

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**Comparative examples of existing catastrophe  
insurance schemes**

Background document by the UNCTAD secretariat

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PROFILE OF EXISTING CATASTROPHE INSURANCE SCHEMES

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INTRODUCTION AND BACKGROUND

1. In the work programme, established at its first session on insurance, held from 1 to 5 February 1993, the Standing Committee decided "to examine alternative mechanisms to meet the insurance and reinsurance needs in respect of:

- Catastrophes;
- Environmental impairments;
- Large risks;

particularly in times of reduced reinsurance capacity".

2. At its second session, from 4 to 8 July 1994, the Standing Committee affirmed that the study of catastrophes, environmental impairment and large risks should be continued. The Standing Committee agreed with the views expressed in the UNCTAD secretariat's study that a significant contributing factor to the less than adequate levels of catastrophe insurance cover available in many developing countries may be the absence of adequate information on aggregate exposures both in respect of assets at risk and perils capable of causing catastrophes.

3. The Standing Committee recommended that the secretariat prepare a compilation and analysis of existing catastrophe insurance schemes.

4. To determine whether there are any existing working catastrophe insurance schemes in the developing countries, a survey was conducted of 131 countries. From all of the replies, it was disclosed that up to the present there are no working schemes in the developing countries, but, in some countries, particularly in the Caribbean, additional catastrophe reserves are allowed to be held by conventional insurers. In other countries detailed studies of catastrophe exposure have been made.

Insurance against catastrophe perils is often provided by extension of the cover under conventional fire insurance policies to the extent that the market and international reinsurers are prepared to provide capacity.

5. Examples of catastrophe insurance schemes summarised in this document come from the developed countries where there are still relatively few dedicated catastrophic insurance providers.

The information provided on existing insurance schemes is in addition to the 131 country survey and was obtained through interviews and the kind assistance of many insurers, brokers, regulators and insurance associations. Thanks go in particular to: Insurance Department, Ministry of the Economy, Finance and Privatisation, France; Insurance Division, Department of Trade and Industry, United Kingdom; Ministry of Finance through the medium of the Public Trustee Office, New Zealand; Ministry of Social Affairs, Kredittilsynet (Banking, Insurance and Securities Commission), Norway; Director General of Insurance, Ministry of Economy, Finance and Trade, Spain; Financial Institutions Office, Ministry of Finance, South Africa; Federal Office of Private Insurance, Switzerland; Alexander and Alexander Inc.; British Insurance Association; European Insurance Committee; Consorcio de Compensacion de Seguros (Insurance Compensation Fund); Lloyd's of London Underwriters; Minet Holdings PLC; Mutual and Federal Insurance Company Limited; New Zealand Earthquake Commission; Sedgwick Group PLC; Willis Coroon Group PLC; Pool Reinsurance; South African Special Risks Insurance Association.

6. In some countries the State is totally involved in the provision and administration of the catastrophe insurance scheme. In others the State adopts an arms-length approach, enacting legislation to ensure provision of catastrophe cover by private insurers or providing a State guarantee to an otherwise private insurance scheme.

<b>PROFILE OF EXISTING CATASTROPHE INSURANCE SCHEME</b>	
<b>COUNTRY</b>	<b>FRANCE</b>
<b>PERILS INSURED</b>	Storms, hurricanes, cyclones, flooding, soil movements and other natural events considered to be uninsurable according to conventional insurance techniques.
<b>STATE INVOLVEMENT</b>	<p>Two French statutes require insurers to include cover against specific catastrophe perils in all specified types of insurance contract.</p> <p>The law of 26 June 1990 requires that cover for storms, hurricanes and cyclones be automatically available for all fire insurance policies covering property located in France.</p> <p>The law of 13 July 1982 requires that cover for other natural events of a catastrophic nature, considered as uninsurable according to conventional insurance techniques, be automatically available for all property damage insurance policies, including motor policies and loss-of-profits policies. In this second case there must be an inter-ministerial decree to declare a particular event to be a "natural catastrophe".</p> <p>The law of 13 July 1982 also required the preparation of Risk Exposure Plans which define those areas where, from 1982 onwards, new buildings will be prohibited, or where new buildings will only be allowed subject to specific conditions.</p>
<b>EVENTS THAT TRIGGER THE OPERATION OF THE SCHEME</b>	<p>All storms, hurricanes and cyclones.</p> <p>For other natural events of a catastrophic nature, an inter-ministerial decree must declare the event to be a "natural catastrophe".</p>
<b>LOWER AND UPPER LIMITS OF INDEMNITY</b>	<p>An excess (or deductible) of FF 1,500 is applied for household risks, while business risks have a deductible of FF 4,500 and, for loss-of-profits insurance, three working days or 10 % of the damage, whichever is the greater amount.</p> <p>There is no upper limit to the cover, other than the sums insured under the fire or property insurance policy for which the scheme provides extension of cover to insure catastrophe perils</p> <p>Insurance companies obtain reinsurance from the Central Reinsurance Fund (<u>Caisse centrale de réassurance</u>) which offers unlimited State-guaranteed cover.</p>

COUNTRY	FRANCE
<p><b>CONDITIONAL REQUIREMENTS GOVERNING AVAILABILITY OF COVER</b></p>	<p>For cover against storms, hurricanes and cyclones the scheme provides cover only to those holders of a fire insurance policy on property located in France.</p> <p>For cover against other natural events of a catastrophic nature, the scheme provides cover to holders of property damage insurance policies, which include fire policies, motor vehicle policies and loss-of-profits policies. Cover is only available after an inter-ministerial decree has been issued declaring the event to be a "natural disaster".</p> <p>Excluded from such cover are aircraft, ships, goods in transit, agricultural land and livestock outside farm buildings, unharvested crops and other crops. Also excluded is any building erected since 1982 contrary to the regulations, as laid out in the Risk Exposure Plans.</p>
<p><b>SOURCES OF PREMIUM</b></p>	<p>A surcharge is levied by insurers at a rate of 9 % on the basic premium for property damage contracts.</p>
<p><b>METHODS OF FUNDING AND FINANCING</b></p>	<p>The Central Reinsurance Fund receives the catastrophe surcharge from insurers. Income and expenditure is accounted for, but no separate catastrophe fund is maintained. Excess income of the Central Fund becomes part of government funds. Claims in excess of the annual income are paid from government sources.</p>
<p><b>LEGISLATION AFFECTING THE CATASTROPHE INSURANCE SCHEME</b></p>	<p>The law of 26 June 1990 makes it obligatory for insurers to include cover for storms, hurricanes and cyclones under all fire insurance policies covering property located in France.</p> <p>The law of 13 July 1982 makes it obligatory for insurers to include cover against other natural events of a catastrophic nature under all property damage insurance contracts.</p> <p>The insurers are obliged under these laws to assume the role of agents of the State for implementing and administering the scheme.</p> <p>Unlimited state guaranteed reinsurance cover is then provided to the insurers from the Central Reinsurance Fund.</p>

<b>PROFILE OF EXISTING CATASTROPHE INSURANCE SCHEME</b>	
<b>COUNTRY</b>	<b>SPAIN</b>
<b>PERILS INSURED</b>	<p><u>Natural phenomena</u> Earthquakes and seaquakes, floods, volcanic eruptions, uncharacteristic cyclones, and meteorites.</p> <p><u>Occurrences of a political or social nature</u> Terrorism, rebellion, insurrection, riots and civil disturbances, acts or actions of the armed forces in time of peace.</p>
<b>STATE INVOLVEMENT</b>	<p>The Spanish catastrophe insurance scheme is conducted by the <u>Consortio de Compensación de Seguros</u> (Insurance Compensation Fund). This is a State organisation which has its own legal status and full capacity to operate, and its capital is independent of the State.</p> <p>The current law under which the Consorcio operates is law 21/1990, of 19 December. Among other things, the Consorcio is empowered to decide its own rates, which must then be incorporated into the premium charged for every insurance policy of unspecified classes by every insurer operating in Spain. Each insurer then has to pay over the obligatory surcharge that it collects as part of its premiums to the Consorcio on a monthly basis. Insurers are paid a collection commission of 5 % of the surcharge.</p>

COUNTRY	SPAIN
<p><b>EVENTS THAT TRIGGER THE OPERATION OF THE SCHEME</b></p>	<p>The objective of the Consorcio, according to its statutes, is to indemnify by way of compensation those losses caused by extraordinary events, whenever any of the following situations arise:</p> <ul style="list-style-type: none"> <li>(a) when the extraordinary risk is not specifically covered under any other insurance policy;</li> <li>(b) when, though covered under an insurance policy, the obligations of the insurance company cannot be performed on account of it having been declared bankrupt, or in suspension of payments, or if insolvent, has been put into forced liquidation by the receiver.</li> </ul> <p>The terms under which coverage is currently effected by the Consorcio are set out in the decree of 29 August 1986 wherein each of the risks covered, the payable losses and the scope of the coverage are defined.</p> <p>The perils insured, already listed in the first section, are chosen on the basis of their enormous loss potential, but the protection is not conditional upon events occurring which affect either a very high number of insureds or a very wide territorial area. A large amount of damage does not have to have occurred for the scheme to make a payment, nor does the government, or any other body, have to have declared the event a "catastrophe". The indemnity covers solely material losses; loss of profits and other indirect losses are deemed to be a matter for voluntary coverage, which should always be extended by the free market.</p>

COUNTRY	SPAIN
<p><b>LOWER AND UPPER LIMITS OF INDEMNITY</b></p>	<p>Although protection against extraordinary risks is completely independent of that provided against other risks, irrespective of the class of the original policy the extraordinary cover is always identical and is on the same terms and conditions.</p> <p>The maximum sum insured is the same as for the other risks covered under the insurance policy.</p> <p>The lower limit below which no payment will be made is independent of that which is applicable to other risks.</p> <p>This deductible, which is solely in respect of property damage, is in general 10% of the amount of the loss, although for very large sums insured it may be as high as 15%, but in all cases the deductible will be not more than 1% of the sum insured or 25,000 pesetas, whichever is the greatest. There is also a waiting period of three days after the beginning of the policy before cover can commence. This waiting period does not apply to subsequent renewals, extensions or replacements of the policy, except for any increase in the sum insured.</p>
<p><b>CONDITIONAL REQUIREMENTS GOVERNING AVAILABILITY OF COVER</b></p>	<p>Cover is available directly to all policy-holders who have purchased insurance in the prescribed classes. These policies are:</p> <p><u>With regard to insurance of property:</u></p> <ul style="list-style-type: none"> <li>- Fire and the perils of nature;</li> <li>- Motor vehicles (vehicle damage, (not third party liability);</li> <li>- Vehicles running on rails;</li> <li>- Other damage to property.</li> </ul> <p><u>With regard to insurances of the person:</u></p> <ul style="list-style-type: none"> <li>- Personal accident insurance (although this may be complementary to life and motor vehicle insurance).</li> </ul> <p>The Consorcio does not reinsure the original insurer but indemnifies the policy-holder directly.</p>

COUNTRY	SPAIN
<b>SOURCES OF PREMIUM</b>	<p>What is unique about the tariff of the Consorcio is that it constitutes an obligatory surcharge that must be incorporated into the premium charged for every policy insurance in the classes specified, irrespective of whether the original policy provides for the risks to be covered by the original insurer or excludes these risks, leaving them to be covered by the Consorcio.</p> <p>The Consorcio sets its own rates, which are paid to it monthly by insurers.</p> <p>The general level of the tariff for an annual policy is as follows:</p> <p>(a) For the insurance of property:</p> <ul style="list-style-type: none"> <li>-Housing and offices: 0.092 per mille;</li> <li>-Businesses: 0.18 per mille;</li> <li>-Industrial risks: 0.25 per mille;</li> <li>-Motor vehicles: a fixed amount according to the type of vehicle (private cars Ptas 7.40 per vehicle);</li> <li>-Civil works: various rates according to type, ranging from 0.35 per mille for motorways up to 2.20 per mille for non-recreational harbours;</li> </ul> <p>(b) For insurances of the person (against accidents): a general rate of 0.0096 per mille, plus special cases.</p>
<b>METHODS OF FUNDING AND FINANCING</b>	<p>The capital of the "Consorcio de Compensación de Seguros" is its own and independent of the State. The sole means of financing the Consorcio is through its own premiums and, in the same way as a private sector insurer, it must maintain the appropriate technical reserves and a solvency margin.</p> <p>In addition to the usual technical provisions made by all insurance companies, the law provides for the Consorcio to constitute a Special Accumulative Technical Provision to which all surpluses from years where premiums exceed claims are transferred. This is true catastrophe reserve, allowing for the creation and accumulation of appropriately high reserves to provide for catastrophes which have return periods far in excess of one year.</p> <p>Should the Consorcio reserves prove insufficient, it is backed by a State guarantee. However, during its 50 years of existence, the financial management and reserve policy has enable all losses to be met without recourse to this State guarantee facility.</p>



COUNTRY	SPAIN
<b>LEGISLATION AFFECTING THE CATASTROPHE ASSURANCE SCHEME</b>	<p>The legal framework in Spain governing those risks known as "extraordinary risks" is determined by law 21/1990, of 19 December.</p> <p>The terms under which coverage is effected by the Consorcio are set out by the decree of 29 August 1986, wherein each of the risks covered, payable losses and the scope of the coverage are defined.</p> <p>The right of the Consorcio to receive its premium income from a surcharge on private sector insurance policies is also legislated for.</p>

<b>PROFILE OF EXISTING CATASTROPHE INSURANCE SCHEME</b>	
<b>COUNTRY</b>	<b>NEW ZEALAND</b>
<b>PERILS INSURED</b>	<p>Earthquake, volcanic eruption, hydrothermal activity, tsunami, natural landslip and fire caused by any of these perils. For residential land, the scheme also insures against storm and flood.</p>
<b>STATE INVOLVEMENT</b>	<p>The New Zealand Earthquake Commission was set up in 1945 after a moderately severe earthquake to provide earthquake cover and to take over the War Damage Fund. War damage is now no longer covered by the scheme.</p> <p>The Earthquake Commission is wholly owned by the Government of New Zealand and is controlled independently by a Board of Commissioners. The Board is subject to the statute which provides for its existence. Conduct is governed by very occasional direction on policy from the Minister, public sector finance and reporting rules, and commercial standards of efficiency.</p> <p>By law, all dwellings are automatically and compulsorily insured by the Earthquake Commission when a fire insurance policy is taken out. Insurers are required to collect the Earthquake Commission premium and to account for it to the Earthquake Commission. Insurers are required to maintain all records of property insured. The Earthquake Commission does not issue policies itself, and does not maintain a record of properties which are covered.</p>
<b>EVENTS THAT TRIGGER THE OPERATION OF THE SCHEME</b>	<p>Although wholly owned by the Government of New Zealand, the Earthquake Commission operates on the same principles as a private sector insurer providing cover against defined natural perils. It also utilizes the international reinsurance market to protect part of its exposure.</p> <p>All damage caused by earthquake, volcanic eruption, hydrothermal activity, tsunami, natural landslip, and for residential land storm and flood is covered.</p> <p>Partial cover for commercial property is still offered but is due to be phased out by the end of 1996.</p> <p>Dwellings, personal property and the land immediately around and under dwellings are covered. Some items such as motor vehicles and art are excluded.</p>

COUNTRY	NEW ZEALAND
<p><b>LOWER AND UPPER LIMITS OF INDEMNITY</b></p>	<p>Dwellings and personal effects are insured for a replacement value up to a maximum of \$NZ 100,000 for a dwelling and \$NZ 20,000 for personal property. The local indirect tax called GST is covered in addition to the maximum limits mentioned above.</p> <p>The pre-tax limits are equivalent to approximately \$US 60,000 and \$US 12,000 respectively.</p> <p>Although insurance companies collect the Earthquake Commission premium and maintain records of property insured, they are not reinsured by the Earthquake Commission which insures policy-holders directly . Claims are reported direct to the Earthquake Commission, and assessment is effected through private sector loss adjusters and engineers, with decisions being made by Earthquake Commission staff.</p>
<p><b>CONDITIONAL REQUIREMENTS GOVERNING AVAILABILITY OF COVER</b></p>	<p>Cover is available directly to all holders of a fire insurance policy for dwellings and personal property.</p> <p>Partial cover for commercial property is still offered, but is due to be completely withdrawn by the end of 1996.</p> <p>The Earthquake Commission does not reinsure the original insurer but indemnifies the policy-holder directly.</p>
<p><b>SOURCES OF PREMIUM</b></p>	<p>By New Zealand law all dwellings are automatically and compulsorily covered by the Earthquake Commission. The premium is a compulsory surcharge collected by every insurer who issues a policy including cover against fire or dwellings and personal effects.</p> <p>The annual premium rate is 0.05 % of the sum insured for cover on dwellings and personal effects, and no extra premium is charged for land under dwellings</p>

COUNTRY	NEW ZEALAND
<p><b>METHODS OF FUNDING AND FINANCING</b></p>	<p>The assets of the Earthquake Commission are maintained separately from other Government funds. The sole means of financing is from the Earthquake Commission's own premiums.</p> <p>The Earthquake Commission has assets of \$NZ 2.4 billion (approximately \$US 1.5 billion), almost all of which is invested in equal proportions in New Zealand government securities and in foreign government securities.</p> <p>The Earthquake Commission's exposure is protected by the purchase of reinsurance in the international markets from most major creditworthy reinsurers in the world. Traditionally \$NZ 1 billion (\$US 600 million) of cover was purchased, but in recent years, for commercial reasons the level of cover is no longer disclosed.</p> <p>The statute which gives the Earthquake Commission its existence provides for an unconditional and unlimited guarantee by the Government of Earthquake Commission liabilities.</p> <p>To improve the Earthquake Commission's exposure to financial risk, the New Zealand Government and the Earthquake Commission are considering investing all assets outside of New Zealand. This is because of the risk that, in the event of a major natural disaster in New Zealand, the value of the 50% of assets invested in New Zealand government securities could be very substantially adversely affected.</p>
<p><b>LEGISLATION AFFECTING THE CATASTROPHE ASSURANCE SCHEME</b></p>	<p>The Earthquake Commission was established by statute in 1945. This and subsequent statutes also govern:</p> <ul style="list-style-type: none"> <li>- The definition of the perils insured</li> <li>- against;</li> <li>- The types of property which have to be automatically and compulsorily insured;</li> <li>- The obligations of insurers to collect the Earthquake Commission's premiums and to</li> <li>- maintain records of property insured;</li> <li>- The investment of funds and reserves;</li> <li>- The unconditional and unlimited guarantee</li> <li>- by the Government of Earthquake Commission</li> <li>- liabilities;</li> <li>- The fees, taxes and dividends which the Earthquake Commission is required to pay to</li> <li>- the Government.</li> </ul>

<b>PROFILE OF EXISTING CATASTROPHE INSURANCE SCHEME</b>	
<b>COUNTRY</b>	<b>SWITZERLAND</b>
<b>PERILS INSURED</b>	Storm, hail and weight of snow on roofs, flood, landslide, falling rocks and avalanches.
<b>STATE INVOLVEMENT</b>	<p>A Swiss statute of 1992 requires that all fire insurance contracts include cover against the perils specified by the statute and listed above. The statute adopted a contractual system already in existence and made the inclusion of the perils compulsory.</p> <p>The rate is fixed by statute.</p> <p>A pool, membership of which is optional for insurers, but which may become compulsory by law, provides for insurance, and currently 85% of claims are ceded to it. Cantonal institutions are not included in this system.</p> <p>Earthquake is covered separately in Switzerland by Cantonal institutions in certain instances and by an original system in others. The cover applies solely to buildings.</p>
<b>EVENTS THAT TRIGGER THE OPERATION OF THE SCHEME</b>	<p>The Swiss scheme is in the form of legislation compelling insurers to include cover for specified perils as an extension to all fire insurance contracts on buildings and contents.</p> <p>All damage caused by storm, hail and weight of snow on roofs, flood landslide, falling rocks and avalanches is covered.</p> <p>The perils specified by the legislation are defined in each insurance policy. Settlement of claims follows the insurer's normal claims procedure.</p>
<b>LOWER AND UPPER LIMITS OF INDEMNITY</b>	<p>There is no lower limit or claims deductible. The upper limit is SwF 10 million per policy-holder and SwF 150 million per event. Each limit operates separately for buildings and contents.</p> <p>Earthquake cover by Cantonal institutions on a non-contractual basis is limited to SwF 0.5 million per policy-holder and SwF 100 million per event and is applicable solely to buildings. These limits may be extended by taking out specific contractual cover.</p>

COUNTRY	SWITZERLAND
<p><b>CONDITIONAL REQUIREMENTS GOVERNING AVAILABILITY OF COVER</b></p>	<p>Cover is compulsory and so is available to all holders of a contract for fire insurance. Mandatory cover applies only to buildings and contents but cover may be extended outside of the legal system to include loss-of-profits insurance.</p> <p>Very high risks are excluded from the system. Examples are mountain railways, temporary buildings and building sites.</p>
<p><b>SOURCES OF PREMIUM</b></p>	<p>Under Swiss law all insurers must, when insuring buildings and contents against fire, compulsorily include cover against storm, hail and weight of snow on roofs, flood, landslide, falling rocks and avalanches.</p> <p>The rate for this compulsory extension of cover is mandatory and is currently fixed at 0.45% on buildings and 0.30% on contents.</p> <p>The premium is a compulsory addition to the fire rate and is collected by every insurer who issues a fire policy covering buildings or contents. The risk and premium are retained by the insurer who may reinsure the risk. A Swiss reinsurance pool has been created by insurers to reinsure the compulsory catastrophe perils. Currently about 85% of such risks are ceded to the pool.</p>
<p><b>METHODS OF FUNDING AND FINANCING</b></p>	<p>The Swiss scheme does not set up a separate catastrophe insurance fund but obliges Swiss insurers to include cover against the specified catastrophe perils at a fixed rate. The sole means of financing is from the obligatory additional premiums.</p> <p>Should claims exceed premium payments, the difference would be payable from the insurer's capital and reserves.</p> <p>Similarly, for that part of the compulsory catastrophe cover reinsured into the pool which has been created by Swiss insurers for this purpose, the sole means of financing is from premiums transmitted to the pool. If these are insufficient to pay claims, then there would be a further cash-call on member insurers in proportion to their participation in the pool.</p>

COUNTRY	SWITZERLAND
<b>LEGISLATION AFFECTING THE CATASTROPHE ASSURANCE SCHEME</b>	The Swiss legislation of 1992 makes it compulsory for insurers in Switzerland to include cover for storms, hail and weight of snow on roofs, flooding, landslides, falling rocks and avalanches in all fire policies covering buildings and contents for property located in Switzerland.

<b>PROFILE OF EXISTING CATASTROPHE INSURANCE SCHEME</b>	
<b>COUNTRY</b>	<b>NORWAY</b>
<b>PERILS INSURED</b>	Storm, flood, soil movements, earthquake, volcanic eruptions, tidal waves, avalanches.
<b>STATE INVOLVEMENT</b>	<p>A funding system which has been in existence in Norway since 1918 was incorporated under legislation in 1980 which makes compulsory the extension of fire insurance contracts to include the perils specified in the statute and listed above.</p> <p>All insurers are obliged to be members of a pool which redistributes the cost of claims among the members in proportion to their participation and also reinsures the overall exposure with the international reinsurance market.</p> <p>The rate for the additional catastrophe perils is compulsory and is set by statute. Currently it stands at 0.17%, which is in addition to the fire rate.</p>
<b>EVENTS THAT TRIGGER THE OPERATION OF THE SCHEME</b>	<p>The Norwegian scheme relies upon legislation compelling insurers to include cover for specified perils as an extension to all fire insurance contracts.</p> <p>In addition the insurers are obliged to operate a pool to reinsure the risks of the compulsory catastrophe perils.</p> <p>The perils specified by the legislation are defined in each insurance policy. Settlement of claims follows the insurer's normal claims procedure, except for very large claims, which are handled by the pool.</p>
<b>LOWER AND UPPER LIMITS OF INDEMNITY</b>	<p>A deductible of Nkr 4000 is compulsory.</p> <p>The upper limit, which was last adjusted in January 1992, is Nkr 1 billion.</p> <p>Consequential loss or loss of profits is not catered for.</p>
<b>CONDITIONAL REQUIREMENTS GOVERNING AVAILABILITY OF COVER</b>	<p>Cover is compulsory and as such is included in all fire insurance contracts.</p> <p>Excluded from the compulsory cover are crops, goods in transit, motor vehicles, ships, aircraft, oil rigs and repeated flooding incidents.</p> <p>Consequential loss is not catered for.</p>



COUNTRY	NORWAY
<b>SOURCES OF PREMIUM</b>	<p>Under Norwegian law all insurers must include the compulsory catastrophe covers in every fire policy.</p> <p>The rate for this compulsory extension cover is mandatory and is currently fixed at 0.17%.</p> <p>The premium is collected at the same time as the fire premium and is indicated separately on each policy invoice.</p> <p>All compulsory catastrophe covers are reinsured to the pool.</p> <p>Claims are settled by the companies except where substantial damage is involved and the pool handles the settlement.</p>
<b>METHODS OF FUNDING AND FINANCING</b>	<p>The Norwegian Scheme obliges insurers to belong to a pool which redistributes claims for compulsory catastrophe cover and reinsures on a joint basis.</p> <p>The sole means of financing is from the obligatory additional premiums.</p> <p>Should claims exceed each insurer's contribution of these additional premiums to the pool, then the difference would be paid jointly from each insurer's capital and reserves in proportion to the amount of catastrophe premiums contributed to the pool.</p>
<b>LEGISLATION AFFECTING THE CATASTROPHE INSURANCE SCHEME</b>	<p>The Norwegian legislation from 1980 onwards makes it compulsory for insurers in Norway to include cover for storms, flooding, soil movements, earthquakes, volcanic eruptions, tidal waves and avalanches as an extension to all fire insurance contracts for property located in Norway.</p>

<b>PROFILE OF EXISTING CATASTROPHE INSURANCE SCHEME</b>	
<b>COUNTRY</b>	<b>SOUTH AFRICA</b>
<b>PERILS INSURED</b>	Riot, strike, politically motivated malicious damage in the Republic of South Africa and the countries of Transkei, Bophuthatswana, Venda and Ciskei.
<b>STATE INVOLVEMENT</b>	<p>The South African Special Risks Insurance Association (SASRIA) was set up by the insurers via the medium of the South African Insurers Association (SAIA) and the South African Government via the offices of the regulatory authority known as the Financial Services Board (FSB).</p> <p>Private insurers in South Africa, in common with other private sector insurers throughout the world, did not want to provide cover for politically motivated terrorism, which they equated with insurrection and other normally excluded war risks.</p> <p>However, the SAIA and the Government realised that in the interests of the economy and the population it was desirable that cover should be made available from some source.</p> <p>The Government realised that it would have to play some sort of role but wanted as little involvement as possible, and it also wanted the insurance industry to administer whatever scheme was devised.</p> <p>The result was the establishment from 1 April 1979 of a tax-exempt insurance company in the form of an incorporated association not for gain which has an agreement with the Government that the Government is the ultimate reinsurer, a role which so far the Government has not been called upon to play.</p> <p>The Board of Directors comprises six members elected by the insurance companies and two members appointed by the Government.</p>

COUNTRY	SOUTH AFRICA
<p><b>EVENTS THAT TRIGGER THE OPERATION OF THE SCHEME</b></p>	<p>Although the Government of the Republic of South Africa is represented on the board of SASRIA and has the role of insurer of last resort, SASRIA is established as a private sector insurer, being a registered insurance company in terms of the Insurance Act No. 27 of 1943 (as amended), and operates as a private sector insurer providing cover against defined political and other risks. It also utilises the international reinsurance market to protect part of its exposure.</p> <p>All damage caused by riot, strike and politically motivated malicious damage, including limited consequential loss to fixed and moveable property of private citizens, industry and commerce, is covered by the scheme.</p> <p>All events covered by SASRIA are specifically excluded from the underlying insurance policies of all insurance companies in South Africa by the standard SAIA exclusion clauses.</p>
<p><b>LOWER AND UPPER LIMITS OF INDEMNITY</b></p>	<p>Lower limits or deductibles are decided on a case-by-case basis.</p> <p>Upper limits are subject to regular review and have recently been increased from a maximum limit of R 100 million for any loss in respect of any "one insured" to R 200 million in excess of R50 million on a "per risk" basis. SASRIA may determine what constitutes a single risk.</p>

COUNTRY	SOUTH AFRICA
<b>CONDITIONAL REQUIREMENTS GOVERNING AVAILABILITY OF COVER</b>	<p>The insurance companies of South Africa act as agents of SASRIA and issue policies, collect premiums and receive claims, which they then submit to SASRIA's Office for processing. For performing the practical functions, the insurers are entitled to deduct 15% from the premium, of which they may not pay more than 5% to any agent or broker.</p> <p>SASRIA's cover, which, in terms of wording, provides insurance against the risks that were excluded from the insurance company's conventional material damage policies, is issued in the case of immovable property by means of a SASRIA coupon which is attached to the insurance companies' underlying conventional policies. This means that for immovable property, a conventional underlying policy has to be in effect before SASRIA cover can be purchased by way of the coupon.</p> <p>In respect of movable property (such as motor vehicles), SASRIA cover is obtained by means of a self-standing policy. Anyone requiring SASRIA cover approaches a conventional insurance company, via a broker if they so wish. The insurance company issues them with either a SASRIA coupon or a policy, depending upon the nature of the property to be insured, collects the premium, remits it to SASRIA after deducting their permissible administration fee, and thereafter receives, in the first instance, any claims that may arise before passing them on to SASRIA for processing.</p> <p>Although insurers act as agents in administering SASRIA's policies and up until 1991 SASRIA was managed and administered by SAIA, the insurers do not provide the cover under their own policies, nor does SASRIA act as reinsurer to the insurers.</p> <p>Until 31 December 1992, the insurers provided some of the reinsurance for SASRIA, but since this date the companies themselves no longer participate in any SASRIA insurance programme.</p>

COUNTRY	SOUTH AFRICA
<b>SOURCES OF PREMIUM</b>	<p>Under South African Law the purchase of SASRIA cover is not compulsory, and "political risks" insurance is purchased as a voluntary addition to cover provided by conventional insurers.</p> <p>Commercial considerations may dictate that the purchase of SASRIA cover is a condition of many contracts in South Africa, and SASRIA is in a monopoly position, being the only local provider of such cover.</p> <p>Premium rates are determined on a commercial basis in consultation with the insurers, the insurance brokers' associations and the Insurance Regulator's department at the Financial Services Board.</p>
<b>METHODS OF FUNDING AND FINANCING</b>	<p>SASRIA was established as an insurance company independent of the State and other insurers. The capital of SASRIA is its own, and the sole means of financing is through its own premiums. It is subject to regulation by the Financial Services Board in the same way as any private sector insurer and must maintain the appropriate Technical Reserves and Solvency Margin.</p> <p>In addition to being a registered insurance company, SASRIA is also registered as an "incorporated association not for gain" in terms of Section 21 of the Companies Act 1973, which gives the benefit of being completely tax-exempt. This status allows SASRIA to retain all profits and to receive all investment income and gains with no liability to pay any tax and so to accumulate maximum reserves as quickly as possible without the need for any special enabling legislation regarding additional special reserves, etc.</p> <p>The Government does not receive a premium in respect of its reinsurance role, as this was perceived as anomalous since, if they did receive a premium, all that could happen is they would bring their potential liability closer by the amount of the premium received.</p> <p>It is for a similar reason that SASRIA is exempt from payment of tax, since any payments of insurance premium, dividend, or tax to the Government would simply reduce SASRIA's reserves by the amount of such payments and make the need for government reinsurance payments occur that much sooner.</p>

COUNTRY	SOUTH AFRICA
<b>LEGISLATION AFFECTING THE CATASTROPHE ASSURANCE SCHEME</b>	<p>SASRIA was established in 1979 but the method of establishment devised between the SAIA and the FSB avoided the need for any new enabling legislation by using a combination of existing legislation and contractual agreements. It is a registered insurance company in terms of the Insurance Act No. 27 of 1943 (as amended). It is also registered as an "incorporated association not for gain" in terms of Section 21 of the Companies Act 1973 and as such is tax-exempt.</p> <p>It is governed and regulated by:</p> <p>A memorandum and articles of association;</p> <ul style="list-style-type: none"><li>- An agreement between the conventional insurances companies and SASRIA;</li><li>- An agreement between SASRIA and the Government of the Republic of South Africa.</li></ul>

<b>PROFILE OF EXISTING CATASTROPHE INSURANCE SCHEME</b>	
<b>COUNTRY</b>	<b>UNITED KINGDOM</b>
<b>PERILS INSURED</b>	<p>Damage and consequential loss as a result of "acts of terrorism" as defined in the Reinsurance (Acts of Terrorism) Act 1993, i.e. damage and losses caused by terrorist attacks on industrial, commercial and residential properties located within England, Wales and Scotland. This cover does not apply to property, homes and cars of private policy-holders, for whom cover is still available from conventional insurers.</p>
<b>STATE INVOLVEMENT</b>	<p>The Pool Reinsurance Company Limited (Pool Re) was established through co-operation between the British Government and the insurers who are members of the British Insurance Association (BIA) to ensure the continued availability of insurance cover for damage and loss caused by terrorist actions. Such cover had become unavailable for many risks when, from the end of 1992, the international providers of reinsurance to insurers writing property cover in Great Britain declined to renew their insurance treaties because of escalating bad claims experience.</p> <p>As a result, since December 1992 most insurers have restricted cover available to £100,000 per section of the policy, or £2-25 million in the case of blocks of flats, in order that large exposures and accumulations would not threaten their solvency where they were now forced to retain 100% of the risk for their own account.</p> <p>The Government decided to act to avoid disrupting commerce and industry by the lack of insurance for terrorism and to enable the insurance market to continue to function as normally as possible.</p> <p>The insurers were asked to organise and manage a new reinsurer to provide terrorist cover for which the Government would act as reinsurer of last resort, a role from which it would hope to withdraw as soon as commercial reinsurance again becomes available.</p> <p>Participating insurers then established a new Mutual Reinsurance Company, Pool Re. This company is incorporated under the Companies Acts and was authorised by the Department of Trade and Industry for the conduct of reinsurance business on 30 July 1993 in accordance with the Insurance Companies Act 1982.</p>

COUNTRY	UNITED KINGDOM
<p><b>STATE INVOLVEMENT (CONTINUED)</b></p>	<p>Pool Re entered into a retrocession agreement with the Secretary of State for Trade and Industry on 30 July 1993 under which the Government will pay Pool Re for claims that exceed its resources and will receive a premium in return for cover provided.</p> <p>It may be noted that Pool Re is acting as reinsurer to the insurers, while the Government's role is to provide reinsurance to a reinsurer. Insurers wishing to reinsure with Pool Re. have to apply to the managers of the company and enter into agreements which govern the relationship between the company and its members.</p> <p>Membership of Pool Re is not obligatory for insurers operating in Great Britain and insurers are free to cede terrorism insurance elsewhere if they wish. But government reinsurance is available only via Pool Re.</p>
<p><b>EVENTS THAT TRIGGER THE OPERATION OF THE SCHEME</b></p>	<p>The reinsurance facilities made available by Pool Re enable direct insurers in the United Kingdom to offer cover against terrorism without the need to restrict the sum insured for this peril. All damage and consequential loss as a result of "Acts of Terrorism" as defined in the Reinsurance (Acts of Terrorism) Act 1993 are covered by the scheme. There are arrangements to determine the validity of claims made on Pool Re arising from a suspected terrorist incident, but consideration of whether or not any incident is a terrorist action should not have any impact on the payment of claims to insureds who have bought the additional terrorism cover.</p> <p>On the other hand, where insureds have not bought additional terrorism cover, neither the Government, Pool Re, nor any body associated with either party will have any liability to provide indemnity beyond the minimum level of cover of £100,000 for each section of the policy. Once an incident is shown to have been a terrorist act, the effect is to limit the sum insured available to those insureds who have not bought additional terrorism cover.</p>



COUNTRY	UNITED KINGDOM
<p><b>LOWER AND UPPER LIMITS OF INDEMNITY</b></p>	<p>Again it should be mentioned that since Pool Re is a reinsurance scheme, any limits of indemnity are applied to the cover provided to the original insurer. The original insurer will determine the limits of cover to be offered to the policy-holder.</p> <p>Original insurers are responsible for the payment of the first £100,000 for each section of the policy. The precise definitions of the sections vary from insurer to insurer, but are typically buildings and completed structures, other property (including contents, engineering, contractors and computers), business interruption and book debts.</p> <p>The upper limit of indemnity is set by the maximum sum insured in the original insurance policy and there is no formal figure limiting this amount, although the original insurer will in any case be restricted by his own capacity limitations.</p> <p>All premiums accumulated within Pool Re (both from the current year and previous years) are available for paying claims in excess of £100,000. However, if these funds are exhausted, all participating insurers can face a call of up to 10% of the premiums they have remitted in the year in question.</p> <p>If claims go beyond that level, then they are met by any investment income which has accumulated in Pool Re, and any claims in excess of this are met by the Government as ultimate reinsurer.</p>

COUNTRY	UNITED KINGDOM
<p><b>CONDITIONAL REQUIREMENTS GOVERNING AVAILABILITY OF COVER</b></p>	<p>The cover enjoyed by insureds will continue to be regulated solely by the policies issued by their original insurers, who can choose whether to buy terrorism cover from Pool Re or from other reinsurers.</p> <p>For insurers who wish to reinsure their terrorism cover with Pool Re they must be accepted as members of Pool Re and be bound by a number of agreements which control the reinsurance business that is taken into the pool.</p> <p>There are no geographical restrictions upon the location of the head office of the applicant.</p> <p>For any claim from an original insurer against Pool Re to be admissible, it must be shown that the incident causing the loss was a terrorist act and that the original insured had bought additional terrorism cover.</p> <ul style="list-style-type: none"> <li>a) Primary policies must be insurances of non-domestic property in Great Britain and of pecuniary loss consequent to property damage in Great Britain;</li> <li>b) The primary policies must have the terrorism exclusion clause;</li> <li>c) A separate premium must have been paid to reinstate this terrorism cover;</li> <li>d) Members of Pool Re must cede all the additional terrorism premium they collect in respect of cover above their £100,000 retention to Pool Re.</li> </ul>

COUNTRY	UNITED KINGDOM
<p><b>SOURCES OF PREMIUM</b></p>	<p>In Great Britain the purchase of terrorism cover is not compulsory; however commercial considerations dictate that for many contracts, in particular those incorporating some form of external financing or leasing, the arrangement of full insurance cover on the property financed or offered as security, including insurance against terrorism, is a conditional term of a financial contract.</p> <p>Premium rates for the additional terrorism cover provided by Pool Re are set according to geographical location and other risk factors. The rates are continually under review in the light of experience and the services of independent Consulting Actuaries are utilised by Pool Re for rating purposes.</p> <p>Pool Re is the only UK provider of terrorism reinsurance, and all original insurers who are members of the pool are obliged to charge the current Pool Re rate for all extensions of terrorism cover in excess of the £100,000 sum insured and to remit such premiums to Pool Re.</p> <p>No commission is allowed to agents or brokers in respect of this additional premium for extension of terrorism cover.</p>
<p><b>METHODS OF FUNDING AND FINANCING</b></p>	<p>Pool Re was established as a Mutual Reinsurance Company independent of the State and effectively owned by the participating member insurers.</p> <p>The capital of Pool Re is its own, and the sole means of financing is its own premium income.</p> <p>Borrowings and other lines of credit may be arranged and backed by government guarantee, but ultimately these would rely upon receipt of premiums for repayment.</p> <p>Annual calls may be made on members to cover any excess of claims over accumulated premiums and such calls can be up to 10% of the member's current year premiums ceded to Pool Re.</p> <p>There is a Retrocession Agreement which is the formal contract between the Secretary of State (for Trade and Industry) and Pool Re under which the Government accepts the obligation to act as insurer of last resort. In particular the Government undertakes to fund claims which exceed the resources available in the pool.</p>

COUNTRY	UNITED KINGDOM
<p><b>METHODS OF FUNDING AND FINANCING (CONTINUED)</b></p>	<p>As a registered reinsurer, Pool Re is regulated by the Department of Trade and Industry in the same way as any private sector mutual insurance company and must maintain the appropriate technical reserves and solvency margin.</p> <p>A dividend is payable to all members of Pool Re after the close of each underwriting year in which there has been an underwriting surplus and is 10% of the underwriting surplus for the year in question. Entitlement to this dividend recognises the expenses members incur in processing premiums and claims and in meeting the 10% levy in years when claims on Pool Re exceed funds available.</p> <p>The Government is also paid a premium to cover the provision of the reinsurance facility. The total due to the Government over the lifetime of its agreement with Pool Re will be the greater of:</p> <p>(a) Ten per cent of the sum of the net premiums remitted each year, past years attracting compound interest; or (b) The sum of the governments losses which have been paid to Pool Re, past years attracting compound interest.</p> <p>The Government will not normally be entitled to require Pool Re to make premium payments unless the surplus in Pool Re exceeds £1 billion.</p>

COUNTRY	UNITED KINGDOM
<p><b>LEGISLATION AFFECTING THE CATASTROPHE ASSURANCE SCHEME</b></p>	<p>Pool Re was established in 1993 but the method of establishment did not require any new enabling legislation for the formation of the company. Legislation was, however, required to enable the Secretary of State to enter into the government reinsurance agreement with Pool Re and this is contained in the Reinsurance (Acts of Terrorism) Act 1993.</p> <p>Otherwise Pool Re is:</p> <ul style="list-style-type: none"> <li>- A company registered under the Companies Acts;</li> <li>- A mutual insurance company authorised to conduct reinsurance business in accordance with the Insurance Companies Act 1982.</li> </ul> <p>To achieve its specific aims it is regulated according to a series of agreements (or contracts):</p> <ul style="list-style-type: none"> <li>- The Retrocession Agreement, which is the formal contract under which the Government undertakes to act as insurer of last resort;</li> <li>- The agreed form of Risk Excess of Loss Reinsurance Agreement (between Pool Re and each member insurer);</li> <li>- The agreed form of Deed Supplemental to the Risk Excess of Loss Reinsurance Agreement (between Pool Re and each member providing for the payment of a 10% levy when necessary);</li> <li>- Membership Agreement (between Pool Re and its members regarding the conditions of membership of Pool Re and its members).</li> <li>- Reinsurance Underwriting Manual (containing the conditions to be applied by Pool Re in conducting business under the Retrocession Agreement);</li> <li>- The Underwriting Manual (which contains the conditions to be applied by the insurers in conducting business under a Reinsurance Agreement);</li> <li>- Memorandum and articles of association of Pool Re.</li> </ul>