



Norwegian Natural Perils Pool - Information on Reinsurance

Introduction

Norway, along with several countries in Europe, has an established Natural Perils Pool which is governed by the Natural Perils Insurance Act and the Rules of the Norwegian Natural Perils Pool.

The Norwegian Natural Perils Pool (NNPP), as it is today, has been in effect since 1980. It is an efficient claims equalisation pool with obligatory membership for all insurance companies selling or distributing fire insurance in Norway. Natural perils coverage under the NNPP applies to both private and commercial risks insured against fire and as such there is no anti selection.

The Board of the NNPP supervises the activities of the Pool and consists of 8 members with personal deputies.

In addition to the Pool Board and Administration there are several committees organised under the umbrella of the NNPP. The committees are specialist committees advising the Administration and Pool Board and are comprised of specialists from the various insurance companies. The NNPP operates the following committees:

- The Claims Committee
- The Reinsurance Committee
- Terms (insurance terms) Committee
- Liaison Committee

Today the NNPP covers Natural Perils losses caused by landslide, storm, flood (fluvial), storm flood, earthquake and volcanic eruption. Coverage under the Pool scheme does not include cover for contingent losses such as Business Interruption or Motor Hull. Coverage also excludes claims resulting from lightning, freeze, drought, rain (pluvial) or snow pressure under the NNPP scheme. These perils and contingent claims are covered directly by the individual insurance companies.

The loss limit and therefore maximum indemnification for any one natural perils event under the NNPP scheme is 16.0 Bn NOK.

Reinsurance

The Board of the NNPP, according to §12 in 'Forskrift om instruks, Norsk Naturskadepool', is responsible for the reinsurance of the NNPP, in accordance with principles approved in their annual meeting.

The reinsurance of the NNPP is intended to transfer parts of the risk obtained by the NNPP members into the global reinsurance market. The purpose of transferring risk is to reduce volatility and economic impact from larger events, thereby protecting the NNPP and its members.

The reinsurance program is bought on an annual basis, renewing on the 1st of January. The reinsurance is placed through the reinsurance brokers Aon and Guy Carpenter, with Aon being the lead broker.



The annual reinsurance process starts in Q2 when data is provided to the brokers for analysis, including windstorm modelling. Early autumn, the Reinsurance Committee have a meeting with the brokers before recommendations for the upcoming renewal are put forward to the Reinsurance Committee. The reinsurance is finalised in December after sign-off on proposed reinsurance placement by the Reinsurance Committee. The post renewal process focusses on finalising documentation including preparing Evidence of Cover.

Reinsurance Program Structure and Coverage

In cooperation with the brokers, the NNPP reinsurance structure is constantly being reviewed to ensure reinsurance cover that best protects the NNPP's members. The NNPP's reinsurance programme is approved by the Board every autumn, on recommendation from the Reinsurance Committee.

The reinsurance program for 2020 is structured so that the reinsurance market will cover losses from any one event in excess of 1.5 Bn NOK, up to a maximum recovery 14.5 Bn NOK. A loss of 16.0 Bn NOK will result in 1.5 Bn NOK retention to the NNPP, with the remainder covered by the reinsurance.

The limit of liability on the reinsurance program shall correspond to the total limitation of liability of the member companies in the event of a single natural disaster. The liability of the member companies is determined by the King, delegated to the Ministry of Justice. The structure has changed over the years and the current limit of 16.0 Bn NOK was introduced with effect from 1st January 2018.

The NNPP's retention is determined by the Board of the NNPP and should reflect the balance between risk tolerance per event and reinsurance cost for the member companies as a whole. The current retention of 1.5 Bn NOK was introduced on 1st January 2016.

The reinsurance is structured to cover the member companies for losses covered through the Pool and which they are thereby exposed to. The reinsurance coverage is however limited by the inclusion of Definition of Loss Occurrence ("hours clauses") for the different perils covered, and defines the maximum period that may be included in any one event:

- a. 96 consecutive hours as regards hurricane, typhoon, windstorm, cyclone and/or tornado
- b. 168 consecutive hours as regards landslide, avalanche and earthquake
- c. 504 consecutive hours as regards flood, storm flood or flood in combination with any of the perils referred to in (a) or (b) above
- d. 168 consecutive hours as regards all other perils covered by the NNPP



Reinsurers

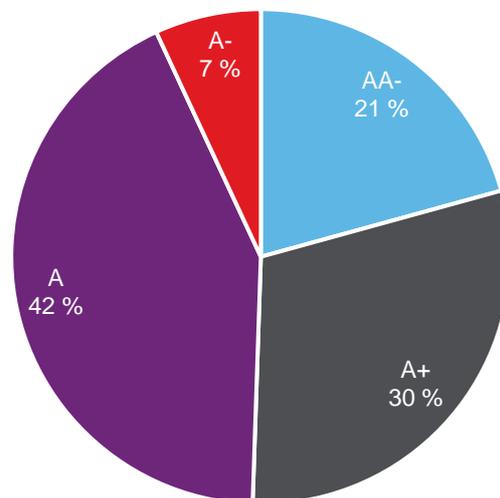
The NNPP reinsurance is placed with a large number of international reinsurance companies in order to secure claims payment and reduce the impact of insolvency from any individual reinsurance company. In addition to the risk being placed in the open reinsurance market, each member of the NNPP has the possibility to reinsure their market share in the NNPP. All reinsurers, members or open market, are subjected to the same rating requirements.

To achieve the highest security and certainty that losses will be paid by the reinsurers, the reinsurance panel consists of a wide selection of financially strong reinsurers with a diversified geographical spread. By transferring risk to financially strong reinsurers, the risk reduction achieved through reinsurance is not offset by a significant increase in counterparty risk.

Over 90% of the placement is with reinsurers with an S&P / AM Best financial rating of “A” or better, and over 20% is placed with “AA-“rated companies, which brings a high level of financial security on the ceded risk (please see graph 1 below). All reinsurers have a minimum S&P rating of “A-“ Excellent (or the equivalent AM Best rating).

The NNPP reinsurance placement also have a diversified geographical spread (please see graph 2 below). Over 60% of the capacity have a Nordic domicile, this including members reinsuring their market share. Remaining capacity is spread across Europe (ca 30%) and the rest of the world (ca 10%).

Graph 1: Reinsurers liability for 2020 split by S&P financial rating. Where S&P rating not available, the equivalent AM Best rating is used.



Graph 2: Reinsurers liability for 2020 split by geography, with members reinsuring their market share included in Nordic

