

Answers of the European Financial Congress¹ in relation to the European Insurance and Occupational Pensions Authority's consultation on the proposal of blueprint for an awareness tool for natural catastrophe risks and prevention measures²

Methodology for preparing the answers

The answers were prepared in the following stages:

Stage 1

A group of experts from the Polish financial sector were invited to participate in the survey. They received selected extracts of the EIOPA's consultation document and the consultation questions translated into Polish. The experts were guaranteed anonymity.

Stage 2

Responses were obtained from experts representing:

- insurance firms
- regulators
- consulting firms,
- the academia.

Stage 3

All the responses were collected, anonymised and the survey project coordinators prepared a draft synthesis of opinions submitted by the experts. The draft synthesis was sent to the experts participating in the survey with the request to propose modifications and additions as well as marking the passages they did not agree with.

Step 4

On the basis of the responses received, the final version of the European Financial Congress' answers was prepared. The final version of the answers was translated into English and submitted to the EIOPA.

¹ The European Financial Congress www.efcongress.com is an independent think tank focusing on economic and financial issues. Its goal is to engage in debate on the security and stability of the financial systems as well as sustainable economic growth of the European Union and Poland. The EFC is run by the Centrum Myśli Strategicznych. The EFC Project dedicated to insurance is EFC Insurance: Sales, Innovations, Risks <https://www.efcongress.com/usir/>

² https://www.eiopa.europa.eu/document/download/797aa396-1d69-415b-b535-89571c808728_en?filename=14.EIOPA-BoS-24-467_Blueprint%20to%20raise%20risk%20and%20prevention%20measure%20awareness.pdf&prefLang=pl

Answers of the European Financial Congress to consultation questions

Define the location to perform the analysis

Q1a: Do you have other suggestions in addition to the ones already proposed?

The tool should allow simultaneous browsing of location options, enhancing its functionality. Clients could indicate their location on a map instead of providing an exact address, which would increase flexibility and accuracy of information.

Additionally, it is essential for the tool to have the capability to retrieve addresses from geolocation on mobile devices, aligning with user expectations as they are accustomed to sharing their location. However, it is crucial to ensure that this process occurs with the informed consent of the user, emphasizing the importance of transparency and privacy protection.

Q1b: Do you have other arguments that could support or invalidate any of the options proposed?

In the context of the proposed options, Option 2 and Option 3 do not provide valuable information for those interested in the topic and can be replaced by Option 4, which is more precise. In many locations in Poland, Options 2 and 3 may lead to inaccuracies, misleading users. For risks such as flooding, information about postal codes or even the street itself can be misleading, as seen in places where the entire area shares one postal code, yet there can be significant differences in risk.

The best solution seems to be providing the exact address and geocoding or indicating the insured object on the map. For other risks considered in the tool, the postal code may suffice. Option 1, which contains essential information from a risk management perspective, is the most preferred, as it provides accurate location data, crucial for claims handling and risk mitigation. Arguments against entering location data are unconvincing, as using geoportals also requires property data input, which is not a significant issue, especially when the benefits of using the tool are appropriately highlighted.

Q1c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

The most beneficial options are Option 1 and Option 4, which provide freedom and precision of information. Option 1 is precise and significant for future investment decisions, while Option 4 minimizes the risk of data theft. The best solution is to combine both options, allowing for the mapping of risks with the ability to search areas with varying degrees of accuracy, including specific addresses. It is important to ensure that specific addresses are not unnecessarily collected to minimize regulatory risk. However, providing an exact address may discourage some users. Current regulations regarding life protection are sufficient, and the client's interests are adequately safeguarded.

Risk score

Q2b: Do you have other arguments that could support or invalidate any of the options proposed?

It is worth mentioning that from the perspective of making decisions about purchasing insurance or implementing additional preventive measures, information about current risk is crucial. It is important to remember that insurance contracts are typically short-term, most often annual, so information that looks into the future will have informational value (potentially raising awareness) but rather without a real impact on the actions taken by individuals.

Moreover, Option 2 is heavily dependent on the chosen model, making it more susceptible to errors. Adding information about forecasts or climate impact on risk may complicate the risk assessment, so the measure in the tool should be based on the current state of affairs and history.

Q2c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

Risk modeling that considers the past and anticipates the future can be valuable but may be difficult for the "average" user to interpret. A simple risk assessment categorized as Low/Medium/High/Very High, with appropriate commentary, may be more accessible.

Moreover, while including both current risks and those arising from trends such as climate change could enhance users' awareness of increasing risks, it is crucial to prioritize information about the actual current risk when making decisions about purchasing insurance or implementing additional preventive measures.

Risk score - methodology

Q3b: Do you have other arguments that could support or invalidate any of the options proposed?

Option 3, while comprehensive and tailored for risk assessment, it requires detailed data inputs and frequent updates to stay accurate. Moreover, creating a comprehensive assessment for each type of building can be costly and challenging, so a simpler and more accessible form of risk assessment may be more effective.

Q3c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

While professional experience indicates that Option 3 would provide the most comprehensive information as it considers all relevant aspects of risk assessment Option 1 and Options 2 seem easier and more pragmatic from the implementation perspective.

Risk score - disclosure

Q4a: Do you have other suggestions in addition to the ones already proposed?

One suggestion that could enhance the proposed solutions is to combine a map with a warning system. Clients could see their home on the map and select different layers of hazards, which would color accordingly, allowing them to visualize the risk. By clicking on their home, they would receive information in the form of a bar indicating the level of risk—from low to very high. This list could encompass all supported risks, increasing user awareness and enabling better decision-making regarding the protection of their property.

Q4b: Do you have other arguments that could support or invalidate any of the options proposed?

Other arguments that may support the proposed options highlight the value of using a map in Option 2. Maps are widely used in various assessment areas, such as presenting engagement in achieving Sustainable Development Goals and other aspects of sustainability. They allow for a broader perspective on data and enable comparisons between different locations and risks. We are accustomed to international representations presented in map form, making this method more intuitive and understandable for users. Therefore, utilizing a map in the context of risk assessment could enhance transparency and facilitate decision-making.

Q4c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

Option 2 can provide the most benefits as it allows for showing the hazard in a specific location and comparing it with other areas, which provides valuable information to potential users. The map enables visualization of the risk distribution geographically, making it clear and intuitive. Option 1 is also sufficiently clear and easy to understand; however, combining it with risk visualization on a map using color coding could be the optimal solution. This approach offers both a quick overview and access to more detailed indicators regarding existing risks.

Prevention measures

Q5a: Do you have other suggestions in addition to the ones already proposed?

One suggestion that could enhance the proposed solutions is to include information about property elements that can help minimize risk. While renovating a house is not straightforward, if such renovations occur, they should be done in a way that enhances safety. Additionally, as part of general recommendations, it would be beneficial to include advice on ensuring the functionality of fire safety measures for emergency use, as well as having an application that provides instructions and information about a first aid kit. In emergency situations, under intense stress, even individuals familiar with first aid principles may struggle to apply them, which can lead to serious consequences.

Insurance information

Q6b: Do you have other arguments that could support or invalidate any of the options proposed?

If there is no systemic solution for catastrophe insurance in the country, Option 1 may be impossible to implement.

Q6c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

Proposed options present different approaches, but provide relevant information for the decision-making process. However, it is crucial for the solution to provide an easy access to basic information about the scope of insurance coverage, including limits, exclusions, and claims reporting instructions. Additionally, information about available systemic solutions related to natural disasters could also be useful, but not essential. In addition, specialized terms should have references to definitions for those without basic insurance knowledge.

Insurance information - disclosure

Q7a: Do you have other suggestions in addition to the ones already proposed?

One suggestion that could enhance the proposed solutions is to include information about the formal actions that should be taken to ensure that the insurer does not deny a claim. Examples of such actions include electrical inspections or chimney sweeps. In some cases, adhering to these formalities can significantly impact insurers' decisions regarding claim payouts or limiting their liability through appropriate deductions, such as when damage to electronic equipment results from the lack of a valid electrical inspection.

Q7b: Do you have other arguments that could support or invalidate any of the options proposed?

The suggested solution is appropriate and meets expectations.

Q7c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

See answer in 6c.

Prevention measures on buildings

Q8: Are you aware of any open-source database regarding risk prevention measures in the context of natural catastrophes?

Yes, there are open-source databases that provide meteorological data and indicate exposure to ESG risks. Examples include the Copernicus, NASA (GISS Surface Temperature Analysis), and national meteorological institutes like IMGW in Poland. However, these sources contain limited information on preventative measures against natural disasters. For closed databases, it may be beneficial to explore partnerships with meteorological institutions such as IMiGW, which possess specific data on weather phenomena.

Q9: Would you categorize risk prevention measures, and if so, along which dimensions?

Categorizing risk prevention measures can be conducted according to various parameters, allowing for a better understanding of their effectiveness and application. One can assess the effectiveness of individual measures in minimizing risk and analyze the costs of their implementation. It is also important to consider the order of implementation and their availability for users. Additionally, categorization can be introduced based on the type of weather phenomenon and a division between systemic and individual measures.

Prevention measures on buildings - disclosure

Q10b: Do you have other arguments that could support or invalidate any of the options proposed?

Interactive visualizations are always well-received by users, making them an effective tool for presenting risk information. Option 1 appears to be the most interesting, as it provides simple information that enhances risk awareness and indicates mitigating and alleviating measures. However, it is important to note that its implementation may be costly. Nevertheless, the benefits of better educating users about risk may outweigh these costs, making this option worth considering.

Q10c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

Option 1 could provide the most benefits as it offers simple information that enhances risk awareness and indicates mitigating and alleviating measures. Users are more likely to absorb information presented in an attractive visual format, which increases their understanding. In contrast to Option 2, which may contain too much text, making it likely that most people will not read it to the end.

Impact of prevention measures - methodologies

Q11a: Do you have other suggestions in addition to the ones already proposed?

Providing detailed information on preventive measures also necessitates changes to the existing insurance product offerings. In practice, only a few insurers currently offer actual discounts for implementing preventive measures, as evidenced by the implementation of taxonomies. Consequently, this raises the question of whether such information will indeed be utilized effectively.

Q11c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

Both options are similar. Option 1 enhances insurance awareness, which is important. On the other hand, Option 2 offers clearer examples. A preferred solution could be a combination of both options to leverage their strengths. Nevertheless, as mentioned above, it is important to take into account the actual availability of such an offer on the particular insurance market.

Impact of prevention measures - disclosure

Q12b: Do you have other arguments that could support or invalidate any of the options proposed?

Other arguments that may support the proposed options highlight the aesthetic appeal of the solutions. Option 1 is clear and modern, which can attract users. However, an important factor to consider is how such protections will affect insurance premiums in different countries. While the solution may be visually appealing, its actual impact on insurance costs is crucial for assessing its effectiveness. It is also worth noting that the graphical option is usually more appealing to the user.

Q12c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

Option 1 is clear, accessible, and simple to use, making it the preferred choice. However, it is important to clearly state that the amount of discount may vary depending on the insurance company, as each insurer autonomously assesses risk and sets pricing. It is also important to take into account the low availability of insurance products offering discounts to individuals for preventive measures mentioned above.

Raising awareness in the purchasing process

Q13b: Which arguments could support or invalidate any of the options proposed?

Option 1 is recommended for several reasons:

1. **Simplicity:** It is the simplest approach, which typically ensures easier implementation.
2. **Independence of Assessment:** Publishing an assessment that may differ from the insurer's internal evaluations, as suggested in Option 2, should be avoided to prevent inconsistencies and potential conflicts of interest in premium calculations.
3. **Scope of Impact:** Option 3 is limited in its applicability as it primarily targets individuals purchasing homes, thereby restricting its broader utility.

Q13c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

Experience indicates that Option 1 will provide the most benefits as it allows for quick updates of information.

Taking actions

Q14b: Which arguments could support or invalidate any of the options proposed?

Option 1 provides practical and concrete advice, making it useful for users. Option 3 is the most attractive from the insurance market perspective, however such an options should not prioritize any of the insurers.

Q14c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

A preferred approach would be to combine Options 1 and 3 to provide simple recommendations and facilitate finding the right insurer.

Measure the impact of the tool

Q15b: Which arguments could support or invalidate any of the options proposed?

Regular surveys may be perceived as too intrusive for users, potentially leading to frustration. Instead, monitoring users and market changes could be a less invasive way to collect KPI data. As market data may not be easily available it is recommended to monitor the number of people using the tool.

Q15c: In your experience, which option do you consider will bring more benefits for the outcome of the tool?

Option 3 allows for a real assessment of the tool's application. It provides insight into individuals interested in and at risk of catastrophic damage, which can translate into the number of insurance contracts signed.

It is also important to conduct preventive campaigns that raise awareness of the significance of preventive measures..

Q16: Do you have any other comments on the consultation paper?

The document contains positive ideas, particularly highlighting the implementation of a tool that can enhance insurance awareness and support the development of optimal insurance protection for consumers. However, it is important to note that a significant challenge may be the cost of implementation, as well as the availability of data necessary to create an optimal solution.

General comment

There is a significant risk that people living in non-threatened areas may be tempted to opt out of insurance coverage for weather related risks. This means that fewer individuals will contribute to premiums for such risks. Consequently, prices for those living in areas prone to catastrophic events may significantly increase, leading to reduced availability of insurance and a substantial rise in the insurance gap.