18 May 2011.

We do not support the establishment of mandatory catastrophe insurance at the level of the European Union. However, measures at EU level that would give general guidelines for establishing a local disaster insurance system with the implementation of preventive measures at Member State level could be considered. It is important to consider the differences between Member States; and appropriate risk assessment, which among others would not cause a significant increase in the administrative burden of companies, should be guaranteed.

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

We find that the role of the state is to strengthen the measures that aim to prevent damage, to design appropriate construction standards and to supervise compliance with such standards, not to provide disaster insurance or re-insurance.

#### **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 insurance requires the existence of relevant databases. Without these, we see no future for parametric insurance and, establishing such compulsory insurance would be pointless.

#### **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?**

The only sustainable compulsory insurance solution cannot be based on anything but risk-based pricing. Risk-based pricing influences the decision of consumers irrespective of whether the insurance is compulsory or voluntary. Insurance premiums are designed based on the amount and frequency of losses as well as the competitive situation. The introduction of loss prevention measures would improve the insurability of risks and this activity would also reduce 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?**

Such pay-outs would probably only be possible within national solutions or, in other words, the state would collect an additional tax to cover large losses. Private insurance could not do this – insurers have to assess insurance risks and price their products accordingly.

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

National support schemes for implementing preventive measures and reimbursement of insurance premiums to people on low income are likely to become necessary if compulsory disaster insurance is established.

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

On the one hand, a long-term insurance contract with transparent and risk-based pricing, which also stipulates that risk premiums are reduced if risks decrease, may strengthen economic stimuli by making investing in risk reduction beneficial for both parties – the insurer and the policyholder. The fact that the contract does not have to be reviewed every year could also cut administrative and transaction costs. On the other hand, the drawback of a long-term insurance contract is that it's expensive to terminate and its price may be high in a situation where market prices are falling. Taking an insurance risk for a long period would be a problem for the insurer if they do not have the option to adjust their prices according to loss experience.

A classic disaster insurance contract is made for one year and its value for both parties lies in the fact that, once the contract expires, it is possible to agree on better terms and conditions for the subsequent period. The option to enter into long-term insurance contracts does exist – it is possible via the automatic renewal clause. We do not think that additional promotion of long-term contracts is necessary.

**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?**

Proceeding from the general legal policy trends in regard to consumer contracts, we approve of any considerations and activities that are aimed at informing consumers and explaining to consumers about entering into insurance contracts. However, in light of our earlier experience we do not support solutions where the pre-contractual information given to consumers is very long and specific. Consumers are probably unable to absorb all the information in such cases and, instead of the expected benefits, the consequence would be an increase in the obligations of the insurer without an increase in the protection of the rights of consumers. The focus should rather be on providing consumers with the most important information and explanations (the nature of the risks insured, compensation principles, issues related to withdrawal from the contract).

An insurance market with informed consumers increases competition between insurers. Harmonised pre-contractual and contractual information requirements would increase the confidence of consumers and encourage them to enter into insurance contracts.

If the requirements for pre-contractual and contractual information given in relation to disaster insurance contracts are harmonised at the EU level, the Member States should be left with the option to issue national orders based on their cultural, natural and other conditions. It would also make sense to wait until the implementation of the EU initiatives that are already being processed (the Solvency 2 directive for insurance companies and the new directive on insurance mediation) and then use the practical experience to assess whether and to what extent the pre-contractual information requirements need to be amended.

**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 find that the measures described are more effective if we questioned whether a risk was insurable at all. Implementation of preventive measures (e.g. construction standards and relevant supervision) would be the best preventative measure against 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)?**

Collection, analysis and dissemination of information about disasters and emergencies in Estonia are regulated by the Emergency Act. The agency that was in charge of preparing an emergency risk assessment will review the emergency risk assessment at least once every two years to ensure that it's up to date and amend it if necessary. The consequences of an emergency are analysed in the emergency risk assessment prepared on the basis of the Emergency Act in terms of the following: (i) the life and health of people, (ii) property, (iii) the natural environment, and (iv) the continuity of essential services. Summaries of the emergency risk assessments prepared within the scope of the Emergency Act can be accessed by everyone on the website of the Ministry of the Interior at <https://www.siseministerium.ee/29960/>. The emergency risk analyses prepared by agencies

can also be accessed on their websites (e.g. the website of the Environmental Board at <http://www.keskkonnaamet.ee/keskkonnakaitse/hadaolukorrad/> and the website of the Rescue Board at <http://www.rescue.ee/hadaolukord>).

Communication between the insurance sector and ministries of the relevant areas would help improve the quality of data. It would make it possible to identify the data that should be accessible, as well as the areas where the collection and communication of data should be improved. Data exchange could work both ways. For example, if agencies in charge of preparing an emergency risk analysis have access to the data of insurers, this would give them better possibilities or comparability for analysing the impact of possible disasters. Harmonisation of data collection methodologies at Member State or the single market level would also improve the quality of data. An EU-wide standard for the development of risk-related databases would also further 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)?**

Hazardous companies have been mapped in Estonia. Flood risk areas are also being mapped. The insurance sector collects data about insured events.

The cooperation between insurers and authorities plays an important role in mapping present and future disaster risks. For example, the Ministry of the Environment discloses the information related to flood-prone areas and risk areas with flood risk to insurers when implementing the Floods Directive. All earlier floods are identified and possible scenarios for risk areas with regard to future events are mapped within the scope of an initial assessment carried out on the basis of the Floods Directive. All these data are made accessible to the public and they are updated once every six years. Even closer cooperation with research institutions and harmonisation of data collection methodology at Member State level would improve the mapping and analysis of disaster risks even further.

Offering insurance solutions would be easier if there were a database of information about risk mapping that covered all of Europe.

**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?**

National statistics are public. In this area, risk communication, i.e. informing the public about possible natural disasters and man-made disasters, plays an important role. This is supported by the disclosure of risk analysis and its most significant results, as well as giving guidelines for preventing unsafe conditions, etc.

Methods of data sharing, risk analysis and risk modelling can be promoted at Member State level, because their specific characteristics must be considered. The EU could support the creation of cooperation networks, dissemination of best practices or organisation of relevant

seminars. Participation in various research projects, e.g. joint initiatives, is also relevant here.

**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?**

The solutions that can be offered for helping developing countries are similar to the ones used in EU Member States: preparation and monitoring of relevant standards, as well as insurance solutions that are national, private or based on a partnership between the two sectors.

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

The obligation of liability insurance can only be established if the relevant insurance services exist. In order to be able to offer environmental liability insurance, insurers need a history of relevant cases that would allow them to project the amount of the expenses related to the prevention and compensation of losses accurately so that they could determine the details of such an insurance service. The relevant insurance services have not been developed in Estonia, as the state lacks experience in this area.

An EU-level database of cases of environmental damage and risks of such damage, which would contain descriptions of cases and details of restoration expenses that belong under the Environmental Liability Directive, would be of great help in developing insurance services. Designing a common understanding of the principles and calculation methods of determining the extent of risk and losses could also help.

**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?**

Hazardous companies have been mapped in Estonia and the relevant data are public.

There is a public register of environmental liability cases on the website of the Ministry of the Environment for submission of information about environmental damage and risks of such damage. There are plans to continue developing the register of environmental liability cases and to add it to the existing environmental permit information system in order to submit compact data about environmental damage and risks of such damage. A solution like this would also make it possible to compactly preserve the expert opinions submitted in the course of proceedings, surveillance data collected and any other important information, thereby allowing for the existing information to be used within the scope of subsequent cases, national surveillance or other activities.

The relevance of data is the biggest challenge here – regular review and updating of data as well as analysing existing data. In addition to availability, the accuracy and reliability of data are also important from the viewpoint of insurance risk assessment.

**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?**

There is no offshore oil and gas industry in Estonia, which means it's difficult to give any opinions based on the specific features of this sector.

**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 think that disclosing specific information about liability insurance policies to third parties is necessary, but the standard terms and conditions of insurance policies are public. An insurance policy is just a risk management tool and the person who caused the damage is liable for the damage to its full extent irrespective of whether they have taken out a liability insurance policy and what the terms and conditions of such a policy are.

**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?**

Development of registers and databases could be the area that could help with loss adjustment in addition to the provision of insurance services. Standards for assessing the amount of losses as described in clause 16 would also be helpful.

**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?**

We did not identify any important issues that have been omitted.