OECD Conference on the
Financial Management of Flood Risk
Building financial resilience in a changing climate

PRESENTATIONS –
SESSION 5

12-13 May 2016
Paris, France
The National Flood Insurance Program - United States

**Strengths**
- Covers almost the entire country
- Building and land use standards related to flood risk
- Available to all homeowner and renters
- Price Stability

**Weaknesses**
- Binary understanding of risk “In or out”?  
- US Treasury (taxpayers) bears the Program’s debt
- Limitations of a federal government-run program
- Policyholders don’t understand their risk

- The Federal government underwrites the Program, which is largely delivered to customers through private sector insurance companies
- Insurance is a mitigation and disaster recovery tool - residential survivors of flood disasters recover more quickly and fully when they are insured
- The NFIP faces public policy challenges around solvency and affordability
Spanish extraordinary risk coverage system
Consorcio de Compensación de Seguros (CCS)

Model: Public-private partnership solution (1954)

Management: CCS (public institution with own legal nature and assets. Non profit)

Method: Direct coverage compulsorily included in policies issued by companies

Comprehensive coverage:
* Lines of insurance: property, life and personal accidents
  * Risks covered: Nat. Cat. (Floods & others) and Terrorism
  * Exposures covered: Properties and persons
  * Damage covered: material & BI – Death & disabilities

Philosophy: Principles of compensation & cooperation with market (no competition)

Price: Compulsory surcharge. It differs by type of exposure (Aggregate risk-based tariff)

Financial instrument: Equalization reserve (2015: 7.3 bn. €) – State guarantee (never used)

Target: Availability, affordability, financial strength, insurance market resilience

Challenges and Commitment: climate change impacts & involvement in risk reduction strategies
French Protection Covers Against Natural Disasters

French Nat Cat scheme principles

- Solidarity
  - Same additional-premium insurance rates
- Responsibility
  - Prevention incentives
  - Financing prevention
  - Efficient claims management promotion
- Public-private partnership
  - Scheme supervised by French State
  - Use of the insurance industry's networks and mechanisms
- Widespread coverage
  - Multiperils cover
  - Affordability
  - High penetration rate
- Stability
  - Long-term visibility
- Guarantee solvency and sustainability
  - State guarantee to deal with exceptional circumstances
Main French Nat Cat scheme figures

<table>
<thead>
<tr>
<th>Solidarity and affordability</th>
<th>Penetration rate ~99 % in mainland France</th>
<th>Average premium for residential risk ~17 €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevention</td>
<td>~€ 200 million for prevention measures</td>
<td>~ 10 000 communes * with PPR</td>
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<tr>
<td>Widespread coverage</td>
<td>Nat Cat recognition 1982-2015 &gt; 200 000 *</td>
<td>Total compensation 1990-2013 € 23 billion</td>
</tr>
<tr>
<td>Guarantee and sustainability</td>
<td>Potential loss without State intervention €5.8 billion</td>
<td></td>
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</tbody>
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* These communes represents 68% of flood losses

Risk assessment to improve prevention and risk management

Development of expertise on Nat Cat perils in France

Multidisciplinary approach
Data collection
Knowledge production
Climate change projection
Risk assessment
Scientific partnerships
Hazard and vulnerability modeling
Insured and economic losses estimation

Contribution to risk management of French State

Nat Cat scheme equilibrium
Non-insured losses coverage
Gap analysis
Cost-benefit analysis
Services to insurers

Contribution to prevention
Risk management
Thank you for your attention
Flood Re

Strengths

• Solution to a long standing problem relating to the availability and affordability of flood insurance benefitting up to 500,000 households

• Customers continue to buy their home insurance in the same way. Flood Re sits in the background

• Customers and insurers given certainty through affordable levy and excesses, and through approach of ‘following the fortunes’

• Financial certainty through statutory levy on insurers spread proportionately according to GWP

• Owned and operated by the insurance industry with public accountability to Parliament

Weaknesses

• Length of time from initial idea of Flood Re to launch due to complexities of negotiating with Government and the insurance industry

• Arguably reduces incentives for householders and communities to take action to reduce risk

• Fixed levies and premiums regardless of risk

Aidan Kerr, Operations Director, Flood Re
What is the flood insurance problem?

Insurance losses by natural hazard

Estimated Australian Government expenditure pre and post disaster, 2002-03 to 2014-15

*A larger bubble represents a greater proportion of total disaster cost attributed to that category
The Australian Market Challenge

Proportion of household building insurance policies that include flood cover

- Per cent

Map: Overflood, Underflood, None

- Pre-mitigation
The Australian Market Challenge
Session 5:
Protecting households against flood risk – comparing the different approaches across OECD countries

AUSTRIA
Anton Matzinger

Austria - Federal System

Austria is a federal country; 8.7 mio. inhabitants
- 9 Länder – own budget, parliament, government, administration

There are two large-scale geographic areas in Austria with respect to flood risk:
- Alpine area
- Danube river basin and contribuaries
Floods – risk management and compensation - Austria

**Flood risk management and protection**
- shared responsibilities of Federal and Länder Governments
- technical protection and spatial planning

**Ex post public compensation for losses**
- Länder responsibility
- identifying flood losses
- administrative procedures

Public Co-Financing
- Länder and federal contributions for public financing
- Federal contribution: esp via Natural Disasters Fund

Austria: HORA knows the risk

- Risk of floods
- HORA – Natural hazard overview and risk assessment Austria – maps the zones with risk of floods – 30, 100, 300 years

Population in risk zones:
- 30 year risk zone: 150,259
- 100 year risk zone: 343,394
- 300 year risk zone: 651,963

WIFO, Naturgefahren und die Belastung von Landeshaushalten, Wien 2016

http://wisa.bmlfuw.gv.at/fachinformation/hochwasser/hochwasserrisikoplans/managementplan.html
Austria - Natural Disasters Fund

<table>
<thead>
<tr>
<th>2016</th>
<th>Mio. €</th>
<th>%</th>
<th>Compensation covers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Management</td>
<td>289</td>
<td>73.3</td>
<td></td>
</tr>
<tr>
<td>Public compensation</td>
<td></td>
<td>26.7</td>
<td></td>
</tr>
<tr>
<td>- Private Sector</td>
<td>16.6</td>
<td>4.2</td>
<td>Average: 30%, 12% States, 18% Fund</td>
</tr>
<tr>
<td>- Public Sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Gov.</td>
<td>4.9</td>
<td>1.2</td>
<td>50%</td>
</tr>
<tr>
<td>States</td>
<td>13.1</td>
<td>3.3</td>
<td>50%</td>
</tr>
<tr>
<td>Local Gov.</td>
<td>35.9</td>
<td>9.1</td>
<td>50%</td>
</tr>
<tr>
<td>Fire brigades</td>
<td>35.1</td>
<td>8.9</td>
<td>100% – up to available means</td>
</tr>
<tr>
<td>Σ Natural Disasters Fund</td>
<td>394.4</td>
<td>100</td>
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GDP 2016 350 bn. €

Austria - Concluding remarks concerning compulsory insurance

Flood Insurance available, but ...

Hora –System ➔ risk is known to customers ➔ lemons market?

Relatively small proportion of population in highrisk areas

Resistance of risk free population to be expected

High tax quota in Austria: 43.9%

 politics very reluctant to increase compulsory contributions

Preference for tax financed solidarity? ➔ Veil of ignorance

Besides: large efforts of governments to prevent floods ➔ negative effect to private insurance market?
Austria - final question

Flood risk management works!

Might that cause negative effects for insurance market development?

Thank you for attention!