MEASURES TO ADDRESS DEMAND SIDE ASPECTS OF THE NATCAT PROTECTION GAP

EIOPA Staff Paper

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Executive Summary

Given the increase in severity and intensity of climate related events, as part of the EU strategy on adaptation to climate change, EIOPA has increased its focus on addressing protection gaps. In fact, there could be important economic and societal loses across Europe. Hence, EIOPA has taken a number of initiatives aimed at ensuring that the insurance sector is resilient enough to withstand climate shocks and that it contributes to making society more resilient to such shocks.

EIOPA has carried out two studies[1] aiming at understanding the demand-side barriers, drivers and possible solutions to the Natural Catastrophe (NatCat) protection gap. It also covered NatCat aspects in its Flash Eurobarometer[2]. In addition to existing initiatives, with this Paper, EIOPA explores the underlying causes of the NatCat insurance protection gap from a demand side perspective and highlights possible options to address mainly the demand factors.

Overall, the uptake of NatCat coverage in Europe remains low for a number of reasons. In fact, just a few Member States have mandatory coverage or the mandatory offer of coverage. The low uptake of NatCat coverage is driven by a number of demand-side factors, which have been identified as a barrier to NatCat insurance products uptake, even when products are available in the market:

- **Income, existing financial conditions, and a focus on the premium are an important barrier to uptake.** The premium is often the most important factor for many consumers in the purchase decision-process, leading them to perceive insurance as expensive and/or unaffordable. Premiums are often perceived as too high even in cases when there is value and utility. This is due to the fact that when shopping around consumers are often not advised or directed to look at the comprehensiveness of the coverage and consumers themselves do not make a complete assessment about the product value and its usefulness. Moreover, income also influences the housing conditions of consumers with some housing types possibly not being insurable or being insurable only at a high cost.
- **Lack of clarity in terms of costs and coverage as well as limited understanding of how insurance works also plays an important role.** While many consumers argue they cannot afford NatCat insurance, some perceive premiums as too high because of limited clarity on costs and coverage, making it difficult to assess the overall value and utility of the product. Misperception

[1] These studies have been carried with the support of Open Evidence, S.L (OE), London School of Economics and Political Science (LSE), Block de Ideas, S.L.U (BDI RESEARCH now Sago), Kantar Public, Centre for European Policy Studies (CEPS), Behavioral Public Policy and Economics GmbH (BEHAVIA) and University of Amsterdam (UVA) and one of the studies has also benefitted from funding from the European Commission DG REFORM.

[2] Consumer Trends Report 2022

about affordability could also be related to limited knowledge, insufficient financial literacy or product complexity. Consumers find it difficult and often decide not to purchase insurance because selecting the optimal policy is a demanding exercise.

- **Previous (negative) experience by oneself or within the community can also be an important barrier to NatCat insurance uptake.** One of the two studies carried out by EIOPA showed that only half of surveyed respondents trusted that insurance companies would pay for NatCat losses and this in turn influenced their willingness to buy coverage. Community experience and overall perception of insurance can also be a significant barrier; in fact, EIOPA's work further evidenced that those consumers exposed to instances where insurers paid most of the damage quickly are more prone to buying insurance. On the contrary, if general lack of trust is prevalent in the community due to previous bad experience, this raises doubts on the actual coverage offered.
- **Consumers in many Member States also do not buy coverage because they are not aware of the risks, or they mis-perceive the risks they are exposed to**. One of EIOPA's study showed that an average of over 30% of respondents stated that the main reason for not being insured was that they considered NatCat events to be very unlikely. The lack of previous experience with NatCat events diminishes risk perception, affecting coverage uptake. Individuals tend to build their perception of risk, based on their location or on their experiences with NatCat events, with the percentage of respondents who were insured being twice as much among those having experienced a NatCat event than among respondents who did not.
- **High expectations about State intervention, also drives down consumers' willingness to buy insurance coverage.** One of EIOPA's studies shows that in Member States with lower uptake State intervention is perceived as almost certain, while in reality this may not fully materialize. The survey results of the other EIOPA's study show that 59% of respondents also indicated that governments should be responsible when people experience losses due to the NatCat events.
- **Finally, the way in which NatCat and household insurance are sold in many markets contributes to the low uptake of NatCat products.** Most home insurance uptake, which is the main mechanism for NatCat insurance uptake, is linked to the process of getting a mortgage, making the purchase of NatCat cover less likely for those who do not own a house and/or have gained ownership through different means and also making coverage being perceived as an obligation rather than as a benefit. Moreover, in many Member States consumers perceive the process of buying home insurance as difficult and this acts as an important barrier.

Based on the identified drivers and barriers shaping consumers' decisions relating to the purchase of NatCat coverage, different solutions were tested in a behaviorally informed manner. This showed that a number of non-mutually exclusive and re-enforcing interventions can increase uptake. When looking at both drivers and barriers to uptake as well as solutions, it is important to bear in mind insurance markets across Europe are different, in particular different type of NatCat protection schemes exist.

- **Increasing risk-awareness and awareness about the availability of coverage can drive uptake further, especially if done via specific risk-awareness tools.** Developing accessible tools that provide consumers with first-hand information on the risk they are facing can be helpful in increasing uptake. Namely, public and/or independent online tools/websites enabling consumers to consult the level of risk of their regions and of their house easily allow consumer to better understand the risks their property is exposed to. Target messages on the risks consumers are exposed to and the availability of coverage, including prior to renting a house or purchasing a property, can significantly increase uptake.
- **Increasing consumers' understanding, product comparability, and promoting simplicity including via adequate product and oversight and governance (POG) – without hindering the offer of more sophisticated products to those target markets who require it – can also increase uptake.** Consumers may be more willing to buy NatCat products if independent and easy to use comparison tools were available. In particular, such tools should assist people in comparing all available insurance products with coverage for NatCat, with enhanced comparison criteria in addition to price while ensuring that products remain comparable. Beyond simple comparison tools, one of EIOPA's study showed that consumers would be more willing to explore purchasing NatCat coverage if products were to be simpler, i.e., if consumers' needs and characteristics including their understanding of products were sufficiently taking into account in the product design phase. On average consumers highlighted they would feel more comfortable in buying NatCat coverage if standardized products (coverage, exclusions and pricing practices) were available.
- **Promoting consumers' journey simplicity can also increase uptake of NatCat products, particularly for those consumers who are already aware of the coverage available and who are also aware of the risks they are exposed to.** The development of more consumer-friendly approaches with less touchpoints in the purchasing process (i.e. digital channels) can reduce consumers' efforts in the purchasing process and, hence, lead to overall lower transaction costs. To avoid issues relating to a mis-match between expectations and actual coverage, which can lead to broader implications such as a diminished trust in insurers, insurance manufacturers and insurance distributors should also ensure they provide adequate and detailed information on NatCat coverage, including exclusions and coverage limits.
- **Reducing the premium via obligations to put in place risk-mitigation measures can, not only limit insurers' exposure to risks, but also incentivize consumers' uptake of NatCat coverage.** Consumers may be more willing to buy NatCat coverage if they were offered incentives for investing in risk mitigation measures. This measure would also alleviate cost-benefit biases and the perception of NatCat insurance as a "nice to have" rather than a "must have". If consumers were offered premium discounts for taking risk-mitigation measures, they would also be more willing to buy NatCat coverage and put in place risk-mitigation measures, alongside increased efforts to properly communicate about existing risk-mitigation measures.

This Paper aims at complementing EIOPA's work on addressing the NatCat protection gap. EIOPA welcomes feedback from various stakeholders, by 05 October 2023, on: (i) the key risks; (ii) the identified drivers that may limit uptake of NatCat coverage; and (iii) the possible solutions. Based on the feedback received, EIOPA will issue a revised Staff Paper EIOPA will consider exploring further the implementation of one or more of the proposed solutions.

Introduction

The increase in severity and intensity of climate related events and the potential build-up of other systemic risks,[3] coupled with a non-negligible natural catastrophe (NatCat)[4] insurance protection gap, may lead to important economic and societal losses across Europe.

Only a quarter of the total losses caused by extreme weather and climate-related events across Europe were insured in the past. In addition, in light of climate change, EIOPA is concerned that affordability and insurability of NatCat insurance coverage is likely to become an increasing issue, thus further widening the existing protection gap[5].

As part of the new EU strategy on adaptation to climate change adopted on 24 February 2021[6], the European Commission (EC) published a Staff Working Document in June 2021[7] outlining available data and policy gaps. Alongside the EC, EIOPA has further increased its focus on addressing protection gaps and on ensuring the sector's resilience to withstand climate shocks and that it contributes to making society more resilient to such shocks.

At EIOPA's level, there are already several initiatives which explore how to address protection gaps, namely the work on shared resilience solutions[8], on risk assessment, on risk prevention[9], on product design, and on risk transfer.

Building on the ongoing work, EIOPA intends to contribute, among others, to the EC's Climate Resilience Dialogue[10] which seeks to explore how insurance can contribute to reducing the impact of climate change, from increasing climate risk insurance penetration to incentivizing investment in risk mitigation actions and good adaptation solutions.

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[3] Systemic risk means a risk of disruption in the financial system with the potential to have serious negative consequences for the internal market and the real economy. Article 22 of EIOPA Regulation defines 'systemic risk' by reference to Article 2(c) Regulation (EU) No 1092/2010.

[4] The risk caused by a natural catastrophe is defined by the United Nations Office for Disaster Risk Reduction as: "The potential loss of life, injury, or destroyed or damaged assets which could occur to a system, society or a community in a specific period of time, determined probabilistically as a function of hazard, exposure, vulnerability and capacity."

[5] Dashboard on insurance protection gap for natural catastrophes.

[6] EU Adaptation Strategy.

[7] Closing the climate protection gap – Commission Staff Working Document.

[8] Insurance against pandemic risk: EIOPA identifies options for shared resilience solutions.

[9] Staff Paper on Policy options to reduce the climate insurance protection gap.

[10] A special group co-chaired by DG CLIMA and DG FISMA, as one of the actions the EC has undertaken to reduce the climate protection gap, and as announced in the EU Strategy on Adaptation to Climate Change.

Climate change-related *phenomena* are examples of potentially systemic events which could cause significant adverse effects to society, both direct and indirect. The role of the insurance sector is, in these cases, fundamental in keeping consumers' trust high, by providing useful and fairly priced products which are aligned with their protection needs.

In exploring how to address the NatCat protection gap, supply and demand side factors both alike – in particular in relation to fair pricing and product availability – play an important role. EIOPA already addressed the issue of ensuring clarity in terms and conditions in relation to systemic events, including by highlighting that when products are reviewed to limit insurers' exposure to systemic events, consumers' interests should be duly taken into account[11]. It also explored extensively supply-side aspects, having developed a comprehensive dashboard on the insurance protection gap for NatCat,[12] which should also assist in identifying possible drivers to support the development of targeted measures to decrease society's losses in the event of NatCat. It further piloted work on impact underwriting[13] and it will continue it to overcome some of the challenges identified as part of the pilot process. This includes raising public awareness about climate risks and related prevention measures as well as promoting the use of open-source modelling and data.

This Staff Paper, issued for public consultation to foster a dialogue amongst stakeholders, aims at complementing the above-mentioned work. In particular, it provides a framework of key areas that in EIOPA's view need to be addressed to put in place effective solutions from a demand-side perspective.

The Staff Paper builds on two research projects – one of which funded by the EC Directorate-General for Structural Reform Support (DG REFORM) in the context of a Technical Support Instrument, where EIOPA worked with a beneficiary authority and DG REFORM to identify solutions to close the protection gap. In particular these studies analyzed consumers' experiences and the interaction between demand and supply side factors affecting consumers' behaviors, attitudes, and preferences in the context of NatCat awareness and in the process for buying NatCat related products.

Building on these findings, possible interventions to tackle the drivers were identified and behaviorally tested – i.e., consumers were put in front of possible life scenarios and asked in a controlled environment whether they would be more willing to uptake insurance products under certain circumstances – to propose a number of solutions which could work in increasing uptake of NatCat insurance products, with a view of contributing towards closing the protection gap. The solutions aim at complementing supply-side solutions already being explored in other EIOPA's initiatives, with the view of ensuring that products are properly targeted and fairly and adequately

[11] https://www.eiopa.europa.eu/system/files/2022-09/supervisory_statement_on_exclusions_related_to_risks_arising_from_systemic_events.pdf.

[12] The pilot dashboard on insurance protection gap for natural catastrophes.

[13] Impact underwriting: EIOPA reports on insurers' use of climate-related adaptation measures in non-life underwriting practices.

priced. Moreover, the aim of exploring possible solutions in this Staff Paper, including those which often are outside of the supervisory scope, is to inform a dialogue amongst stakeholders as part of the consultation process. The solutions presented in this Staff Paper will be further refined based on stakeholders' views and inputs.

The studies covered a sample of Member States: Belgium, Germany, Romania and Spain (exploring consumers' experience with NatCat related exclusions – *EIOPA's study on consumers' experience*) and Greece, France, Italy and Sweden (exploring demand-side factors preventing uptake of NatCat related products – *EIOPA's study on demand-side barriers*). The country selection was based on differences in insurance penetration (low versus high) and differences in NatCat protection schemes (voluntary versus mandatory).

The Staff Paper introduces the underlying factors driving the protection gap from a demand-side perspective. It subsequently presents the potential solutions that emerged from the research conducted. When analyzing the findings and possible solutions, it is important to take into account that markets across Europe are different and that some markets have also put in place measures to address protection gaps such as mandatory coverage.

Stakeholders are highly encouraged to send comments and views to Natcatdemandside@eiopa.europa.eu by 05 October 2023.

1. Demand-side Factors Affecting NatCat Insurance Uptake

1.1. Uptake of Insurance Cover for NatCat

1.2. Though there are important differences across markets in insurance coverage for all perils and based on the type of peril (coastal flood, earthquake, flood, wildfire, windstorm), the penetration of insurance coverage for NatCat events remains limited in Europe.

1.3. The level of insurance coverage for all perils varies from 1% in Hungary and Lithuania, 2% in Bulgaria, Croatia, Greece, Romania to over 90% in Iceland and Lichtenstein. The overall percentage of insurance coverage for the Member States of the European Economic Area (EEA) is 22%.

1.4. The majority of European markets have voluntary schemes in place, meaning the coverage for NatCat event is optional in principle, and it is a common practice in these countries to bundle property insurance with NatCat coverage as an optional add-on. Just a few countries have mandatory NatCat coverage (Romania) or mandatory offer – i.e., that insurance distributors are obliged to offer it as part of the package – (Belgium).

1.5. Looking at the penetration figures resulting from *EIOPA's study consumers' experience*, out of the total survey respondents[14]:

- 44% are insured against NatCat;
- 38% are uninsured;[15] and
- 15% do not know whether they are covered or not.

1.6. *EIOPA's study on demand-side barriers* shows similar trends with the percentage of respondents[16] being currently insured for NatCat events being as low as 25% in one Member State and as high as 79% in another Member State. The latest EU-wide Eurobarometer carried out by EIOPA in 2022 also shows similar conclusions:

- In the event of a NatCat event, around half of European consumers would be either fully or partially covered. However, this trend is heterogeneous at Member State level, for example only

[14] This study covered Belgium, Germany, Romania, and Spain.

[15] When asked the reasons for not being insured, in Belgium, Germany and Spain most respondents said that NatCat events were unlikely to happen. In Romania, the main reason was that insurance contracts are too expensive.

[16] This study covered France, Greece, Italy and Sweden.

3% of Belgian consumers and 6% of Dutch consumers reported not having insurance for NatCat events, while this figure is 36% for Greek consumers and 31% for Italian consumers.

- For SMEs, the picture is similar with 49% of SMEs being fully or partially covered in the event of NatCat, while 33% of SMEs noted not being covered at all. Again, the situation at Member State level is heterogeneous, for example only 8% of French SMEs reported not being covered, but as many as 62% of Romanian and 64% of Latvian SMEs reported not being covered.
- In the event of NatCat, many European consumers (22%) reported being unsure about the coverage in their policies, confirming that exclusions – and lack of clarity thereof – continue to remain a problem.

1.7. *EIOPA's study on consumers' experience* shows that NatCat insurance is mostly bought in a bundle. Namely, most survey respondents who reported having NatCat coverage, bought coverage as part of their home insurance (77%) or together with their mortgage (15%). Only 8% purchased it independently.

1.8. Overall, as part of these two studies, EIOPA identified a number of barriers and drivers which from a demand side perspective limit uptake.

Figure 1. Summary of the identified demand-side barriers and drivers limiting uptake of NatCat coverage

Demand-side barriers	Demand-side drivers
• Income, financial literacy, experience with insurance products, and education all have an impact on the willingness to purchase insurance against natural catastrophes.	• In product related factors, for consumers, the most important factor is the premium, which largely determines the decision of whether to insure.
• Risk perceptions are significant in determining natcat insurance uptake, although they may not reflect the actual risk of individuals.	• Risk communication can be an effective tool to increase willingness to insure against natural catastrophes.
	• Insurance culture and social norms.
	• Expectations of public support.
	• Individuals' behavioural biases often negatively affect their uptake of natcat insurance.
	• Perceived difficulty of the purchasing process, including the need of selecting the most optimal policy and identifying the right level of coverage.

1.1.1. Consumers' Understanding of Insurance Products and (Perceived) Affordability as a Barrier to Uptake

1.9. Consumers' personal characteristics and individual situations can have a significant impact on NatCat insurance coverage uptake.

1.10. Income and financial health are contributing factors to the uptake of NatCat coverage as they are closely linked to the affordability of insurance premiums but also have a direct influence on the type of house that one owns or lives in and/or the possibility to invest in mitigation measures, which may determine whether the property is insurable or not.

1.11. Consumers' housing situation and potential exposure to NatCat events impact the premiums, in the case of risk-based premiums. Some housing types – such as poorly built houses or those where the exposure to NatCat is high – may not be insurable or may be insurable at a very high cost. Considering there is often a correlation between low-income and poor housing situations, most often the most vulnerable consumers are the ones who are most exposed to NatCat related losses.

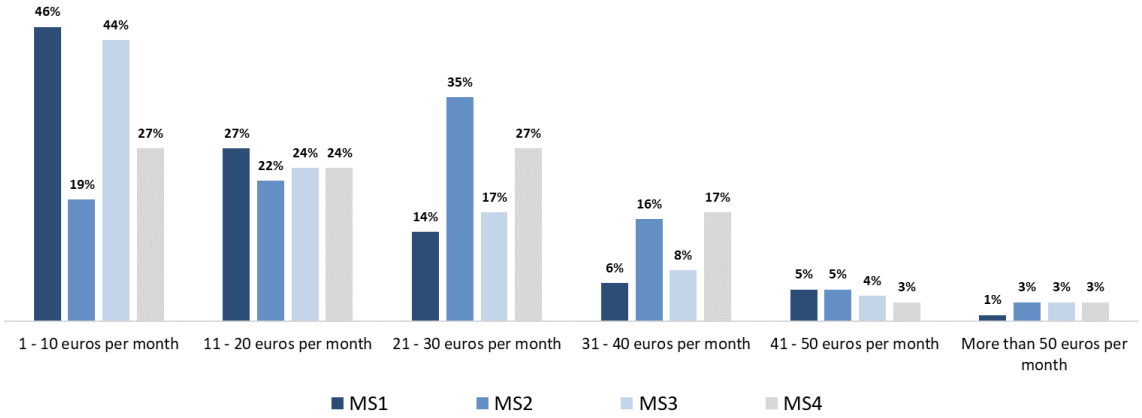
1.12. Both studies carried out by EIOPA show that premium is a significant barrier towards the uptake of NatCat coverage. Premium is amongst the most important factors in the purchasing decision-process as confirmed by the results of the survey carried out as part of *EIOPA's study on consumers' experienc*e which showed that premium/affordability aspects are the second most reported reason by uninsured participants for not having NatCat or home insurance.

1.13. Affordability aspects and premiums being perceived as too high are also due to the fact that when shopping for insurance products, consumers first look at the premium[17], rather than looking at the comprehensiveness of the coverage and rather than making an overall assessment about the product value and its usefulness. This was confirmed also by the results of the survey carried out as part of *EIOPA's study on demand-side barriers*. Uninsured participants highlighted price and the fact that insurance was too costly (24%) as the second most reported reason for not having NatCat or home insurance coverage.

1.14. However, in many instances consumers who have never had a household insurance product or NatCat coverage believe it to be more expensive than it actually is. As part of *EIOPA's study on demand-side barriers*, consumers were asked how much they would be willing to pay for insurance. The results showed that in the Member States, within the sample, with the lowest uptake consumers cited a price which was identical to the actual price paid on average in that Member State. This was also the case in the Member State with the highest uptake. And, while in the two other Member State there were differences amongst the price uninsured consumers would be willing to pay and the actual average price, only in the Member State, within the sample, with the second to highest coverage there was a difference of above 50%.

[17] London Economics (2016). IPID consumer testing and design work. Final Report, EIOPA/OP/153/2015, July.

Figure 2. Uninsured consumers' willingness to pay for insurance, in the Member States in scope[18]



1.15. The research carried out by EIOPA also shows that home insurance – that in most cases is bundled with NatCat coverage – is perceived as an expensive product hindering consumers' willingness to obtain information about its actual price and benefits and also preventing them from exploring NatCat coverage options. This applies, in particular, to a certain category of consumers who are not familiar with the offers and who never received or searched for products related information.

1.16. While affordability *per se* is a barrier, it is also important to make a distinction between premiums being too expensive in terms of affordability versus premiums being perceived as too expensive in comparison with the coverage offered. The former is related to the income/wealth of homeowners and may always be perceived as being too high regardless of other measures put in place, while the latter concerns the expected coverage.

1.17. While the studies carried out by EIOPA show there are financial constraints limiting uptake (i.e., participants with a household income below EUR 30,000 exhibited lower chances of having insurance coverage compared to those with a higher income), there are also other factors that may be preventing consumers from appropriately assessing the cost of the product vis-a-vis their benefits and declaring it is too costly.

[18] France, Greece, Italy and Sweden.

Table 1. Main reasons for not getting insurance: percentage of total respondents who have never owned home insurance / NatCat coverage, in the Member States in scope[19]

Reason	*MS1*	*MS2*	*MS3*	*MS4*
I don't think it is likely that my property gets damaged by natural catastrophes	*9.4%*	*11.6%*	*13.1%*	*6.8%*
I don't want to spend money on this	*16.3%*	*14.8%*	*16.1%*	*12.2%*
I see coverage for natural catastrophe damages as a luxury that I should not spend on	*13.8%*	*11.2%*	*9.6%*	*10.4%*
If it isn't mandatory, I don't think I really need it	*7.8%*	*5%*	*11.6%*	*10.7%*
I don't trust the insurance companies to offer fair prices	*11.3%*	*9.7%*	*8.6%*	*9%*
My home insurance will cover all damages against my home anyway	*6.1%*	*10.5%*	*5.1%*	*14.6%*
The government will cover the damages to my property in case of a natural catastrophe	*4.9%*	*9.6%*	*4.8%*	*14.7%*
Very few people have natural catastrophe insurance, why should I	*4.7%*	*8.3%*	*3%*	*6.8%*
I don't trust the insurance companies will pay in case of damages to my house	*13.1%*	*8.4%*	*10.4%*	*7.4%*
I have never had natural catastrophe insurance before, and I have been fine	*5.5%*	*7.3%*	*11.9%*	*4.4%*
Other	*7.2%*	*3.6%*	*5.9%*	*2.9%*

1.18. In fact, some consumers perceive the premiums as being high because of limited clarity on costs and coverage making it difficult for them to assess the overall value and utility of the product. *EIOPA's study on demand-side barriers* showed that clarity on costs was rated high across Member States with differences in income and insurance penetration which suggests that consumers who are not familiar with insurance products, for instance those who never received or searched for information, may be mis-perceiving its costs and/or that costs may not be explained clearly, which might disincentive consumers to buy these products.

1.19. Misperception about affordability, hence, is related to both limited knowledge, insufficient financial and insurance literacy or lack of experience and to product complexity. In particular, consumers with lower levels of financial literacy or with little to no prior experience with

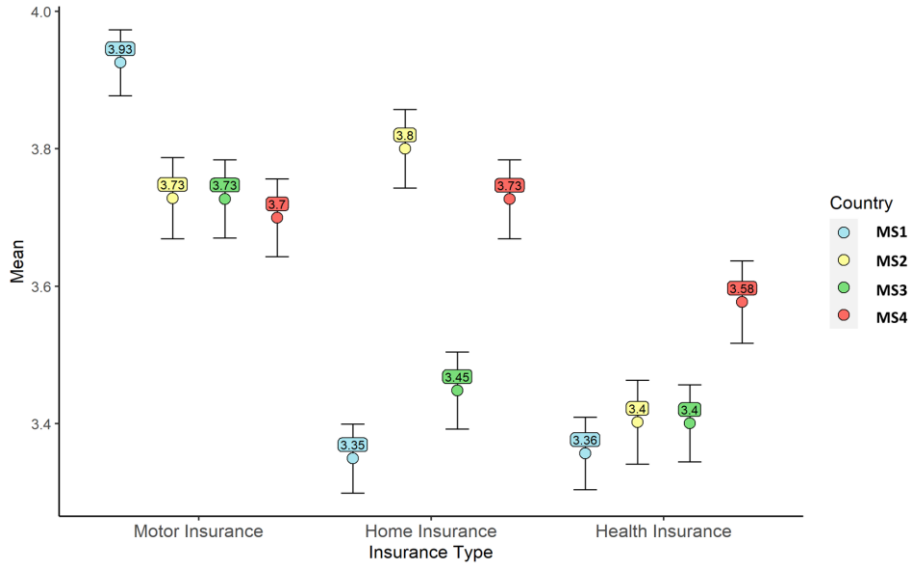
[19] France, Greece, Italy and Sweden.

insurance products have more difficulties in understanding products, which in turns limits their willingness to purchase it.

1.20. Beyond misperception about price and coverage, consumers find it difficult and often decide not to purchase insurance because selecting the optimal policy from the various policies offered in the market is as another clear demand-side barrier. In fact, identifying the right level and adequate coverage, particularly for NatCat products which cover different perils, requires a complex trade-off amongst various attributes of insurance policies vis-a-vis the characteristics and needs of the potential policyholder[20] as well as trust in the insurance companies offering the policies. Product complexity and unclear policy wording in insurance contracts magnify uncertainty over the insurance coverage. Complexity regarding policies, coverages, limitations, and deductibles can cause confusion and limit consumers' ability to make informed decisions.

1.21. An analysis of the perceived difficulties of purchasing insurance between the Member States within the sample of *EIOPA's study on demand-side barriers* shows that the Member State with the lowest penetration (MS1 in the Figure 3 below) is also the one where consumers perceived it more difficult to buy insurance. More precisely, by looking at specific products, in the two Member States, within the sample, with the lowest uptake of NatCat, consumers perceived it as most difficult to buy home/property insurance.

Figure 3 Difficulty to purchase adequate products by insurance products (1=very difficult, 5=very easy), in the Member States in scope[21]



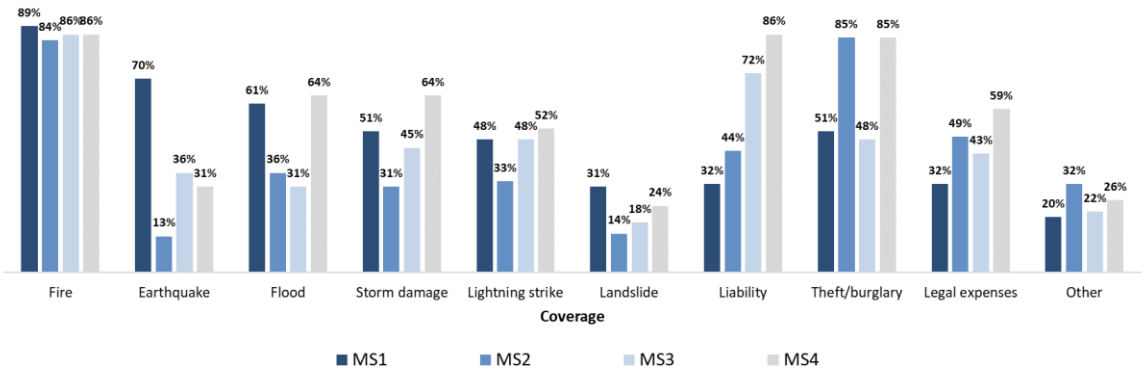
[20] Grace, M. F., Klein, R. W., & Kleindorfer, P. R. (2004). Homeowners insurance with bundled catastrophe coverage. Journal of Risk and Insurance, 71(3), 351-379.

[21] France, Greece, Italy and Sweden.

1.22. Beyond complexity *per se*, the way in which NatCat products are sold also plays and important role. In fact, the sale of NatCat coverage bundled with household insurance if often a common practice[22] and bundling and tying practices tend to increase information asymmetry and complicate price comparisons, to the detriment of consumers[23].

1.23. Issues with 'add-on' products include significant behavioral challenges (where the consumer is focused on the 'primary' product). This is because the timing at and the way in which information is presented to consumers can have a large influence on the way they understand, analyze and assess the given information.[24] For example, if attention is given only to the choice of the main insurance product, then the attention paid to other important surrounding decisions is lower. In a home insurance context this can mean that consumers cannot assess the importance of insuring additional risks such as those arising from NatCat events – or some of the risks arising from NatCat events – if the information about such coverages becomes available only after the choice of the main product is made. This could result in underinsurance for NatCat events and over-insurance for other risks if add-ons, which might not be so adequate, are offered at a more salient moment than the NatCat coverage.

Figure 4. Percentage of individuals having protection against different types of risks, in the Member States in scope[25]



[22] Europe Economics (2009). Study on credit intermediaries in the internal market (MARKT/2007/14/H) Contract ETD/2007/IM/H3/118. Final Report, January 15.

[23] Reifner, U., Neuberger, D., Risi, R. Riefa, C., Knoblocj, M., Clerc-Renaud, S. & Finger, C. (2013). Study on remuneration structures of financial services intermediaries and conflicts of interest (MARKT/2012/026/H), Final Report, October 15.

[24] FCA (2014). How does selling insurance as an add-on affect consumer decisions?. Occasional Paper No. 3. Financial Conduct Authority.

[25] France, Greece, Italy and Sweden.

1.24. Finally, beyond product complexity and selling practices related issues, the studies carried out by EIOPA also showed that insurance undertakings spend a minimal budget on advertising NatCat insurance products which make consumers less aware of their existence and benefits. In *EIOPA's study on demand-side barriers*, the third most reported reason by uninsured participants for not being covered is the lack of awareness of the existence of NatCat coverage (22% of uninsured participants)[26].

- To what extent could affordability be considered a major barrier to NatCat uptake?
- What are stakeholders' views in relation to making consumers more aware of the price of NatCat insurance, whilst avoiding an over-emphasis on price?
- What are stakeholders' views as to how can product simplicity/consumers' understanding be improved, without impacting the level of coverage offered?

1.1.2. Previous Experience with Insurance and Social Norms as a Barrier to Uptake

1.25. Attitudinal characteristics of individuals play an important role in the decision-making process of purchasing NatCat insurance. For example, product appeal, service quality, the ease of buying insurance are often mentioned as important factors for NatCat insurance uptake[27].

1.26. The insurance culture or individual experiences with other types of insurance (e.g., health, motor and motor and third-party liability – MTPL) impact the importance an individual places on insurance as a way to mitigate damages.

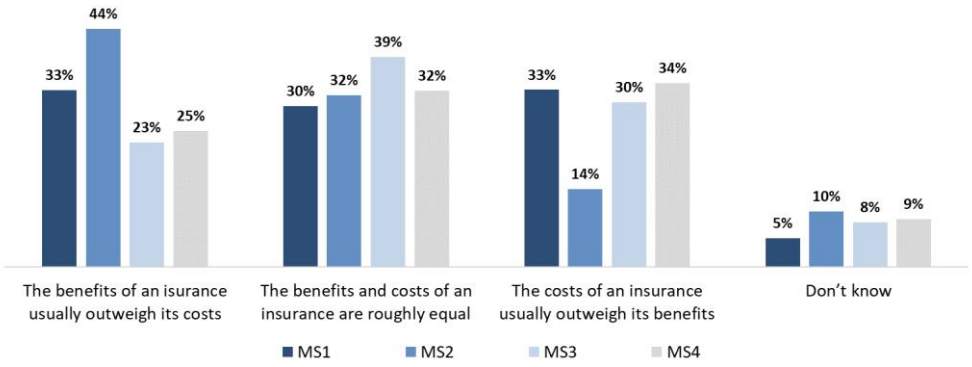
1.27. Previous experience with insurance undertakings or existing negative perceptions in the community impact the level of trust. *EIOPA's study on demand-side barriers* has shown that only half of survey respondents in the four Member States in scope[28] trusted that the insurance companies would pay for the NatCat losses and this in turn influenced their willingness to buy coverage. In particular, trust was low – with less than 35% of respondents believing their claim would be paid – in those Member States where NatCat coverage is the lowest. And this in turns leads consumers in the Member States with lowest uptake to mostly believe the costs of insurance outweigh the benefits.

[26] Belgium, Germany, Romania and Spain.

[27] Schanz, K. U. (2018). Understanding and addressing global insurance protection gaps. Geneva Association-International Association for the Study of Insurance Economics.

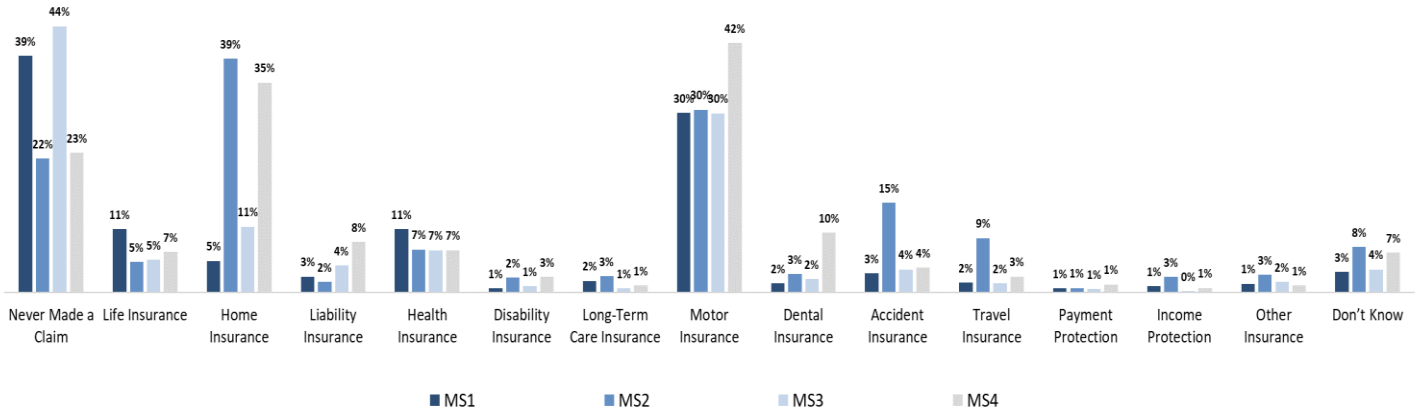
[28] France, Greece, Italy, and Sweden.

Figure 5. Consumers' views on cost and benefit of insurance, in the Member States in scope[29]



1.28. The lack of trust, however, is often not correlated to a real experience, in the sense that some of the participants in the studies showing lack of trust had no real experience in making claims. Those respondents who made claims in the past, showed greater trust and more positive views on the benefits of insurance. In particular, in the Member State, within the sample, with the lowest uptake and where trust concerns were identified as important, the percentage of consumers who never made a claim is the highest.

Figure 6. Share of individuals who have made claims on selected insurance products, in the Member States in scope[30]



[29] France, Greece, Italy and Sweden.

[30] The countries in scope were France, Greece, Italy and Sweden.

1.29. *EIOPA's study on consumers' experience* further showed that there is a correlation between the experience in the claim process and the willingness to buy insurance on coverage:

- Those consumers exposed to instances where insurers paid most of the damage quickly are more prone to buying insurance.
- On the contrary, if general lack of trust is prevalent in the community due to previous bad experience in the claim settlement process (i.e., insurers declining claims due to problems with the buildings rather than a given NatCat event), this raises doubts on the actual coverage offered.

1.30. Beyond trust emerging from experience with NatCat products, social norms[31] significantly influence consumers' decision to buy insurance. Higher level of uptake in the community might act as a driving force to increase individual uptake and consumers often rely on social networks' experience with insurance prior to deciding whether to buy insurance or not.

1.31. Social norms have an important influence on individual responses to NatCat events in the sense that individuals look at what most people do (descriptive norms) or what most people approve or disapprove of (injunctive norms) when making decisions. A peer effect can arise from neighbors or relatives because individuals will consider that they have comparable preferences to them or have already contributed to the "costs" of gathering information on risk and insurance. Thus, the level of uptake in a certain community might act as a driver of keeping the status quo.

1.32. Some peer effects that are relevant in NatCat insurance uptake include imitation, or following what others do, rational social learning, using others' choices to determine what one should do, and learning from others' losses, or using others' NatCat experiences to update own beliefs.

- To what extent do stakeholders agree that previous experience and social norm can have a significant impact on uptake of insurance products?
- What, in stakeholders' views, can be done to increase trust in the insurance sector? In particular, stakeholders' inputs as to which measures could be put in place by the industry would be highly appreciated.

1.1.3. Risk Perception and Expectations on Public Support as a Barrier to Uptake

[31] Social norms are defined as behaviors that are either acceptable or understood within a group or society.

1.33. Beyond affordability aspects and trust in the insurance sector, a key barrier preventing uptake of insurance products is that consumers mis-evaluate their actual exposure to NatCat risks. Consumers tend to underestimate the losses and/or probability of a disaster, and therefore, might find the benefits of insurance protection as unattractive relative to the premium/cost of the policy. They tend to assume that the probability of a NatCat event occurring is too low, not worth insuring the potential loss. If the latter is the case, then perhaps insurance will not even be considered as a viable option[32].

1.34. *EIOPA's study on consumers' experience* shows that in the four Member States in scope[33] an average of over 30% of respondents stated that the main reason for not being insured was that they considered such NatCat events to be very unlikely.

Figure 7. Share of uninsured consumers who do not have coverage for selected reasons, in the Member States in scope[34]

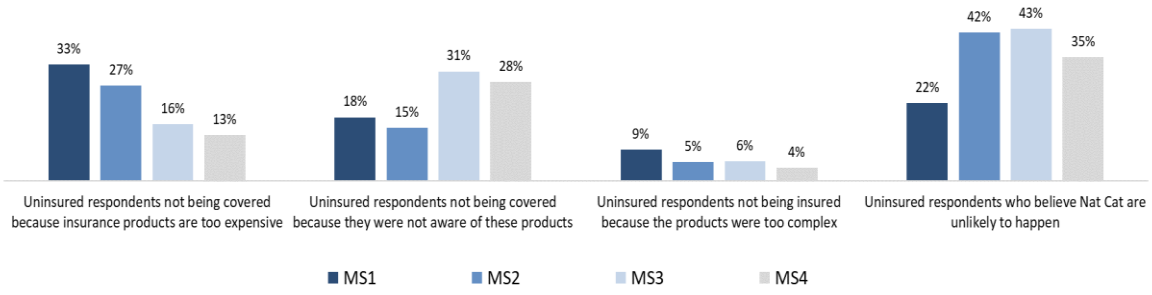


Figure 8. Reasons for not being insured in the Member States in scope[35]

[32] Kunreuther, H. (1984). Causes of underinsurance against natural disasters. Geneva Papers on Risk and Insurance, 206-220.

[33] Belgium, Romania, Spain and Germany.

[34] Belgium, Romania, Spain and Germany.

[35] In Belgium, Romania, Spain and Germany.

1.35. The lack of previous experience with NatCat events diminishes risk perception and thus affects the uptake of coverage. Individuals tend to build their perception of risk, based on their geographical location or on their experiences with NatCat events, as evidenced by the focus groups carried out by EIOPA as part of *EIOPA's study on consumers' experience*.

1.36. The actual risks individuals face also affects the risk perception of the individual and, therefore, impacts their likelihood of getting NatCat insurance. Survey respondents who live in areas with greater risks for NatCat, declared themselves more likely to get insured against them with risk perception and uptake of insurance coverage being also closely linked to the previous experiences with NatCat events. And indeed, the results for the survey carried out as part of *EIOPA's on consumer experiences* highlighted that people who were affected by NatCat events are more likely to buy insurance coverage: the percentage of respondents who were insured is twice as much among those having experienced a NatCat event than among respondents who did not (64% vs 36%)[36].

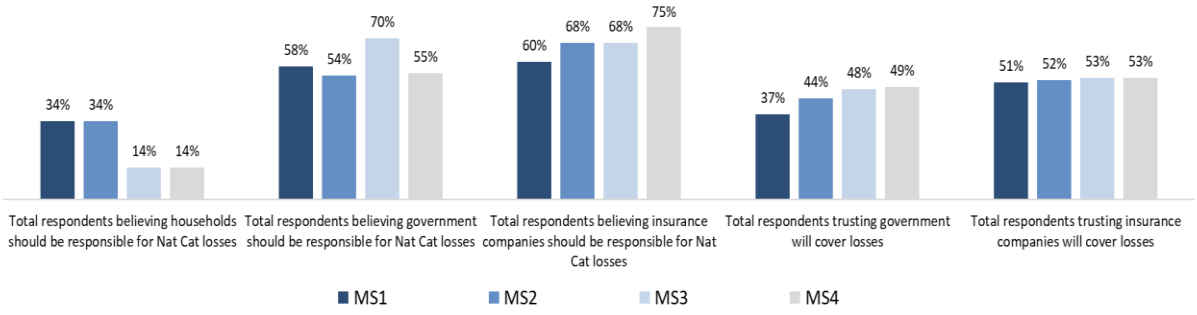
1.37. In line with the above, EIOPA's studies also showed that – with the exception of earthquakes – consumers' perception of risk decreased the further in the past the latest NatCat event was.

1.38. Beyond their perception of risks, consumers' expectations of public financial support in the event of NatCat events reduces their interest to buy their own coverage. *EIOPA's study on demand-side barriers* shows that in Member States with lower uptake the government coverage of NatCat damage is perceived as almost certain, while in reality this may not fully materialize. The survey results of *EIOPA's study on consumers' experience* show that 59% of respondents also indicated that governments should be responsible when people experience losses due to the NatCat events[37].

[36] In Belgium, Romania, Spain and Germany.

[37] As opposed, 68% of respondents consider that insurance undertakings should be responsible.

Figure 9. Consumers' expectation on who should pay in case of NatCat events, in the Member States in scope[38]



- Are you aware of any initiatives aimed at enabling consumers to properly assess the type of risks they are exposed to?
- To what extent would you agree that there is often a misperception between when and how public authorities would intervene and their actual interventions?

1.1.4. The Insurance Purchasing Process as a Barrier to Uptake

1.39. Most home insurance uptake, which is the main mechanism for NatCat insurance uptake as already highlighted, is linked to the process of getting a mortgage, making the purchase of less likely for those who have gained ownership through different means (e.g., property inheritance) and for those who may want to ensure other properties other than their house.

1.40. Moreover, EIOPA's studies have shown that when mortgages are settled, it is very likely that insurance policies are not renewed as there is not a perceived product utility associated with the purchase – i.e., consumers feel that in the first place the buying of the product was an obligation rather than a utility; hence, as soon as feasible they cancel coverage. And this perception has a direct impact on the overall purchasing process with consumers seeing coverage as an obligation rather than a benefit.

1.41. Beyond consumers perceiving insurance as mandatory when they purchase it together with mortgage loans, when it comes to the perceived difficulty of the process of buying home insurance with NatCat coverage, the more difficult the process is perceived to be, the lower the level of coverage. EIOPA's *study on demand-side barriers* showed that the perceived difficulty of the process of purchasing home insurance is the lowest in Member State, within

[38] In Belgium, Romania, Spain and Germany.

the sample, with highest uptake and the highest in the Member State, within the sample, with the lowest uptake.

1.42. The perception that finding the right type of coverage is a resource intensive activity deters the uptake of home insurance with NatCat coverage: the effort itself acts as an extra cost which, once added to the financial cost of insurance can reduce consumers' perceptions on the benefits of insurance.

1.43. Finally, the limited use of digital channels where the purchasing process tends to be more user-friendly and less resource intensive (as opposed to visiting distributors' offices) may be hindering a higher uptake. For instance, *EIOPA's study on demand-side barriers* showed that online purchasing of home insurance was predominant in the Member State, within the sample, with the second to highest coverage uptake and the lowest in the Member State with the lowest coverage uptake.

- To what extent do you agree that the purchasing buying process can be a barrier? And if so, in which way?
- What measures in stakeholders' views should be put in place to facilitate the purchasing process?
- How can the benefits of coverage be presented to consumers in a way which does not portray them as an unnecessary obligation that comes with a mortgage?
- In your view can improved product oversight and governance requirements assist in ensuring product are better designed and coverage is better conveyed to consumers to avoid insurance is perceived as an obligation?

2. Options to Address Demand-side Barriers to NatCat Insurance Uptake

2.1. Based on the identified drivers and barriers that shape consumers decisions relating to the purchase of NatCat coverage, different solutions for addressing demand-side issues that might contribute to an increased uptake of NatCat cover emerged in the studies. In particular, *EIOPA's study on demand-side barriers* identified a number of possible solutions (Table 2 below) – addressing both policy aspects and improving communication on risk and coverage.

Table 2. Policy measures and communication messages tested

Policy measure	Communications message
Tax rebate: tax benefits will be set up for homeowners, who take out proper insurance coverage. ***N.B. this is one of the measures which emerged as relevant in some Member States given high insurance taxes, but it may not be applicable in all Member States.***	**Social norms:** showing that many other people within the community have also filed claims for natural disaster damage in the past year and that most of them were paid out quickly (this should also boost trust in insurance companies)
Risk mapping: a new website will be set up to aggregate all the information and data on natural catastrophe that could potentially affect the properties. This will inform people about potential risks and the insurance coverage they need	**Price perception:** this puts the price of insurance into perspective, by comparing it to the cost of five common snacks/small lunches a month
Comparison website: an independent comparison tool to assist people in comparing all available insurance products with coverage for natural catastrophes	**Risk perception**: showing numbers of damaged houses in one's own region

2.2. These solutions were then tested by inviting each participant to project themselves into four hypothetical situations in a close to life scenario and each depicting one of the four different policies put in place. At each iteration, the respondents were also shown a different communication message addressing social norms, price perception, or risk perception. Following this, consumers were then asked if their willingness to uptake NatCat products increased.

2.3. This section presents the options which emerged as having the highest effect on consumers' willingness to buy NatCat coverage. While a range of options are depicted, these are not mutually exclusive and, what is more important, they reinforce each other when combined. In

fact, policy measures and the communication messages can all work in synergy[39]. The implementation of some of the solutions proposed would involve different stakeholders such as supervisory authorities, consumer organizations, insurance undertakings and/or public policymakers. EIOPA aims at raising awareness as well as promoting a dialogue with stakeholders to further explore the measures presented in this paper.

2.4. The measures are presented following the different stages of the consumer journey. It is important to note that aspects such as mandatory coverage and / or public private-sector partnerships were not explored as these relate to supply side aspects. The purpose of the paper is to identify measures to address issues when products are already offered and available in the market.

2.1. Pre-Purchase – Raise Awareness on Risks/Offers/Benefits

2.2. Homeowners' NatCat risk perception is thought to provide important insights for risk management, risk mitigation, and risk communication strategies[40]. Hence, the importance of raising awareness on the actual risks some consumers may face (i.e., on regional probability of certain natural disasters, buildings vulnerability etc.).

2.3. In situations where the risk is perceived by consumers as being lower than it is, raising risk awareness through information on the probability and consequences of a NatCat event, as well as the costs of coverage, could be an effective and efficient communication strategy, increasing the uptake.

2.4. Public awareness of NatCat risks can have a major effect on reducing the impacts of extreme weather events: risk awareness not only may lead to increased demand for insurance coverage, but it can also encourage risk-reducing behavior – i.e., adopting climate risk mitigation measures.

2.5. Amongst the solutions tested by EIOPA to increase awareness about risks, it emerged that developing accessible tools that provide consumers with first-hand information on the risk they are facing can be helpful in increasing uptakes. Examples of tools tested include:

- **Public risk zoning tools**: Public and/or independent online tool/website enabling consumers to consult the level of risk of their regions and of their type of house easily allow consumer to understand the risks their property is exposed to. In particular, these tools can be helpful in raising awareness if used in teachable moments – i.e., when consumers look for properties to buy/rent to – as they provide specific information on the NatCat risks for the specific zoning area.

[39] All of the policy options displayed with awareness messages that were tested in the experimental survey had an impact.

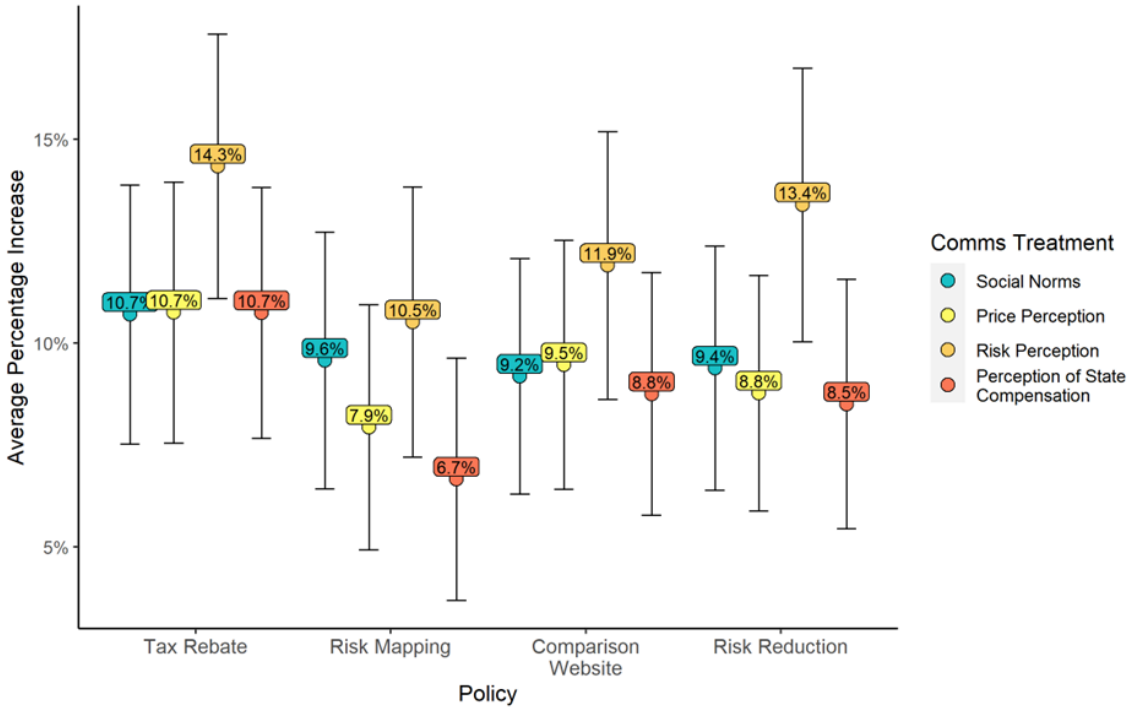
[40] Terpstra, T., Lindell, M., & Gutteling, J. (2009). Does communicating (flood) risk affect (flood) risk perceptions? Results of a quasiexperimental study. Risk Analysis, 29(8), 1141–1155.

- **More specific risk awareness tools:** The development of more sophisticated tools using consumers inputs (i.e., location and type of property), building on historical data, to determine their likelihood of experiencing different NatCat events can be helpful. This even though the predictability of climate related events may become more and more difficult. These tools could be used to inform consumers, always relying on teachable moments, in a simple manner (i.e., traffic light system) about the specific NatCat risks their property may be exposed to.

2.6. Beyond specific risk awareness tools communication campaigns can be helpful. In fact, while communication campaigns can be expensive, in particular, as they target the general public, the behavioral experiment identified that this, amongst other measures, could help in increasing awareness and uptake of NatCat coverage. In particular, consumers would be keener to buy NatCat coverage following communication from public authorities on the risk their property may be exposed to. Targeted messages in specific risk area and/or prior to and/or following NatCat events may increase uptake and also lower the costs of such campaigns.

2.7. Measures raising risk-awareness and tax rebates emerged as the most effective tools to address risk perception issues and increase uptake of NatCat coverage.

Figure 10. Percentage of increase in likelihood, following the presentation of different scenarios, of buying NatCat products from baseline

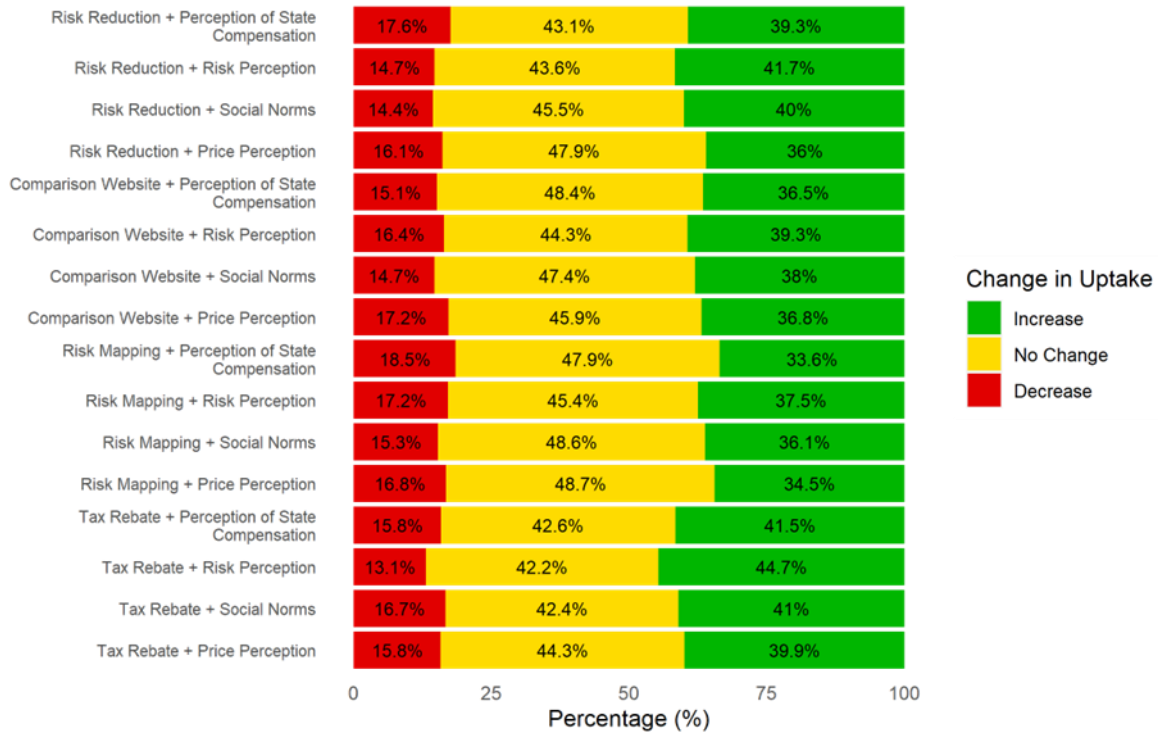


2.8. Creation of mechanisms to automatically inform in a user-friendly manner consumers about the existence of NatCat cover when new property ownership is registered, with clear evidence on the coverage characteristics, exclusions, coverage limits also emerged as one of

the possible tools which could ensure an increase in uptake as they raise awareness and also rely on teachable moments.

2.9. Ensuring offer is diversified and allowing consumers to easily access and compare insurance products – with a focus on key characteristics – can also increase uptake. The behavioral experiment carried out by EIOPA showed consumers may be more willing to buy NatCat products if independent and easy to use comparison tools were available. In particular, it emerged such tools should assist people in comparing all available insurance products with coverage for natural catastrophes, with enhanced comparison criteria in addition to price while ensuring that products remain comparable. *EIOPA's study on demand-side barriers* also showed this is most effective (a 38% increase in willingness to uptake insurance emerged) if combined with communications around social norms – i.e., consumers may be influenced by social norms to buy NatCat products and the availability of comparison websites would facilitate the buying process.

Figure 11. Change in likelihood of NatCat coverage uptake following selected policy measures and communication messages



2.10. In fact, once consumers' intentions to buy NatCat coverage arise, the behavioral experiment showed that they start searching for an actual insurance policy, and it is most effective if they are confronted with communications about other people who filed claims and who were paid out within a short time frame (social norms message).

2.11. Beyond simple comparison tools, *EIOPA's study on consumers' experience* showed that consumers would be more willing to explore purchasing NatCat coverage if products were simpler. On average consumers highlighted they would feel more comfortable in buying NatCat coverage if standardized products were to be available with standard coverage, exclusions and similar pricing practices. This, of course, would need to take into account geography specific NatCat risks and also give the possibility to consumers, who are willing to, to buy additional coverage. It should not hinder the offer of more sophisticated products to those target markets, which require them.

2.12. In line with promoting more standardization, EIOPA studies also highlighted that the implementation of product certificates and/or product labels indicating that the product meets a minimum quality standard (i.e., clarity on cover, exclusions, etc.) – similar to the label for the pan-European Personal Pension Product – could increase uptake as consumers would feel more confident about the fact that the product they are buying meets minimum standards.

- Do stakeholders see additional measures which could be implemented in the pre-purchase phase to raise awareness about risks?
- Which specific measures in stakeholders' views could be further tested and explored by EIOPA?

2.2. Purchase – Act on the Buying Process

2.13. While increasing awareness about the risks consumers are exposed to can lead to an increase in uptake of NatCat products, the studies carried out by EIOPA highlighted that there are also important barriers in the purchase process. In particular, even when aware about the risks they are exposed to and also when understanding the products on offer and the coverage, may still decide not to buy insurance coverage because of a number of barriers that emerge in the purchasing process.

2.14. As highlighted consumers perceive the purchasing process as often difficult and complex, leading to increased transaction costs in addition to the premium they are already paying. The behavioral experiment carried out as part of *EIOPA's study on demand-side barrier* showed that promoting consumers' journey simplicity can increase uptake of NatCat products:

- In particular, the development of more consumer-friendly approaches with less touchpoints in the purchasing process (i.e., digital channels) can reduce consumers' efforts on the product buying process and, hence, lead to overall lower transaction costs.

- Moreover, an increase in the amount of and improvement in the quality of information provided – i.e., make it more personal, appealing, etc. – by insurance manufacturers and distributors about NatCat offer can lead to increase in uptake.
- At the same time, due consideration should be given to the choice architecture and the way information is presented to consumers to support their choice for an optimal insurance product based on their risk profile and needs.
- To avoid issues relating to a mis-match between expectations and actual coverage, which can lead to broader implications as previous experience with insurance and social norms can have a significant effect on coverage, when NatCat cover is bundled with other products (e.g. property insurance), insurance manufacturers and insurance distributors should also ensure they provide adequate and detailed information on NatCat coverage, including exclusions and coverage limits.

2.15. Finally, while some demand-side risks can emerge by making NatCat purchase mandatory – e.g., focus on the lowest price as it is not perceived as a need – the implementation of specific mandatory measures – i.e., making the offer mandatory with default coverage and opt-out option for consumers could also lead to an increase in uptake.

- How can the purchase process be simplified?
- Do stakeholders' think POG can be used as a tool to ensure manufacturers put in place a purchasing process which is in line with consumers' needs?
- Which measures, in stakeholders' views, should EIOPA test?
- How, in stakeholders' views, it can be ensured that the implementation of mandatory coverage does not lead to an over-focus on price/perception of insurance as an obligation rather than a benefit?

2.3. Price and Insurability– Reducing the Price and Risk

2.16. Price and price perception have emerged as clear barriers to the uptake of NatCat coverage with a high percentage of consumers across the Member States covered in the studies not buying NatCat coverage either because they believe the price is too high, they perceive the price as being too high vis-à-vis the coverage offered, or because they cannot afford it regardless of whether it is high or not.

2.17. In light of this, as part of the behavioral experiment carried out by EIOPA a number of measures which would reduce the cost burden for consumers were explored. It emerged that:

- Consumers may be more willing to buy NatCat coverage if they were offered a tax rebate for investing in risk mitigations measures – this would also in turn reduce the risk for insurers as evidenced by EIOPA's work on impact underwriting – or for having that have insured their house adequately. This measure would also alleviate cost-benefit biases and the perception of NatCat insurance as a "nice to have" rather than a "must have".
- If consumers were offered premium discounts by insurers for taking risk-mitigation measures, they would be more willing to buy NatCat coverage and put in place risk-mitigation measures. Moreover, it also emerged that efforts could be made to make it easier for homeowners to find how risk mitigation measures can be applied and which measures will be more appropriate in their situation, this may include an online support tool.

2.18. Overall, by rewarding behavior that reduces risks and potential damages, both governments and insurance companies can reduce total loss and moderate economic impacts of adverse events.

2.19. Pricing risk appropriately, including by linking risk-mitigation measures with lower premiums, may introduce incentives for risk mitigation[41]. The differentiation of premiums in relation to risk provides an incentive for individuals to limit their risk exposure so that they become eligible for lower premiums[42].

2.20. With regards to risk mitigation measures, there is a positive relationship between risk perception and the willingness of homeowners to undertake mitigation measures[43]. This can be explained by the 'motivational hypothesis', according to which people undertake precautionary measures to reduce the risk they perceive as being high[44]. Thus, awareness raising among the population at risk, can reduce vulnerability and exposure to risks by increasing the level of private mitigation. To this extent consumers, which participated to EIOPA's behavioral exercise, also explained they would be more willing to buy NatCat coverage and adopt risk mitigation measures if long-term loans were offered to finance upfront costs for risk mitigation measures.

- Which price reduction mechanisms in stakeholders' views can be more effective?

[41] Botzen, W., & Van Den Bergh, J. (2008). Insurance against climate change and flooding in the Netherlands: present, future, and comparison with other countries. Risk Analysis, 28(2), 413-426.

[42] Michel-Kerjan, E., & Kunreuther, H. (2011). Redesigning flood insurance. Science, 333(6041), 408-409.

[43] Plattner, T., Plapp, T., & Hebel, B. (2006). Integrating public risk perception into formal natural hazard risk assessment. Natural Hazards and Earth System Sciences, 6(3), 471–483.

[44] Weinstein, N., Rothman, A., & Nicolich, M. (1998). Use of correlational data to examine the effects of risk perceptions on precautionary behaviour. Psychology and Health, 13, 479–501.

- While not explored in this paper, as it focuses on demand-side aspects, mandatory coverage can also reduce the price by further mutualizing the risks. Do stakeholders see demand-side related barriers and risks with mandatory coverage? If so which ones?
- How do stakeholders' think the perception of insurance as a more affordable product can be improved?
- What can be explored/done, in stakeholders' views, to provide more information and clarity on the value/utility products offer in a way in which consumers can understand the benefit of insurance?
- In your opinion, what could be more effective to address the protection gap while taking into account the affordability issue: a reduction in the risk-based premium following the implementation of risk mitigation measures, or a cheaper by default flat rate premium for all perils introduced as a mandatory offer (to increase uptake by consumers?)

3. Conclusions and Next Steps

3.1. With these two studies, EIOPA aimed at complementing its work on addressing the NatCat protection gap, from a demand perspective[45]. These studies focused on analyzing consumers' attitudes and perceptions of property damage insurance and NatCat coverage.[46] They also analyzed consumers' experience with these type of insurance products, with the aim of identifying the main reasons explaining the protection gap. Building on these findings, possible interventions to tackle the drivers identified were explored and consumer tested to propose a number of solutions which could work from a demand-side perspective in closing the NatCat protection gap.

3.2. The implementation of some of the solutions proposed would involve different stakeholders such as supervisory authorities, consumer organizations, insurance undertakings and/or policymakers. While a number of solutions explored would also entail supply side and government interventions, the studies looked at which of these measures would work best for consumers regardless of whether these would be feasible for implementation.

3.3. As part of the next steps, EIOPA expects to receive feedback from various stakeholders, by 05 October 2023, on: (i) the key risks for consumers; (ii) the identified drivers that may limit consumers' uptake of NatCat coverage; and (iii) the possible solutions proposed. As part of the consultation process, EIOPA will also organize a stakeholders' event to answer questions from stakeholders but also to receive further feedback.

3.4. Based on the feedback received, EIOPA may issue a revised Staff Paper and following the issuance of such Staff Paper, EIOPA will considering exploring further the implementation of one or more of the proposed solutions.

[45] EIOPA's other publications on the NatCat protection gap address offer aspects (see; Impact underwriting: Report on the Implementation of Climate-Related Adaptation Measures in Non-Life Underwriting Practices, and macro-prudential implications of protection gaps (see: Staff Paper on Policy options to reduce the climate insurance protection gap).

[46] NatCat insurance coverage is rarely sold separately, and usually is bundled with property insurance in almost all EU countries.

Annex I – Matrix of Possible Measures

Insurance industry	Drivers	Public authorities
• Raise awareness about opportunities for adaptation. • Raise awareness on mitigation and prevention measures.	**Misevaluation of risks**	• Increase awareness about existing risks. • Provide clear guidance on risky zones – develop accessible tools that provide consumers with first-hand information on the risk they are facing. • Design communication campaigns targeting consumers to match their Natcat risk perception with actual risks.
• Targeted marketing. • Provide clearer and more frequent information on Natcat risk offer (i.e. information to be more frequent and salient	**Price perception (as high) and low awareness of available insurance coverage options due to insufficient advertising**	• Provide Natcat insurance coverage as default option and give the consumer the possibility to opt out. • Automatic information provided on consumers' frequent touch points (e.g. when new property ownership is registered).
• Simplify the purchasing process. • Enhance product simplicity and ensure POG is implemented. • Implementation of simple product guidelines. • Provide adequate advise.	**Perception of a difficult and time-consuming purchasing process**	• Promote consumer journey simplicity. • Ensure comparability of all available insurance products with coverage for Natcat (PCW with enhanced comparison criteria additional to price). • Standardized disclosure.
• Design insurance policies which are easy to understand and comparable on attributes other than price, i.e. coverage etc.	**Contract complexity**	
• Provide guidance on minimum coverage to be offered, on sample terms and conditions.	**Exclusions**	• Promote the use of behavioral testing. • Supervisory POG and disclosure requirements. • Test exclusions vis-à-vis the target market's needs, objectives and characteristics. • Set requirements for the implementation of a product certificate to be applied to product meeting minimum quality standard (i.e. clarity on cover, exclusions, etc.).
• Design a supportive choice architecture that makes the essential information easily accessible.	**Choice architecture**	• Make the purchase process as simple and straightforward as possible by introducing 'design' elements. • Supervise the use of dark patterns.
	Financial/insurance literacy	• Targeted financial literacy initiatives.
	Insurance culture	• Highlight insurance benefits and alleviate cost-benefit biases and the perception of Natcat insurance as a "nice to have" rather than a "must have". • Incentivize the decision to purchase insurance with Natcat coverage as a social norm.
• Establish a quick claim settlement process.	**Lack of trust on insurers**	
	The belief that the State would cover the costs	• Highlight the limits to State post-disaster intervention.
• Explore ways to reduce the premium vs the implementation of risks mitigation measures and to increase insurability whilst reducing price.	**Affordability**	• Ensure non-discriminatory pricing. • Long-term affordable (no extra fees) loans to assist homeowners to pay large up-front costs in mitigation measures. • Fund assistance to low-income and other individuals living in specifically hazardous regions for them to get coverage. • Identify measures to reduce price such as tax rebates for insurance coverage or for mitigation measures.

Annex II – Summary of the Methodology Used

This annex details the methodological approach used by the two studies to fulfil each of their research objectives.

EIOPA's study on demand-side barriers, which was carried out with the support of a consortium formed by Open Evidence, S.L (OE), London School of Economics and Political Science (LSE), Block de Ideas, S.L.U (BDI RESEARCH) now Sago, had as main objective to identify the demand side drivers of the low uptake of NatCat products. The research activities used a mixed of qualitative and quantitative techniques. The country selection was made in such a way as to ensure coverage of markets with high and low insurance penetration rate. It also aimed at covering different NatCat schemes in place.

Task	Sub-task	Role
Task 1 – Identification of factors and drivers of the demand for NatCat insurance	Literature review	Literature review and desk research included review of academic and applied research. The purpose of the literature review was to synthesise existing evidence about the drivers and barriers to purchasing and continuing a NatCat insurance coverage. The explored aspects of the literature review were also used as basis for defining interventions that were tested as part of Task 3.
	15 qualitative interviews with consumers from one Member State	Tested in practice the barriers and drivers selected from literature review against actual experiences and attitudes of consumers. The aim was to gather qualitative information about the choices consumers made as well as reasons for non-insurance. Mostly homeowners for more than ten years, 1 for less than ten years and 1 who intends to be. Half with a loan, other half without. Home insurance (4 had in the past, 4 never had one, 7 currently have one). NatCat coverage, out of the seven 4 had basic coverage and 3 had more than basic. Equal gender distribution. Representative distribution in terms of region.
	Interviews with stakeholders	
	Review and analysis of market practices in four Member States	Gathered evidence about the supply of NatCat coverage and marketing practices in one Member state. Collected information about market practices in three other countries with comparable risks to identify examples of approaches that could potentially be transferred to the targeted Member State.

		This was also used as basis to define the interventions as part of Task 3.
	Development of the draft behavioural model	The research undertaken above served as basis to define the behavioural model that underpinned the survey and experiment in Tasks 2 and 3.
Task 2 – Assess consumers' behaviours and attitudes towards NatCat insurance	Consumer survey in the four countries in scope involving 1,000 respondents per country	Quantitative assessment of how the factors identified in task 1 influence behaviour and the extent to which they are prevalent in the targeted Member state compared to other three countries used as benchmark.
	Development of incentives	Based on the identified behavioural drivers and based also on the information about market practices in other countries, the study has proposed different intervention design, practices etc. that were tested as part of the behavioural experiment.
Task 3 – Test different incentives that could increase take up of NatCat insurance	Behavioural experiment integrated into the survey targeting 1,500 (aspiring) household owners in the Member States with the lowest uptake	The experiment tested policy options and communication interventions that could contribute to reduce the production gap. The design put in place was set up to expose all participants to each of the policy-based intervention subsequently while only being exposed to one of the communication-based intervention. This was done so to successfully disassociate the effects of communication strategies on the decision task. The following policy options were tested: - Tax rebate, - Risk mapping, - State guarantee & insurance benchmark, - Risk reduction incentive. The following communication measures were tested: - Perception of state compensation/ information about the limits, - Risk perception/information about risk, - Price perception/setting anchor and focus on values, - Trust and Social norm/social proof.

EIOPA's study on consumers' experiences, which was carried out with the support of Kantar Public, Centre for European Policy Studies (CEPS), Behavioral Public Policy and Economics GmbH (BEHAVIA) and University of Amsterdam (UVA) and thanks to funding from the EC DG REFORM, had as main objective to analyze consumers' experience with property damage coverage in the event of NatCat and identify and assess possible risks and detriment for consumers – e.g., a mismatch between consumers' expectations and actual coverage, delays in claims management processes following catastrophic events etc. The research activities used a mixed of qualitative and quantitative techniques. The country selection was made based on the following criteria: geographical location to obtain a geographical balance, exposure to hazard, vulnerability, insurance coverage rate and the type of insurance schemes.

Task	Sub-task	Role

Task 1 – The interplay between consumer needs, preferences, and behaviours (and possible biases) and supply side characteristics that influence their decision-making regarding NatCat insurance coverage purchase.	Literature review of scientific publications and academic research and desk research	To get insight on consumer preferences and behaviours influencing their purchasing decisions for NatCat insurance coverage, as well as to define the institutional supply side characteristics and policies. The literature review collected insight on: - What are consumer needs, preferences, and behaviours (and possible biases) that influence their decision-making regarding NatCat insurance coverage purchase. - How NatCat insurance coverage is usually offered (property damage insurance, types of insurance contracts; bundled or not, and if so, bundled with what other types of insurance). - What are the trends in the purchase of NatCat insurance products across countries, and whether consumers in areas prone to natural hazards are usually covered (data regarding insurance's penetration).
	Four in-depth interviews with representatives of national consumer associations in the countries selected for the behavioural experiments	To gather insights on the supply-side and demand-side factors (including socio-economic situation and behavioural biases) influencing consumers' willingness and decision to buy NatCat insurance coverage, the extent to which the current offer meets the demand and needs of consumers, and the potential issues in claim settlement leading to consumer detriment.
	Two focus groups in two Member States with 8 participants each;	With the objectives to analyse consumer experiences with property damage coverage in the event of NatCat and to assess supply side characteristics and other factors influencing their purchasing decision for NatCat insurance coverage. The findings of the focus groups were used for the analysis and for the refinement of the design of the experiment.
Task 2 – Consumer experience with NatCat insurance products and bundling of different insurance products	Experimental survey in four countries with a sample of 1,200 respondents per country. The total sample amounted to 4,857 respondents.	Participants were first randomly assigned to one out of twelve vignettes (Vignette Study), next they had to make multiple consecutive choices between two insurance products with a different combination of attributes (Discrete Choice Experiment), and finally they answered a set of questions (post-experimental questionnaire).

	Randomized vignettes with different scenarios to elicit attitudes toward NatCat insurance	The vignette technique involves randomly presenting minimally contrastive versions of a single vignette to respondents. Respondents were presented with one of twelve vignettes in which a couple had to decide whether to purchase or not insurance coverage for NatCat. The experimental scenarios in the vignettes concern the level of risk, the charity effect (i.e., expectation that the government pays the damages), and the level of trust that the presence/absence of opaque exclusions may generate.
	Discrete Choice Experiment (DCE) where participants select NatCat products with different sets of attributes	DCEs are an attribute-based survey method for measuring benefits (utility). DCEs present respondents with samples of choice sets extracted a priori from all possible choice sets according to statistical design principles. Participants were exposed to multiple consecutive choices between two versions of an insurance product covering natural perils, where three attributed varied: - cost of the product, - type of price (fixed flat rate versus premium based rate), and - level of coverage of natural perils.
	Post-experimental questionnaire	The post-experimental questionnaire comprises the following sections: - Section 1. NatCat experiences and perceived risks. - Section 2. Insurance profile. This section seeks further information on whether individuals are insured against natural catastrophes, whether they have filed a claim (if they have been exposed to natural catastrophes), what their experience was in this case and what was their experience with their natural catastrophe coverage if they experienced an event. - Section 3. Self-reported measures on awareness, understanding and behavioural intentions related to NatCat insurance products. - Section 4. Socio-demographic profile to measure socio-economic vulnerabilities of participants. - Section 5 on responsibility attribution, trust, and risk preferences. The extent to which individuals attribute responsibility to others, or to themselves, for insuring against natural catastrophes can determine their attitudes towards NatCat insurance products.
Task 3 – Analysis and recommendations	Analysis and recommendations	A set of policy recommendations were established based on the previous tasks outcome.

Annex III – Acronyms and Abbreviations

DG REFORM	Directorate-General for Structural Reform Support
EU	European Union
EC	European Commission
EIOPA	European Insurance and Occupational Pensions Authority
MSs	Member States
NatCat	Natural catastrophe
NCAs	National Competent Authorities
PI	Property Insurance
POG	Product oversight and governance
IPID	Insurance Product Information Document
MTPL	Motor and motor and third-party liability insurance
PCW	Price comparison websites

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