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Severe Storm over Europe – A cross-Border Perspective of Disaster Reduction

Introductory remarks to a contribution at the panel discussion on
Insurance Coverage against Severe Storms

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ABSTRACT

Storm and other climate related catastrophes have become a major concern to property insurance markets, due to the increase of values at risk as well as of the insurance penetration rate. Many market players and their trade associations put more emphasis on developing risk knowledge and prevention. As the federation of European insurance national market associations, CEA interacts closely with EU initiatives on issues related to NatCat and climate change. Comparison between storm and other NatCat coverages / exposures in some European countries indicates that storm damages are much more largely covered by insurance than floods or earthquake, although the maximum potential losses, for a given rare frequency seem to be higher with regard to the latter than to the former.

KEY WORDS

Insurance – European – markets – storm – natural catastrophe – coverage – losses - prevention

Before talking here on behalf of the CEA, as chairman of its Natural Hazards Working Group (NH WG), let me just say a few words about the organization I am in charge of: the association “**Mission Risques Naturels**”, as it illustrates pretty much one of the market’s proactive attitudes on the issue of climate change and natural catastrophes.

This dedicated thematic association, with small permanent staff, was created by the French insurance market in 2000, after the November 1999 big floods and even bigger December 1999 storm events (Lothar and Martin), as well as the development of subsidence claims during the 90ies. The objective was to develop natural catastrophe knowledge and prevention, mainly in interaction and partnership with the French public authorities, at national and territorial level. Apart from a core mission on developing general interest services to the insurance companies for them to use hazard data produced by public authorities and various

¹ **Mission des sociétés d’assurance pour la connaissance et la prévention des risques naturels**, www.mrn-gpsa.org - Association between the *Fédération Française des Sociétés d’Assurances* (FFSA) and the *Groupement des Entreprises Mutuelles d’Assurances* (GEMA).

insurance consumer risk awareness raising and educational contents, the organisation is also responsible of managing a network of correspondents in all regions of France, in charge of interacting with state/local authorities and other stakeholders, like AFPCN², the French counterpart of DKKV.

In this brief introduction, I shall address three points:

- First a quick overview of the CEA activities related to the subject, either interacting with EU initiatives or on the proactive side ;
- then a short overview of the situation of storm and other natural hazard coverage and exposure in Member States ;
- to finish a short reference to CEA's current main concern these days in this field of activities: climate change and insurance, requiring public private partnership (PPP) solutions.

The CEA³ is the **Federation of European insurance associations** dedicated at promoting insurance markets and issues in all debates with European institutions.

Within its Property Committee, natural catastrophe insurance issues are now at the forefront, therefore a working group devoted to them. This working group (NH WG) has regularly increased in size, with about half of CEA member associations now active. The participating countries (about 15) are represented in blue on the map, which displays the shapes of all the countries where insurance associations are full members of CEA⁴.

Interactions with EU initiatives on issues related to NatCat and climate change.

Already in 1995, as a Member of European Parliament raised questions to the Commission in reaction to catastrophic events, asking for what is done on insurance coverage at European level, CEA addressed a well balanced paper to the Commission and Parliament, still accurate today...

European initiatives really started, after the 99 storms and even more the August 2002 events. CEA follows closely every consultative processes, issuing positions, like on:

- the EU catastrophe solidarity fund,
- the proposal for a directive on floods, taking part to a stakeholder group, to exchange circles, especially on the Flood action programme,
- Lastly a consultant report undertaken for the adaptation strategy within the climate change action programme.

CEA is not only reacting at EU institution's initiatives, but also to coordinate experience sharing between markets, in order to become a proactive body.

Its own production is reflected into papers and documents published on CEA's website, such as the following reports and position papers:

- the situation about cover, reinsurance and reserving conditions, on each EU market,

² Association Française pour la Prévention des Catastrophes Naturelles - www.afpcn.org - The author is member of the Board and of the Bureau of this association.

³ Comité européen des assurances, located in Brussels, square de Meuus. www.cea.assur.org

⁴ Bulgarian and Romanian, as well as Croatian market associations are associate members to the CEA.

- flood hazard mapping and zoning, now currently followed by a study on seismic risk analysis and coverage,
- position taken on insurers and flood risk prevention,
- guidelines on catastrophic claims management,
- PPP and climate change (see below).

Comparison of storm and other main NatCat coverage/exposure in Europe

The first map in this section displays the situations for storm insurance.

In terms of coverage, there are mainly two categories, expressed according to the colours.

The colour intensity is proportional to the penetration rate of the coverage in the market.

As you can see, most European markets have optional extended coverage (blue), but this does not affect to much the penetration rate, which is high!

Some states, like France and Norway, have organised a compulsory extended coverage, provided that the penetration rate of the property damage contract is high.

For a global indication about the storm maximum exposure in selected Western European countries, compared to United States and Japan, the table provides figures published in Sigma 2007 about the cumulated economic losses, the impact on the economy and the estimate “not insured” share of the total economic loss for a 200 years return period storm. The assessed economic losses for the 3 largest European countries are between 15 and 20 bn €, with an impact on the economy situated between 0,5 and 1,3 %. In two of the 3 countries, non insured losses are limited to about 10-30 % of the total economic losses.

For comparison purposes with the previous one, the second map in this section displays the situation for floods and/or earthquake insurance in Europe

In terms of coverage, there are mainly three categories, expressed according to the colours.

The colour intensity is proportional to the penetration rate of the coverage in the market.

As you can see, most European markets have still optional extended coverage (blue), but the penetration rate is much less high than for storm, except for the UK, where many people are engaged with a long term mortgage to finance their housing and have contractual obligation to insure.

More states than in the case of storm have organised a compulsory extended coverage, as Spain and more recently Belgium, Switzerland and Turkey (Earthquakes) are together with France and Norway in this category.

This kind of coverage is currently under discussion in different countries, like in Italy and Romania: the colour for these countries is made of green « hatches »

The two countries in grey (DK, NL) reflect specific situations, where a minimal role is played by the insurers, at least for flood coverage (for obvious reasons in NL).

A similar table than the one on storm exposure has been built for floods and earthquakes exposures, compiling various sources of figures. It indicates globally that the maximum economic losses due to floods or earthquakes in our selected European countries might be higher than for storm, with higher impact on the economy and with a much higher share of non insured losses.

Climate change and insurance: a major issue for the future of Public Private Partnerships

Insurance is in the front line of climate change, as it is often insurers and re-insurers that have the responsibility to deal with its consequences [

Climate change presents a range of challenges and opportunities to the insurance industry, for instance in terms of risk measurement, of capital and coverage design, if following the requirements of insurability.

It may progressively affect many insurance business lines (e.g. property & casualty, agriculture and health insurance).

Therefore CEA tends to put most efforts on this issue, addressing Commission and Members of Parliament at every opportunity and producing reports and position papers to alert stakeholders.

Insights on storm insurance un the French market:

According to FFSA statistics, the cumulated annual insured damages for both storm and other NatCat insurance regimes over the period 1982 – 2004 are plotted on the same graph, in order to show the significantly higher share of storm losses (years 1987, 90, 99), compared to all other NatCat losses for the period. Separate graphs, dedicated to storm losses only, indicate the development of cumulated losses, as well as of frequency (number of contracts hit per mille) and loss ratio in %. The average cost of a storm loss is about 2.000 € for personal lines and 7.000 €for commercial lines.