# Treatment of the demand side aspects of the NatCat protection gap

*EIOPA event on the initiatives on prudential treatment of Nat Cat risks and on demand side aspects aimed at closing the Nat Cat protection gap*

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# 1. Two behavioural studies on demand-side aspects of NatCat coverage uptake

## In light of the ongoing work on protection gaps, in 2022 EIOPA carried out two consumer behaviour studies covering eight Members States

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|---|---|
| Consumers' experiences with coverage for natural catastrophe events | ▪ Analyse consumer experiences with property damage coverage after NatCat events<br>▪ Extent of coverage, coverage expectations vs actual coverage, and factors contributing to inadequate insurance coverage<br>▪ Assess consumers' behaviours when deciding on their insurance coverage, considering biases and personality traits |
| Demand side issues contributing to protection gap | ▪ Identify potential causes of underinsurance for NatCat from a demand side perspective<br>▪ Explore and analyse the different factors that affect consumers' behaviour and decision-making<br>▪ Identify and generate evidence-driven insights on the dynamics between consumer-level factors, supply-side factors and cultural, social, and economic context which lead to the insurance gap<br>▪ Formulate and test behaviourally informed policy measures meant to address consumers' behaviour and ultimately to increase the uptake of NatCat coverage |

# 2. Key findings

## The studies highlighted that the uptake of NatCat coverage remains low for a number of reasons

| Personal characteristics | Attitudinal characteristics | Other and/or environmental factors |
|---|---|---|
| Income - Affordability | Misperception of risks | Sales channels, sales practices |
| Region of residence and the type of house one owns | NatCat insurance's coverage perceived as being a 'luxury' | Premium - High tax |
| Financial literacy and insurance comprehension | Lack of confidence/trust in insurance companies | Bundled products – not suitable to consumers' needs and characteristics – under - insurance or over - insurance |
| | Perceived difficulty of insurance purchase | Limited clarity on costs and coverage (product complexity/unclear policy wording) |
| | Behavioural biases (i.e. present bias etc.) | The belief that the State would cover the costs |
| | Lack of insurance culture - experience or lack of experience with insurance products | Social norms – what other people do/approve |

# 3. Behavioural experiment of possible solutions

- As part of the studies, EIOPA identified possible interventions in terms of policy measures and communication messages. This with the view of then testing them with consumers and see which ones would lead to the highest uptake. Key characteristics for the solutions included:

- Be implementable in terms of costs and feasibility
- Have significant effect on Natcat coverage take up
- Tackle risk and price perceptions
- Make the purchasing of coverage easier
- Establish trust in insurance
- Lower the expectancy of Government help.

| | | |
|---|---|---|
| Tax rebates | Price comparison ease of comparison | Risk mapping |
| Risk reduction | Price perception | Risk perception |
| | Social norms | Perception of public intervention |

# 3. Summary of proposed tested solutions

## Based on the findings a number of solutions were identified and consumer-tested

**Pre-purchase stage**

Raise awareness and increase interest by shaping the intention to purchase insurance

- Address the misalignment between the actual risk and the perceived risk
- Tackle price perception
- Highlight insurance benefits
- Highlight limits to government post-disaster intervention
- Enforce the idea of having insurance with Nat Cat coverage as a social norm

**Purchase stage**

emphasis on simplifying the purchasing process

- Ensure comparability of offers (Price Comparison Websites which not only focus on price, standardized disclosure)
- Make the buying process as easy and simple as possible by a few 'design' measures, (through online) choice architecture, aimed at reducing the costs associated with the buying process

**Price and insurability**

Find ways to reduce price and contribute to insurability

- Identify measures to reduce price such as tax rebates for insurance coverage or for mitigation measures
- Explore ways to reduce price vs the implementation of risks mitigation measures to increase insurability whilst reducing price

# 4. Possible solutions which emerged from the public consultation

## Raising awareness

**On risks**

- Targeted information campaigns on the actual and potential impact of NatCat events (i.e. illustrate the magnitude of past losses).
- Address risk awareness during customer interactions, including marketing and sales processes.
- Develop Nat Cat index specific to each location, segmented by type of risk, link it to properties and make it user-friendly and available during the home-purchasing process.

**On limits to State intervention**

- Clearly communicate on the level of post-event aid and any limitations that may apply.

**On products**

- Advertising and marketing by insurers and distributors.

## Affordability

- Closely monitoring the cost of NatCat insurance and promote more transparency around it
- Promote mitigation by educating consumers on discounts and on the overall benefits of mitigation.

## Mandatory coverage

- Pros and cons of mandatory insurance to be further explored.
- The specific socio-economic conditions of each individual market should be taken into account.
- May also disincentivise customers to take out proper risk mitigating measures and may end up in providing a coverage that does not suit all the customers.
- Runs the risk of being perceived as a tax rather than a protection leading to an over-focus on getting the cheapest rather than the most suitable coverage.

# 4. Possible solutions which emerged from the public consultation (cont'd) and how they have been implemented

**Coverage and exclusions**

- Simplified terms and conditions.
- Standardised disclosure - standards or guidelines.

**Enhanced digitalization**

- Develop online platforms/digital tools.
- Make use of Insurtech tools.

**How have comments been taken into account**

- Affordability: Taking into the fact that the Staff Paper is meant to reflect findings from the behavioural experiment which was carried out, EIOPA made some amendments to take into account the comments received, however did not make significant revisions
- Transparency and plain language: EIOPA is of the opinion that clear communication to consumers is crucial. However, EIOPA also shares the view presented by many stakeholders that disclosures per se will not address the issue. The Staff Paper has been amended to highlight the importance of simple, clear, and comparable information as well as the importance of ensuring that key messages are given at teachable moments
- Trust: The paper has been amended to take into account some suggestions (mostly on claims handling) on how to increase trust.
- Facilitate purchase and increase risk-awareness: As most elements were already explored in the paper. It has not been amended
- POG: EIOPA emphasized in the Paper the importance of POG in terms of target market assessment, product design and product testing and has further underlined these aspects in the paper.

# THANK YOU!

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