



EUROPEAN COMMISSION
Directorate General Internal Market and Services

Financial Institutions

SUMMARY

RESPONSES RECEIVED TO THE EUROPEAN COMMISSION'S GREEN PAPER ON THE INSURANCE OF NATURAL AND MAN-MADE DISASTERS

January 2014

Disclaimer:

This paper should be regarded solely as a summary of the contributions made by stakeholders to the Green Paper on the Insurance of Natural and Man-made Disasters. It cannot in any circumstances be regarded as the official position of the Commission or its services.

1. INTRODUCTION

On 16 April 2013 the Commission adopted a Green Paper on the insurance of natural and man-made disasters and invited all interested parties to participate in a public consultation. The Green Paper accompanied the Communication entitled “An EU strategy on adaptation to climate change.”

The purpose of this consultation was to gather the views of stakeholders, to raise awareness and to assess whether or not action at EU level would be appropriate or warranted to improve the market for disaster insurance in the EU. The objective was also to help to promote insurance as a tool of disaster management and to bring in further data and information. The Green Paper took a holistic approach to the issue of insurance of natural and man-made disasters, and accommodated issues covering different fields of expertise. The questions concerned market penetration of disaster insurance in the EU, benefits and drawbacks of product bundling and compulsory disaster insurance, advantages and disadvantages of risk-based and flat-rate pricing in disaster insurance, the issue of moral hazard, solutions for low-income consumers, data about natural and man-made disasters, and risk financing initiatives for developing countries, amongst others.

The Green Paper included 21 sets of questions. The questions required an answer in a form of an opinion or a suggestion. Respondents had the opportunity to provide qualitative comments. Not all of the questions were answered by each respondent. This document summarises the contributions received in response to those questions. Its objective is to present an overview of the opinions expressed and arguments presented by stakeholders in their contributions.

2. BACKGROUND INFORMATION ABOUT CONTRIBUTORS

A total number of 73 contributions were received, of which 71 contributions were authorised for publication. Out of the total number of contributions, 28 contributions were received from registered organisations, 24 contributions from non-registered organisations, 16 contributions from public authorities and five contributions from individual contributors.

The largest share of replies was received from registered organisations (38%), followed closely by non-registered organisations (33%). The majority of replies from these two categories are from (re-)insurance companies and organisations representing them. Public authorities submitted 16 contributions (22%) while the smallest share of replies was received from individuals (7%) from five different Member States (Austria, Belgium, France, Spain, and the UK). A contribution from the International Finance Corporation, a member of the World Bank Group, and a contribution from the World Bank’s Global Facility for Disaster Reduction and Recovery were also received.

Figure 1: Distribution of contributions per category

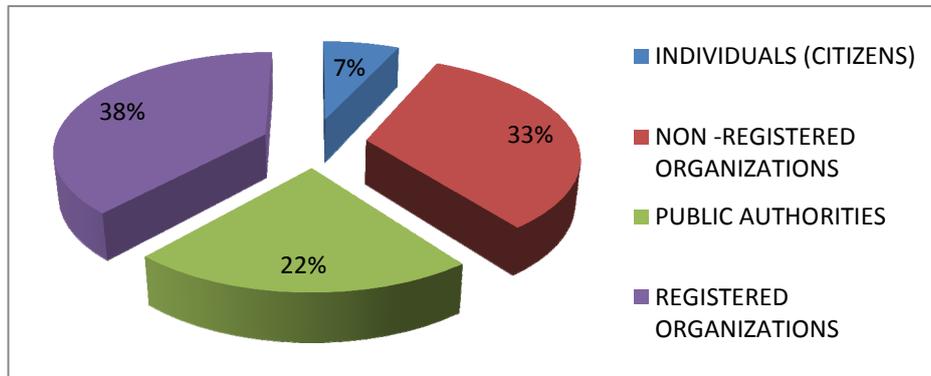
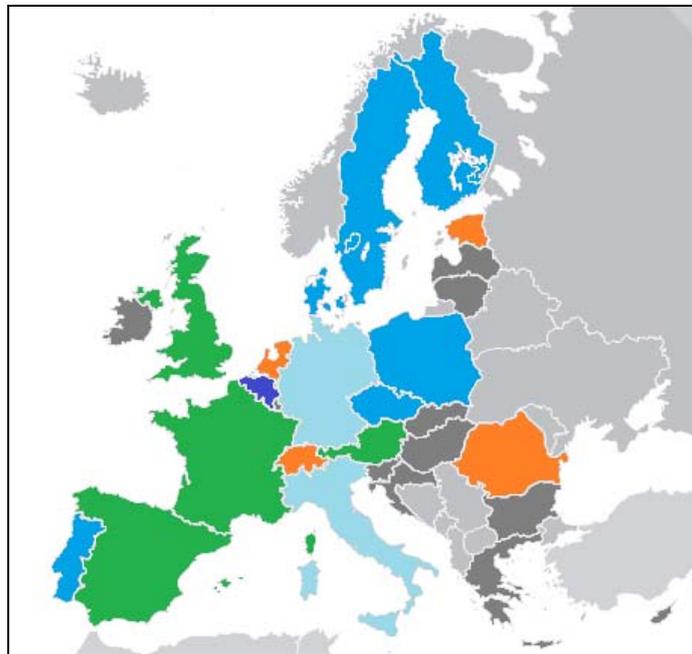


Figure 2: Distribution of contributions per category and Member State



	Organisations + public authorities + citizens		Organisations + citizens		Organisations + public authorities
	Organisations only		Public authorities only		No contributions

The call for comments on the Green Paper attracted contributors from 17 Member States, as well as from Switzerland, the USA and the Bahamas. There was no response from ten Member States.

Table 1: Contributions per country

France	17	Czech Republic	2	Sweden	1
Belgium	12	Romania	2		
United Kingdom	11	Estonia	2	NON-EU	
Austria	4	Denmark	1	Switzerland	2
Germany	3	Finland	1	USA	2
Italy	3	Malta	1	The Bahamas	1
Netherlands	3	Poland	1		
Spain	3	Portugal	1		

3. SUMMARY OF RESPONSES

The following section represents the summary of the responses on each of the questions in the Green Paper.

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?

A majority of respondents point out that the penetration rate of disaster insurance varies from one Member State to another due to the diversity of risks and differences in the regulatory environment.

Insurers in their replies refer to two major forms of disaster insurance in the EU, i.e., (i) schemes with mandatory elements, and (ii) free-market solutions. The penetration rate is high in those Member States where some elements of schemes are mandatory. Insurers note that flood insurance is widespread in the EU. They point out that larger Member States have a better chance of diversifying natural hazard risks. They mention that the key drivers of insurance demand can vary over time and between Member States. In their view, insurance penetration can fluctuate significantly each year in response to the latest losses or past events. Further, insurers' willingness to offer coverage can be influenced by their loss experience.

For public authorities the EU disaster insurance market is heterogeneous, due to the diverse natural and economic conditions. The authorities agree that major natural disasters have large and significant negative effects on economic activities. They are concerned that certain property or activities are not always commercially insurable. They also mention that population density plays an important role, meaning that disasters in densely populated areas may have overall larger impacts. They conclude that the burden of financial assistance for victims falls heavily on government budgets.

Some respondents believe that additional research should be done to identify the reasons or causes of shortcomings in the availability of disaster insurance. They also call for a clear

definition of a "natural disaster". Some respondents believe that the insurance industry should be more involved in research, for example, to determine at what point particular natural phenomena are to be classified as natural disasters. Several respondents recommend additional research to better understand the gaps in supply and demand of disaster insurance. In their view, the Commission should also focus on the improvement of insurability and on measures promoting awareness. Certain other respondents however do not believe that further research is necessary.

Respondents also suggest that an increased penetration rate of disaster insurance contributes to a reduction of government post-disaster relief expenditures. No respondents provided further empirical data.

Question 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?

The insurance industry does not in principle support the idea of mandatory product bundling as a way to increase insurance penetration against disaster risks. Those in favour of mandatory product bundling claim that it can reduce transaction costs for customers and provide additional benefits. Mandatory product bundling may avoid high rates of refusals by insurers in high risk-prone areas. It would also have positive effects in terms of reduction of administrative and management costs for insurers. It is also explained that mandatory product bundling within voluntary policies which have a high penetration rate can bring about healthier competition. Some insurers also recommend that an option for customers to explicitly 'opt-in' or 'opt-out' from specific perils may be beneficial and could result in increased market penetration. It is also advised that mandatory product bundling would relieve the burden on governments when a natural disaster occurs. Some contributors maintain that perils such as storm and flood or fire and earthquake are under specific circumstances correlated. On the other hand, those contributors strongly opposing mandatory product bundling refer to free market principles. In their view, mandatory product bundling may be viewed as anti-competitive and may stifle innovation. In their view, insurers should have no limitations when offering diverse insurance products that reflect consumers' individual needs. Some respondents also believe that the EU should encourage risk prevention and climate change adaptation measures.

A majority of respondents from public authorities was not in favour of mandatory product bundling, but a smaller number of them consider product bundling as a good solution to raise market penetration. Public authorities in favour of mandatory product bundling explain that bundling represents general solidarity between consumers introduced through a mandatory extension of simple risks (e.g., motor, fire, life or personal accidents insurance). These authorities state that the bundling has shown its efficiency. It universalises coverage and allows for applying cheaper and more affordable premiums. Mandatory product bundling

may reduce the cost of disasters in their view. Some authorities also explain that combining different risks in one product allows for the active risk management. Bundling could also avoid anti-selection because disaster insurance in vulnerable areas could be disproportionately expensive. On the other hand, public authorities against mandatory product bundling would prefer solutions combining the use of resilience parameters of construction codes and their monitoring, and preventive/adaptive measures.

Some individual contributors observe that product bundling is an excellent way to increase insurance coverage. If bundling is made mandatory, clear procedures covering high-risk clients would be necessary. A suggestion has been made to better train insurance intermediaries so that they give better advice to their clients on how to protect themselves against natural hazards.

Furthermore, stakeholders were invited to suggest any less restrictive solution which could constitute an appropriate way to increase insurance coverage against disaster risks. Some of the suggestions received include:

- limiting public intervention only to insured victims;
- requiring property owners to demonstrate that they possess property insurance when concluding utility contracts;
- risk pooling where policy-holders in lower risk-prone areas subsidise policy-holders in higher risk-prone areas; and
- marketing and financial education campaigns raising awareness about disaster insurance products.

Question 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?

A considerable proportion of respondents from the insurance sector does not support compulsory disaster insurance. These respondents emphasise the right to design their own products. They also claim that there is no one-size-fits-all solution. The introduction of compulsory disaster insurance may result in higher premiums for residential buildings outside risk-prone areas (e.g., compulsory floods insurance for buildings far from river beds). One respondent mentions that compulsory disaster insurance may be unconstitutional in the specific national context. Stakeholders in favour of compulsory disaster insurance underline that such systems are based on solidarity between policy-holders with properties situated in diverse risk-prone areas. Compulsory disaster insurance guarantees a high penetration rate. One stakeholder refers to compulsory flood insurance in his Member State.

An authority opposing any compulsory disaster insurance believes that such a scheme would neither contribute to reduction of damages nor would it lower risks. Furthermore, the authority argues that compulsory disaster insurance may reduce competitiveness and increase the overall costs of the insurance system.

A contributor suggests that benefits paid out by private insurers should not be deducted from compensation by public schemes.

Question 4

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

The majority of stakeholders anticipate that moral hazard would increase with the introduction of state-mandated disaster (re-)insurance programmes. They argue that such programmes may reduce the urgency for prevention. However, some stakeholders conclude that public programmes could provide for cover in the most risk-prone areas, while the private market retains some or all of the lower tiers of risks. Such programmes should be implemented within an integrated risk management system. Some contributors believe that an introduction of substantial deductibles would prevent excessive moral hazard. It is also suggested that Member States should take steps to enhance insurability through the promotion of risk awareness. Member States should also promote the economic benefits of both insurance and re-insurance. Some respondents agree that for exceptional circumstances it would be useful to install a re-insurance facility of last resort.

Another group of respondents suggests that state-mandated disaster (re-)insurance programmes guarantee lower insurance premiums (compared to premiums offered by private industry) which consequently inhibits the development of the insurance market. They claim that there is no one-size-fits-all approach and that state mandated (re-)insurance programs would always contain a degree of moral hazard. In any event, the compensation payable under state-mandated (re-)insurance programmes or any restriction regarding compensation should be clearly defined in advance. Public authorities could reduce the level of moral hazard by rewarding certain types of precautionary, protective or adaptive measures. Other respondents add that prevention measures, appropriate construction codes, and supervision of their compliance should be strengthened.

Question 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?

Respondents believe that the introduction of parametric insurance is determined by the quality and the availability of relevant data. Existing information or elements of past statistics do not necessarily integrate climate change. Moreover, building a reliable database implies high costs. One of the noted advantages is that pay-outs are determined by the underlying

index rather than the insured's actual losses. In addition, it is also stressed that the effects of hazards are often not uniform.

Those contributors who welcome parametric insurance mention the product's simplicity. This type of insurance is sector-independent. It is also easier to offer such insurance on a cross-border basis. It may provide for cover where traditional insurance is unaffordable for some policyholders. Arguments in favour of parametric insurance also include lower operational costs, simpler definition of underlying risks and reduction of moral hazard.

Several authorities state that the decision to introduce parametric insurance should be left to insurers. Some national authorities raise doubts about its robustness, i.e., insurers' ability to cover all claims under a large-scale disaster. Some authorities also suggest that a database of indexes should be created.

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?

Risk-based pricing is favoured by a large majority of stakeholders as it can prevent moral hazard. For instance, one stakeholder points out that some insurers adjust their premiums if homeowners take measures which reduce their property's risk profile. Another respondent believes that risk-based insurance pricing guarantees the sustainability of insurance schemes where the risk is known and measurable. It is argued that the risk-based insurance pricing gives good incentives. However, the biggest challenge of risk-based pricing is affordability of insurance.

Public authorities believe that risk-based pricing encourages both policy-holders and insurers to reduce and manage risks. However, in the case of unmanageably high risks, risk-based insurance premiums in compulsory disaster insurance schemes could prove unaffordable or uneconomic. Risk-based pricing influences consumers irrespective of whether the disaster insurance in question is compulsory or not.

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?

A majority of respondents prefer risk-based pricing to flat-rate premiums. However, some respondents suggest that for natural disasters where victims have no influence on the size of perils or which are difficult to predict (e.g., windstorms) flat-rate premiums would be advisable. Moreover, some respondents suggest a maximum premium in flood insurance.

Flat-rate premium systems already exist in some Member States. Some public authorities disagree with the flat-rate premium systems, nevertheless. They maintain that only national

governments should take decisions about flat-rate premiums. It is also mentioned that caps on pay-outs can be used for large-scale natural disasters when full compensation of insured losses may be unaffordable.

Question 8

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

Respondents suggest the following solutions:

- vouchers;
- tax relief for disaster insurance premiums;
- inclusion of disaster insurance premiums in other charges (e.g., rent for social housing);
- subsidies in favour of low-income policy-holders financed by policy-holders with higher income;
- a lower disaster insurance premium with a correspondingly lower pay-out in case of disasters;
- social protection and income support, which is the last-resort financial support in the field of social assistance; and
- public-private partnerships (only to be used to complement private insurance solutions in order to make risks more insurable).

Question 9

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

Respondents believe that there are more drawbacks than advantages as far as long-term disaster insurance contracts are concerned. However, as regards identified advantages, respondents mention that such contracts can drive down administrative and transaction costs. Moreover, they offer an opportunity to think and finance in a long-term perspective. With long-term disaster insurance contracts there could be more security and certainty for policy-holders, a greater specialisation of insurers and a greater predictability of underlying risks. Further, premiums would be determined with reference to long-term expectations and would thus no longer be subject to the inherent price volatility in this market segment. On the other hand, as regards disadvantages, respondents point out that long-term disaster insurance contracts can be unproductive and are likely to increase costs. Higher capital requirements would be imposed upon those insurers that would start offering such contracts. Moreover, bundling of risks covered by annual and long-term insurance contracts could cause conflicts. It is also mentioned that long-term disaster insurance contracts are not sufficiently flexible. They do not necessarily suit policy-holders' needs and their risk exposures. They can also

exacerbate moral hazard. Moreover, in some Member States there may be legal obstacles to contracting long-term.

A large number of authorities do not see the need to promote long-term disaster insurance contracts. They claim that it would be disproportionately expensive for policy-holders to terminate such contracts.

Question 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?

A majority of respondents expressed some reservation about full harmonisation of pre-contractual or contractual information. Some contributors mention that harmonisation across different laws, languages, cultures, etc. would not bring any benefits to customers that would outweigh the burden on the insurance industry. However, some respondents underline the need for harmonising definitions of the various disaster events (i.e., features of insurable risks). In this respect, they refer to internationally active insurers which have already adopted and harmonised certain large risk insurance policies. It is also mentioned that harmonised pre-contractual and contractual information would increase the confidence of customers and encourage them to enter into insurance contracts.

Public authorities express reservations regarding harmonisation of pre-contractual and contractual information requirements. At the same time, it is mentioned by other respondents that consumers would benefit from harmonisation as it would encourage them to take up insurance.

Question 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?

A majority of respondents agrees that deductibles, excesses co-insurance and other exclusions effectively prevent moral hazard.

One respondent believes that there should be a discussion on additional, rather than alternative, insurance terms and conditions. He would require local authorities to take certain preventive and safeguarding measures as a pre-condition for obtaining access to disaster insurance products, thus to effectively limit moral hazard.

There is a general consensus among public authorities that deductibles, excesses, co-insurance and other exclusions effectively prevent moral hazard. The list of exclusions that can help to prevent moral hazard is supplemented with: coverage limits, risk-mitigating behaviour, mechanisms that reflect losses in subsequent premiums and implementation of preventive measures.

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)?

In general, most of the respondents point out that sharing data and co-operation across sectors would lead to improvements in data quality.

Respondents mention that data on past disasters should be more detailed, transparent, public, and free-of-charge. They are also positive about standardised data formats. They suggest a harmonisation of data collection methods. The development of risk databases at EU level is welcomed. Such databases can subsequently contribute to development of cross-border insurance services.

Some insurers refer to data protection regulations. They suggest that rules should be more adequate for data sharing. They maintain that with better publicly accessible information on impacts of past disasters individual risk awareness would increase. Some respondents also underline that data should include information about risk management measures (e.g., flood defences).

Some respondents suggest that similar data and information requirements to the Floods and the Seveso Directives should also be considered for other risks. Reference was made to the Floods Directive as an example of a useful tool towards comprehensive and efficient flood risk management.

Non-registered organisations call for coherent information to be provided by public bodies. They highlight that empirical rating processes result in lower premium rates. However, such processes are data-intensive. Support by public authorities for the development of risk inventories can therefore have positive effects on average premiums. They also suggest that co-operation between public institutions and academia should be further deepened. On the other hand, a few non-registered organisations mention that the sharing of industry data could be anti-competitive and could reduce consumer choice.

Respondents also mention initiatives and best practices.¹

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)?

There is an overall call for more adequate data. Most of the respondents stress that the EU should facilitate the development of simulation models for disaster mapping and bring together experts from different fields. Damage to property caused by natural disasters could be evaluated in such models and could feed into premium setting.

Key suggestions for the improvement of mapping of future disaster risks are the following:

- Improved interactive maps, including scenarios;
- Assessment of meteorological and long-term climate data and early warning systems;
- Enhanced research on the evolution of climate extremes due to climate change;
- Refined climate models on local and regional scales to better understand hazard components and vulnerability;
- Harmonisation of methodology for data collection and databases covering the EU;
- Better co-operation and greater involvement of stakeholders (such as public authorities and the (re-)insurance sector) to identify risk management policies;

In addition, many respondents refer to the role of governments and local authorities in risk management and risk mitigation (e.g., building bans on floodplains, enforcement of risk-based building codes, development of local drainage networks and resilient infrastructure).

Most of the public authorities observe that the Floods Directive is a useful tool for future mapping of disaster risks. A similar approach covering earthquake and storms is called for.

Respondents also mention initiatives and best practices.²

¹ L'Observatoire National des Risques Naturels (ONRN) in France, flood risk zoning model in Austria (Natural Hazard Overview & Risk Assessment Austria - HORA) and in Germany (Zonierungssystem für Überschwemmung, Rückstau und Starkregen - ZÜRS) or Damage and Loss Assessment (DaLA) by the United Nations Development Programme, and a methodology designed by the Economic Commission for Latin America and the Caribbean (ECLAC) estimating the financial impacts of disasters.

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 insurance industry and policy-makers be encouraged in this area?

Most of the respondents support co-operation between public authorities and the private sector. They propose the development of shared frameworks, and standardised and comparable data sets. Supervision and monitoring should fall under the responsibility of EU institutions which should also ensure the transparency and accessibility of the data.

The EU is advised to determine together with the (re-)insurance sector the type, quantity and quality of required data. Information necessary for management of insurance risks should be developed in line with requirements under the Solvency II Directive. Stakeholder involvement should be key in this respect (e.g., in organisations responsible for hazard mapping). Public-private partnerships and strategic alliances should further encourage dialogues between industry and policymakers. Respondents also refer to the role of academia, the Commission's Joint Research Centre and Member States' public authorities in providing data.

Some respondents question the willingness of industry to share data. They also mention that shared databases (including the free flow of information) may discourage market innovation. Shared databases may place some insurers with advanced datasets at a disadvantage. Some respondents point out that current data protection regulations hinder access to data and, consequently, datasets are not accurate. Several organisations also call for more government involvement in improving risk mitigation and adaptive measures (e.g., flood defences) and responsible, strategic land use planning. More public data will also lead to increased risk awareness by consumers.

Some respondents mention public and/or private initiatives, best practices and commercial products such as Climate Wise in the UK, initiating regular 'risk assessment' processes, the Oasis Loss Modelling Framework bringing together the (re-)insurance sector, technology industry and academia, the PERIL2 initiative, Eqcat Inc. and Risk Management Solutions Inc. Respondents also refer to a possibility of establishing a specialist facility like the Insurance Services Office at Verisk Analytics in the US that collects industry information and uses the data for pure premium rates for property and casualty insurers.

² "The computer system of protection against extraordinary threats" in Poland which allows for a preliminary assessment of flood risks and development of flood and other hazard maps, flood risk zoning model in Austria (Natural Hazard Overview & Risk Assessment Austria - HORA) and peril models and peril risk mapping used in the global insurance market.

Question 15

How can the EU 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 international institutions should be pursued for this purpose?

Respondents mostly consider that the EU should offer expertise and technical advice, and provide for training and education in the area of risk management. The EU could also facilitate local and international collaboration and improve co-ordination with other international institutions in the framework of the debate on the post 2015 Hyogo Framework for Action (e.g., UNISDR, the World Bank-led GFDRR, Political Champions Group, OECD, etc.) and of the implementation of the European Commission's Action Plan for Resilience.

Contributors underline that the solutions for developing countries and Member States are similar. They refer to, for instance, preparation and monitoring of relevant standards, risk management tools (e.g., damage to crops), resilience and risk reduction measures (e.g., flood defences and improved infrastructure) and private-public partnerships.

Respondents also suggest that microinsurance schemes, solidarity schemes for major hazard events, co-insurance against disaster risks, the role of insurance in an integrated climate risk strategy and the possibility for the EU to intervene as a (re-)insurer in cases where low-income governments do not have adequate financial capacity, should be looked into. The Commission may also support sovereign financial disaster risk management patterns and risk market infrastructures. Support should go beyond index-based agricultural insurance and foster the private insurance sector.

Respondents also mention initiatives and best practices such as the Turkish Catastrophe Insurance Pool, initiatives (co-)financed by the Commission such as the Caribbean Catastrophe Risk Insurance Fund, Facility (CCRIF), the Global Index Insurance Facility (GIIF) and the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), and also the Agricultural & Climate Risk Insurance Unit of the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, that engages government, regulators and the private insurance sector including intermediaries or service providers.

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?

Contributors stress the importance of legal clarity and certainty. They also mention the need for availability of information about practical aspects of post-disaster remediation (i.e., calculability of expected remediation costs).

Insurers point out that environmental liability cases are hard to identify and quantify since they are rare. Moreover, the relevant insurance products are new and still being developed. A

number of insurers point out that the Environmental Liability Directive is unclear in some areas (i.e., definitions of certain terms). They conclude that the small amount of data due to the rare occurrence of industrial disasters makes it hard for the insurance sector to develop reliable databases.

Public authorities recall that industrial hazards evolve, not only due to technological advances, but also due to changing natural hazards. Other public authorities express concerns that due to a low number of insured events and the lack of reliable background statistics, the insurance market is facing difficulties in offering insurance that would ensure total risk coverage.

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

Some contributors anticipate that sharing data on emerging risks will not be easy because of lacking definitions. Moreover, they refer to a lack of data about new risks. They mention that there are no sufficient data and tools for integrated analysis for all Member States. The data collected should also take account of non-insured losses and respect common standards so as to be mutually compatible.

Some organisations propose setting up inter-sectoral working groups in each Member State, dedicated to collecting information on pollution events. Data could be made available through information centres as well as specialised web sites (e.g., national geoportals) and should be regularly updated.

Public authorities believe that there may be some difficulty for insurers to develop specific products, as information on incidents and the resulting remediation costs is not yet widely available, confirming that more data would be necessary.

Question 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?

Several contributors point out that the offshore oil and gas insurance market is global; therefore, an EU-level approach would not be appropriate in this area. There is a general consensus that offshore oil activities present different risks and losses from other activities and some of them could account for considerable liability exposures despite their low

frequency. It is also believed that a one-size-fits-all approach would not be adequate and thus insurance products should be customised to cover the full range of risks. Some stakeholders believe that there is no need to develop new innovative insurance mechanisms as various financial tools already exist in this field (e.g., self-insurance, letter of credits, warranties, bonds). It is also recognized that self-insurance is increasingly envisaged due to the limited availability of insurance capacity.

Some contributors mention that offshore pollution risks must be treated differently compared to traditional risks in terms of their technical profile, risk assessment, type of damage and maximum amount of cover. One contributor believes that there is no evidence which would suggest that current insurance availability is unsatisfactory. Another contributor states that a scheme based on mandatory "mutualisation of liabilities" amongst all industry players could lead to complacency and could have a detrimental impact on safety standards. To help minimise the occurrence of oil spills and, thus, reduce potential damages, the Commission is advised to focus on preventive measures, ensuring an effective licensing regime and appropriate emergency equipment and response.

Question 19

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

Generally, contributors find it inappropriate to disclose to third parties the contractual conditions of third-party liability insurance policies. Such disclosure may have undesirable consequences (e.g. spurious demands for compensation from third parties). Disclosure would also go against the "polluter-pays" principle. It may also result in the increase of moral hazard, data protection barriers or revealing of trade secrets. The disclosure may also incentivise legal disputes and increase costs for policy-holders.

Some contributors would welcome the possible disclosure of contractual conditions of third-party liability insurance policies. They explain that it is very difficult for third parties to obtain redress against large industrial companies after a man-made disaster occurs. One stakeholder points out that contractual conditions should be disclosed to all potential victims and, if there were a high number of victims, the conditions could be published by local authorities. It is concluded that this approach would be consistent with the Aarhus Convention, which requires the adoption of transparent procedures and greater public participation.

Apart from exceptional cases, public authorities largely oppose the disclosure of contractual conditions. Some public authorities also refer to existing regulations prohibiting such disclosures.

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?

A majority of stakeholders does not identify current difficulties in this respect apart from language regimes, wording of policies, definitions of disasters and also market practices, complexity of business models, taxation laws and the general regulatory environment. They also claim that there is a limited number of situations where such expertise is required.

A majority of contributions from public authorities does not currently see any particular need for more harmonisation in this area.

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 under-represented? If so, which?

Contributors suggest that public authorities should concentrate on fostering, developing and enforcing preventive measures, such as flood defences and planning/building codes. Public authorities should take a greater role in financing resilient infrastructure projects (e.g., zoning, transport, etc.) to avoid or reduce the effects of certain disasters. Residential buildings are specifically emphasised. They are most valuable socially and require immediate attention from public authorities.

One insurance association calls upon the Commission to take legislative action. It believes that general targets should be fixed at EU level and details should be left to Member States.

Some citizens believe that the limited supply of capital in the insurance sector and the high cost of insuring natural disasters could be resolved through tax breaks. Some respondents consider that the Green Paper should have also covered terrorism and asteroid insurance and insurance against solar activity.

4. NEXT STEPS

The comments and suggestions received in the contributions are a valuable source of information and will feed into the reflection of the European Commission on the usefulness and appropriateness of possible next steps in this area. The website of the Directorate-General for Internal Market and Services of the European Commission will be updated regularly and all interested parties are invited to visit and consult the website for information about future developments.

http://ec.europa.eu/internal_market/consultations/2013/disasters-insurance/index_en.htm