insurance europe

Response to the European Commission's Public Consultation on the Fitness Check of the Water Framework Directive and the Floods Directive

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A. Extract of Questionnaire response

8. Have the Directives had unintended effects (positive or negative)? For each of the following effects, please indicate: 1) whether you consider it has happened; 2) and, if yes, whether you consider it to be a positive or negative consequence of the implementation of EU water law.

	Has happened (positive consequence)	Has happened (negative consequence)	Has not happened
Insurance premium for assets mapped as being at risk of flooding has significantly increased			**X**

9. The **Floods Directive** does not mention insurance, or more generally a risk transfer mechanism, as a means to [be] compensated for the adverse consequences from flooding. In your opinion, would improved access to such a risk transfer mechanism, as part of a broad flood risk management strategy, be a useful measure?

Yes / No / I do not know

Please elaborate on your reply (2000 characters maximum): "

Member States should encourage citizens to purchase appropriate insurance cover against floods and natural perils from an insurer in their territory. However, in line with Article 21 of Directive 2009/138/EC, Member States shall abstain from defining appropriate insurance cover.

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More generally, the insurance sector is often regarded solely as a provider of compensation for losses. This buffer function is of great importance to the economy, since it allows policyholders to plan with more certainty by covering specific risks that could otherwise threaten business continuity or personal finances.

Yet, as well as providing compensation for losses or risk transfer, insurers are an integral part of the wider risk-management cycle, from risk identification to risk transfer and recovery. However, insurance is not a substitute for adaptation measures. Nor is it an instrument for funding adaptation or mitigation measures: ie, risk transfer alone is not enough to cope with future flood risk challenges. Furthermore, a risk transferred is not a risk reduced or eliminated.

Risk transfer and risk reduction need to go hand in hand in an overall process. Therefore, the insurance sector needs strong political support and an appropriate policy framework that ensures the active involvement of public authorities and private stakeholders in a holistic approach to risk management. Fundamental to this process is the proper financing of and investment in the development of infrastructure to increase resilience to flooding.

Lastly, the EU strategy on adaptation to climate change recommends as a key action to "promote insurance…for resilient investment and business decisions". Insurance Europe believes that the strategy on floods needs to be integrated more systematically into the overall adaptation strategy. This would also help solidify the link to improving access to insurance.

Final questions

Question: If you wish to expand on any of your answers or if you wish to add comments or information on anything else relevant to the Fitness Check, please do so in the box below.

Response:

It should be emphasised that insurance companies use the conditions of insurance policies to encourage the insured to implement better protection and preventive measures. However, it is often the case that many effective preventive measures are beyond the control of (re)insurers and are rather in the hands of public authorities. The insurance sector therefore needs strong political support and an appropriate policy framework that ensures the active involvement of public authorities, such as municipalities, as well as private stakeholders.

Article 7 of the Directive 2007/60/EC ('The EU Floods Directive') already addresses the aspect of protection under flood risk management. However, according to the European Environmental Agency, in several member states more than 90% of the economic losses from climate-related extremes remain uninsured. Climate change will further increase natural catastrophes, which reinforces the necessity to close the protection gap, which currently stands at € 400 billion on an annual basis.

Member States should encourage people to purchase appropriate insurance cover against floods and natural perils from an insurer in their territory. Insurance provides policyholders who experience losses due to weather-related events with compensation. This is of particular value in light of the increasing constraints on public budgets. Having said this, in line with Article 21 of Directive 2009/138/EC Member States shall abstain from defining appropriate insurance cover.

B. Additional Comments on the EU Floods Directive

European (re)insurers believe that the Floods Directive has had an overall positive impact on increasing Europe's preparedness to increased flooding, specifically in the areas of risk awareness and risk reduction in relation to floods.

Insurers are keenly aware of how costly flooding is to Europe. The floods of 2002 presented insurers with billions of euros in damage claims and many more losses were uninsured. Insurers have been closely involved with the European Union's policy response to these floods and were encouraged that the Directive has implemented a system that is broadly equivalent to an insurer's risk management approach.

However, while the Directive has been successful in fostering a risk management approach, the insurance industry believes that there are areas for improvement. Addressing these issues is even more relevant considering that events such as the 2002 floods are likely to be more frequent in the future.

Specifically, Insurance Europe would like to draw the Commission's attention to the following aspects of that in our opinion merit further consideration.

- General comments on the role of insurance

Member States should be required to take measures to encourage the use by natural and legal persons of any appropriate insurance in order to provide effective cover of floods in particular, and natural perils in general, from an insurance provider established in their territory. However, in line with Article 21 of Directive 2009/138/EC Member States shall abstain from defining appropriate insurance cover. This would substantially contribute to the European Union's ambition to adapt to climate change under the European Commission's Action Plan "Financing Sustainable Growth".

Moreover, insurers' role can go above and beyond risk transfer. Insurers' role is not only to provide coverage (ie, traditional products & services), but we can also actively support risk awareness, understanding and reduction through our expertise. While the role insurers play in financial risk transfer is an important one, risk transfer alone is not enough to cope with future flood risk challenges. Furthermore, a risk transferred is not a risk reduced or eliminated. Risk transfer and risk reduction need to go hand in hand in an overall process. And, fundamental to this process is the proper financing of and investing in the development and resilience building.

- Specific comments on the Directive

    - Scope

Insurance Europe believes that the Directive has had a positive impact on risk awareness and risk reduction. However, the scope of the Directive is – at present – limited to fluvial flooding. Insurers support an extension of the scope to include pluvial flooding and storm surge, too. The rationale for this is that most flood losses are triggered by torrential rain.

Insurers also think that smaller rivers and creeks should be included in the scope of the Floods Directive. This could be done by introducing a threshold above which flooding needs to be modelled, for example. As many urban and built-up areas are concentrated around water, the threshold could be calibrated to the number of citizens that would be impacted from specific flooding in the vicinity of the river. Furthermore, insurers support the scope of the Directive to encompass urban flooding.

On top of this, insurers would draw specific attention to deltas: combined events of excessive river discharge and extreme sea levels by storm surges.

    - Definitions

Insurers would welcome a clarification of some of the definitions used by the Commission in Article 6. Specifically, we would support a standardisation of the terms "frequent flooding" (ie 10 years return, or 0.1, for example) and "extreme flooding" (500 years return or 0.005, for instance). This would facilitate comparisons of cross-regional data sets. It would also help to improve the accuracy of flood modelling and the comparability country-to-country.

In addition, insurers would welcome a clarification between local water defences versus primary water defences (international rivers/sea).

    - Land-use planning

For insurers, flood risk management must be a significant part of a broader adaptation strategy. And, by modernising or improving infrastructure in areas prone to flooding, public authorities help minimise the growing impact of climate change. To ensure this adaptation is handled most effectively there needs to be a coherent, clear and comprehensive set of land-use and building codes in flood prone areas. And, increased attention should be given to ensure adequate enforcement of the codes. Insurers would support a mechanism by which land-use planning and building codes are required to consider flood risks in the planning processes and all subsequent stages.

As an example, in France, planners are prevented by law from allowing development in "red zones"—designated by the flood risk maps. By having flood risk information embedded early on in the process of building/constructing, all parties involved are better prepared.

Also, the Swiss Insurance Association with the Federal Office for the Environment and the Cantonal Fire Insurance Institutions have created a freely available interactive map that highlights areas exposed to flooding with an indication of the expected runoff hazard. This map will assist all stakeholders involved in land use planning by providing real-time hazard and subsequent risk information.

- Modelling requirements & data

Insurers would welcome clarity on what should be included in modelling for flood risks. As an example, there is no clarity on whether sewerage systems should be included in any kind of modelling.

Furthermore, the insurance industry believes that the risk assessment, hazard maps and flood risk maps created by member states will have produced a substantial amount of data and would appreciate information on what the Commission intends to do with the data, in terms of output.

The insurance industry in Denmark, France and Norway, for example, has shared its local loss data with municipalities to test the effectiveness. The results of this test show that insurance loss data supports climate resilience by giving policymakers better and more efficient and accurate "tools" for public investment in preventive measures in existing infrastructure and a "tool" for better decision for land-use planning. The loss data gives both local and national governments, and researchers, a far better understanding of the effect of climate change and climate risk, and the picture of vulnerable areas (hot spots).