



To member companies of the
Norwegian Natural Perils Pool

Oslo, 15 July 2015

Circular 07/15

**NEW SETTLEMENT TERMS AND UNDERWRITING GUIDELINES
FROM 1 JANUARY 2016**

The board of the Norwegian Natural Perils Pool has approved the following to apply from 1 January 2016:

- new Terms for Settlement through the Natural Perils Pool (replacing the Common Terms and Conditions for All Insurance Contracts Covering Damage Caused by Natural Events)
- new Underwriting Guidelines

The main changes to the terms are:

- References to companies' own terms
 - Buildings/effects/supplementary covers as per companies' own terms
 - Claims settlement and forms of insurance as per companies' own terms
- Cover extended
 - General increase in sums
- Simpler and clearer content
 - Summarising and grouping of what is covered and what is not

Consequences:

- The Common Terms and Conditions for All Insurance Contracts Covering Damage Caused by Natural Events will be superseded by the new Terms for Settlement through the Natural Perils Pool and will cease to apply as an independent set of insurance terms
- Companies will therefore need to draw up their own natural perils terms
- A company's natural perils terms may not be more favourable than its own terms for fire insurance

The new Terms for Settlement to apply from 1 January 2016 are enclosed.

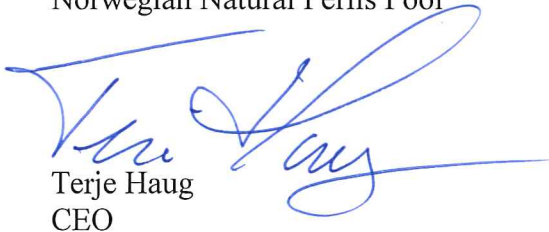


Changes to the Underwriting Guidelines:

- Minor adjustments to the text
- More detail on what it is natural to insure against fire
- Reference to guidelines on calculating buildings premiums
- Section on first-loss policies removed
- A company's natural perils terms may not be more favourable than its own terms for fire insurance

The new Terms for Settlement and the new Underwriting Guidelines will be published on our website www.naturskade.no when they enter into force on 1 January 2016.

Yours faithfully
Norwegian Natural Perils Pool



Terje Haug
CEO



Underwriting Guidelines for Natural Perils Insurance

What natural perils insurance covers
and how the premium is to be calculated

To apply from 1 January 2016
Replacing the rules of 1 April 2012



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Section 1 What is the Norwegian Natural Perils Pool

1.1 Background

Through changes to the Natural Damage Act and the Insurance Contracts Act, it was decided in 1979 to introduce universal natural perils cover in Norway with effect from 1 January 1980. The Natural Perils Insurance Act (Act No. 70 of 16 June 1989) entered into force on 1 July 1990 and was most recently amended by Act No. 98 of 17 December 2004.

The natural perils insurance scheme is administered by the Norwegian Natural Perils Pool. Separate Rules for the Pool were issued by Royal Decree on 21 December 1979 and have subsequently been amended by the Ministry of Justice.

All non-life insurers providing cover for natural perils in Norway under section 1 of the Natural Perils Insurance Act must be members of the Pool, cf. section 4 of the Act. Natural perils insurance is compulsory in the sense that it is automatically included with all fire insurance for property.

The Pool acts as the liaison between member companies and the National Fund for Natural Damage Assistance. The Pool also equalises natural perils claims between member companies each quarter and arranges reinsurance cover for the natural perils insurance scheme.

These Underwriting Guidelines and the Terms for Settlement through the Natural Perils Pool have been prepared by the Pool's Terms Committee to ensure the most consistent possible handling of natural perils risks by individual member companies. The Natural Perils Insurance Manual issued by the Pool's Claims Committee contains further rules on what natural perils insurance covers. Particular reference is made to the Terms for Settlement, which set out what can be equalised through the Pool. Insurers may offer more favourable cover than specified in the common terms, but must bear the additional indemnity themselves. The Underwriting Guidelines, Manual and Terms for Settlement can be found on the Pool's website: www.naturskade.no.

1.2 Settlement and reporting

Each member company settles natural perils claims with its own customers.

Through the Pool, each year's natural perils claims are distributed between member companies in proportion to their respective share of the total sum insured for objects covered by fire insurance.

The equalisation basis is calculated each year by having member companies report the total sum insured against fire as at 1 July.

Section 2 What natural perils insurance covers

Insurance contracts covering natural perils are governed by the provisions of the Natural Perils Insurance Act of 16 June 1989.

Natural perils insurance is compulsory for all objects that it is natural to insure against fire and must be included in all insurance products that include fire as a risk, cf. the Natural Perils Insurance Act.

All objects that it is not natural to insure against fire must instead be insured through insurance products that do not result in equalisation through the Pool. Member companies must choose forms of insurance that take account of this limitation for objects that it is not natural to insure against fire.

The insurance covers damage as a direct result of natural disasters in the form of landslides, avalanches, storms, floods, storm surges, earthquakes or volcanic eruptions, cf. the Natural Perils Insurance Act (Act No. 70 of 16 June 1989).

For detailed terms, see section 3 of the Terms for Settlement through the Natural Perils Pool: "Cover provided by the insurance".

Section 3 Calculating the premium

3.1 Premium basis

Breaches of these Guidelines may result in the company not having a claim equalised through the Pool.

A natural perils premium is to be calculated on the basis of the sum insured against fire for property/objects, i.e. normally buildings, machinery, equipment, furnishings, effects and goods. The sums insured for these objects are used as the equalisation basis. It is not permitted to use a different basis for calculating premiums for natural perils insurance to that for fire insurance, set on the basis of guidelines from the Rates & Indices Steering Group at Finance Norway.

Fire insurance normally forms part of a comprehensive or all-risks policy.

3.2 Premium rate for natural perils insurance

The premium rate for natural perils insurance is that set by the Pool's Board from time to time in accordance with the Rules for the Pool. The premium is calculated as a percentage of the premium basis in accordance with the rules in the previous section.

The following rules also apply to the calculation of the premium:

- When calculating the minimum premium, the natural perils premium comes on top. The natural perils premium must be at least NOK 1.
- Credit charges are to be calculated using the standard rules if the premium is paid in two or more instalments.
- Any return of premium must be divided into the ordinary premium and the natural perils premium.
- Where contracts are cancelled and transferred before they expire, the premium paid is to be returned pro rata.
- No commission of any kind may be charged on the natural perils premium.
- In the case of contracts to which more than one company is party (co-insurance etc.), the lead insurer collects the natural perils premium and includes 100% of the sum insured in its equalisation basis for the Pool.

3.3 Insurance products where no natural perils premium is to be calculated, cf. section 1 of the Natural Perils Insurance Act

- Machinery insurance without fire cover
- Motor vehicle insurance and motor vehicle trailer insurance
- Leisure boat insurance
- Luggage/baggage insurance
- Transport/cargo insurance
- Products without fire cover

Section 4 Special guidelines

4.1 First loss policies

First loss policies have become widespread at the expense of subject-to-average sum-insured policies. The policyholder is assured of full indemnity without average for losses up to the chosen sum insured.

When choosing the sum insured, the policyholder normally estimates the maximum possible loss due to fire and chooses the sum insured on this basis. When calculating the fire premium, the company will take account of the risk of major and minor fire damage and will normally apply a premium rate that is higher than for subject-to-average sum-insured or full-replacement-cost policies.

Due to the fixed natural perils premium rate for all risks insured against fire, there have been attempts to use first-loss policies as a means of reducing the compulsory natural perils premium. This is not permitted.

It is not permitted to write first-loss policies for multiple objects where the sum insured reflects only the maximum loss on the largest object covered by the insurance, such as a stretch of cable.

In such cases, the natural perils premium is to be calculated on the basis of the value of all of the objects, and these must also be included in the Pool's equalisation base.

4.2 Collective home insurance

Most collective home insurance policies do not have any individually agreed sum insured so the premium is not tied to the individual member's assets.

The natural perils premium is set on the basis of the average value per member for each scheme. It is a condition that the average value per member is calculated on the basis of rigorous analysis of the overall portfolio. For the natural perils premium to be correct, the average value of furnishings and effects must be index-linked and adjusted annually. The Pool's Board approves the average value for each scheme each year. The equalisation basis for the Pool is the annual average value multiplied by the number of scheme members.

4.3 Other no-agreed-value covers

Municipal and county policies are often designed in such a way that machinery, equipment and effects are jointly insured without specifying separate sums insured on the certificate of insurance. Instead, it is stated in the insurance terms that the contents of buildings are insured up to the same amount as that stated for the building.

The relationship between the value of building and contents is based on averages, and it has been found that machinery, equipment and effects amount to 25% of the sum insured for the building, and this therefore constitutes the premium basis for machinery, equipment and effects.

To obtain the correct equalisation basis, a factor of 1.25 is applied to the sum insured for the building at companies providing no-agreed-value cover for municipalities.

Similarly, the full replacement cost for buildings must be adjusted by a factor of 1.25 before calculating the natural perils premium charged to the customer.

4.4 Construction, project and contractor insurance

Policies of this kind are normally written on an all-risks basis and include fire cover. A natural perils premium must therefore be calculated.

4.4.1 Construction and installation projects

These projects are insured individually, i.e. the insurance term runs from the start date to the completion date. The premium is to be calculated only for the part of the project that is covered by fire insurance.

The natural perils premium is calculated using the following formula:

Contract value/2 x rate o/oo x contract duration (days)/365

4.4.2 Insurance for contractors and builders (12 month policies)

These are policies for construction projects where the individual projects are not registered and the premium is calculated instead on the basis of the contractor's annual operating revenue.

Objects that may not be equalised through the Pool (cf. section 2) are subtracted from the premium basis before the natural perils premium is calculated. In such cases, a distinction is to be drawn between premium-triggering and non-premium-triggering parts of the project.

4.5 Insurance for home computers and consumer electronics and sale/warranty cover for electrical products

These are policies where the premium is often paid at the start of the contract for a period of several years (commonly three years). Provided that the policy includes fire risks, the same principle is to be used as for project insurance, i.e. the natural perils premium is calculated by multiplying the premium rate by the sum insured regardless of the term (calculated only once even if the contract runs for several years).

Companies may also opt to calculate an annual natural perils premium if this better suits their insurance solution and computer systems.

4.6 Insurance contracts with a declaration scheme

The premium for natural perils is calculated in advance using the standard rules and adjusted in line with the declarations on the expiry of the insurance term. The declared value is the equalisation basis.

Section 5 Design of certificate of insurance

Under section 11 of the Pool's Rules, the natural perils premium is to be specified on the certificate of insurance.

There is not, however, a requirement for the natural perils premium to be specified on the notice of premium.

Nor is there any requirement for the premium rate and sum insured for natural perils to be stated on the certificate of insurance.

Section 6 Terms for Settlement through the Natural Perils Pool

The Terms for Settlement through the Natural Perils Pool set out what member companies can equalise through the Pool. The Terms for Settlement and the Natural Perils Insurance Act together provide the framework for how natural perils losses are to be handled. The Terms for Settlement are drawn up and administered by the Pool. A company's natural perils terms may not be more favourable than its fire insurance terms for the damaged object.



Terms for Settlement through the Natural Perils Pool

To apply from 1 January 2016

The insurance contract is also governed by the provisions of

- the Insurance Contracts Act of 16 June 1989
- the general terms of insurance
- the Natural Perils Insurance Act of 16 June 1989

unless departed from in the terms.

These terms are the maximum that companies may settle through the Pool. The settlement terms are nevertheless limited to the company's own terms for fire insurance for the damaged object.

1. WHO IS COVERED UNDER THE INSURANCE

The insurance applies to the party insured under the contract with the company.

2. WHERE THE INSURANCE APPLIES

2.1 The insurance applies at the premises in Norway stated in the insurance contract.

2.2 Off-premises cover in Norway

- The insurance provides off-premises cover
 - for property, money and securities temporarily removed from the insured premises
 - for objects to be sold
 - during home relocation and at the new address
- The insurance does not provide off-premises cover
 - for goods on premises owned or rented by the insured
 - for objects on a building or construction site
 - for objects employed in contracting, installation, assembly or tradesmen's activities

3. COVER PROVIDED BY THE INSURANCE

3.1 Buildings as specified in the certificate of insurance in accordance with the company's own terms.

3.1.1 When a building is covered under section 3.1,

- the following are also insured:
 - external piping and cables (including drains) and attached equipment, including tanks, carrying liquids, electricity, signals or gas between the building and the connection point for the public mains, diffusion piping, well or borehole
 - own permanent wooden wharf belonging to a farmhouse, residential house or recreational property and not separately insured. Interests in shared wharfs are not covered. Such indemnity is limited to NOK 50,000 including installations on the wharf, demolition/clearing and waste management
 - additional buildings under 10 square metres in size for which no natural perils premium has been calculated
 - additional expenses for repairing damage to an insured building when these additional expenses are due to changes in technical requirements imposed on the building under



law or public regulations. Such indemnity is limited to the higher of NOK 1,000,000 and the first-loss sum insured. The claim must relate to the damaged part of the building and be a direct consequence of the damage. One condition is that efforts are made to utilise the opportunities for dispensation available under the Planning and Building Act

- the insurance does not cover necessary additional expenses
 - for improving the damaged part of the building or rebuilding the building
 - for ground surveys and foundations for the rebuilding of the building
 - which do not relate directly to the building work but are a requirement for the building to be permitted to be rebuilt on the same plot. Expenses for securing and prevention are not covered
- the following are not covered:
 - seawater piping
 - infiltration/diffusion piping
 - sullage pits
 - wells or boreholes
 - expenses related to any order that the authorities were empowered to issue even if the damage had not occurred
 - expenses incurred because dispensation has not been sought under the Planning and Building Act

3.1.2 Gardens belonging to farmhouse, residential house and recreational property

When the insured object is a farmhouse, residential house or recreational property, the insurance also covers natural damage to gardens of up to 5 decares around the insured building.

Any part of an access road lying within the demarcation and area stated above is also covered.

- Damage to the following is not covered:
 - forest
 - standing crops
 - pasture, home fields, outlying fields

3.2 Effects, furnishings, machinery, equipment and goods as stated in the certificate of insurance are covered in accordance with the company's own terms.

- If the policy covers effects,
 - money and securities will be indemnified up to NOK 20,000
 - expenses for reconstruction of professional manuscripts, professional drawings, data storage etc. will be indemnified up to NOK 100,000
- Damage to motor vehicles and motor vehicle trailers, aircraft, sailboats and motorboats and equipment for extracting oil, gas or other natural deposits on the seabed are covered only where such objects are stock in trade and present ashore in Norway
- The following are not covered:
 - goods in transit, motor vehicles and motor vehicle trailers, aircraft, ships, small boats and their contents, fishing gear on vessels or in the sea, equipment in the sea for the production of fish, fish in cage, net or dam, equipment for extracting oil, gas or other natural deposits on the seabed

3.3 Where there is an indemnifiable loss, the following is covered in addition to the sum insured, in accordance with the company's own terms but with the following restrictions:

- expenses for demolition, clearing and waste management following damage to insured objects. Claims are limited to the higher of NOK 1,000,000 and the first-loss sum insured.
- loss of rental income and loss of use of the insured's own dwelling or other building as a result of damage, up to a maximum of NOK 500,000
- additional expenses due to price rises
- expenses for home relocation and temporary storage of insured objects up to a total of NOK 200,000



3.4 The following are not covered, even if insurance is in place:

- objects that it is not natural to insure against fire
- sea cables and power lines across fjords and water, including attachment points onshore
- floating wharves and other floating structures, gangways/walkways, stone and concrete wharves
- breakwaters, bridges, footbridges, dams, underground tunnels, etc.
- rolling stock such as trains, trams etc.
- damage solely affecting aerials, signs, awnings etc.
- damage to buildings or their contents where the building was erected after an order banning building and division of property had been issued for the area in question under section 22 of the Natural Damage Act, and the damage is of the nature referred to in the decision
- expenses for prevention, securing, moving and other measures not directly related to damage to the insured building or effects

4. INDEMNIFIABLE DAMAGE AND RESTRICTIONS

- 4.1 The insurance covers damage that is a direct result of a natural disaster such as a landslide, avalanche, storm, flood, storm surge, earthquake or volcanic eruption, cf. the Natural Perils Insurance Act (Act No. 70 of 16 June 1989).
- 4.2 The following damage will not be indemnified:
- damage where the immediate cause is lightning, ground frost, deep frost, drought, precipitation, weight of snow or ice drift
 - damage caused by animals, insects, bacteria, fungi, rot etc.

5. CLAIMS SETTLEMENT

Section 6-1 of the Insurance Contracts Act does not apply. The following rules apply in its place:

- 5.1 Any claim must be reported to the company without undue delay.
- 5.2 Alternative methods of settlement
- The company may decide whether the claim is to be settled by cash payment, repair, restoration/replacement, or by the company procuring equivalent – or essentially equivalent – objects
 - In the case of cash settlement, the indemnity may not exceed what the company would have had to pay for repair or restoration/replacement
 - In the case of repair or restoration/replacement, the company has the right to select the repairers or suppliers to be used
- 5.3 Forms of insurance, sums insured and underinsurance
- For buildings, effects, furnishings, machinery, equipment and goods, the individual company's own terms for fire insurance for the damaged object apply

5.4 Calculation of indemnity

- When calculating indemnity for buildings, effects, furnishings, machinery, equipment and goods, the company's own fire insurance terms apply
- Adjustments may be made where provided for in the terms of insurance or by law before applying the deductible



5.5 Indemnity for gardens

- The indemnity for gardens, yard and access road, including any filling in after an earth slide, is based on the cost of repair/replacement to the same, or essentially the same, condition as before the damage, calculated using the prices on the date of the damage
- The indemnity is set at the lower of the restoration cost and the reduction in the plot's market value as a result of the damage to the garden. The indemnity will not be less than the restoration cost for the garden's top layer
- For garden planting, the indemnity is calculated as equal to the cost of obtaining essentially equivalent plants as ordinary commercial products (young plants) from nurseries etc.
- Expenses for securing/prevention are not covered, even if this is a requirement for repairing the damage to the gardens/plot

5.6 Other special provisions on natural damage

- Where a declaration has been officially registered under section 22 of the Natural Damage Act to the effect that the property is particularly exposed to natural damage, and the repair cost for the building amounts to 60% or more of the rebuilding cost, the insurance covers the increased loss due to the declaration.
- Natural damage indemnity may be reduced or voided where the occurrence or extent of the damage is due wholly or in part to poor construction in relation to the stress to which the object can be expected to be exposed, or to a lack of maintenance or attention, or where the claimant can be blamed for failing to prevent the damage or limit its extent. The decision is to attach importance to the claimant's capacity to realise what was required, his opportunity to remedy the defect and the circumstances in general. Indemnity will not be reduced if the claimant is only slightly to blame
- The insurance companies' aggregate liability for a single natural disaster is limited to the amount set by the King, cf. section 3 of the Natural Perils Insurance Act. If the loss exceeds this limit, the insured must bear a proportionate share of the loss

If there is any doubt as to

- the presence of natural damage
- whether one or more than one natural disaster has occurred
- whether the criteria for reduction or refusal of indemnity under section 1 third paragraph of the Natural Perils Insurance Act are present the insured or the company may submit the question to the appeals board of the National Fund for Natural Damage Assistance. The decision of the appeals board is final.

6. DEDUCTIBLE

The deductible is the amount determined by the Ministry of Justice from time to time under the Natural Perils Insurance Act.