A.I.D.A.

ASSOCIAZIONE INTERNAZIONALE DI DIRITTO DELLE ASSICURAZIONI SEZIONE LOMBARDA

Milan, the 5 July 2013

Dear Sirs,

our association is a member of the *International Association of Insurance Law* founded in the year 1960 in Luxembourg . AIDA is a non-profit international association for the purpose of promoting and developing at an international level collaboration between its members and increasing the study and knowledge of international and national insurance law and related matters.

We have therefore studied with great interest the "GREEN PAPER" of the EUROPEAN COMMISSION concerning the insurance of natural and man-made disasters which every new year seems to increase in number and dimension in Europe.

Herewith we are enclosing the conclusions reached by one Commission of our Scientific Committee trying to suggest our point of view on the different questions raised by your study. We would be grateful to you should you contact us for any question from our position paper as well for any question concerning the Italian insurance market and relevant insurance and reinsurance regulations.

Yours sincerely,

(Il Presidente del Consiglio Direttivo Roberto Pontremoli)

(Il Presidente del Comitato Scientifico Marco Frigessi)

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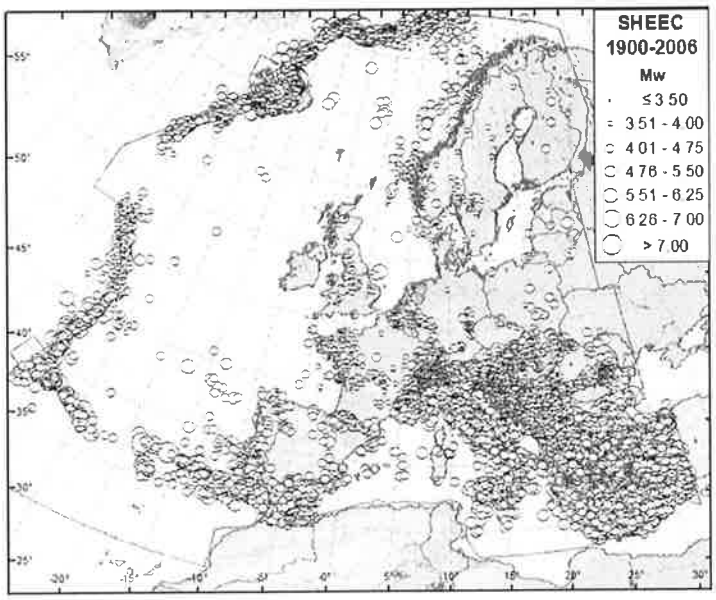
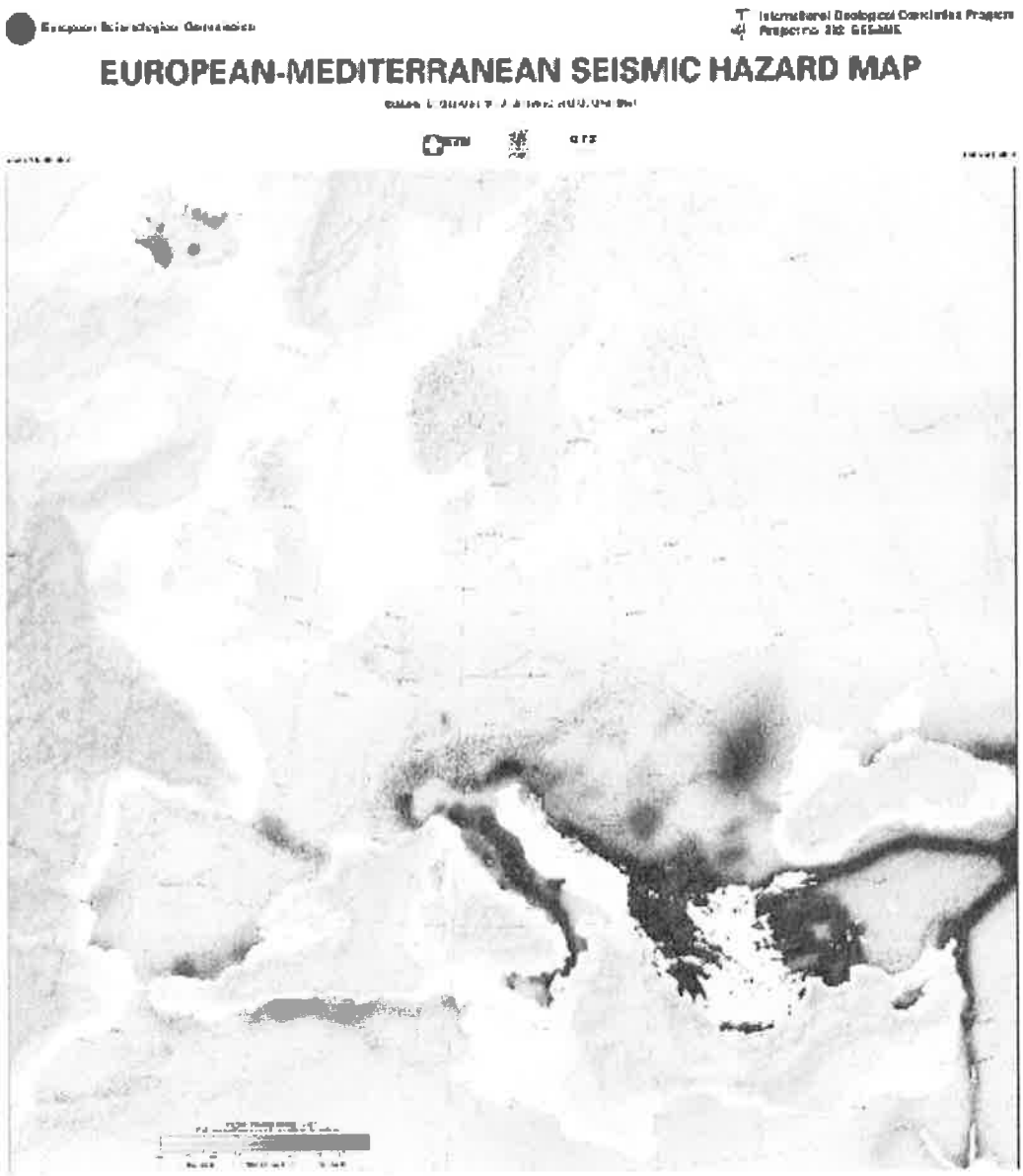
(1) What is your view on the penetration rate of disaster insurance in the European Union? Please provide details and data to support your arguments. Is more research needed to understand any possible gaps in insurance supply and demand, insurance availability and coverage?

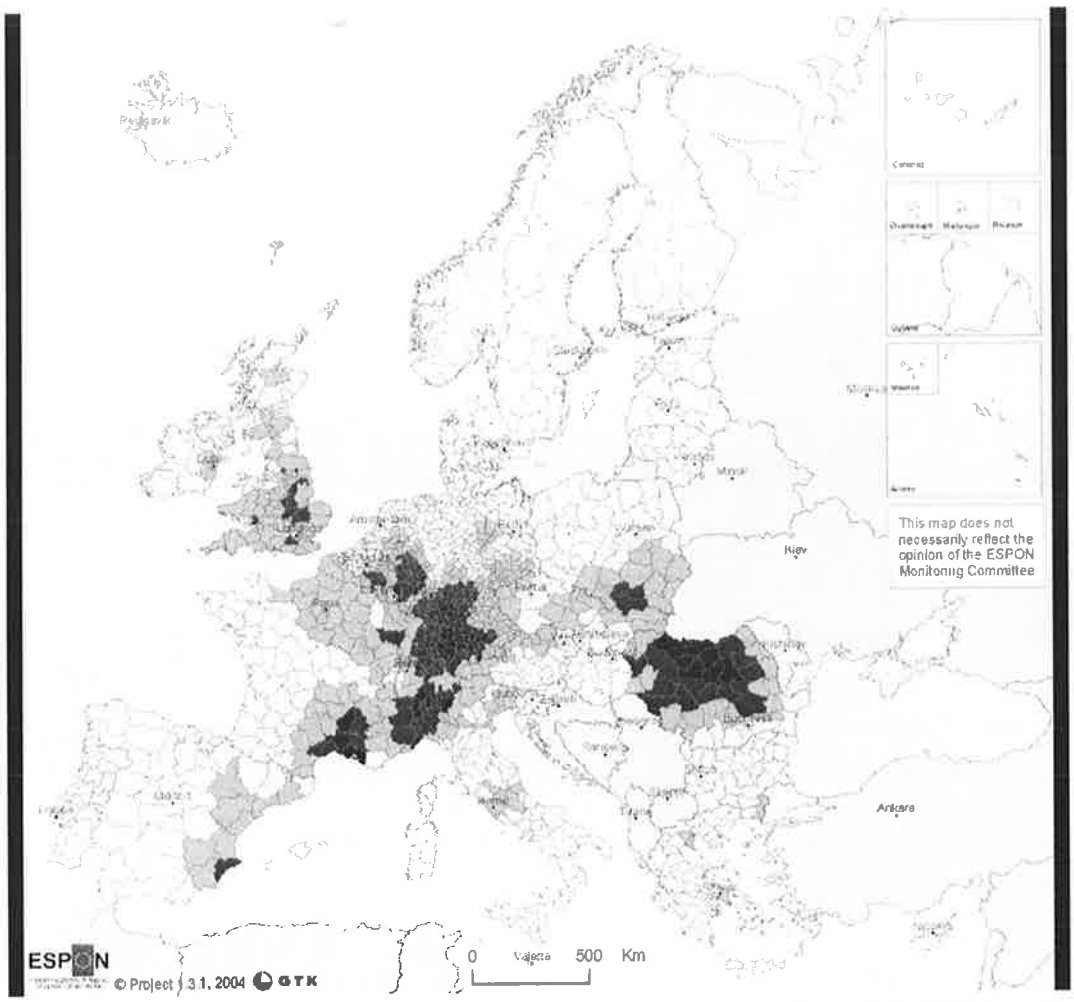
The findings of the research are shared: "storms" are now statistically found everywhere, and, therefore, the need for insurance is widespread throughout Europe.
On the contrary, with regard to "earthquakes" the low penetration of the guarantee depends on the different degree of dangerousness of the geographical areas in Europe; it is interesting to see the map of telluric events that occurred in Europe from 1900 to 2006 (source site "The SHARE European Earthquake Catalogue - SHEEC -), showing how the area south-east of the European Union (Italy, Greece, Balkans) and southwest (southern Spain and Portugal) have been most affected by these events and, therefore, that areas have a greater propensity to subscribe to this type of security, as compared to other EU countries.



As seen above (the seismic hazard map of the European Union) there is a clear correlation between seismic risk estimated and events that have occurred.
The European Community has reported that Italy, Greece, Romania and Portugal are the four countries with the highest earthquake risk in the EU.



There is a similar situation with regards to coverage against "floods".
In this case the European hazard map for the period 1987 - 2002 (source http://www.preventionweb.net) shows that large areas of the European Community are classified as low or very low risk (look, as seen in the example for the Scandinavian peninsula).
Therefore in these areas the problem is scarcely heard.
We must also take into account a further peculiarity: for the same level of danger, the flood risk is determined by the level of elevation of the property from the ground. It is, therefore, evident that an industrial or commercial building at street level (or basements) can be totally exposed to flood, while an apartment building will be exposed to flood only for the part used as cellars and garages and for the apartments on the ground floor.



Flood recurrence

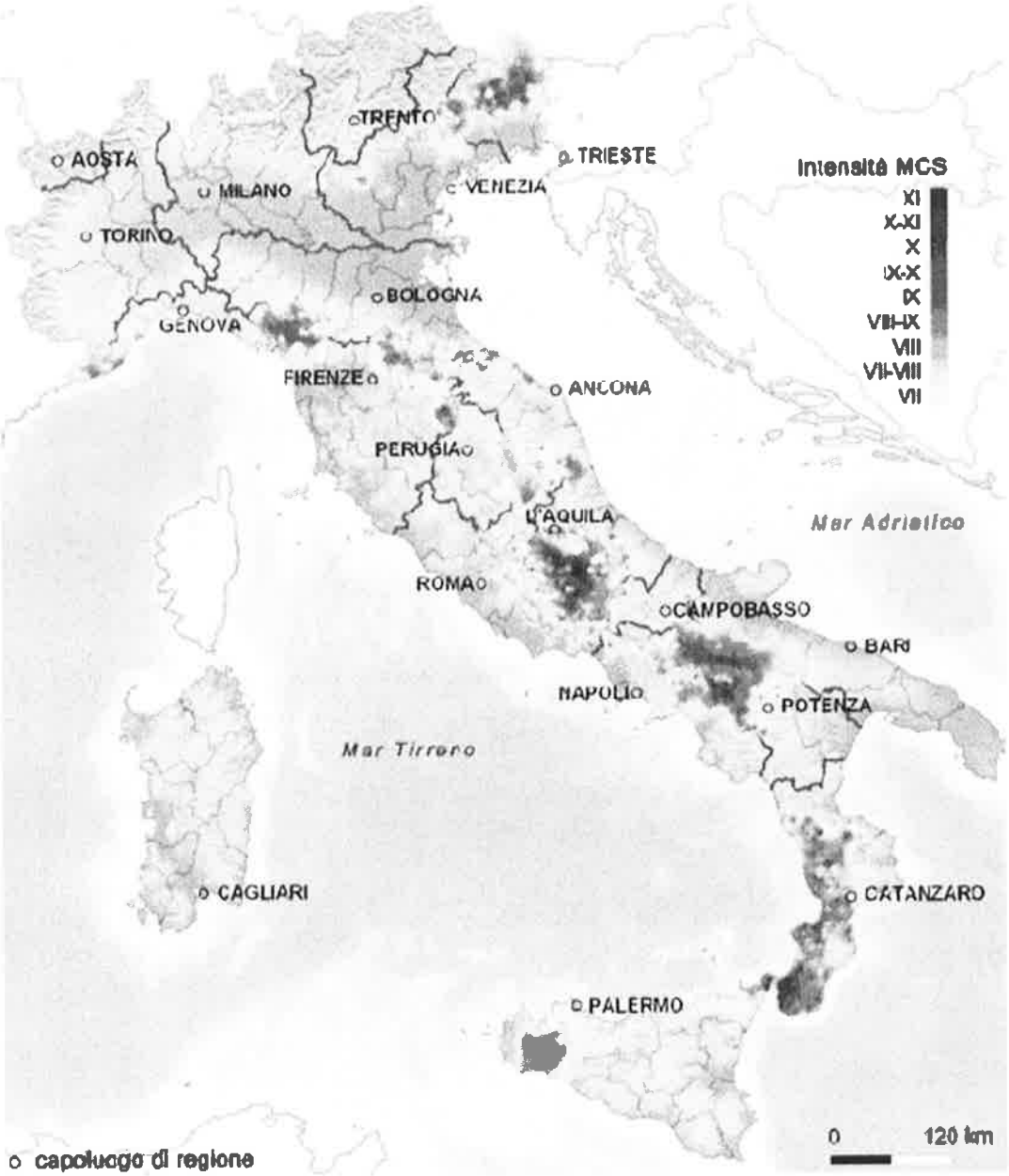
- Very low
- Low
- Moderate
- High
- Very high
- Non ESPON space

Origin of the data: © EuroGeographics Association for the administrative boundaries
Large flood areas © Dartmouth Flood Observatory
Flood areas © ESA - Earth observation - Earth online
Rhine Atlas 2001 IKRS-CIPR-ICBR

Source: ESPON Data Base

This map displays the hazard recurrence based on average number of large flood events on NUTS3 regions 1987-2002. The first class "Very low hazard intensity" includes the regions without large flood events.

The Italian situation presents peculiar characteristics; it is therefore necessary a brief introduction to understand the economic value of goods that can be damaged by natural disasters with reference to the characteristic of Italian territory.
In Italy 51% of the total real assets and financials are related to homes (source: Bank of Italy year 2008).
A large amount of housing stock is exposed to natural disasters; in particular less than 40% of homes are subject to seismic risk while about 45.3% of Italian municipalities are at risk of flooding.
We should also consider the risk arising from volcanic activity, in particular in the regions of Sicilia e Campania.
It seems more than appropriate to recall the data mentioned in a recent book titled "The weight economic and social development of seismic disasters in Italy over the last 150 years "by Emanuela Guidoboni and Gianluca Valensise (2011)": since 1861 there have been 34 earthquakes very strong as well as 86 minor earthquakes.
As seen below (Charter of Italy laying down the location of the
earthquakes) in rich areas of Italy, such as Piemonte, Lombardia, Valle d'Aosta, Trentino, and a large part of the part of Emilia Romagna, there were not earthquakes.
The seismic zones are identified in the Friuli Venezia Giulia, along the Apennine ridge with particular regard to Lazio, Abruzzo, Molise and Calabria.



(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?

and

(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 report <<NatCat: Risk Relevance and Insurance Coverage in the EU, January 2012 1>> BY THE EUROPEAN COMMISSION DIRECTORATE GENERAL JRC JOINT RESEARCH CENTRE Unit for Scientific Support to Financial Analysis Ispra (Italy) concedes in its final General comments that «In many cases high penetration rates are associated with NatCat insurance bundled with other policies".

For this reason and for the further reasons set out below, my opinion is that it is necessary to adopt a system that makes the purchase of insurance sustainable by increasing as much as possible the number of people with coverage.

This is achieved through making insurance obligatory or semi-obligatory.

In the case of obligatory insurance, disaster insurance is required for all property owners, while in the case of semi-obligatory insurance, for example in France/Belgium, it is required only for those property owners who purchase first-party property insurance (like fire insurance).

It is my opinion that the market conditions, the technical knowledge, the attitude of the policymakers and of the prospective insureds and finally of all the stakeholders involved in the process are not yet ready and mature for any legal imposition, whether at a national or at the European Union Law level, that would oblige all the property owners to take out a mandatory catastrophe insurance.

A general mandatory insurance applicable to all property owners (families and enterprises), could, with a high degree of probability, saturate the insurance/reinsurance capacity of our country. If a mandatory insurance should be introduced, it would then be reasonable/prudent to limit it, at a first phase at least, to property owned by enterprises.

By contrast, it is indeed my opinion that the insurance scheme based on the semi-obligatory insurance model would represent a significant improvement for the Italian and European stakeholders (at least with reference to property owned by families).

If Italy were to introduce in its legal system a semi-obligatory insurance model and considering that the current fire insurance coverage in Italy is estimated at approximately 44% of all residential properties, the market would have to insure approximately 15 billion euros (see: Franco Urlini, Natural disasters and insurance, Seismic safety in Italy and earthquake damage coverage: Generali's position, Generali Magazine, number 13, 2013).

The introduction of a semi-obligatory insurance model would represent a first step: insures, insureds and the other stakeholders involved would get familiar with NAT-CAT insurance products and it would be possible to experiment it in the market. After 3-5 years, the policymakers could – depending on the outcome of this experience (analysis of costs, benefits, pay-outs etc.)– decide to switch the model from a semi-obligatory to an obligatory one or to maintain the semi-obligatory model.

While an economically sustainable solution to this level of exposure is possible in the private insurance and reinsurance sector, in reality the state is the risk carrier of last resort, as is the case in the other schemes that already exist in several European countries.

The "French model" is increasingly popular in European Countries. The French model has been imported in Belgium in 2003 (where it has been improved) and it has been proposed in other Member States (including Italy and Germany).

For civil law lawyers this model is familiar. French law has introduced since 1982 a compulsory catastrophe extension of voluntarily subscribed property insurance contracts. It is a mandatory disaster coverage for potential victims who have already subscribed to first-party property insurance. Consequently damages to houses and cars will also be covered if the damage is caused by natural disasters (floods, earthquakes, storms etc.).

The supplementary coverage for NatCat is financed by an additional premium of 12 % on all property insurance contracts, irrespective of the location of the insured risk. Reinsurance is provided through the Caisse centrale de Réassurance, which is controlled by the French State.

Criticism has been raised towards this model: bundling clauses hinder the competition on the market for disaster insurance, limit consumer choices and may also have a negative impact as far as the competition on the market for property insurance is concerned.

However, in my view, the pros clearly outweigh the contras: without a duty to buy insurance coverage for catastrophic loss, exclusively high risks may decide to buy insurance coverage and the risk may become uninsurable. A compulsory insurance extension determines a positive cross-subsidiation of high risks by low risks.

A mandatory bundling insurance product is ideal for a country where the more frequent disaster risks are due to earthquake and/or landslide. The territorial areas are already well known and therefore insurance premiums in those areas would be too high for people living in that specific area. Instead people living in other areas would not be interested to an insurance cover for disaster risks unless already included into the scope of risks mentioned in the general conditions of the insurance policy. This would create, at the contrary, the economic basis to generate the coverage of these risk at an acceptable insurance premium. In Italy at the very beginning of January 2010 appeared a project of regulation for a compulsory insurance against natural disasters which was supposed to be examined in the Ministry Counsel. This project apparently was rejected .....because the Chairman of the Counsel was afraid that such decision could be unpopular (compulsory payment of insurance premiums) within the electorate!

That being said, I would like to set out my opinion that EU action in this area would for sure be useful.

There is indeed a "legal need" of a European Union Law act- possibly a directive – that would pave the way to the (facultative) adoption of the semi-obligatory mechanism by Member States.

This "legal need" may be shown by the consideration that bundling (tying) is mentioned explicitly in Article 101 (1) (e) of the TFEU as an example of prohibited agreements (EU competition law on cartels).

One could at first sight argue that in the case of the introduction by a national law of the bundling mechanism, it is the national law that provides the mandatory subscription of the additional coverage, not a private cartel as foreseen by Article 101 (1) (e). However, according to the consistent case law of the European Court of Justice, EU law is infringed by a member State if a member State requires or favours the adoption of agreements, decisions or concerted practices which violate the competition provisions of the Treaty (CJEU, September 9 2003, C-108/01 Consorzio Industrie Fiammiferi (CIF).

Therefore, some authors have thus questioned the compatibility of a compulsory insurance coverage based on bundling with EU Law and - more important - the Italian Antitrust Authority has objected (2003 and 1999) to a similar scheme to be imported into Italian Law (Decision of the Italian Antitrust Authority - Autorità Garante della Concorrenza e del Mercato - AS 270 of 20 November 2003, Bulletin nr. 47/2003. See also the decision of 12 April 1999).

So - even if there are arguments for arguing that the above mentioned case law of the ECJ applies exclusively in the case where national law requires and/or favours already existing agreements or practices by undertakings, which in the present case is not – in my view it would be important if the prospective EU directive would affirm that a national law may adopt insurance legislation schemes providing for the coverage of Nat-Cat as a mandatory extension of the first-party property insurance (like fire insurance).

Such a provision would not oblige Member States to adopt such a scheme, but it would individuate it as a possible policy option for member States.

As explained above, the adoption by the EU of such a Directive would definitively cancel any possible doubt of compatibility with EU law. In any case it would be useful if European Union Law would expressly acknowledge that similar national schemes, provided they bring benefits to consumers and respect the requirement of proportionality, are compatible with EU Law.

Of course the Directive should also provide further rules, connected to the choice of the scheme.

In order to avoid a sudden and radical change of the market conditions, we suggest also that, according to specific provisions of the Directive, at a first stage, the compulsory extension would apply only to new insurance policies entered into by private businesses and individuals after the enactment of the new national law and later on it would be extended to all existing policies.

One specific issue the Directive should deal with are tariffs/premiums.

In my opinion, some relevant consideration may be drawn from the judgment of the Court (Grand Chamber), 28 April 2009, C-518/06, Commission v. Italian Republic on the obligation to provide coverage for third-party motor vehicle liability insurance.

I quote from this judgment:

<<88. It appears, inter alia, that the number of road traffic accidents declared to insurance undertakings is particularly high in certain areas in the south of Italy. That situation has led to a considerable increase in the financial risks incurred by those undertakings in that region.

89 In those circumstances, the Italian Republic could consider that it was appropriate to impose on all undertakings operating in its territory an obligation to contract vis-à-vis all vehicle owners domiciled in Italy, in order to avoid those undertakings withdrawing from the southern part of Italian territory and thereby depriving vehicle owners domiciled there of the possibility of taking out third-party liability motor insurance, which is nevertheless compulsory.

90 It follows, moreover, from Article 11(1a) of Law No 990/69 and from Article 35(1) of the Code of Private Insurance that in taking that measure the Italian Republic did not prohibit insurance undertakings from applying premium rates differentiated on the basis of past statistics on the average cost of the risk within categories of insured that have been sufficiently broadly defined.

91 In particular, it is not in dispute that the obligation to insure does not prevent insurance undertakings from calculating a higher premium for a policyholder domiciled in an area characterized by a significant number of accidents than for a policyholder domiciled in an area where the risk is not so high>>.

So, what emerges from this judgment is that there should be at least a certain degree of freedom for the insurers to set insurance premiums by taking into account property location and construction type, thus ensuring a technical balance between exposure to risk and premiums.

The Directive should of course go more into detail on this issue, providing guidance to Member States on regulation of tariffs and premiums.

In my opinion the Directive should not provide that the supplementary coverage for catastrophic loss is financed through an additional uniform/fixed/flat premium of X percent on all property insurance contracts, like it is under the current French legislation.

The mandatory supplementary coverage, which is to be included in fire insurance policies, should provide that the insurance premium is to be differentiated taking into account the characteristics of the different risk regions. Insurance premiums would be defined on the basis of different indexes reflecting the degree of risk in different areas of Italy.

Moreover through an adequate risk differentiation first-party insurance may have preventive effects. One could think of risk differentiation in the area of, say, flood insurance whereby good risks taking adequate preventive measures are rewarded with lower premiums and bad risks (those who build a property near to a river) get higher premiums.

This is the only way to reduce moral hazard. However solidarity reasons may well concur to the elimination of any rigidity in the proposed insurance scheme.

The Directive should also provide for rules relating to the contract terms, including deductibles and modalities of compensation. It is submitted that also the provision of deductibles would concur to the prevention and mitigation of the risk and contain insurance costs.

As far as the issue of reinsurance is concerned, I suggest that a reform of the Insurance Block Exemption Regulation 267/2010 is envisaged, so that disaster co-reinsurance pools would in principle be exempted, if they respect certain conditions to be laid down in the reformed provisions. This would extend the risk absorption capacity of the insurance market.

The necessity of such a reform may be highlighted through the Italian experience. The draft of the Italian Budgetary Law for 2004 imposed the establishment of a co-reinsurance consortium, which would be responsible for the collection of premiums for natural catastrophic risk coverage. The Italian Antitrust Authority challenged the establishment of such a consortium and ultimately the draft was dropped by the Italian Parliament.

So, in my view, it would be important to clarify also that, under certain conditions and in the observance of all European Union Law provisions and principles, a national law may provide for forced participation of insurers in a co-reinsurance consortium. Such a clarification would fit better in a specific provision of the Directive, rather than in a provision of the proposed reform of Regulation 267/2010, where – ratione materiae - only the profile of the cooperation of insurance undertakings in the working of the co-reinsurance pools should be regulated.

Finally, the Directive should provide for a yearly maximum indemnification cap, beyond which the Member State would cover any residual compensation not paid by the consortium.

If the here proposed semi-obligatory system would to have been introduced, the big problem of the enormous increase of exposures that the Italian insurance market would necessarily incur for such a large number of contextual covers activated would clearly emerge. It is a big problem because it could saturate the reinsurance capacity of our country.

Certainly a pertinent provision in the Directive would be useful, also to solve reinsurance problems.

The Directive should provide that the Member State is the risk carrier of last resort. This would enable the insurance market to sustain the costs of extreme events, which would be very difficult and costly for the private capital market alone to cover.

Last but not least the Directive should encourage the adoption of tax incentives that would benefit the purchaser of disaster insurance (i.e. reduction of the tax on the insurance premiums, make premiums tax deductible from personal income tax (IRPEF) and tax credit).

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

We believe it is fundamental to have a particularly restrictive national implementing regulation, which provides clear rules about the risks that should become or should not become the subject of compulsory cover.
For example: earthquake coverage: all buildings constructed illegally or the buildings that do not have design features minimum requirements imposed by law for the geographic area in which they arise, should be excluded
flood coverage: individual entry built in high risk landslide areas such as floodplains or high-risk places hydrogeological subject to landslides in event of heavy rain, should also be excluded.

In any case, before studying the ideal solution to prevent the problem of moral hazard a studying committee should examine a very realistic problem concerning the more poor Italian population which have been building up their home on dangerous area exposed either to earthquake and/or landslide without any public permission and/or examination of technical antiseismic characteristic etc. According to an approximate estimation of the number of those abusive buildings there are in Italy more than 1.000.000 homes. Therefore should you require that only houses regularly recorded could benefit by a regulation including a State intervention in damages suffered , this could cause a politically negative reaction.

Our opinion is that creating schemes where the State or public agencies can play the role of a last instance re-insurer would certainly be a necessary step.
However, generally speaking, we think that, in order to reach a sufficient capacity to cover Cat Nat risks it is necessary to adopt schemes that combine insurance and finance techniques, also with the contribution of retail investors.
In particular – subject to appropriate feasibility studies – we think that the moral hazard in the field of insurance of natural catastrophe can be mitigated through the combination of the following actions:

a) to establish a mandatory regime for such an insurance tied with more generic property risks;

b) to create risk pools between population that are directly exposed to the risk; introducing Risk Retention Groups vehicles similar to those adopted in USA, that could have access to the global re-insurance market;
c) to solicit population living in different parts of the territory to invest in special kind of cat bonds (issued by the State or other special entities) which would cover cathastrophes, with a medium return on the investment, with the clause that, in case the event happens, the investors would retain a sort of an interest in the re-built properties, that the single damaged persons could buy back at certain conditions. Alternatively the investors could be paid back by the State.

(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?

While the usage of information envisaged in Section 2.5 to support the creation of innovative insurance products does not appear problematic per se (and, on the contrary, would probably prove to be beneficial for the development of the weather related coverage market), we believe that the actual structure of parametric index-based insurance schemes should be carefully addressed and considered by the Commission. In particular, under traditional insurance policies, indemnity is triggered only upon assessment of an actual loss suffered by the insured party, while under parametric index-based insurance scheme, compensation is due whenever a pre-defined weather index deviates from the historic average irrespective of the actual loss. This feature – i.e., irrelevance of the actual loss – would be driving parametric products away from the traditional concept of "insurance contract" under many European jurisdiction, whereby occurrence of an actual loss is essential and indemnity is typically capped to the actual damage suffered by the insured party.

Similar considerations have been raised in the context of the international debate around relationship between insurance contracts and weather derivatives. Back in 2003 the American National Association of Insurance Commissioners (NAIC) released a draft white paper that characterized weather derivatives as "disguised" insurance contracts and recommended a legislative intervention both on authorization and monitoring of their issuance. The reaction of the major associations was immediate and eventually induced NAIC to reconsider their position in the light of the market: as a matter of fact, weather derivatives and insurance contracts do have a number of similarities, but the functional equivalence must be distinguished from legal equivalence. In particular, the insured, in order to collect the indemnity, must demonstrate that it actually suffered a loss that was covered by the contract; the payment is limited to an amount equal to the lesser of the insured's actual loss or the maximum amount of loss covered by the contract.

Since many European jurisdictions impose regulatory restrictions or limitations to the issuance of weather derivatives by insurance companies (based on the fact that they are not considered genuine insurance products, but a completely different security to be issued exclusively by other kinds of financial institutions), the Commission should clearly identify the distinction between weather derivatives and parametric index-based insurance schemes (thus assimilating the latter to the category of genuine insurance contracts) or, as an alternative, recommend national legislators to revise any existing regulatory constraints to the possibility by insurance companies to issue weather derivatives (and, consequently, their close relatives, parametric index-based insurance schemes).

(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?

The measures to reduce and manage the risks associated with natural disasters often require complex and expensive interventions on property; therefore it is difficult to motivate consumers and insurers to put them in motion.
Certainly a mandatory disaster insurance would lead to a general decrease in costs for individual policyholders, according to the criteria of mutuality that would occur.
Insurers generally hold the cover price taking into account the preventive measures implemented.
It should however be noted that the territoriality of risk is the main parameter in the definition of the cover price; for each type of risk (earthquake, flood, weather events) the cost of coverage is based on specific geographic classifications, made according to the degree of danger of the geographical area in which the risk is situated.
In general, we believe it is difficult to fix a flat-rate premium for covers of natural disasters; however for specific type of risk it can be defined (eg residential buildings).
Covers at a low level of performance (exemptions / relief and overdrafts, content limit for compensation) can be defined for low-income consumers.

There are difficulties to collect the data necessary to focalize the problem of irregular buildings in the different areas of the country in order to be able to calculate the risks in case of a natural disaster in the more exposed geographical areas. In any case there should be a large collaboration with the Ministry responsible of the environment which should have relevant information on the irregular building for each area at risk. These information should be at disposal of Insurance and reinsurance Companies in order to be able to produce possible insurance solutions in case of a compulsory insurance. Due to the fact that a large part of irregular buildings belong to the most poor population there would be a strong reaction in case of the refusal to insure such building unless would be adopted the required investment to put the building in order with the required construction criteria. Due to the dimension of the problem this will create a political case difficult to bring to a satisfactory solution. Therefore in case of catastrophe there will be a large number of non insured buildings which could not receive help even from the State. To bring to order the situation it would be necessary to start an enormous investment which probably the finance of Italian State could not afford.

To cover Earthquake and Landslide risks on the Italian territory we should imagine to cover such risks together within the fire insurance coverage. One solution, which was invented some years ago, was proposing to the Government to reduce the high tax on fire insurance premiums (22,50%!!) to a very low level (1%) and with the saved amount of premiums Ins. Co. could have covered a large number of building against earthquake risks. This could reduce earthquake premiums and people generally would more easily require the inclusion of such risk within the fire policy.
Ins. Co. would require in case of a large catastrophe a reinsurance coverage and/or a State cap through a Stop Loss R/I coverage .

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

Looking statistics we can note that Very large Disaster appear in a period of years. Therefore to be able to cover such losses an Ins.Co. should be allowed to collect Loss Reserve through a long period of years and therefore this require a particular fiscal treatment for such long term possible loss reserve. We have had a similar problem with the pollution insurance for Oil Producer. We have resolved the problem with the creation of an Insurance Pool located in Bermuda. In this country LOSS RESERVE ACCUMULATED FOR DANGEROUS ACTIVITY, which could cause a major loss in the future, could be invested producing an income which is tax-free because the reserves are assigned to cover a major loss in the future. In Europe each country has a different system of taxation and we do not know how such reserves could be treated but for us is essential that income of reserves assigned to cover major future losses should be tax-free and help to increase ,within the time, the amount available in the moment of a very important loss!

We believe it is not prudent for insurers to promote long-term disaster contracts expecially for continuous changes in underwriting policies of reinsurers, both globally and locally.
For example, in the case of an event of particular gravity, reinsurers could decide, on a global or domestic level, to suspend, even temporarily, its coverage for that kind of event.
Consequently direct insurers could be in serious trouble without the necessary capacities to ensure adequate solvency to its customers, which, by contrast, would enjoy, however, indisputable benefits from long term disaster contracts.

(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?

-----Pre-contractual and contractual information requirements

The Green Paper has mainly dealt with the disclosure obligations imposed by the insurer to protect contracting parties, stressing the importance for the insurer to "instill greater confidence in the contractor."
It was also stated that the Community directives do not provide rules on information communicated to the contractor.

The other side of the coin has been totally neglected: the information that the contractor must be provided to the insurer to determine, undepth, the conditions of the contract.
This is necessary to properly assess the risk.
We have to consider that in Italy only about 30% of homes have a coverage against fire and a small percentage (2-3%?) have an insurance coverage against earthquake.
The explanation seems to be justified from the fact that the earthquake risk is not profilable for almost all North of Italy; so most policyholders are convinced that the insurance cover doesn't need to include earthquake risk.
In that area the coverage extension against earthquake is mostly sold with reference to buildings used for industrial, commercial or financial activities.
In addition, in the southern regions, coverage against risk of fire is uncommon, and even less the extension to the earthquake risk
In this regard we refer to the report of the President of ISVAP, dated 2009, which denounced that the italian economy is underinsured.
From 1998 to 2009, the coverages against natural risks were varied between 2.3% and 2.6% of GDP (between the 1,2% and 1,3% if we don't consider car insurance).
So the contractors who live in areas of low seismic risk are not interested in buying the insurance cover against earthquake; on the other hand, citizens who live in areas of high seismic risk are interested in buying these coverages, which are very expensive as they are sold only in these dangerous areas

------Insurance terms and conditions

It seems appropriate to summarize the current insurance terms about the coverage against earthquake.

1. the coverage is generally connected to fire insurance;
2. the earthquake is defined as "An abrupt and sudden upheaval of the earth's crust due to endogenous causes"
3. The insurance covers the entire structure (it isn't possible to insure only part of the building)
4. The building must be in good condition and must have the vertical and horizontal structures in reinforced concrete
5. The combustible materials can't be greater than 25% of the total.
6. Damages suffered by illegal buildings or by buildings uninhabitable or by buildings constructed in eco building can't be compensated
7. The maximum compensation is equal to 50% (or 70%) of the sum insured for the building; it is also provided, in general, a deductible of 10% with a minimum of € 20,000.00 or € 50,000.00
8. The contract insurance has a duration of one year with no automatic renewal.

In the central and southern areas with higher seismic risk, the insurance terms provide further coverage exclusions

----Data, research and information.

We agree with those reported in the green paper: "The information asymmetry between the insured and the insurer determines the underwriting process. Insurers need to obtain adequate information to correctly define risk groups to avoid adverse selection. If proper information about the risk is missing, risk-based premiums are difficult to calculate. The general lack and ambiguity of data is a hurdle to the further development of disaster insurance"
The Italian legislation on the building is complex and often incomplete.
We therefore think that the cooperation of the contractor is fundamental to provide the insurer with the complete features of the property to be insured.

The information provided by the contractor are important and allow the insurer to properly frame the risk.
According to Italian law in the event of inaccurate information, the insurer may not pay the claim or reduce compensation or cancel the contract
Therefore it would be very useful to introduce a questionnaire prepared by the insurer (through simple and clear questions) to obtain information from the contractor about the nature, the characteristics and the value of the property to be insured in order to calculate a reasonable price of the coverage.
Not only that, but the information gained through the questionnaires may be useful to insurers to define a single price at the national level, sustainable by all citizens.
The spread of coverage against earthquake would also reduce the cost of operations of the state and therefore the amount of taxes that are required whenever an earthquake happens
Please note that according to sources ANIA in 2009 through the intervention of the general taxation to compensate or rebuild had resulted in an average a withdrawal of € 3.5 billion per year in the decade 1996-2006.
It is of absolute importance to adopt a system of insurance mandatory with a prize that will be on acceptable terms, thanks to the involvement of the entire population and not just those living in areas at high risk of earthquake. Finally, you should note that recently all climate predictions have been overwhelmed by climate change, sudden and violent in recent years.

We think there is a need to harmonise pre-contractual and contractual information requirements at EU level.
In Italy we believe that since December 2010, with the entry into force of the "ISVAP Regulation (now IVASS) 35", the Italian domestic market was already been regulated in detail; the "Information Note" of the products sold in Italy already contains all the items listed in question 10
However, there is nothing specific in terms of information about natural disasters, and, therefore, we hope in an intervention by the EU, in particular as regards the information to be provided to policyholders to reduce / minimize some risks (mostly related to the flood, since it is difficult to imagine non-structural measures for reducing the risk of an earthquake)
Yes we think that there is a need to harmonize pre-contractual and contractual information requirements at EU level and should include information concerning – the nature of insured risks,- measures to prevent and minimize the insured risks –features and benefits –exclusions or limitations being intended that risks non expressly excluded (but included within the term defining the object of the policy) are included into the cover- details for notifying a claim etc.- etc

Our believe is that catastrophe or natural calamity risks are quite different from the other non life risks, either because of their object either because of the techniques that must be put in place for providing their coverage.
Therefore, if the issue of pre-contractual information was to be addressed for these kinds of risks, we think that a specific, very light and based on a minimum harmonization approach should be taken.
More generally speaking, we would like to recall that during the preparatory works and analysis preceding the decision of the UE Commission to create a new horizontal set of rules governing the sale of investment products (which encompass also insurance products with an investment element) for the retail market (PRIPS) one of the final finding of the Commission was that, in order to enhance the protection of the consumer, was more important to establish rigorous rules governing the conduct of the distributors at the point of sale than providing the consumer with a huge amount of written information that he would never have the chance or the intention to read.
In addition, at present, the matter of pre-contractual information duties is being dealt with by the EU Parliament within the discussion of the Eu Commission proposal for the recast of the Directive on insurance intermediaries (IMD II) and similar issues will be addressed by the Commission in the

studies and preparatory works for an European Uniform Contract Law, or in the more restricted working Group about a possible regulation on an European Uniform Insurance Contract Law.
In our view, the issue of determining a uniform set of pre-contractual information to be given to the consumer in the field of non life insurance should not be dealt with in the discussion on catastrophe insurance.

(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?

Deductibles, excesses and the clear indication of exclusions in insurance contracts well explained to the policyholder at the time of subscription, are no doubt valid instruments to prevent moral hazard.
We believe, however, that the co-insurance can not be placed on the same level of these restrictive measures included in insurance contracts. In fact, the use of such a solution is not born from the need to eliminate the moral hazard but, rather, by the need to mitigate the exposure of single companies through the fragmentation of the risk, thus avoiding an excessive burden on a single insurer.
We also believe that the increase in the disclosure of information on damage prevention could be another solution to prevent moral hazard: a population more aware of the potential dangers linked to events such as the earthquake and floods behaves more careful to prevent the risk of damage to their property.
It would therefore be good that the EU would promote, as is the case of road safety, information campaigns through mass media (television, radio, internet or printed newspaper) about effects 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,29 civil protection cooperation30 and promotion of EU risk guidelines31)?
(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?

The uniformity of the criteria for the modeling of systems of statistical measurement should represent, in our opinion, an objective with great commitment by the EU.
Currently, the company's direct business have access by reinsurance companies or reinsurance broker, in many systems of statistical calculation.
According to the different mathematical criteria with which they are made, they realize probabilistic scenarios of risk very (and excessively) differentiated between them, and therefore not always reliable.
Insurers use these tools for the definition of reinsurance treaties, thus basing their choices on their greater or lesser propensity to prudence (and not on objectively reliable).

Policy initiatives such as the "Directive 2007/60/EC of the European Parliament and of the Council of 23 October 2007 on the assessment and management of flood risks (OJ L 288, 6.11.2007, p. 27)" and " Proposal for a Decision of the European Parliament and of the Council on a Union Civil Protection Mechanism " are certainly commendable, since they constitute an effort to improve data on natural disasters.

A similar activities with regard earthquakes is missing in our opinion: the last activity of an organism in some way linked to the European Community relating to earthquake risks is dated 1996, when, during the XXV General Assembly of the ESC (Seismological Commission European Union) to Reykjavik, it is strongly recommended the adoption of a new scale (the so-called "European Macroseismic Scale", split into 12 degrees) by the member nations of the Commission. This scale, however, is not currently used on the occasion of seismic events (the most usual is the note "Richter Scale").
The venue of the conference was not evidently random: as shown in the map in the answer to question 1, Iceland is a country with high earthquake risk, and this fact, in some way, confirms our feeling that due to the strong localization of the risk earthquake in very specific areas, the need of a specific European legislation is less felt other.
We certainly agree that the EU should encourage the publication of statistical data available, trying to make them consistent and accessible to non-experts, to improve awareness of the risks to ever larger segments of the population.
In the political sphere, we believe that the best results are usually achieved through specific committees in which to bring together representatives of government bodies and agencies (such as the Italian INGV - National Institute of Geophysics and Volcanology -).
In this regard, we mention a recent conference held in Alexandria in April, 2013, organized by the Italian Civil Protection, concerning the project "DRHOUSE (Rapid Development of Highly-specialized Operative Units for Structural Evaluation)".
The project was started in 2010 and involved the assessment of the damage, the safety of buildings and the return on security through temporary works in the event of an earthquake. The project brought together 30 experts from various European countries.

We believe that would be suitable a collaboration of EU and the important reinsurance Co. (Münchener Rück , Swiss-Re , etc) would offer the advantage of existing studies on that matter..

Available data should be made public and would promote diffusion of policies covering such damages. EU should take action 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?

We believe that the EU action should be wider to include the coordination of the fire-brigade of each European countries would help European citizen to understand better the fact that they are all European citizens. We have noted in our country that interventions are often without technical effectiveness , particularly as far as financial opportune intervention is concerned . We believe that EU would not meet political resistance should occupy this area and would avoid non correct behavior of local political forces.

The developing countries should be assisted primarily through targeted funding to the interventions of loss prevention, but also by providing the know how collected by the EU in its database.
We provide two suggestions about the types of partnership:
1) agreements between the EU and the various national building associations (eg ANCE for Italy) by proposing to their members (even those who are dedicated exclusively to the creation of residential real estate), a partial conversion of their activities, directing them towards the realization of public works for the safety of land, beds of watercourses or the property order to gradually achieve an implementation of prevention level on an international scale (in addition to jump-start an industry in deep economic crisis)

2) foster collaborative relationships with companies of rehabilitation in case of claim (such as Belfor) to ensure non-only a timely intervention in the areas affected by natural disasters, but also a massive clean-up operations

Questions 16-17-18:

Man-Made Disasters Insurance

Preliminary Issues: when is a disaster natural and when is it man-made?

In other terms, when is the natural event considered as force majeure or an act of God, with the consequence that if such condition is proven, the operator is not held liable? Or when does the principle of strict (objective) liability apply?

- Civil Liability Regimes for Marine Oil Pollution (International Convention on Civil Liability for Oil Pollution Damage, hereinafter CLC) may provide interesting models of how this threshold is established within strict liability regimes. According to the CLC Regime, the owner of the ship is strictly liable unless he proves that the damage was caused by a natural event that has interrupted the causal link between the operator (dangerous) activity and the damage.

Relevant legal framework at the European level: Directive 2004/35/EC

- Directive 2004/35/EC sets no mandatory obligations on industrial operators to insure damages deriving from their activities.
- However, the Directive is strictly anchored to the "polluter pays" principle (see article 1 and 2nd paragraph of the Preamble) which recognizes that the financial responsibility of the operators whose activity causes environmental damages should be established with a view to encourage a preventive approach and risk management practices.
- As for the various forms of reparation of damages, the Directive sets the priority of restitution in kind (restitutio in integrum). The pecuniary reparation of the environmental damage is complementary and may compensate also indirect economic damages, resulting – for example - from the depletion or loss of natural resources. The amount of such compensation is left to the discretionary judgment of the competent national authority.

The insurers challenges related to man-made disasters

- Insurers need to further develop specific insurance products that clearly determine the extent of the coverage, i.e.

- the type of activities of the insured that are covered, in combination with the
- the type of natural events.

How can cooperation between insurers, business and competent authorities be strengthened to improve the knowledge base of liabilities and losses from industrial accidents?

Considering the unforeseeable nature and high uncertainty of natural disasters, scientific data shall be used in the risk/premium assessment. These data shall be acquired with the most modern technologies (consider recently the use of satellites). (Precautionary principle)

- The creation of clearing house mechanisms may promote and facilitate technical and scientific cooperation, training activities for agents and intermediaries, exchange of information, joint research programmes and joint ventures for the development of technologies relevant to the prevention and early management of man-made and natural disasters.

Would suggest to contact the Oil Insurance Limited (OIL) in Bermuda. Their pooling formula has proved to be very successful particularly with the terrible losses concerning pollution third party damages in the Mexico gulf etc.etc. The formula adopted by Oil with the necessity to apply large deductibles and to recover gradually in the time the paid losses have proved to be successful and the system for liquidation of claim have proved to be very effective and confidential (avoiding publicity which could compromise reputation of the assured). Consult OIL Ins. Limited (see site internet) how to protect reputation of the insured's in case of a damage to third-parties caused by man-made disaster.

Question 20

The activity of Loss adjusters was not in the scope of the IMD I. it is in the Commission Proposal of the IMD II, but the most recent reports and opinions by the Parliament tend to confirm the exclusion of such an activity from the scope of IMD II.
Some of the problems encountered in the recent years by loss adjusters were due to the fact that some Member State require Loss Adjuster to be subject to the rules of Intermediaries some other do not.
Our view is that Loss Adjusters should not be included in the scope of the IMD and, therefore, they should be subject to the general Directive on freedom of Services, so that they could be free to operate in every part of the European Space

(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?

We suggest that in a forthcoming publication is given due importance to the impact of hedges "consequential damages" for the industrial sector: it is a cover that has as main objective to bring the company to the financial situation prior to the incident, the same acts effectively even in prospective terms, as, guaranteeing the company to return in the shortest possible time to its usual operations, allows to be able to plan with greater confidence also possible investments in terms of "loss prevention," which, when projected on a large scale, tend to raise the general level of security against man-made disasters