

Conference for NNPP's reinsurers in Oslo 16th to 18th June 2009



Norwegian Natural Perils Pool

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- Principle of operation

Compensation for damage due to natural events paid by the State

Until 1918 Norway had no arrangement for compensation for damage due to natural disaster. The State helped the affected by earmarked funds, tax relief and help from the military forces.

In 1918 a Norwegian insurance company launched a cover for damage to buildings due to natural disaster. This was a voluntary cover only bought by people in the areas exposed to natural perils and therefore not a profitable business for the company.

From 1938 the state systemized the compensation through a national fund, and in 1961 the State's natural damage scheme was established by the Act on Natural Damage of June 9th 1961.

Until the Norwegian Natural Perils Pool was established in 1979 this scheme also covered insured property.

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Compensation for damage due to natural events paid by insurance

Although the Act on Natural Damage represented considerable progress compared to the previous state, the situation was not considered satisfactory, and in 1971 a committee was appointed to study the possibility for an amendment of the Act of 1961 and also consider the possibility of covering the damage caused by natural perils through insurance.

The committee found that both with regard to the owner of the damaged property and also from a social point of view, the best solution would be to compensate damages caused by natural disasters through insurance.

Compensation for damage due to natural events paid by insurance

However, to avoid individual assessment of the risk and in order to provide adequate cover at reasonable premiums for those who were exposed to such risks, it was considered necessary to connect insurance against natural perils to an already existing form of insurance. According to this it was proposed to make insurance against natural perils a compulsory part of all fire insurance of objects and property in Norway.

Norwegian Natural Perils Pool

The activity of the Norwegian Natural Perils Pool is authorized in Act no. 70 of 16 June 1989 related to natural disaster insurance with amendments, last Act no. 98 of 17 December 2004 and Rules for the Norwegian Natural Perils Pool established by Royal Decree of 21 December 1979 with subsequent amendments set forth by the Ministry of Justice.

According to the Rules § 2, the purpose of the Norwegian Natural Perils Pool is to be a liaison between the participants in the Pool and the State's natural damage scheme. The Pool settles the natural disaster damage compensation between the companies and ensures the reinsurance cover of Norwegian natural disaster insurance.

Norwegian Financial Services Association

The Norwegian Natural Perils Pool is managed by FNH – Norwegian Financial Services Association



Organization

NP's highest authority is the annual meeting and other member meetings.

The Board consists of 8 members with personal deputies. Board members serve for a period of two years

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- The Board supervises the NP's activities and its duties include:
- Present the annual report and accounts
- Stipulate premiums
- Enter into reinsurance treaties
- Supervise claims settlement
- Appoint a claims committee

Organization – Claims Committee

According to section 17 in the Rules for NNPP the the Claims Committee should comprise 5 members. Members of the Claims Committee serve for a period of three years.

The Committee shall perform the necessary review of the claims submitted by the companies for distribution, taking the initiative when necessary in connection with large claims when more than one company and/or the Natural Disaster Fund are involved in the same claim.

According to section 18 in the Rules the Claims Committee is responsible for the running contact between the NNPP and the State's natural damage scheme. The Liaison Committee between the NP and the State's natural damage scheme is responsible for dealing with matters in which the parties have a common interest. The committee shall consist of three representatives from both parties. The committee shall hold a meeting every fourth month. Furthermore, a meeting shall be held when requested by one of the parties to discuss a matter of common interest. NNPP and the State's natural damage scheme shall give each other the information that is necessary so that they can perform their duties.

Organization – Reinsurance Committee and Premium Committee

The Reinsurance committee consists of 4 members. The Committee advises the Board on reinsurance matters.

The Premium Committee consists of 4 members. The Committee is responsible for the guidelines for premium calculation and settlement basis for loss or damage due to natural disasters.

Administration

The administration is run from a separate Pool office in FNH –Norwegian Financial Services Association.

Staff:

- Kari Ericsson - Advisor
- Kate S. Karlsen - Accountant
- Jørgen S. Nielsen - Senior advisor
- Nina Wien - Advisor
- Stefi Kierulf Prytz - Deputy Director
- Knut Nordskog - Director

The NNP'Ps general manager is the Norwegian Financial Services Association (FNH), which also has responsibility for day-to-day settlement of claims. Separate accounts are kept for administrative expenses that are charged to the individual claim years.

Principle of operation

Act on Natural Damage Insurance

- **Section 4**
- All non-life insurance companies which indemnify natural damage shall be members of a common claims pool. This applies regardless of where such company has its head office.
- The claims pool liaises between the insurance industry and the State's natural damage scheme. The claims pool distributes compensation for natural damage between the companies. Distribution is based on insured values or insurance premiums as further determined by the King.
- The King establishes further instructions for the activities of the claims pool.

Principle of operation

Act on Natural Damage Insurance

- **Section 4 a**
- A policyholder who enters into a fire insurance contract with an insurance company that is not a member of the Norwegian Natural Perils Pool shall pay a fee to the pool. The fee is determined on the basis of the sum of the fire insurance coverage. The King may lay down further rules concerning the fee.
- Whoever enters into a fire insurance contract with a company as mentioned in the first paragraph is obliged to notify the Natural Perils Pool thereof in accordance with provisions established by the King. The Natural Perils Pool may also request such information itself. Whoever wilfully or through negligence violates this provision or provisions issued in pursuance of this Act shall be punished by fines.

Cover

Act on Natural Damage Insurance

- **Section 1 – first paragraph**

- Property in Norway that is insured against fire is also insured against damage caused by natural events, provided the damage to the item in question is not covered by other insurance. Natural damage is understood to be **damage directly caused by a natural event such as landslide, avalanche, storm, floods, storm surge, earthquake or volcanic eruption**. If the insured item is a dwelling or holiday home, the insurance also covers natural damage to garden, garden accoutrements or farmyard not exceeding 5 decares, including that part of any access road lying within the garden, garden accoutrements or farmyard.

Exceptions

Act on Natural Damage Insurance

- **Section 1 – second paragraph**

The company is nevertheless not liable for natural damage to forest or standing crops, goods in transit, motor vehicle or motor vehicle trailer, aircraft, ship or small boat as well as their contents, fishing gear on vessels or in the sea, equipment in the sea for production of fish, fish in cage, net or dam, equipment for extracting oil, gas or other natural resources on the seabed. Moreover, the company is not liable for loss or damage solely effecting aerials or signs etc. The King may decide that other items shall be wholly or partly exempted from natural damage insurance under this paragraph.

Reduced compensation

Act on Natural Damage Insurance

- **Section 1 third paragraph**

Natural damage indemnity may be reduced or voided if the occurrence or extent of the damage is due wholly or in part to weak construction in relation to the stress to which the item can be expected to be exposed, or to poor maintenance or supervision, or where the claimant can be blamed for failing to prevent the damage or to limit its extent. A decision to reduce or void indemnity shall give weight to the claimant's capacity to realize what requirements have to be made, his opportunity to remedy the defect and the circumstances in general. Indemnity shall not be reduced if the claimant is only slightly to blame.

Appeals system

Act on Natural Damage Insurance

- **Section 2 first paragraph**

If there is doubt as to the presence of natural damage under section 1 first paragraph or as to whether the conditions for reduction or refusal of indemnity under section 1 third paragraph are present, the insurance company or the insured may submit the question to the Appeals Board of the State's natural damage Scheme under the rules of section 18 of the Natural Damage Act. The company shall notify the insured of his rights pursuant to these provisions. The decision of the Appeals Board is final.

Limit per event

Act on Natural Damage Insurance

- **Section 3 second paragraph**

The insurance companies' aggregate liability in the event of a single natural disaster is limited to an amount fixed by the King.

- NOK 100 million from January 1st, 1980
- NOK 200 million from January 1st, 1982
- NOK 600 million from January 1st, 1985
- NOK 800 million from January 1st, 1988
- NOK 1,000 million from January 1st, 1992
- NOK 1,300 million from January 1st, 1993
- NOK 1,800 million from January 1st, 1994
- NOK 2,800 million from January 1st, 1997
- NOK 4,000 million from January 1st, 2000
- NOK 6,500 million from January 1st, 2001
- NOK 10,000 million from January 1st, 2004
- **NOK 12,500 million from January 1st, 2006.**

Deductible

Act on Natural Damage Insurance

- **Section 3 first paragraph**

The insured shall pay an excess, fixed by the King, for any natural damage event that is covered by the natural damage insurance.

01.01.1980	NOK 2 000.00
01.07.1990	NOK 4 000,00
01.04.2005	NOK 8 000,00 per insured per event

Premiums

Rules for Norwegian Natural Perils Pool

- **§ 11 Premiums**

The premium rate is stipulated by the Pool Board, taking into account that the total premiums shall over time correspond to the NP's and the individual company's amount of loss and damage and administrative expenses.

- 1st January 1980 0.08 per mille
- 1st January 1982 0.08 per mille to 0.10 per mille
- 1st January 1988 0.10 per mille to 0.08 per mille
- 1st January 1990 0.08 per mille to 0.10 per mille
- 1st July 1992 0.10 per mille to 0.17 per mille
- 1st July 1993 0.17 per mille to 0.25 per mille
- 1st January 1995 0.25 per mille to 0.17 per mille
- 1st April 2002 0.17 per mille to 0.20 per mille
- 1st April 2004 0.20 per mille to 0.15 per mille
- 1st January 2005 0.15 per mille to 0.12 per mille
- 1st January 2007 0.12 per mille to 0.11 per mille

- **1st January 2009 0.11 per mille to 0.10 per mille**

Premiums

Rules for Norwegian Natural Perils Pool

- **§ 11 Premiums**

If the accrued premium exceeds the company's share of the compensation payments that are made through the NNPP and the claims reserve for unsettled claims, then the difference shall be allocated to a special disaster fund in the company. This fund shall be used exclusively to cover future natural disaster claims.

If a company transfers its fire insurance business to another company, it shall transfer the natural disaster reserve and accumulated natural disaster fund to the other company.

If the company ceases operations, then all funds shall be transferred free of charge to NNPP for distribution among the participants in accordance with the settlement basis for the year in which the company ceases operations.

Claim notice

Rules for Norwegian Natural Perils Pool

- § 5 Claims notice

All claims shall be reported to the NP every month, no later than the 5th of the first month after the damage or loss occurred. The reports shall be made on special forms and contain information on the gross size of the damage and payments made. In the case of coinsurance the claim may be reported by the lead company only. The NP's Board stipulates its own rules for the reporting form and the use of that form.

Distribution formula

Rules for Norwegian Natural Perils Pool

§ 8 Settlement basis (distribution formula)

The basis used for settlement is the companies' fire insurance amounts as of 1 July of the claim year. The calculation is performed using percentages with four decimals. Before the settlement basis is ready, the amounts as of 1 July of the previous year are used, and the distribution for the entire claim year is adjusted as soon as the final adjustment key is ready. For unvalued fire insurance the Board of the NP stipulates an average insurance amount on the basis of negotiations and this average is used for the distribution.

For companies that start or cease to underwrite fire insurance during a calendar year, an average of the company's fire insurance amounts as of the last day in each quarter of the claim year is used for the settlement.

Claims settlement

Rules for Norwegian Natural Perils Pool

• § 9 Claim settlement

Claim settlement is made on a quarterly basis in accordance with the payment statements received. At the end of every quarter the NP sends a notice to each of the participating companies - separately for each individual claim year. - containing statements of:

- payments made
- remaining reserve
- total payments and remaining reserves
- company's share of total damage or losses, payments and reserves
- account statement showing what the company must pay or will receive as of the calculation date.

A year-end closing of the claim years shall be performed in connection with the settlement for the fourth quarter, and the NP's operating costs and settlement with reinsurers shall be included.

Settlement costs

Rules for Norwegian Natural Perils Pool

- **§ 10 Settlement costs**

The NP covers settlement costs such as assessment expenses, travel and subsistence allowances and necessary fees. In addition, the NP covers the settlement costs of the company in question at a rate of 3 per cent of the compensation amount including interest and costs, with a minimum amount of NOK 2000. For claims in excess of NOK 200,000 in connection with the same natural disaster 1 per cent of the excess amount is also calculated.

Reinsurance

Rules for Norwegian Natural Perils Pool

- **§ 12 Reinsurance**

The Pool Board, cf. Section 15, takes out reinsurance on behalf of NP in accordance with the reinsurance principles that are approved at the annual meeting. The settlement with reinsurers is distributed in the same manner as the claim costs.

Thank you for your attention!

