GFIA
GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

To: Mr. Leigh Wolfrom

OECD Secretariat
2, rue André Pascal
75016 Paris

Date: 19 May 2023

Subject: GFIA OECD Nat Cat Recommendations DRAFT 05052023

Dear Mr Wolfrom,

The Global Federation of Insurance Associations (GFIA) thanks you for the opportunity to comment on the draft OECD Recommendation on Building Financial Resilience to Disaster Risks. GFIA finds the Recommendation to be well conceived and supports it. GFIA has certain specific comments and clarification suggestions which are set out below.

GFIA is generally in agreement with the proactive risk management and financially sound Recommendation. The Recommendation aligns well with and supplements the suggestions in the March 2023 GFIA report entitled "Global protection gaps and recommendations for bridging them". The scope of the GFIA report was not focused on risk management recommendations for national and local governments, accordingly GFIA welcomes the focus of the OECD Recommendation on these important issues.

While the GFIA report covers natural catastrophes and other protection gaps, its natural catastrophe recommendations generally address:

- the continuing need to educate the public on risk and the benefits of insurance;
- new distribution methods for the delivery of insurance products, particularly in developing regions;
- the need for government and individual actions to increase physical structural resiliency and to adapt to existing and anticipated natural catastrophe risks;
- risk transfer into the global insurance and reinsurance markets to reduce catastrophic risk concentration, increase diversification and increase the financial resiliency of the insurance risk market; and,
- the need to promote cooperation between the public and private sectors to close protections gaps, including — where deemed appropriate by a given jurisdiction — private insurance and reinsurance market involvement supplemented with government-backed, public-private partnerships or similar funds.

The report also emphasises the continuing need for risk adequacy in the rates charged for the risk ultimately transferred to insurers.

The OECD Recommendation is highly consistent with the GFIA report, with a broader focus on societal financial resiliency to natural disasters, including by ensuring that there are appropriate catastrophe risk insurance programmes in place. Risk transfer to increase the financial resiliency of society and insurers is needed and the use of the global market enhances that resiliency. The OECD should be congratulated for developing a Recommendation that embodies a prudent, risk-management approach to risk identification and awareness and for its focus on appropriate financial resiliency for recovery.

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Specific comments on the Recommendation

- The definition of "uninsurable losses" is based on a finding that either the "damages and losses cannot be covered through insurance" or "no affordable insurance coverage is available".
  For a variety of reasons, insurance coverage has historically not been provided for all possible losses. GFIA suggests the definition of "uninsurable losses" be amended to refer to "damages or losses that cannot be <u>or traditionally have not been</u> covered through insurance" to reflect the traditional lack of coverage for these economic elements.
  Such edits will alert policymakers considering the necessary and appropriate support provided through public compensation and financial assistance arrangements (Section III, iv) of the need to coordinate with the insurance community to familiarise themselves with risks traditionally covered by insurance and those that have not been covered. An understanding of the categories of traditionally uninsured losses can help policymakers determine how and where limited governmental resources should be allocated after a disaster.
  Generally, the probability of losses is the primary driver for insurance premiums. While it is true that some specific risks and the appropriate risk-adequate premium to transfer that risk to insurers may exceed the ability of consumers to pay, the availability of insurance and risk transfer options can be — and in some instances are — impacted by regulatory actions. While subjective decisions in matters of rate cannot be resolved in a definition, GFIA suggest that the definition refer to a finding that "risk-adequate insurance coverage is objectively unaffordable or unavailable".

- **Data collection.** Section II, iii) discusses the data necessary for risk quantification as part of pre-disaster risk evaluation and after significant events. GFIA would urge that the Recommendation highlight that both pre-disaster risk evaluation and post-disaster data requests are developed after appropriate pre-disaster consultation with insurers. Requests for data should not be excessive and should not exceed data that is reasonably needed and available from insurers. The content of post-disaster data requests should be pre-negotiated and consistently applied, enabling insurers to provide relevant data without creating unnecessary demands on insurers who have committed to and will be working to fulfill their claims promises to their policyholders. As noted in the comments regarding "uninsurable losses" above, communication with insurers will help policymakers understand that there are elements of disaster losses that will not be covered and reported by insurers. Governments need to use other resources or institutions to develop loss estimates for their pre- and post-disaster needs.

- **Risk reduction and premium adequacy.** Section III, v) discusses risk reduction being recognised by "catastrophic risk insurance programmes". As that term includes private risk transfer assumed by insurance entities, it should be acknowledged that, while adaptation and risk reduction can increase structural resilience and reduce future losses, the premiums for risks transferred after beneficial risk-reduction steps are taken must remain appropriate for the actual risk transferred to insurers. GFIA encourages communication and cooperation between all parties to ensure a common understanding of how various methods of risk reduction may benefit consumers and whether there will be a material change in risk-transfer premiums that is relevant to the consumer.

Attached in appendix are actions taken in the Netherlands that are consistent with the intent of your Recommendation.

Conclusion

GFIA and its members seek to help society and individuals to prepare for the risks to which they are exposed. The OECD Recommendation furthers that goal. Accordingly, GFIA applauds the thought, consideration and effort that led to the development of your Recommendation. The recommendation to: (a) proactively and continually assess and identify the risks facing countries, communities and individuals; (b) educate residents of such risks and urge action to protect themselves and their property; (c) prepare by ensuring the availability of adequate, functioning financial resources, including insurance and reinsurance, to address post-disaster financial resiliency and recovery, is exactly the advice that is needed. GFIA appreciates the OECD proactive efforts to improve physical and financial resilience and hopes you accept these comments to improve your already worthy Recommendation. GFIA looks forward to working with you to achieve your objectives.

Sincerely,

GFIA

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APPENDIX - Examples of actions consistent with the OECD Recommendation

Section III, ii) — The De Nederlandsche Bank (Dutch supervisor) has established a financial sector working group focused on the adaptation to climate change and the financial risks that banks, insurers and investors face. The goal is to strengthen the resilience of the financial sector's lending, and investments to a changing climate. In this way, the financial sector will be positioned to assist the Dutch economy in coping with the changing climate. The working group on climate adaptation carries out research and develops ideas.

Section IV — Preventive action taken to reduce future costs and repeat damage from disasters. Dutch insurers are also promoting climate adaption during the post-disaster recovery process. In collaboration with the Vrije Universiteit Amsterdam's Institute for Environmental Studies, they recently evaluated a flood in the province of Limburg and found that flood damage reduction measures could have prevented 20% to 50% of the damage, thus providing evidence that adjusting to the climate and taking preventative action are worthwhile.

Sections III and IV — Due to differing political and economic systems internationally, different nation states have approached the role of government in natural disaster risk recovery differently. Two examples are provided below.

In the United States, the government requires insurance covering many common hazards, with the exception of earthquake, for private homes supported by government-backed mortgages. The private insurance market provides homeowners insurance coverage for most catastrophic risk. The common coverages do not include flood or earthquake risks. Earthquake risks can be added as a supplemental cover.

Flood insurance is also required for homes deemed likely to flood (residing in a "special flood hazard area", generally intended to approximate a 1% flood risk.) That coverage is offered separately through the government "National Flood Insurance Program (NFIP)". Due to significant losses in the NFIP, consumer premiums are increasing and, since 2017, the NFIP has purchased private reinsurance to assist with the government program's financial risk. The NFIP collected the full covered limits after Hurricane Harvey in the first year of the reinsurance program.

In addition to the federal program, US states with significant catastrophic risk have created different responses to address perceived insurance issues. California has an Earthquake Authority (CEA) and a number of southeastern US states have private insurance industry backed "residual market" pools to help provide coverage to homes most at risk to hurricanes. Florida has also created a state reinsurance program to cover a portion of likely residential hurricane losses (the Florida Hurricane Catastrophe Fund, FHCF.) The CEA and state residual markets are authorised to and typically support their financial positions with private reinsurance. The FHCF has purchased reinsurance infrequently, typically only when its financial position is weak.

In France, a disaster compensation scheme (Régime Cat Nat) was set up in 1982 that combines elements of a government-backed pooling solution (including quasi-mandatory natcat insurance) with elements of a public-private partnership. The legislation set an additional fee of 12% as a natcat premium on top of the premium for all P&C home insurance contracts, which is collected by private insurers. The additional premium can thus be considered as similar to a tax that all policyholders are required to pay, which led to natcat insurance penetration of approximately 98% for homeowners and businesses. Since its implementation 40 years ago, this system has been perceived as fair, as risks for all hazards are pooled, with every policyholder paying the same 12% premium charge, and, in the event of a disaster, the principle of solidarity applies. As an increase in extreme weather events is predicted, reflections are ongoing on the adaptation of the scheme.