

# EIOPA 2023 NatCat Staff Paper

Fields marked with \* are mandatory.

## Survey on EIOPA Staff Paper on measures to address demand side aspects of the Natcat protection gap

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### Introduction

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The European Insurance and Occupational Pensions Authority (EIOPA) is running a public consultation relating to a Staff Paper on measures to address demand side aspects of the NatCat protection gap.

Given the increase in severity and intensity of climate related events, as part of the EU strategy on adaptation to climate change, EIOPA has increased its focus on addressing protection gaps.

Specifically, EIOPA has taken a number of initiatives aimed at ensuring that the insurance sector is resilient enough to withstand climate shocks and that it contributes to making society more resilient to such shocks.

This Paper focusses on the demand side aspects of the protection gap and aims at complementing other EIOPA's workstreams on addressing the NatCat protection gap.

Stakeholders are kindly invited to provide their feedback on the Staff Paper until 05 October 2023 by responding to the questions included in the survey below. Contributions not provided using the survey or submitted after the deadline will not be processed and therefore considered as they were not submitted.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale;
- and describe any alternatives EIOPA should consider.

### Publication of responses

Your responses will be published on the EIOPA website unless: you request to treat them confidential, or they are unlawful, or they would infringe the rights of any third party. Please, indicate clearly and prominently in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

EIOPA may also publish a summary of the survey input received on its website. Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on [public access to documents](#).

### **Declaration by the contributor**

By sending your contribution to EIOPA you consent to publication of all information in your contribution in whole/in part – as indicated in your responses, including to the publication of your name/the name of your organisation, and you thereby declare that nothing within your response is unlawful or would infringe the rights of any third party in a manner that would prevent the publication.

### **Data Protection**

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725. More information on how personal data are treated can be found at [www.eiopa.europa.eu/privacy-statement\\_en](http://www.eiopa.europa.eu/privacy-statement_en)

## **Remarks on completing the survey**

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### **Choice of internet browsers**

Please use preferably Firefox or Chrome for best speed of the online survey whilst ensuring use of the latest version of the browser.

### **Saving a draft survey**

After you start filling in responses to the survey there is a facility to save your answers. HOWEVER, PLEASE NOTE THAT THE USE OF THE ONLINE SAVING FUNCTIONALITY IS AT THE USER'S OWN RISK.

As a result, it is strongly recommended to complete the online survey in one go (i.e. all at once).

Should you still proceed with saving your answers, the online tool will immediately generate and provide you with a new link from which you will be able to access your saved answers.

It is also recommended that you select the "Send this Link as Email" icon to send a copy of the weblink to your email - please take care of typing in your email address correctly. This procedure does not, however, guarantee that your answers will be successfully saved.

### **Uploading document(s)**

In the last section of the survey, you can also share additional material by clicking on "Select file to upload". Several documents (e.g. Word, Excel, Pdf) can be uploaded. However, note that each document / file is limited to 1MB or less in size.

### **Printing the completed survey**

You will have the possibility to print a pdf version of the final responses to the survey after submitting it by clicking on "Download PDF".

You will automatically receive an email with the pdf file. Do not forget to check your junk / spam mailbox.

### Limit of characters for the answer of each question

There is a limit of 5,000 characters for the answer of each question, including spaces and line breaks. If your answer exceeds the limit, you can upload your answer as additional material (see "Uploading document(s)" mentioned above).

## General Information

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Date of submission

5 October 2023

\* Country

Belgium

**Please enter below the details of the person to contact in case of queries regarding the replies in this survey.**

\* Name of your institution

Actuarial Association of Europe

Your name

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Type of stakeholder

Professional association

Do you want your contribution to remain confidential?

Yes

No

For further information or guidance on completing this data survey please contact:  
Natcatdemandside@eiopa.europa.eu

## 1. Consumers' understanding of insurance products and (perceived) affordability as a barrier to uptake

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In your views, to what extent could affordability be considered a major barrier to Natcat uptake?

As stated in the staff paper, NatCat uptake is directly linked to “personal characteristics and individual situations” which encompasses policyholder income level and financial resources to absorb the premium, which is “amongst the most important factor” (section 1.12.). These factors would indeed define the policyholders “budget” for insurance coverage and more specifically, they should have the financial appetite and risk culture /risk awareness, for NatCat products.

Affordability is a major barrier with a strong dimension of cognitive bias towards NatCat prices (see section 1.17 to 1.19) which are in many cases perceived as too expensive whatever the underlying risk is. Some regions in the world (e.g. Florida, California) are currently seeing massive increases in premiums, which creates affordability issues in the absolute, not just in relation to cognitive biases or terms & conditions. We would like to highlight that the staff paper, in particular section 1.1.1., has a major focus on premiums but needs to mention the following barriers linked to affordability:

- coverage options in product structuring (some NatCat cover may exclude some specific perils)
- affordability through higher deductibles and co-pay features (which could be implemented in NatCat products)
- socioeconomic inequalities correlate with location in high-risk and disadvantaged areas

Actuaries could help to clarify the fairness of the products and to improve the general understanding what insurance prices mean.

What are your views in relation to making consumers more aware of the price of Natcat insurance, whilst avoiding an over-emphasis on price?

Policyholder tailor-made information about Natural Catastrophe needs to be simplified and vulgarized when policies are:

- Promoted in a widely readable language to demonstrate the level of recoveries in case of NatCat claims with simple use cases and demonstration on the premium/deductibles add-on linked to the coverage to avoid the misperception effect of NatCat products as shown in the EIOPA study (1.14)
- Underwritten with additional documentation about NatCat coverage ideally linked to concrete perils to which the location of the policyholder is exposed to. There is no need to add too many technical details to avoid creating disparities for policyholder who have less insurance products' knowledge
- Terms, clauses, definitions, and exclusions of perils should be formulated in a simple and understandable way, and should be easy to find in the insurance contract

This information needs to be aligned with the policyholder context (for example information would be linked to a specific peril depending on the location to be more relevant).

The simplification and vulgarization also need to be aligned to the current tools available (Open AI, automated chats etc..) and partly and fully digitalized when possible (to reach different type of communities). This would mechanically foster the global education of policyholder on NatCat risks, products, and recoveries' mechanisms.

On page 5, second bullet point, there seem to be some thoughts about having a simple product as one-size-fits-all (with the possibility of having extra). One needs to ask who would design such a cover (due to competition legislation, insurers certainly must not agree on such an approach). If there were such cover, would there be pressure to make it (semi-)compulsory, at least in the sense that providers would be obliged to give anybody such cover?

What are your views as to how can product simplicity/consumers' understanding be improved, without impacting the level of coverage offered?

As stated in the previous answer, pricing needs to be made transparent and tailor made information needs to be provided to the policyholder through simple examples, detailed risk factors, detailed options and how it responds to the policyholder needs. In this context, we note that bundle type products can be a barrier to NatCat product uptake (see sections 1.22 and 1.23).

Although bundles might have disadvantages, they have some benefits too. We are not so sure that customers find it easy to construct their cover from smaller pieces themselves. Usually bundle type products are simple to the consumer and might even be good to incentivise taking cover against infrequent perils. In general insurance admin costs eat a quite substantial part of the premium. This is exacerbated in relation to the premium when the premium is small. Often bundled products take lower admin costs and they can make economic sense. The idea that digitalisation and AI will lower the admin costs to near zero regardless of whether products are bundled, is currently not realistic.

In some countries (e.g. France) insurance payouts may be contingent on public authorities declaring a specific event as a natural catastrophe. If such conditions are attached to a NatCat cover, they should be made very explicit to consumers.

Policyholder education through better policy wording and tailor-made documentation should emphasize on the role of insurers as expert on risk mitigation and potential support to increase their community resilience to climate change and natural catastrophe thanks to incentives to develop individual adaptation measures, if possible financially. Actuaries could play a specific role here.

Used terms and definitions should be simplified and explained and can be found on one single place in the contract.

## 2. Previous experience with insurance and social norms as a barrier to uptake

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To what extent do you agree that previous experience and social norm can have a significant impact on uptake of insurance products?

The uptake of Nat Cat insurance products is indeed strongly linked to previous individual experience of a claim rejection or a complicated client's journey to obtain recoveries that would hinder the policyholder's attraction to such coverage and shape their perception of the need for insurance. Should difficulties to obtain recoveries fairly and timely impact several people, the potential impact on the community can be material. It may impact the society level of skepticism and deter individuals from purchasing insurance, particularly, when accompanied by media or social media coverage of on difficulties obtaining claims payments. Social norms are also crucial to drive Nat Cat insurance uptake since communities, cultural factors and peer influence will build a community's perception of insurance standard practices. Should insurance be perceived by a community as not likely to provide benefits (recoveries in case of Nat Cat) despite costs for the community then the community's trusts towards insurance and Nat Cat coverage will decrease.

In your views, what can be done to increase trust in the insurance sector? In particular, stakeholders' inputs as to which measures could be put in place by the industry would be highly appreciated.

The following measures could be put in place by the industry to increase trust in the insurance sector:

- Increase transparency in products, terms and guarantees, vulgarized pricing and claims' settlement with more information provided to policyholder and tailor-made use cases
- Prompt claims settlement to support post disaster recovery (which is mentioned in the EU Taxonomy's insurance-specific criteria)
- Invest in policyholders' and more largely communities' trainings on insurance products, guarantees, mechanisms to build insurance knowledge with the help of government and non-profit associations. This can be done through more digital means using for example social media
- Invest in customer support through multi channels (phone, emails, online chats, physical meetings)

## 3. Risk perception and expectations on public support as a barrier to uptake

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Are you aware of any initiatives aimed at enabling consumers to properly assess the type of risks they are exposed to?

Such initiatives are very heterogeneous across the EEA zone and depend on the actual objective for example :

- Risk mapping, online platforms in France and other countries :
  - o Through CCR (private-public partnership - <https://catastrophes-naturelles.ccr.fr/>)
  - o Through a government portal (<https://www.georisques.gouv.fr/>)
  - o In Austria: <https://hora.gv.at/>
- Services in risk management by insurers and reinsurers :
  - o <https://www.generalifrance.fr/professionnel/dossier/catastrophes-naturelles-decembre-d1/>
  - o <http://www.axaprevention.fr/fr/article/georisques-plateforme-prevention-risques-naturels-industriels>

We would suggest that EIOPA looks which EEA countries DON'T have such initiatives, and to which extent the EU could play a subsidiary role here to fill the gap (e.g. with EIOPA's own protection gap dashboard)

To what extent would you agree that there is often a misperception between when and how public authorities would intervene and their actual interventions?

The extent of the misperception about public authorities' real intervention would be very heterogeneous across the EEA zone. If there was a misperception it is usually due to:

- insufficient public awareness especially in time of crises
- complexity of the public authority's intervention and communication in time of crises
- media and social media coverage that can feed this misperception.

We would expect that the public sector would maintain the infrastructure to minimize losses and should define ex ante the cover that citizens can expect in case a catastrophe occurs.

## 4. The insurance purchasing process as a barrier to uptake

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To what extent do you agree that the purchasing buying process can be a barrier? And if so, in which way?

Probably in a lesser magnitude than affordability, the complexity of the buying process is a barrier to the Nat Cat Uptake in particular:

- in case of a lengthy and tedious application process requiring too many documents
- in case of lack of accessibility to insurance providers or insurance brokers in some regions reducing any access to details on the products, conditions and guarantees
- where insurance salespersons are not properly trained to inform the client about the exact characteristics of the natcat coverage (especially where natcat is bundled together with other risks)

In your views, what measures could be put in place to facilitate the purchasing process?

The customer journey needs to be fully audited/tested in each member state since there could be a certain heterogeneity in the sources of potential issues linked to the insurance purchasing process.

Potential measures that could be put in place are:

- An improvement of the customer journey depending on the profile through online platforms and marketplaces (for younger age classes) or accessible insurance providers with details about terms and guarantees (coverage, pricing, claims' processes, comparisons between products)
- A development of simple natural catastrophe risks evaluation tools at individual level (depending on the location) linked to insurers' information to compare the level of protection.
- Potentially also by integrating the purchasing process into other aspects of property owning (e.g. financing or taxes), so that people are automatically made aware of it.

How can the benefits of coverage be presented to consumers in a way which does not portray them as an unnecessary obligation that comes with a mortgage?

Insurers and governments could invest in education and awareness training campaigns to better educate policyholders on the risk levels associated with an insurance coverage. Within these campaigns, cost benefits analysis should be introduced to allow policyholder to increase their awareness to natural catastrophe risks.

Digital online platforms should be developed, and present simple use cases or damage simulations related to the policyholder locations to allow them to understand risks (which peril they are exposed to) and the utility of the cover if ever their home is located in a risky area.

In your view can improved product oversight and governance requirements assist in ensuring product are better designed and coverage is better conveyed to consumers to avoid insurance is perceived as an obligation?

An improved product oversight and governance requirements would be beneficial to avoid insurance being perceived as an unnecessary obligation, however improved transparency, better risk awareness through seem to be a better solution.

But it is questionable whether such measures are sufficient to reach a majority of consumers.

## **5. Options to address barriers at the pre-purchase stage**

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In your views, what other additional measures could be implemented in the pre-purchase phase to raise awareness about risks?



In the current paper, EIOPA has identified the following options:

- Raise awareness with risk probability and potential losses information depending on the location potentially creating a virtuous cycle leading to incentives to individual adaptation measures. This can be done with online public zoning tools, more sophisticated tools using policyholders' inputs providing outputs in a quantitative and qualitative manners (with traffic lights views or damage simulations for example)
- Develop communication campaigns on Nat Cat coverage from insurers and/or public authorities. Feedbacks need to be targeted prior and following Natural Catastrophe events to each policyholder (location, risks)
- Reduced/No premium taxes for NatCat coverage
- Tax Rebates for insurers underwriting proper insurance coverage

Premium incentives in case of investment in adaptation measure could be a way to reduce risk exposures (with less potential recoveries). As stated with AAE (ECB-EIOPA Discussion Paper/Policy options to reduce the climate insurance protection gap, April 2023) extra care needs to be taken to avoid inappropriate insurance structures.

In your views, which specific measures could be further explored and tested by EIOPA?

The role of Public-Private-partnerships, mandatory insurance and public sector relationships could be further developed.

## 6. Options to address barriers at the purchase stage – act on the buying process

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How can the purchase process be simplified?

In the current staff paper, the following actions should be taken:

- promoting consumers' journey simplicity through digital channels
- increase in the amount and quality of information available
- improve the way information is presented to consumers
- avoid issues relating to mismatch between expected and actual coverage with more detailed information including exclusions and coverage limits
- make NatCat purchase mandatory for example with a focus on a lowest price

Process could be simplified in case of further standardization of NatCat coverages across all member states related to the 5 points listed above. Although that could be difficult to implement as due to competition legislation insurers cannot agree among themselves of something like this.

As stated with AAE (ECB-EIOPA Discussion Paper/Policy options to reduce the climate insurance protection gap, April 2023) the pros of mandatory insurance should be further explored in more details and with more balance. (2023-06-13-AAE-Comments-on-ECB-EIOPA-Discussion-Paper-on-protection-gaps-FINAL.pdf (actuary.eu)).

Do you think POG can be used as a tool to ensure manufacturers put in place a purchasing process which is in line with consumers' needs?

Treating governance as a formal obligation doesn't seem to be an optimal solution. Manufacturers can react on stricter requirements in different ways which are not all supporting the purpose. Some players will want to reinternalize product design in order to gain complete control over governance. This defensive scenario could lead to a reduction in supply, and in particular to the abandonment of niche products for reasons of efficiency. Conversely, others may be tempted to defer all responsibility to their partners through clauses. This scenario could result in very heavy obligations for brokers and disincentivize them to sell such covers. A third, more virtuous scenario is to approach product co-design and co-governance at a very early stage. For this 3rd option, new obligations would indeed be opportunities to improve practices, develop more effective products and even develop new commercial levers. For example, product testing or compliance certification by a third party, or even by consumers themselves could be considered. The challenge will be to transform compliance into customer value to improve the demand side.

In your views, which specific measures could be further explored and tested by EIOPA?

EIOPA should continue to push towards education campaigns for policyholders from insured and public authorities to push for more risk-based pricing to improve product simplicity and transparency – potentially with particular focus on EEA countries where such campaigns are currently absent.

In your views, how can it be ensured that the implementation of mandatory coverage does not lead to an over-focus on price/perception of insurance as an obligation rather than a benefit?

As stated with AAE (ECB-EIOPA Discussion Paper/Policy options to reduce the climate insurance protection gap, April 2023) the pros of mandatory insurance should be further explored in more details and with more balance to avoid any moral hazard. (2023-06-13-AAE-Comments-on-ECB-EIOPA-Discussion-Paper-on-protection-gaps-FINAL.pdf (actuary.eu))

## 7. Options to address price and insurability – reducing the price and risk

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In your views, which price reduction mechanisms can be more effective?

Among the list of mechanisms proposed in this staff paper the 2 following measures seem to be the most virtuous:

- tax rebate for investing in risk mitigations measures (in turn reduce the risk for insurers)
- premium discounts in case for taking risk mitigation measures (reducing damages)

While not explored in this paper, as it focuses on demand-side aspects, mandatory coverage can also reduce the price by further mutualizing the risks. Do you see demand-side related barriers and risks with mandatory coverage? If so which ones?

Mandatory coverage should not be counted out. Although in the mandatory model we lose also something. Insurance premium would probably then not be a price signal leading to more sustainable behaviour but also considered an unpleasant duty. Private insurance should be the preferred option where it works best, and mandatory on the other hand in areas where it works best.

As already stated with AAE (ECB-EIOPA Discussion Paper/Policy options to reduce the climate insurance protection gap, April 2023) the pros of mandatory insurance should be further explored in more details and with more balance to avoid any moral hazard. (2023-06-13-AAE-Comments-on-ECB-EIOPA-Discussion-Paper-on-protection-gaps-FINAL.pdf (actuary.eu)).

How do you think the perception of insurance as a more affordable product can be improved?

As stated in the previous questions, insurance perception can be improved with enhanced transparency on products terms and guarantees, develop risk mitigation incentives, improve policyholders' awareness possibly through digital platforms fostering products comparability similar to the Homeowner Insurance comparison tool in California.

([https://interactive.web.insurance.ca.gov/apex\\_extprd/f?p=111:20](https://interactive.web.insurance.ca.gov/apex_extprd/f?p=111:20))

What can be explored/done, in your views, to provide more information and clarity on the value/utility products offer in a way in which consumers can understand the benefit of insurance?

As stated in the previous questions, information and clarity on the utility products can be improved with enhanced transparency on products terms and guarantees, develop risk mitigation incentives, improve policyholders' awareness possibly through digital platforms fostering products comparability similar to the Homeowner Insurance comparison tool in California and simulations of potential damages to the property (e.g. on a website or app)

([https://interactive.web.insurance.ca.gov/apex\\_extprd/f?p=111:20](https://interactive.web.insurance.ca.gov/apex_extprd/f?p=111:20))

In your opinion, what could be more effective to address the protection gap while taking into account the affordability issue: a reduction in the risk-based premium following the implementation of risk mitigation measures, or a cheaper by default flat rate premium for all perils introduced as a mandatory offer (to increase uptake by consumers?)

Mandatory coverage would by definition plug the protection gap.

Some countries apply efficiently a default flat rate premium approach for certain perils (flood, hail, drought) while some perils are excluded. This mechanism allows an optimization Nat Cat insurance uptake impacted by insurance perception and social norms. However this requires heavy discussion on the fixation of the rate. This rate could be adapted to the level of risk based premium and the effective application of risk mitigation measures.

We also want to highlight that the two suggestions could be combined, they are not mutually exclusive.

The evidence for the responses should be provided in the textboxes below the respective questions. However, if you have evidence in a format other than text (e.g. Excel file), please upload the file here.

Please upload your file(s)

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