The European Federation of Insurance Intermediaries
La Fédération européenne des intermédiaires d'assurances

BIPAR'S RESPONSE

European Commission's Consultation
Green Paper on the insurance of natural and man-made disasters

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BIPAR is the European Federation of Insurance Intermediaries. It groups 51 national associations in 32 countries. Through its national associations, BIPAR represents the interests of insurance agents and brokers and financial intermediaries in Europe.

Apart from some large multinationals, the insurance intermediation sector consists of hundreds of thousands of SMEs and micro-type operators. It accounts for 0.7% of European GDP, and over one million people are active in the sector. Insurance and financial intermediaries facilitate the insurance and financial process for several hundreds of millions of customers. The variety of business models, the high level of competition and the geographical spread in the sector ensure that everyone in Europe has easy access to tailor-made insurance and financial services.

BIPAR is a member of the World Federation of Insurance Intermediaries (WFII).

Introduction
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Apart from some large multinationals, the insurance intermediation sector consists of hundreds of thousands of small to medium-sized firms (SMEs) and micro-type operators. It accounts for 0.7% of European GDP, and over one million people are active in this sector. Insurance and financial intermediaries facilitate the insurance and financial process for several hundreds of millions of customers. The variety of business models, the high level of competition and the geographical spread in the sector ensure that everyone in Europe has easy access to tailor-made insurance and financial services.

BIPAR welcomes the opportunity provided by the European Commission to comment on its Green Paper on the insurance of natural and man-made catastrophes. With large-scale and frequent disasters affecting economic stability and growth in Europe, BIPAR believes the European Commission is rightly focusing its attention on the role of insurance in disaster risk management.

BIPAR believes that improved access to data and greater standardisation of data in order to facilitate comparability would be of benefit to the insurance industry. Better quality data with more standardisation is crucial if the industry is to understand and model catastrophe risk better.

BIPAR does not believe that a mandatory insurance scheme is the best way to minimise the problem of economic losses due to natural and man-made disasters. It could jeopardise the adaptability and flexibility required by the diversity of industrial activities in the EU.

I. Market penetration

Question 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 Joint Research Centre (JRC) analysis is extensive and we do not believe additional research is required.

BIPAR is concerned that the JRC have advised that disaster insurance markets do not seem to cope fully with existing risks.

Because of mandatory insurance e.g. in Spain, France, the penetration rate of disaster insurance is high in these countries. In Germany, one has to compare between private and commercial sectors: privately, only storm and hail are commonly insured. Other natural perils are only commonly insured in Württemberg because of a former forced monopoly. Commercial and industrial risks are more often insured, due to the broader cover of e.g. all-peril insurances but thanks to an acceptable premium level.
A possible upcoming increase in premiums – especially regarding natural perils – could push the insured to limit his/her insurance cover.
BIPAR believes that gaps in cover are more likely to occur when perils such as flood cover are not automatically bundled in with other perils. For example, in a home insurance package that covers fire, lightning, explosion, theft, flood, impact, etc, bundling definitely improves penetration and possible affordability of cover for customers.

In this context it is important to ensure that current EU initiatives affecting financial services, like the revision of the Insurance Mediation Directive (IMD) or of the MIFID, do not ban this kind of bundling practice that are a common strategy for retail financial services and can provide important benefits to the consumers when they are well informed on the products, such as in disaster insurance.

Question 2 (on product bundling): 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?

As explained above, cross-selling practices (tying and bundling) are a common strategy for retail financial services and can provide important benefits to the consumers when they are well informed on the products such as in disaster insurance.

In many EU Member States, it is possible to bundle different products together. However, if it was made mandatory then there is a risk that some insurers would be uncomfortable with this and withdraw from the market leading to a loss in capacity or a big increase in premiums. Bundling could be – in some circumstances like natural catastrophes - encouraged but not forced upon the market.

It is important that any EU initiatives that will be taken in this respect are consistent with the provisions that will be adopted in the recast Insurance Mediation Directive that includes an article on cross-selling (bundling and tying activities).

Question 3 (on compulsory disaster insurance): Which compulsory disaster insurance, if any, exists in Member States? Are these insurance products generally combined with compulsory product bundling or an 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 situation varies from one Member State to another. For example:

Property insurance is not compulsory in the UK so there is no real compulsory disaster cover.

In Germany compulsory disaster insurance does not exist either. The German system is based on the "ZÜRS zones": a zone system established by the German insurance association (GDV). To calculate the risk of overflow of rivers and inshore waters the German insurance companies developed the zone system. The system provides information about 200.000 streaming waters in Germany. Nearly every building can be allocated in one of the four risk classes. The payments of the insurance rate comply by risk class, with the result of payments in the amount of real existing risk.

In France and since 1982, all property and casualty insurance contracts are sold with a compulsory disaster insurance cover calculated in a percentage of the premium. This percentage is set by the state. This insurance covers all damages caused by natural hazards uninsurable - and not including storms, hail, heavy snow, ice that fall in contractual obligations. There is no possibility for the insured to exclude the disaster insurance cover. When a natural disaster occurs, it is the state that determines whether it falls within the specific insurance plan. If this is the case, a single mechanism is triggered, with similar deductibles whatever contract is signed. Claims are settled on the basis of the contract of the basic guarantee.

Question 4 (on Governments as (re)-insurers of last resort): How can state or state-mandated disaster (re-)insurance programmes be designed and financed to prevent the problem of moral hazard?

In France, for example, the reinsurance programme of the CCR (la Caisse centrale de réassurance) combines the two programmes referred to in the Green Paper: quota-share treaties and stop-loss re-insurance.

We are concerned that a state 'pool' would allow 'moral hazard'. We believe it is wise for a state to have a reinsurance facility of last resort for exceptional circumstances. But additional flood claims and less severe disaster claims should be catered for by the general insurance market with recognition and rewards given to those customers who act to mitigate their risks by purchasing insurance.

A mutualisation or reinsurance facility above a pre-agreed limit could give greater confidence to the insurance market and peace of mind to the customer and would retain the need to buy insurance – avoiding the moral hazard situation.

There are insurance intermediaries who have specific experience in possible solutions and we refer to them for specialist technical know-how.

Question 5 (on parametric insurance): 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?

There are national debates in France regarding the question of parametric insurance. It is discussed to define automatic indexes for a situation of natural catastrophe. But this would not lead to an automatic assessment of the loss to be compensated. The indemnity-based principle will remain. Due to the current climate change, it could however be difficult to use elements of historic statistics to define the moment when the natural catastrophe must be declared.

German intermediaries believe that there are no difficulties, barriers or limitations in using information to generate parametric insurance. One way to make parametric insurance easier could be a better cooperation with e.g. specialised university institutes.

II. Disaster risk awareness, prevention and mitigation

Questions 6, 7, and 8 on insurance pricing as an insurance market-based incentive to promote risk awareness prevention and mitigation

Question 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?

In France there are discussions to take into account the risk in the price of the insurance. For example, suppression of the single rate of the premium of natural catastrophe insurance, with insurers defining a premium or an additional rate depending on individual exposure and / or prevention, to a level to be set (risk , contract, commune). French intermediaries believe however that from their personal experience (without statistical significance) the insured does not change

their risk exposure in response to changes in deductibles. In terms of prevention, it seems essential that planning rules, the ban on building etc. are strictly respected. In France, it is, for example, considered to have an exclusion from natural catastrophes schemes for buildings built against the rules. Similarly, it is proposed to make mandatory soil analyses in areas where there often exist a risk of drought. In France there are also cells coordinating departmental natural disasters, chaired by insurance agents, which are responsible for responding to all the needs of victims and government. Their main mission is to provide support and information to victims and local socio-economic officials.

In the UK postcode regional rating influences the price. Disaster insurance is already bundled in. It is difficult to predict the impact on risk-based prices if disaster insurance is made mandatory. Insurance intermediaries are able to adjust premiums and obtain access to additional markets following the implementation of flood prevention measures.

Here are three example cases:

Case 1
Tiverton EX16 – Mapped as "be prepared" on UK Environment Agency website. Property is 3-400m from the River Exe. The previous insurer was excluding flood cover. The insurance intermediary (BIBA member) has offered and incepted cover for buildings and contents including flood at normal terms. Premium charged £394.29

Case 2
Hull HU5 - Property was flooded in 2007 due to heavy rainfall, – cost of claim was approx £13,000. The insurance intermediary offered and incepted cover for buildings and contents at a premium of £660.40. Terms are to sign up to the EA early warning system and increased flood excess to £2,500.

Case 3
Evesham WR11 –Mapped as a significant flood area on Environment Agency website - Property had flooded in 2007 when the River Avon burst its banks - cost of claim was approximately £60,000. The property was included in the Fairhurst Flood Defence Assessment in July 2009 which has reduced the overall risk of flood for the area and property. The previous insurer indicated renewal terms this year with a premium in the region of £2,000. The insurance intermediary was able to offer terms and incepted a policy for buildings and contents insurance at a premium of £542.11.

German intermediaries believe that a risk-based tariff structure is a good opportunity (if not the only one) to motivate consumers and insurers to take risk reduction and management measures. Through this procedure the insurers have the facility to open the insurability, especially with a view to the increased capital requirements of the Solvency II.

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

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

BIPAR believes that signposting from Government website/consumer body websites and others to expert insurance intermediaries or insurers who can locate suitable products for these low-income customers could be a solution.

See Annex re BIBA action re signposting.

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

In many Member States contracts can be concluded without statutory limits regarding their duration, whereas in other Member States they must be renewed every year. In Member States, such as Germany, Austria, Netherlands, Greece, Finland, Luxemburg, Poland or Bulgaria, there are no legal obstacles to the conclusion of long-term contracts and most insurance contracts offered are long-term.

BIPAR believes that in this context the real issue is insurability. For exceptional circumstances the effect of long term insurance contracts, in combination with other measures, could be studied as a possible solution.

Long term contracts may go against the current trend of recent legislative developments in some EU member states (France, Italy) where there are proposals deleting the tacit renewal of the contract after one year.

If we take the example of the UK, home insurance contracts are written on an annual basis and we think it unlikely the market would move to long term contracts.

Question 10 (on information requirements): 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 bears the costs of investigating and establishing the loss and to what extent,**
- **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?**

BIPAR believes that the product manufacturer should ensure that there exists clear information on their products that can be handed over to the consumers by the product manufacturer or the intermediary.

The rules should be based on the minimum harmonisation principle to give enough flexibility to Member States to implement the requirements taking into account their market specificities.

Regarding information requirements on complaints handling, contract renewals, claims, the Insurance Mediation Directive – that is currently being revised and will probably include insurers in its scope- already includes such requirements.

Question 11 (on insurance terms and conditions): 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?

The insurance sector is vulnerable to moral hazard and so excesses and co-insurance arrangements reduce this. There is a need for more prevention and mitigation of loss.

Questions 12, 13, and 14 on data, research and information

Question 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)?

Risk modelling is very important in predicting future catastrophes.

We support close cooperation in the sharing of data and information on catastrophe risk. For example, governments of different states produce flood maps to difficult levels. These maps are very helpful to the insurance industry and we would encourage more detailed mapping, including the risk of flood from surface water.

The insurance industry also has claims information and experiences from past catastrophes which subject to commercial sensitivities and data protection could perhaps be discussed with governments in order to understand the vulnerabilities that exist and how to mitigate potential risk for the future. In addition, national governments and local insurers could cooperate to map the different risks and their financial impact, based on all available data collected in recent years.

Further dialogue between governments, the insurance industry (insurers and intermediary) and policyholders should also take place in order to ensure policyholders know for example which flood defences to purchase, which areas are at risk of which catastrophe and how to more easily access specific catastrophe insurance.

We are also concerned about underinsurance and so better sharing of data and improved dialogue with customers should be beneficial. When implemented, these mechanisms must take into account national and EU rules and regulations on data-protection, cross selling, and competition.

There are insurance intermediaries who have specific experience in possible solutions and we refer to them for specialist technical know-how.

Question 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)?

See answer to Question 12

Question 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 the insurance industry and policymakers be encouraged in this area?

See answer to Question 12

Question 15 (on risk financing initiatives): 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?

There is no "one size fits all" approach to European disaster management solution that would address the challenges of modelling risks locally and globally. We believe the most helpful activity the European Commission could undertake is to assist where possible in funding states to help build greater resilience measures e,g flood defences, in a targeted fashion. We understand the European Commission has earmarked funds for this purpose.

This will allow confidence in the insurance industry, supported by specialist insurance intermediaries to offer products and risk model to protect against the damage caused by catastrophes.
This public – private partnership is important and should also involve sharing risk information wherever possible between the state and the insurance industry (insurers and intermediary).

III. Man-made disasters

Questions 16 and 17 on the environmental liability and losses from industrial accidents

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

If we take a national example, in the UK, most standard public liability policies contain an element of accidental pollution cover which may not be sufficient to comply with requirements of the ELD. Most high-risk polluters have specialist cover in place but the additional responsibilities of the ELD for the low-risk polluter provides challenges for intermediaries in persuading clients to purchase specialist cover.

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

The situation varies from one country to another. In the UK they have what is referred to as COMAH sites. All sites have to be registered by law.

Question 18 (on offshore oil and gas operators' liability insurance): 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?

Question 19 (on information rights of victims of man-made disasters): Should contractual conditions of third-party liability insurance policies be disclosed to third parties in case of man-made disasters? If so, how?

IV. Loss adjusting

Question 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?

Question 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 agree with many of the points made. The main issue is that it is important for the public (Government) and private (insurance) sectors to work together and to ensure that Member States focus on certain key issues going forward.