

REGULATION ON THE ICELAND CATASTROPHE INSURANCE.

Article 1

Scope

This regulation applies to insurance provided by the Natural Catastrophe Insurance of Iceland against direct loss caused by natural catastrophes.

Article 2

Risks insured against

The natural catastrophes insured against by the catastrophe insurance, cf. Article 4 of Act No. 55/1992 on the Natural Catastrophe Insurance of Iceland, are:

1. A volcanic eruption, i.e. when lava, ash or tephra cause damage or destruction of insured assets.
2. An earthquake which causes damage or destruction of insured assets.
3. A landslide, i.e. when a slide from a mountain or a hillside abruptly falls onto insured assets causing damage or destruction thereof.
4. A snow-avalanche, i.e. when an avalanche abruptly falls from a mountain or a hillside onto insured assets causing damage or destruction thereof. It is not considered a snow-avalanche when assets are strained or broken from accumulated snow on top of or leaning against them caused by snowfall, drifting snow or blowing snow.
5. A flood, i.e. when a flood occurs due to rivers or brooks that usually flow normally abruptly overflow their banks or when flood waves from the sea or lakes abruptly run ashore causing damage or destruction of insured assets. It is also a flood when sudden floods come from glaciers due to melting of ice. Floods due to precipitation or snowmelt that do not fall under Paragraph 1 do not constitute a flood. The same applies to floods caused partly or wholly by man, e.g. when water tanks, dams or other structures break due to reasons other than natural catastrophes.

The Natural Catastrophe Insurance of Iceland shall compensate losses when insured assets are damaged in a fire which are caused directly by any of the above-mentioned natural catastrophes.

Article 3

Movables that are mandatory to insure

Insuring the following movables, is mandatory cf. Paragraph 1, Article 5 of the Natural Catastrophe Insurance of Iceland Act no. 55/1992:

1. Movables that are insured against fire by an insurance undertaking which is licensed to operate in Iceland, cf. Sentence 1, Paragraph 1, Article 5 of the Act. Assets that are insured according to Subparagraph 8, Paragraph 1, Article 20 of Act no. 100/2016 on insurance activities.
2. Movables that are insured by a comprehensive insurance policy that includes fire insurance and is classified as property insurance cf. Subparagraph 5, Paragraph 2, Article 20 of Act no. 100/2016 on insurance activities, and Sentence 2, Paragraph 1, Article 5 of the same Act.
3. Movables that the board of directors of the Natural Catastrophe Insurance of Iceland has specifically approved to be insured, cf. Sentence 3, Paragraph 1, Article 5 of the Act.

Article 4

Structures that are mandatory to insure

It is mandatory to insure the following structures, cf. Paragraph 2, Article 5 of Act no. 55/1992 on the Natural Catastrophe Insurance of Iceland:

1. Geothermal heating systems owned by municipalities or the treasury along with their distribution systems for hot water or steam, including subterranean pipelines but not boreholes or any equipment or pipelines therein. Pumps above ground level, pump facilities, water tanks shall also be insured as well as facilities for geothermal heating or for other sources of energy.
2. Waterworks owned by municipalities or the treasury, including water harvesting systems, subterranean pipelines other than boreholes and deep-wells and any equipment or pipelines therein. Pumps above ground level, pump facilities and water tanks shall be insured.
3. Sewage systems owned by municipalities or the treasury including pump- and treatment facilities.
4. Permanent harbour installations owned by municipalities or the treasury, i.e. piers, quays, immovable harbour cranes, immovable lighting equipment, electric installations, lamp-posts, junction boxes, water- and drainage pipelines, bollards and pavement on piers but not cranes on rails, wheels or belts or other movable harbour appliances and equipment. Only quays which are boarded with steel or timber, stacked with hewed stones or made of concrete or other comparable permanent materials, shall be insured. Areas which are more than 30 meters from quays are not considered parts of harbour installations. Breakwaters, rubble mound breakwaters, rubble mound shore protection or other installations for the protection of piers, quays or accompanied assets shall not be insured.
5. Permanent bridges 50 m or longer whether they are owned by municipalities, the treasury or privately owned. Roads leading to and from bridges shall not be construed as a part thereof nor shall levees.
6. Electric installations owned by municipalities or the treasury, including distribution systems, dams, utility facilities and streetlights.
7. Telephone- and communications networks owned by municipalities or the treasury, including distribution systems and any related coupling devices, computer- and data centers and cables, including optical fibers.
8. Ski lifts.

Structures according to this Article are considered to be owned by municipalities or the treasury if they are owned in majority by municipalities or the treasury.

Natural Catastrophe Insurance of Iceland can authorize structures according to this Article, that are under construction, to be insured.

Article 5

Changes to insurance policies

When a loss has occurred or is imminent it is not permissible to enter into new insurance contracts or to alter older contracts dealing with assets in the endangered location or area.

Article 6

Amount of insurance for structures

Structures according to Article 4 shall be insured against their replacement cost estimate (price of reconstruction) plus a 10% demolition cost of replacement cost. The replacement cost shall be based on the reconstruction cost of comparable property given the construction material and construction practices that are customary at each time. It shall be based on the newest technology, construction methods and cost of materials as well as the building cost of comparable new property. The following factors are included in the replacement cost:

- a. Materials. Based on purchase price, taking into account transport within region and normal atrophy.
- b. Labor costs, including remuneration in accordance with recognized wage rates along with wage-related expenses based on average conditions on the employment market.
- c. Mechanical costs that are priced sufficiently high to cover depreciation, operations costs and a normal profit margin. Facilities at construction site. Including work-sheds, lots and construction cranes.
- d. Architectural and engineering designs.
- e. Supervision during construction.
- f. Administrative costs of contractors and buyers
- g. Insurance during construction.
- h. Cost of capital during construction.
- i. Value added tax.

Owners of structures cf. Article 4 shall submit to the Natural Catastrophe Insurance of Iceland a list of all their structures prior to March 1 each year together with an estimate of their replacement costs as at January 1 the same year. The structures owner is responsible for the accuracy of the replacement cost estimate at any given time.

Owners of structures shall report to the Natural Catastrophe Insurance of Iceland when new structures cf. Article 4 are taken into service and submit new replacement cost estimates as well as submitting revised estimates of existing structures. A structures insurance goes into effect when the Natural Catastrophe Insurance of Iceland has provably received such a report and a replacement cost estimate. The same applies to changes or improvements to older structures. In the occurrence of an ownership transfer, the insurance shall not be discontinued unless confirmation of new insurance is available.

If a structures owner does not update insurance amounts year-to-year, the replacement cost estimate shall be updated according to the building cost index. If there is a reason to suspect that an estimation is unrealistic or the owner of the structure has neglected to provide information of assets, that are mandatory to insure, the Natural Catastrophe Insurance of Iceland can call on two competent and impartial persons to evaluate the assets as well as their replacement cost and their estimate shall be binding as an insurance amount. If replacement cost estimates are unrealistic or a structures owner neglects to provide information, he shall bear the cost of the assessment.

Article 7

Information on premiums

The insurance companies that cover fire insurance of assets which are insured with the Natural Catastrophe Insurance of Iceland under Paragraph 1, Article 5, cf. Paragraph 3, Article 11 of Act no. 55/1992 on the Natural Catastrophe Insurance of Iceland, shall submit to the Natural Catastrophe Insurance of Iceland a monthly report of premiums collected during the previous month and disburse the catastrophe insurance premiums no later than on the 15th of that month.

If a premium is in default an insurance company shall collect late payment interest in accordance with the provisions of the Interest Act.

If an insurance company fails to disburse premiums or interest in accordance with the aforementioned, it is obliged to pay late payment interest on the delinquent amount in accordance with the provisions of the Interest Act. Insurance companies shall annually submit to the Natural Catastrophe Insurance of Iceland an itemized report of insurance amounts, premiums and late payment interest. The Natural Catastrophe Insurance of Iceland shall decide on the format of the report.

Article 8

Premium maturity date

The maturity date of premiums which the Natural Catastrophe Insurance of Iceland collects itself shall be April 1 each year.

If a premium is not paid within four weeks from the maturity date the debtor shall pay late payment interest from the maturity date in accordance with the provisions of the Interest Act.

Article 9

Appointed adjusters

When a loss event has occurred, the Natural Catastrophe Insurance of Iceland shall make arrangements for the inspection and assessment of the loss and it may, according to circumstances, designate a competent and impartial adjuster or adjusters.

The Natural Catastrophe Insurance of Iceland may, according to circumstances, request that loss be assessed by a court-designated adjuster or adjusters. Matters relating to the cost of an assessment done by a court-designated adjuster shall be regulated by the general applicable rules.

The insured party shall at all times have the opportunity to be present at inspection and be able to present his views to the adjuster or adjusters.

The adjuster or adjusters shall submit a written assessment and conclude their work as speedily as possible.

Article 10

Determination of compensation

Compensation shall be determined in accordance with the principal rules of the laws of insurance, cf. inter alia the following rules:

1. The insurance solely compensates for direct loss of insured movables, buildings and structures, cf. Article 5 of Act No. 55/1992 on the Natural Catastrophe Insurance of Iceland. The insurance does not compensate for indirect losses such as operating losses, nor losses that result from the assets not being used in a time or manner that had been planned, as well as other indirect losses.
2. The insurance amount is not a proof of the value of the insured asset which is insured cf. Article 5 of Act. No. 55/1992. Nevertheless, it is always the maximum of the responsibility based upon when compensation is determined.
3. The value of insured assets cf. Article 5 of Act. No. 55/1992 shall be determined with regard to their actual value when the loss event occurred. Depreciation due to age, use, decreased effective value and other conditions shall be taken into account. The value of insured movables cf. Article 3, that pertain to general activities of households, such as furniture, appliances, loose carpets, clothing, books and linens, is based on prices for new items, that is the amount that would have been needed to buy the perished or damaged assets at the latest available price of such assets before the loss occurred minus a reasonable amount due to depreciation caused by reduced utility or other reasons.
4. Compensation for goods which the insured party has produced for sale are priced at cost. Compensation for goods in production are priced according to the purchase price of raw materials plus accrued cost. Purchase price and cost are based on price levels at the time of loss.
5. When determining compensation for assets cf. Articles 5 of Act. No. 55/1992 in case of partial loss, compensation shall be determined by the cost of reparation of the damaged valuable for its restoration to the same or next to the same condition as it was in before the loss event, having regard to Paragraph 1, Subparagraph 3. Compensation thus determined can never exceed the difference in the value of the item prior to the loss and its value thereafter. The claimant shall preserve the damaged property or asset as best he can until he has been compensated for the loss. The claimant shall provide the Natural Catastrophe Insurance of Iceland with a possibility to inspect and assess the loss prior to reparation, or compensation has been provided. Should the claimant dispose of damaged assets or valuables it can result in decrease or loss of compensation in accordance with laws on insurance contracts. When determining compensation for assets cf. Article 5 of Act. No. 55/1992, in case of total loss, the actual value of assets cf. Subparagraph 2 shall be assessed and compared to the asset insurance value on the date of loss, according to Subparagraph 3.
6. If the value of the insured item exceeds the amount insured, compensation for the loss shall be computed as follows:

$$\text{loss amount} \times \text{amount insured} / \text{actual value} = \text{compensation.}$$

The insured party's deductibles shall be deducted from the amount of compensation thus arrived at.

Article 11

Demarcation of own risk

Upon the payment of compensation, the own risk of the insured, cf. Article 10 of Act No. 55/1992 on the Natural Catastrophe Insurance of Iceland, shall be decided as follows:

1. Movable cf. Paragraph 1, Article 5 of the Act: The insured bears an own risk for each loss in a movable insurance. The own risk is based on each insurance policy
2. Buildings cf. Paragraph 1, Article 5 of the Act: The insured bears an own risk on a building's total loss per each real estate number. In a multi-owned building, the loss to common areas of a property is divided between owners in proportion with their ownership share.
3. Structures cf. Paragraph 2, Article 5 of the Act: The insured bears an own risk on each loss to a structure which is mandatory to insure.

Article 12

The present Regulation is issued in accordance with the authority provided in Article 4; Paragraph 4, Article 5; Paragraph 3, Article 11; Paragraph 2, Article 15 and in Article 26 of Act No. 55/1992 on the Natural Catastrophe Insurance of Iceland and shall come into force forthwith. At the same time, Regulation No. 642/2017, on the Iceland catastrophe insurance is cancelled.

The Ministry of Finance and Economic affairs, 9th July 2019.

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