Insurance of natural and man-made disasters

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Sampo TERHO (EFD, FI) on the insurance of natural and man-made disasters in response to the Commission Green Paper on the subject.

Members note that the situation in the EU insurance market is heterogeneous because Member States are exposed to different risks and natural catastrophes and the predictability of a natural catastrophe depends on different factors (meteorological, hydrological, geophysical, etc.). They recall that between 1980 and 2011 a small number of big events gave rise to about half of all costs related to weather events.

Accordingly, the report calls for **prevention and information** measures in order to protecting people and avoid losses caused by unexpected events.

To prevent environmental risks, it suggests more research in partnership with insurance companies in order to better understand the issues involved, thus preparing citizens and their communities for risks related to natural catastrophes.

Members also consider that **information is crucial for the prevention and mitigation of such disasters,** and call for closer cooperation between Member States and the private sector in this area.

At European level, the committee favoured the sharing of best practice on risk prevention and mitigation amongst Member States and regionally. It pointed out that the **involvement of local authorities** in decisions concerning city planning and urban development could improve natural catastrophe management. It called for Member States and public authorities to take adequate preventive measures in order to mitigate the consequences of natural disasters and to **create and maintain crisis response units.**

Insurance market: whilst welcoming the Commission's Green Paper, Members note that natural and man-made disasters need **different types of insurance and are covered by two different insurance markets.** Such disasters cannot be treated together even if there are cases of man-made decisions aggravating exposure to a natural catastrophe risk. Members underline that **the EU should not create overlapping and contradicting liability rules.**

Most Member States already have some form of insurance-based system for floods and other natural damage, but the system can be **supplemented with state funds to compensate for those assets** that cannot be privately insured. State funds may also compensate for insurance claims exceeding the maximum amounts or for **otherwise exceptionally heavy damage**. The report also takes the view that a Member State may participate in compensation for damage by **providing reinsurance**. It stated, however, that these systems differ in many respects, and it is **not prudent or necessary to unify them.**

Recalling that natural catastrophes affect both private households and business activities, the committee encourages insurance companies to **take risk-based pricing as a central approach to disaster insurance.** It invites Member States to **propose incentives to encourage citizens to protect themselves and insure their property against damage**, and incentives responding to insurance needs in terms of environmental liability, e.g. for enterprises in mining or in the gas, chemical or nuclear sectors.

Insurance companies, for their part, are invited to clarify contracts for consumers and to provide information on available options and their impact on the price of cover, in order to ensure adequate consumer choice. Insurance companies must provide **clear and comprehensible information** for clients and prospective clients. Risk-based pricing should be central to the availability of insurance coverage.

Non-mandatory insurance: Members recall that in the end it is the state or the regional authorities that bear much of the indirect or direct cost burden for damage, be the causes natural or man-made. They suggest that Member States and regional authorities should recognise the importance of risk prevention and should make it a **pillar of investment strategy**, since it is more efficient to minimise the consequences of disasters instead of just providing cover and repairing damage afterwards.

Underlining the risk of moral hazard if citizens assume that their government would be using public resources from the national budget to cover their losses, Members are critical of actions which may discourage citizens or communities from taking measures to protect themselves. **Citizens should carry their share of responsibility and compensation should not cover all damage.**

Members recall that individual responsibility in this sector has to be maintained, and is aware of the efforts made by Member States to combine the promotion of individual responsibility with intervention by government.

In conclusion, Members consider that **there is no market distortion in this field to justify intervention at European level**, and **do not think that a one-size-fits-all solution would be feasible for this issue.** They recall that tailor-made insurance products depend on many elements, such as type of risks, their probable quantity and quality, culture of prevention, the state of preparedness and capacity for action and the approach taken by Member States and regional authorities concerning risk monitoring and preparation. The committee considers that **a flexible natural catastrophe insurance market** allows insurance companies to adapt products to different conditions, and believes that **a non-mandatory framework is the best way to develop products** that match with natural risks in a given geographical area.