

MEASURES TO ADDRESS DEMAND SIDE ASPECTS OF THE NATCAT PROTECTION GAP

Feedback Statement

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1. MAIN COMMENTS RECEIVED AND HOW EIOPA ADDRESSED THEM

EIOPA would like to thank all the stakeholders who provided comments and answers to the questions in the public consultation on the Staff Paper on measures to address demand-side aspects of the NatCat protection gap.

The input received provided steer for EIOPA in revising the paper. All comments and inputs submitted were given careful consideration by EIOPA. The individual comments received and EIOPA's response to them are published as a separate document except those marked explicitly as confidential by stakeholders.

AFFORDABILITY AS A BARRIER TO THE UPTAKE OF NATCAT INSURANCE PRODUCTS

The majority of the stakeholders who provided feedback and comments to EIOPA Staff Paper agree that (the perception of) affordability is a major barrier to access to NatCat insurance and merits further research.

Some stakeholders suggested to specifically highlight issues around vulnerability, given that the more financially vulnerable consumers often live in higher NatCat risk areas, thus leading to more expensive coverage/no coverage. To this extent the Staff Paper has been slightly revised to highlight these aspects more clearly.

Stakeholders also agree that price reduction strategies create incentives, for example, in the form of subsidies, tax rebates, or reduced premiums related to risk mitigation measures.

However, stakeholders pointed out two potential negative consequences: 1) that the price of the insurance product should reflect the real costs and, 2) that price reduction strategies might encourage moral hazards amongst consumers. Taking into account diverging stakeholders' views and also the fact that the Staff Paper is meant to reflect findings from the behavioural experiment, which was carried out, EIOPA made some amendments to consider these comments but did not make significant revisions.

TRANSPARENCY, PLAIN LANGUAGE, AND CONSUMER UNDERSTANDING

The majority of stakeholders underlined the importance of clear communications and disclosures in policies. Some also referred to the use of behavioural insights as a means to improve consumer awareness and experiences. However, stakeholders' views diverged on the value of disclosures in improving consumer awareness and increasing uptake.

While the majority of the stakeholders share the view that disclosures and information given to consumers could be improved, in general views were split on whether clarity of information is a real barrier to uptake. On the one hand, some stakeholders noted that tailored, targeted communications – specifically clearer, simpler disclosures can help consumers make an informed choice. This in turn can increase trust and facilitate consumers' understanding leading to higher uptake. Other stakeholders felt, that while this remains an issue, disclosure solutions have already been tried and tested and insurers should move towards more ambitious initiatives.

Beyond point of sales disclosures, many stakeholders emphasized the importance of targeted and tailored communications – specifically the use of behavioural insights was cited as a useful tool to improve consumer experience, particularly during online NatCat purchases.

EIOPA is of the opinion that clear communication to consumers regarding the scope of the coverage as well as the level of protection offered by insurance policies is crucial, in order to avoid a mismatch between existing and potential consumers' expectations in the event of NatCats, vis-à-vis the actual coverage provided in the aftermath of a NatCat event. This is also laid out in the Supervisory Statement on exclusions in insurance products related to risks arising from systemic events¹.

However, EIOPA also shares the view presented by many stakeholders that disclosures per se will not address the risk. To strike a balance, the Staff Paper has been amended to highlight the importance of simple, clear, and comparable information as well as the importance of ensuring key messages are given at teachable moments.

¹ [Supervisory statement on exclusions in insurance products related to risks arising from systemic events - European Union \(europa.eu\)](#)

MEASURES TO INCREASE TRUST IN THE SECTOR

Some stakeholders identified measures to increase trust in the insurance sector as a way to increase uptake of NatCat coverage. These were mostly linked to improving consumers' experience in the claims handling process.

Stakeholders also underlined the importance of good consumer outcomes and ongoing duty of care. Stakeholders cited measures such as initiating early disaster and response recoveries, prompt settlement of claims in post-disaster recoveries, or payment in advance to increase consumer trust and, hence, in increasing trust in the sector. There was also a general agreement that NatCat policies should be regularly reviewed to ensure they are still fit for purpose – i.e., that they provide the right and adequate coverage in light of climate change and recent developments. To this extent the Staff Paper has been slightly nuanced to reflect these details.

MEASURES FACILITATING THE PURCHASING PROCESS AND INCREASE RISK AWARENESS

Most stakeholders emphasised the importance of increasing consumer awareness on the risks of NatCat. Some stakeholders advocated for increasing consumer education on risks. Some stakeholders pointed out that by closely studying the customer journey, purchasing NatCat products can be facilitated.

Stakeholders indicated that amongst others, a NatCat index can function as an appropriate tool, advanced, or refined through the use of consumer testing and behavioural sciences, to aid consumers' decision-making process. Particularly, the development and inclusion of NatCat indexes linked directly to properties were cited multiple times. This can also include other risk evaluation tools, linked to individual properties. While these risk evaluation tools are already explored in the Staff paper, EIOPA would also like to point out the publication of the NatCat dashboard,² which incorporates some of the elements mentioned. Ultimately, the Staff Paper sufficiently highlights the various factors which can influence the purchasing process and uptake. The measures mentioned in the consultation, included wider awareness

and information campaigns as well as financial education which can focus on the psychological and recovery aspects of NatCat event.

IMPORTANCE OF UPHOLDING PRODUCT OVERSIGHT AND GOVERNANCE (POG) REQUIREMENTS

While stakeholders did not question the importance of applying POG requirements in a consistent manner, they were divided as to whether improved POG implementation can help in closing the NatCat protection gap.

Stakeholders were divided as to whether an improved POG process can lead to a higher uptake of NatCat insurance. Some highlighted that POG can lead to products and disclosures simplification and that this should be more clearly presented in the Staff Paper, while others, contend that issues with uptake do not relate to product design.

EIOPA would like to highlight the importance of POG in terms of target market assessment, product design and product testing has been further underlined in the paper. To this extent the Staff Paper has been slightly amended to emphasize how POG is relevant and the importance of implementing POG requirements.

2. ADDITIONAL CONSIDERATIONS

There were some stakeholders that suggested exploring further mandatory coverage. In general, stakeholders' views were divergent considering mandatory coverage, with no strong preference for a particular direction. In addition, most stakeholders' comments related to the diversification and further development of supply-side aspects. While the Staff paper focuses on the demand-side aspects, EIOPA has taken note of these comments, as the two aspects, demand and supply sides of NatCat uptakes are indeed interlinked. Going forward, EIOPA will take the two perspectives conjunctly in further supervisory work.

Beyond specific comments on the issues, barriers and solutions explored in the Staff Paper, stakeholders also mentioned a number of aspects which EIOPA should consider. These include:

- ▶ **Bundling/streamlining of buying process:** a selection of stakeholders advocated for the bundling/streamlining of buying processes. Pre-arranged mechanisms can facilitate consumer experience in general – these barriers have been sufficiently addressed in the paper.
- ▶ **Previous experiences:** stakeholders also indicated that previous consumer experiences of NatCat adverse events and/or insurances, can help influence consumers' decisions when purchasing NatCat uptake. These points have already been fully addressed in the paper.
- ▶ **InsurTech:** Many stakeholders listed the advantages of InsurTech and other technologies to improve consumers experience and facilitate uptake. InsurTech elements have not been explored in full in EIOPA's studies. To take into account stakeholders' feedback, EIOPA added some further considerations to the Paper, whilst being careful not to introduce new elements this late in the process.
- ▶ **Data-collection:** some stakeholders also advocated for the use of data, and data-insights on a more granular level. Data on the sudden increases of NatCat losses, increases of claims and consumer support, (specifically those who are already vulnerable, or having data of insured buildings in the area, can help insurers as well as consumers gain insight into the potential gaps in the NatCat protection). While EIOPA is generally supportive of proportionate, meaningful and efficient data collection to gain more insights into consumer trends, EIOPA is also cognisant of the burden of these activities on the market. Accordingly, EIOPA has not taken this feedback into account in the revision of the Staff Paper, mindful not to bring new elements in this stage.
- ▶ **Legal requirements:** Comments regarding streamlining and amending existing legal requirements. Considering that the Paper explores options from a supervisory perspective,

these comments will not be addressed in the Staff Paper, but rather may be revisited as and when the Insurance Distribution Direction, (IDD) review takes place.

- ▶ **Further cooperation:** many emphasized the need for concerted actions from various public as well as private stakeholders to incentivize long-term change, dialogue and recovery. Stakeholders mostly pointed to increasing joint collaborations amongst public authorities to raise awareness, willingness and pro-activity to offer suitable insurance products with sufficient coverage and facilitate speedy disaster recovery. This is specifically crucial to address expectations of post-event state aid, whereby clearer communication could highlight the limitations and restrictions of coverage that apply. While these actions fall outside of EIOPA's scope, EIOPA is support of these suggestions.

EIOPA

Westhafen Tower, Westhafenplatz 1

60327 Frankfurt – Germany

Tel. + 49 69-951119-20

info@eiopa.europa.eu

<https://www.eiopa.europa.eu>