

## 1. Consumers' understanding of insurance products and (perceived) affordability as a barrier to uptake

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*In your views, to what extent could affordability be considered a major barrier to Natcat uptake?*

The cost of Natcat insurance as a barrier to uptake, should be closely monitored. Today it varies depending on the region, but in the near future, it can be a common issue. Therefore, measures increasing resilience to climate change impact are crucial to ensure that natural catastrophe risks remain insurable and affordable. Furthermore, it is important to increase the awareness of people about their risk exposure and the need for natural disaster insurance coverage. Awareness campaigns and financial education are key in this regard. Additionally, sharing historical loss data from natural disasters to show the severity of losses and the importance of having insurance coverage could help.

This of affordability is rising in high-risk areas, like flood zones, but only—strong winds and hail are spread all over the countries. Present data show that the increase in claims due to climate change-related perils such as floods or drought on housing will justify very soon increases in premiums (either in particular areas or throughout entire countries, depending on the system in place), and will raise some doubts on the ability of the private sector to cover certain risks, in certain areas, at affordable prices in the near future.

Irrespective of whether there is a problem of affordability or not, it is also important to keep in mind that this question is relevant not only for households but also for the business sector, in particular SMEs.

*What are your views in relation to making consumers more aware of the price of Natcat insurance whilst avoiding an over-emphasis on price?*

Insurance is not an intuitive mechanism, and different approaches can be taken.

The pricing of hazards and risks is essential to understanding the risks. But there also has to be a fair presentation of the price of inaction. Explain that the cost per day is small in order to put the cost of insurance in perspective could be also a solution. The value of an average claim could also work.

*What are your views as to how can product simplicity/consumers' understanding be improved, without impacting the level of coverage offered?*

Understanding of insurance products can be improved through financial education initiatives.

The focus should not be solely on simplification. When it comes to Natcat insurance, policyholders' needs may differ given the different market dynamics and the specific risks they may face. Therefore, it is important that Natcat insurance products meet these specific consumer needs.

Related to the above, there should be a more straightforward way of 'pricing' or quantifying losses. If the insurer/broker is for example better able to show or help the client understand what the possible losses might be in specific scenarios this could improve the understanding. From a customer point of view, however, there will always be the concern that if the risk is well-known the pricing of it will almost act as a disincentive.

Appropriate enforcement of POG could be helpful. Product adjustment to the insurance needs is critical here, also taking into account geographical location. The coverage of insurance products should take into account local high Natcat risks. Definitions of particular perils can influence the coverage, like the speed of wind. It does not restrict the exclusion of coverage but requires information that the product does not include important risk.

To avoid potential downsizing of insurance coverage, complaints and lack of trust in the future, particular risks' definitions, as a reference point (not as a required coverage) can be helpful. Those definitions might be worked out by public authorities, academia and the insurance industry.

## 2. Previous experience with insurance and social norms as a barrier to uptake

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*To what extent do you agree that previous experience and social norm can have a significant impact on uptake of insurance products?*

Generally, we agree. Therefore, positive experience with private Natcat coverage, where insured individuals received payouts quickly compared to those relying on state intervention, should be emphasised. Of course appropriate attention should also be given to the negative previous experiences in order to be fair.

To a large extent. It is also worth arguing here that this norm-barrier applies across the range of customers of insurers. The delays in settling the claims can also be a criterion.

Research at Warsaw School of Economics confirmed that experience is more positive if a policyholder faces a claim process. For this reason, the adequacy and understanding of coverage and quality of the complaint process are critical to avoid a bad reputation

*In your views, what 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.*

Provide advice on nat cat hazards and preventative measures that can be implemented by policyholders to decrease their risk exposure.

Be fast and effective with claims management in times of crisis.

Acts of goodwill, such as sharing e.g. flood risk maps with ideas of pricing to help guide customers/municipalities

Real cases are always useful. However, if this is a rare but severe event, the story will repeat, or come back to the past event, like the flood in Poland in 1997.

## 3. Risk perception and expectations on public support as a barrier to uptake

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*Are you aware of any initiatives aimed at enabling consumers to properly assess the type of risks they are exposed to?*

There are initiatives available in several countries across Europe (e.g., Germany, Austria, France, Spain, Switzerland, Poland, etc.) that aim at enabling consumers to properly assess the risks they are exposed to. Such initiatives include hazard and risk maps, as well as educational material for policyholders regarding their Natcat coverage. But they are barely known. There is a need to make it popular within local communities.

*To what extent would you agree that there is often a misperception between when and how public authorities would intervene and their actual interventions?*

We agree. There is often a misperception of the level and speed of state intervention following a Natcat event. To avoid public frustration and increase the uptake of private Natcat insurance, it should be clearly communicating if, how and when the state will intervene (or not) in the event of a Natcat disaster.

From a short discussion with Risk Managers in the FERMA Sustainability Committee there is indeed a fairly widespread perception that Municipalities will intervene at some stage. However, there seems to be little or no clarity on when, how or to what extent they would intervene, nor what their actual interventions would look like. It is therefore probable more work/information is needed in this area.

Unfortunately, sometimes such public intervention is a part of a political campaign and makes the situation of

the insured even worse (i.e. public intervention is dedicated in the first place to those without any other coverage).

## 4. The insurance purchasing process as a barrier to uptake

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*To what extent do you agree that the purchasing buying process can be a barrier? And if so, in which way?*

The purchasing process can indeed be a barrier, to a certain extent. The purchasing process is regulated by EU legislation, in particular by the Insurance Distribution Directive (IDD), and by national requirements. Therefore, the steps to be followed and the information to be provided to consumers (including contents, format, terminology, etc) depend to a large extent on the relevant regulations in place. Therefore, there are limits to the initiatives that insurers can take to simplify the purchasing buying process, while authorities and legislators can play an important role in streamlining the requirements. For example, in some cases, the process could be digitalised and perhaps further simplified. This may require digitalising existing paper-based regulatory requirements, such as those in the IDD, and making them more user-friendly. Certainly, it can be from the point of view of corporate clients of insurers. Increasingly, insurers are asking ESG-related questions, but the relevance of the customers' responses remains unclear to the customer (possibly even to the insurer and broker). In some very limited, individual, strange cases, ESG arguments led to a denial of insurance coverage, whereas overall, the topic has only been perceived as an administrative burden.

Simplification of the purchasing process requires work at the stage of POG. Default coverage based on geolocation could make things easier. If data on risks allows identifying major NatCat perils in a particular area, Default coverage should cover these perils. For example, the coverage depends on the ZIP code. The accuracy of the coverage can be reviewed by a distributor if different from an insurer. Regulatory and supervisory sandbox should allow insurance companies and insurtechs to test such products.

*In your views, what measures could be put in place to facilitate the purchasing process?*

The sales process is regulated by EU legislation (ie., IDD) and by national requirements. Therefore, the steps to be followed and the information to be provided to consumers (including contents, format, terminology, etc) depend to a large extent on the relevant regulations in place. Therefore, there are limits to the initiatives that insurers can take to simplify the purchasing buying process, while authorities and legislators can play an important role to streamline the requirements.

Digitalisation of the process, to facilitate access to information, products and services is crucial. This will require updating the existing regulatory framework (see above on IDD) to accommodate innovations in the digital space.

Insurers could raise awareness about policyholders' risk exposure during the buying process. Better access to information about how to quantify risks or hazards, which would help the customers have a head start in negotiations about transferring part (or all) of the risk, is also important. The purchasing process could/should be linked to the claim process, especially within digital channels.

*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?*

One way is to illustrate the magnitude of past losses.

Insurers could consider innovation and additional services to add to a coverage. This is especially so in the SME segment, where many SMEs could perceive insurance as a tax. If a SME is paying premium for NatCat coverage in their property insurance, they might not perceive a 'benefit' to the coverage unless there is actually an (unfortunate) event. This would therefore imply that for a SME to feel more 'value-added', as part of the coverage could come some advisory / guidance on adaptation measures, etc.

There should be more focus on preventive measures/services providing a kind of general risk management

for households and SME.

*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?*

Streamlining regulatory disclosures and removing duplicative disclosures could improve accessibility of the information provided to consumers and avoid information overload and confusion.

There is a risk that any move towards a standardisation of coverage, or any more stringent requirements on product design or specifications on how coverage would look, would end up in more exclusions/more restrictive coverage for the customer.

In the case of POG, enforcement is rather more important than details.

## **5. Options to address barriers at the pre-purchase stage**

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*In your views, what other additional measures could be implemented in the pre-purchase phase to raise awareness about risks?*

Raising awareness about risks in the pre-purchase phase requires a comprehensive approach, which could encompass continuous education at schools, awareness campaigns and advice on hazard levels for customers at the offer stage.

That is why accessible information on how to quantify risks—especially for SMEs and Households are of critical importance.

*In your views, which specific measures could be further explored and tested by EIOPA?*

- Government-led informational campaigns and school-based educational programmes to help individuals acquire a more comprehensive understanding of financial concepts, including the role of insurance as a risk transfer mechanism.

## **6. Default coverage depending on geolocation and tax deduction link to risk covered. Options to address barriers at the purchase stage - act on the buying process**

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*How can the purchase process be simplified?*

Digitalisation has the potential to enhance transaction speed, efficiency, and accessibility, potentially lowering costs. This requires an EU regulatory and supervisory environment that fosters innovation.

Standard risk definition and default coverage based on geolocation (described above) can be also helpful.

*Do you think POG can be used as a tool to ensure manufacturers put in place a purchasing process which is in line with consumers' needs?*

The IDD POG already ensures that the distribution strategy aligns with the needs of consumers. See response above in section 4

*In your views, which specific measures could be further explored and tested by EIOPA?*

We suggest exploration thematically of 'other options' such as ILS, CatBonds, parametric cover—while not necessarily a 'measure' for EIOPA, it is more about allowing space for market-led innovation in some instances.

There are also other measures, like mock-up product testing, especially the digital version.

*In your views, how can it 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?*

The concept of mandatory insurance should be considered with extreme caution as it may not be well-tailored to each client, and it may also disincentivise customers to take out all preventive and risk mitigating measures.

Considering the diverse market conditions within the EU (eg risk exposure, market penetration, traditions), it is important to avoid a one-size-fits-all approach. Mandatory coverage may be appropriate in certain markets but not in others.

## **7. Options to address price and insurability – reducing the price and risk**

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*In your views, which price reduction mechanisms can be more effective?*

Some form of premium rebate for the client going over and above a basic level of risk mitigation etc.

*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 you see demand-side related barriers and risks with mandatory coverage? If so which ones?*

More policies in one area may not necessarily reduce individual premiums. For instance, if a major Natcat event impacts many policyholders in a wide geographical area, it could cause significant losses for the insurers concerned. This means that for mutualisation to work in practice, it has to be ensured that there is true risk diversification. At the same time, due consideration needs to be given to the importance for the premium paid to reflect the risk being underwritten.

Mandatory coverage is complicated since it may disincentivise proper risk management and may end up in providing coverage that does not suit all the clients.

*How do you think the perception of insurance as a more affordable product can be improved?*

We propose comparing the cost of insurance products with other products, such as fast food. Some more accessible information about what the price of inaction/uninsured is, can be also useful

*What can be explored/done, in your 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?*

Insurers already present it in such a way that 1 euro invested in insurance may help you save X euros of investment in case of an event, so this needs to continue. Some non-pecuniary elements could also be embedded into the product offerings that somehow assist clients.

*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?)*

There are opinions that a reduction in premium offer would be more persuasive. However it is crucial that pricing reflects accurately the actual risks, in order to prevent hiding the real costs and encouraging moral hazard. Considering the various market conditions in Europe, one-size fits all approach should be avoided. It is necessary to continue the research.