Norsk Naturskadepool
Norwegian Natural Perils Pool

Underwriting Guidelines for Natural Perils Insurance

What natural perils insurance covers

and how the premium is to be calculated

To apply from 1 January 2019
Replacing the rules of 1 January 2016

Contents

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Section 1 What is the Norwegian Natural Perils Pool

1.1 Background

After amendments of The Act on Natural Damage and the Act relating to Insurance Contracts it was decided in 1979 to introduce General Insurance against Natural Perils in Norway with effect from January 1, 1980. From July 1, 1990, The Act on Natural Damage Insurance of June 16, 1989 No 70 became effective. The Act has later on been adjusted, last by January 1, 2018.

The Natural Perils Insurances are managed by Norwegian Natural Perils Pool (NNPP). A separate set of Rules for the Norwegian Natural Perils Pool have been issued by Royal Decree dated December 21, 1979 and later on amended by The Ministry of Justice.

All non-life Insurance Companies covering damage caused by Natural Perils in Norway according to Section 1, cf Section 4 of Act relating to Insurance of damage caused by Natural Perils, must be a member of NNPP. Natural Perils Insurance is compulsory in the sense that it is automatically linked to fire insurance of physical objects.

NNPP's function is to be the link between the Member Companies and the The Norwegian National Fund for Natural Damage Assistance. Furthermore, NNPP will every quarter be balancing the compensations paid for claims caused by Natural Perils between the Member Companies and also arrange for reinsurance for Norwegian Natural Perils Insurance.

The Underwriting Guidelines have been issued by NNPP's Premium Committee in order to get uniform handling of Natural Perils Risks in the various Member Companies. The NNPP's Claims Committee has issued a handbook in Insurance against Natural Perils containing detailed rules what the Insurance against Natural Perils is covering. In particular there is a reference to the Common Terms and Conditions about what can be balanced in the NNPP. The Insurance Companies may have wider covers than those having been stated in the Common Terms and Conditions, but compensation according to any such extension must be paid by the Companies themselves.

Please see:

- Underwriting Guidelines
- Handbook
- Common Terms and Conditions

1.2 Settlement and reporting

Hvert selskap gjør opp og utbetaler naturskadeerstatning til sine egne kunder.

Gjennom NP fordeles årets naturskader mellom medlemsselskapene i samme forhold som forholdet mellom selskapenes andel av den totale forsikringssum for brannforsikrede ting.

Utlikningsgrunnlaget beregnes hvert år ved at medlemsselskapene rapporterer den totale forsikringssum for brannforsikrede ting pr. 1. juli.

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Section 2 What natural perils insurance cover

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.

- 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. **See also Section 4.8.**

- Insurance products with Loss limit must natural perils premium not be calculated of Loss Limit-sum, but of the total insurance sum of the risk. **See also Section 4.9.**

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

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.

When the real value of the building does not match with the premium basis which appears on the basis of guidelines from the Rates & Indices Steering Group at Finance Norway, then the premium basis to NNPP can be based on first risk/agreed amount.

Examples of this are:

- Buildings that are not used to its original purpose, such as operating buildings on abandoned farmland.

4.2 Collective home insurance, group insurance and no-agreed-value covers

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 Products referred to as « home products with unlimited insurance value»

Individual insurance values for home products on each individual policy must be calculated- same way as ordinary home products. It is not known to use a single insurance sum for such as home products. This sum should be reported to NNPP as part of the fire insurance basis.

4.4 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.

4.5 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.

4.5.1 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

4.5.2 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.

4.6 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.

4.7 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.

4.8 Co-insurance

Rules for co-insurance are made to section 5 of the of the regulation on Instructions for the Norwegian Natural Perils Pool. In addition, the Norwegian Natural Perils Pool has decided the following rules:

1. The lead insurer collects the whole of the natural perils premium for the co-insured risk.
2. The lead insurer reports the entire sum insured in its equalisation basis for the Pool.
3. The lead insurer reports and settles claims on behalf of the other co-insurers.

The companies' individual shares in the co-insurance arrangement must not be reported separately.

4.9 Loss limit

Loss limit coverage means that the compensation is limited up to a specified amount. The limited amount will possibly be lower than the insurance sum.

A natural perils premium is to be calculated from the total sum insured. The insurance sum must reflect the actual total risk.

Companies can settle up to the Loss limit amount.

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.