

Renewal information 2020

CATASTROPHE EXCESS OF LOSS PROGRAMME



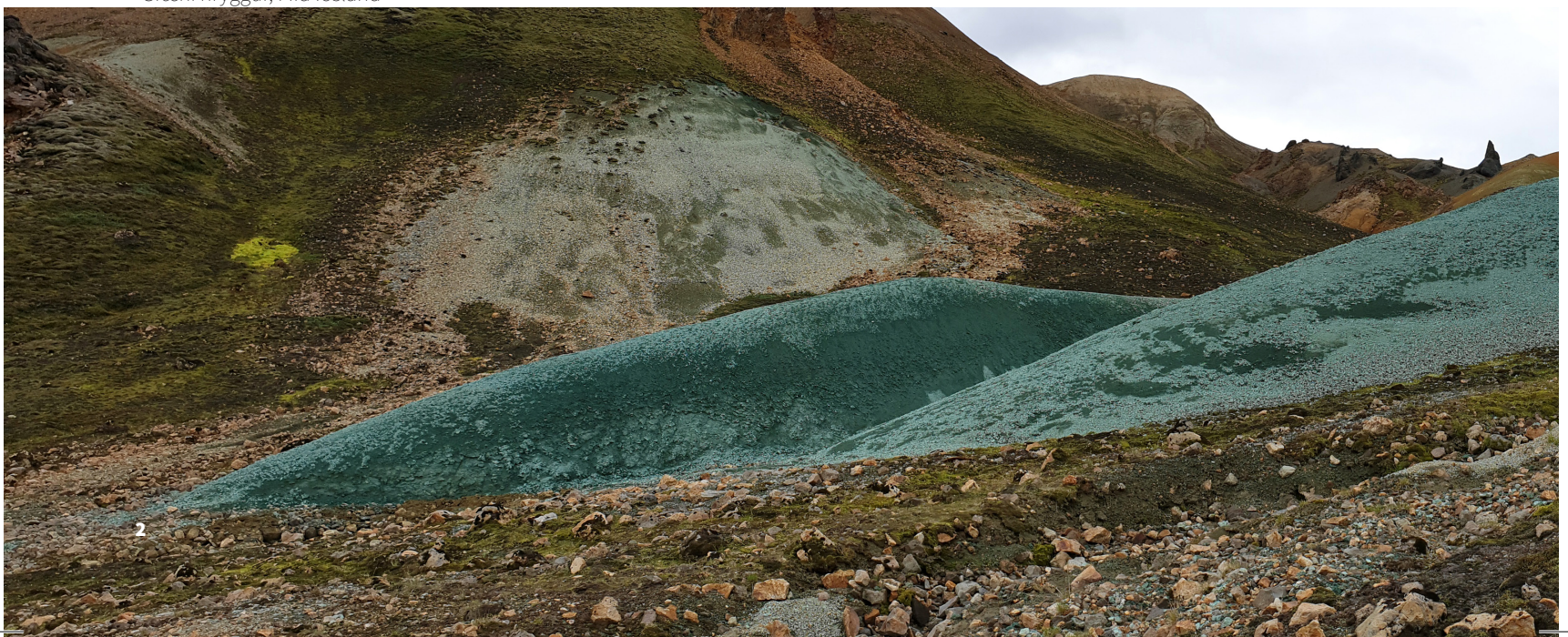
Overview

Natural Catastrophe Insurance of Iceland (NTI), formerly known as the ICI, was founded in 1975 as a public undertaking by a special Act of the Althingi (parliament) of Iceland, following the volcanic eruption in the Vestmannaeyjar in 1973. NTI functions as an insurance company with compulsory coverage for all properties in Iceland, contents - if insured against fire, and public infrastructure. The perils that NTI covers are earthquakes, volcanic eruptions, avalanches, landslides, rock falls, riverine-, coastal- and glacial floods. The insurance does not cover windstorm, hail, surface/ flash floods or business interruption. Buildings are insured according to their valuation for fire as assessed by the Iceland Registers (Land Registry). Since fire insurance of buildings is compulsory in Iceland, all buildings are likewise insured against natural perils covered by the programme. Infrastructure – water distribution networks, geothermal heating systems, sewage systems, electric power systems, bridges, harbours and ski-lifts, not normally insured against fire, are separately insured with the NTI.

The catastrophe cover is a stand-alone policy. The private insurance companies receive a fee for collecting catastrophe cover premiums alongside fire premiums. A single premium of 0.25 ‰ is charged for properties and contents, 0.2 ‰ for infrastructure. The policy only covers direct physical losses resulting from the catastrophes mentioned above. A deductible of 2% for each loss as well as a minimum deductible is applied.

Exchange rate as at August 2019. EUR = ISK 135.52

Græni hryggur, Mid Iceland



verview

Insurance terms

The NTI is required to apply and act in accordance with the detailed provisions of the NTI Act 55/1992 and the NTI regulations 700/2019 (page 17 – 23). NTI is a public institution and is required to apply and act in accordance with the Public Administration Act 37/1993.

In July 2019 the NTI regulations were amended and new regulations 700/2019 were issued. The most important change in this latest update relates to the sum insured for infrastructure – water distribution networks, geothermal heating systems, sewage systems, electric power systems, bridges, harbours and ski-lifts.

Under the new regulations, the total insurance value should include the cost of demolition of the structure in case of a total loss. The demolition cost should be 10% of the replacement value. The increase of the total insurance value due to the demolition costs is expected to only have a remote impact on the risk transferred to NTI's reinsurers. It will in general only have an impact when there is a total loss of the structure. The demolition cost of partial losses is already included in NTI's risk assessment. In general, the probability of a total loss to most structures is considered remote. Furthermore, the own risk of the insured (deductibles) has been defined in more detail and is fully in line with the NTI's current claim and payment procedures.





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Perils Covered

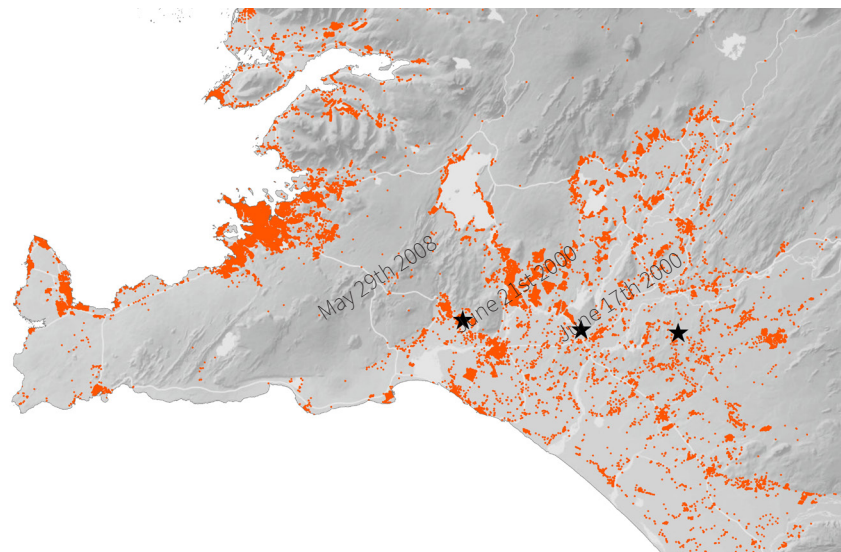
Earthquake hazard

There are two main earthquake hazard areas in Iceland: The South Iceland Seismic Zone (SISZ) and the Tjörnes Fracture Zone (TFZ). Areas in both SISZ and TFZ with insured assets likely to be affected by major earthquakes represent approximately 10% of the total asset values in Iceland. Both are largely rural areas. In terms of percentages about 10% of the total aggregates are located in the Southern Region. About 25% of these are located in areas not likely to be affected by a major earthquake. South Iceland covers the largest agricultural region in Iceland, i.e. the South Iceland Lowland (SIL). Several small towns or villages, schools, medical centers, industrial geothermal and hydropower plants, and several major bridges are within this area. The North East region, with about 30,000 inhabitants, has a similar structure as the Southern Region and a share of 9% of the total asset values. The principal town of Akureyri and surrounding rural area accounts for 65% of these values and is not located in the main seismic area. There was a sizable earthquake in the North East in 1976 after the catastrophe insurance was established but damage was negligible. It is therefore mainly the Southern Region that the NTI takes into account when structuring its reinsurance cover. On June 17th and 21st, 2000, two earthquakes of magnitude 6.5 (Mw) occurred in Southern Iceland. The highest recorded peak ground acceleration in these earthquakes was 0.84g. The surrounding area of both

the earthquakes is rural, with the small village Hella about 12 km distance from the June 17th event epicenter and the small town Selfoss about 15 km distance from the June 21st event epicenter. Despite the significant earthquake intensity and damage to a considerable number of houses, no residential buildings collapsed. In addition, very few (less than 5) farm buildings collapsed. Moreover, following the 2000 earthquake events, total paid claims did not exhaust the NTI reinsurance retention. In May 29th 2008 a 6.3 (Mw) earthquake shook the western part of the South Iceland Seismic

Zone (SISZ). The current population in the affected area is about 18,500 inhabitants, and there are approximately 6,000 residential houses, mostly low-rise buildings.

The 2008 earthquake (NTI's only reinsurance claim) caused serious damage to buildings in the rural area close to the epicentre and also in the two small towns Hveragerði and Selfoss, (found approximately 4 km and 7 km from the epicentre respectively). Significantly less damage was observed in the small villages of Eyrabakki and Stokkseyri and in the rural areas found further from the epicentre.



Earthquakes in South Iceland. The orange dots represent insurance policies.





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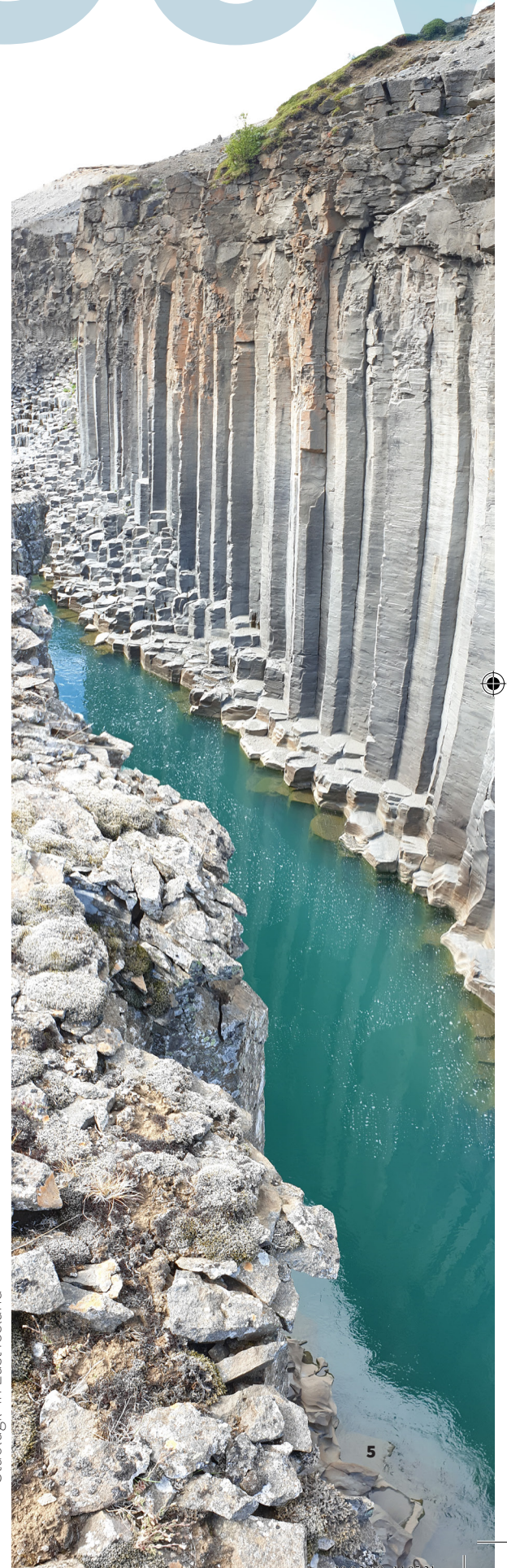
Volcanic hazard

Volcanic eruptions are also observed in Iceland with individual volcanic events occurring every 3-4 years on average. The largest flood-basalt eruptions (> 10 km³) occur at a 500 – 1,000-year interval. Despite the dominance of basalts, explosive eruptions are more common than effusive, since frequent eruptions through glaciers give rise to phreatomagmatic activity. The largest explosive eruptions (Volcanic Explosivity Index - VEI 6) occur once or twice per millennium, while VEI 3 eruptions have an expected recurrence time of 10 – 20 years. No evidence for VEI 7 or larger eruptions has been found in the geological history of Iceland. The volcanic hazard consists of a downpour of tephra, major basaltic flood eruptions and lava flows.

A downpour of tephra (ash fall) and fluorine poisoning of crops and livestock would not be insured by NTI. As with earthquakes, the South Iceland farmlands could be the most affected. Public infrastructure such as power stations, telecommunication lines and equipment and bridges could also be affected. The very fine tephra from Eyjafjallajökull 2010 and Grímsvötn 2011 was observed in Reykjavík, although more as an annoyance rather than a calamity. Major basaltic flood eruptions (similar to the Laki eruption in 1783 which had widespread effects all over Europe) would mainly be hazardous to power stations and communication systems. Lava flows mostly affect the Reykjanes Peninsula with several small towns and the Keflavík International Airport at risk. Lava flows in Reykjavík last occurred in post-glacial times. Very large explosive eruptions (VEI≥6) in central volcanoes close to inhabited areas (for instance Öræfajökull 1362) might have a serious effect on farms and villages. However, no active volcanoes are found close to large urban centres in 2019.

Other perils

Floods and avalanches may cause isolated damage but it is unlikely that an event could exhaust NTI's reinsurance retention. Following a series of isolated avalanche losses in 1995 the defences against this peril were improved significantly, with physical barriers introduced in key exposed locations. NTI has used scenarios in order to assess the insurance risk related to these perils. An example of a scenario exercise can be found in NTI's Cat Response Plan, where 9 scenarios were analysed, including snow and mud avalanches in the Eastfjords, glacial floods and floods related to rockfall in the Westfjords.



Stuðlagil in East Iceland



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Loss History

Loss history from 1987-2019

Since 1987 NTI has paid out losses from 252 events in total: 128 floods, 73 avalanches, 37 rockfall / mud floods, 12 earthquakes and 2 volcanic eruptions. In 1995, villages and several farms in the Westfjords and the Eastfjords were hit by avalanches. Total loss paid by NTI was about 1 billion ISK. In 2000, two 6.5 Mw earthquakes shook South Iceland with total loss paid out by NTI about 8.8 billion ISK. In 2008 the only reinsurance loss in NTI's history occurred, a 6.3 Mw earthquake near Selfoss in South Iceland with nearly 5,000 claims with a total loss of about 16.7 billion ISK.

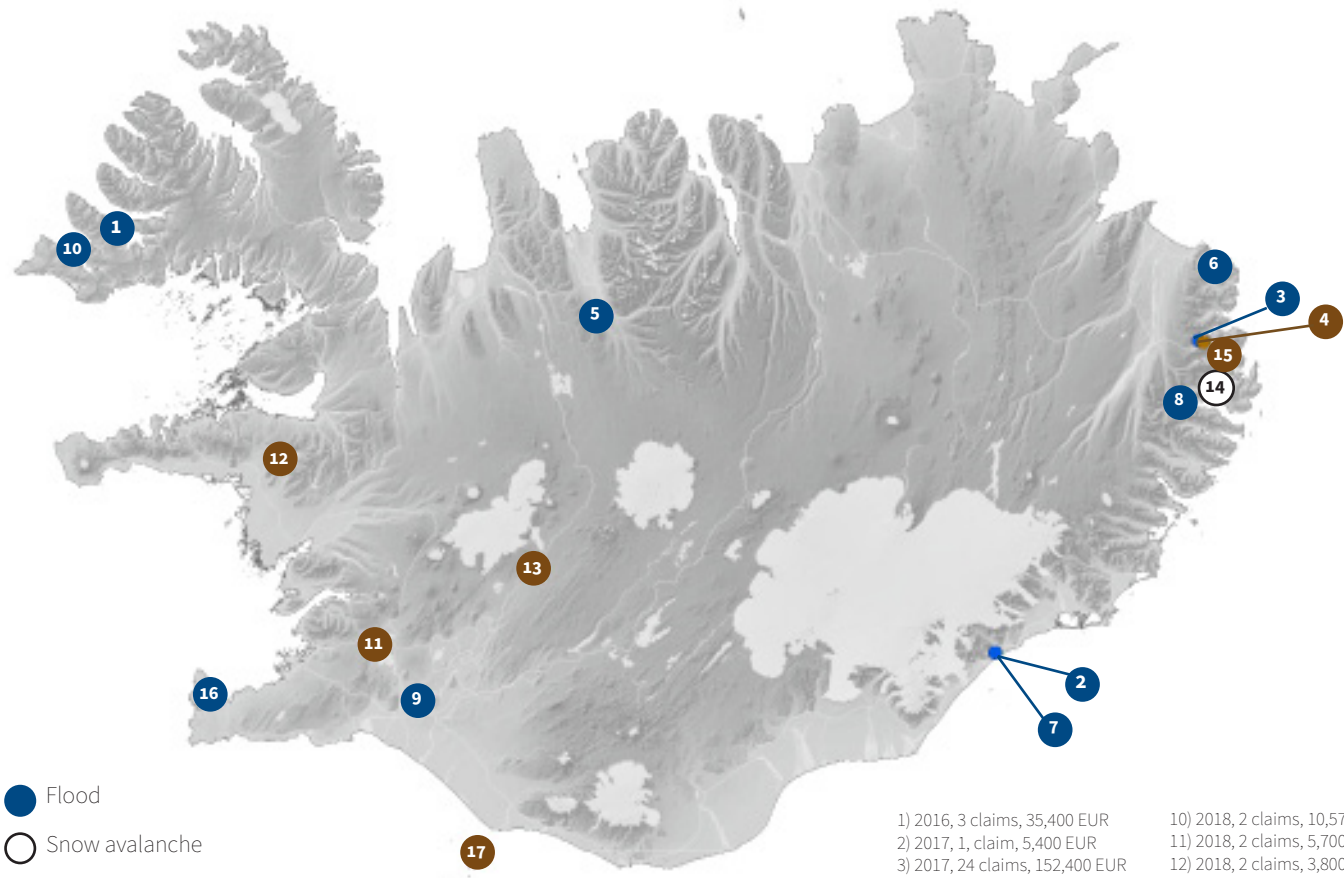
Detailed losses last four years

The map on page 7 provides detailed information about the events which NTI has paid out in the last four years, including assessment costs. Please note that values may change from year to year, based on the exchange rate of the EUR. 17 events occurred in the last four years, including ten floods, one snow avalanche and six rockfall/mud floods. The largest loss in the last four years was a flood event in 2017 (160m ISK). There have been no losses which would affect the NTI Cat reinsurance programme on an as-if basis since 2008.

Norðurfjörður in Westfjords



DSS Histo



- Flood
- Snow avalanche
- Rock fall / mud avalanche

1) 2016, 3 claims, 35,400 EUR	10) 2018, 2 claims, 10,570 EUR
2) 2017, 1 claim, 5,400 EUR	11) 2018, 2 claims, 5,700 EUR
3) 2017, 24 claims, 152,400 EUR	12) 2018, 2 claims, 3,800 EUR
4) 2017, 8 claims, 101,300 EUR	13) 2018, 1 claim, 34,700 EUR
5) 2017, 1 claim, 2,000 EUR	14) 2018, 1 claim, 30,500 EUR
6) 2017, 1 claim, 700 EUR	15) 2018, 2 claims, 6,000 EUR
7) 2017, 8 claims, 1,184,800 EUR	16) 2019, 3 claims, 16,200 EUR
8) 2018, 6 claims, 19,700 EUR	17) 2019, 1 claim, 9,400 EUR
9) 2018, 9 claim, 104,700 EUR	In total since 2016, 1,723,270 EUR



Exposure

NTI covers assets of ISK 12,952 billion spread across the country, increased from ISK 12,028 billion in August 2018.

NTI believe that the increase in sums insured aggregates in both 2018 and 2019 were an exception from the average. Most of the observed increase in 2019 (7.5%) is due to changes to the fire insurance value of properties, as assessed by the State Property Registry Office (Iceland Registers).

The building cost index in Iceland is assessed independently by Statistics Iceland. The index measures changes in the building cost for specific residential properties in Iceland. The increase in building cost index between August 2018 and 2019 was 4.65% – significantly lower than the increase to the fire insurance value assessed by the Property Registry. This increase is the result of several factors.

Following the financial crisis in 2008, there has been an accumulative demand for new buildings and building activity has been increasing for the last few years. The increase in the number of property policies between 2018 and 2019 is 2.7%. Since 1960

Geothermal area in Hengill, area South Iceland

Category	Value (billion ISK)	Percentage of TSI	Change from 2018
Properties	9.517	73.6%	+8.3%
Contents	2.379	18.4%	+1.5%
Infrastructure	1.033	8.0%	+14.5%

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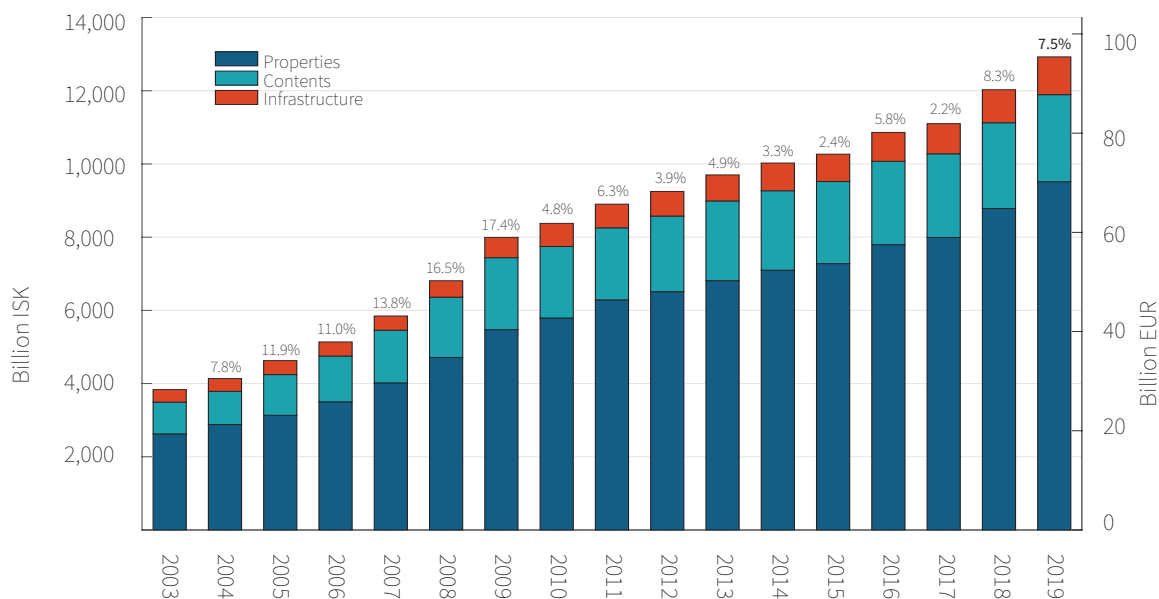
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the average increase in total aggregate sums insured due to new buildings is 1.5%. Because of the compulsory nature of the insurance, assets from relatively low-risk areas such as the capital region make up the majority of this portfolio (60%). There are also notable exclusions from cover, such as the hydroelectric power plants in the central region, which are insured separately on a facultative basis. Importantly, all new buildings are built according to considerably improved building regulations and act to reduce the expected overall vulnerability of the Icelandic building stock. This was evidenced in the 2008 earthquake event where significantly fewer losses were observed from properties constructed in the previous decade.

As discussed on page 3, amendments to the latest NTI regulations have led to a 10% increase in the total value of infrastructure assets following the inclusion of demolition costs. However, this is a cost that would only materialize in the event of total losses. Similarly, following detailed discussions with the Property Registry, it is understood that a further portion of the increase in property values is due to an increase in the expected cost of architectural and engineering costs. This is also only expected to materialize in the event of total losses. To provide context, note that in the 2008 earthquake event, only ca.30-50 properties were considered either total losses or constructive total losses. This represented a very small portion of the ca.16,000 dwellings located in the affected area. According to NTI's experience, the vast majority of losses in an event are from damage repairs such as painting, flooring and fixing of minor cracks.

Based on the various factors above, NTI are confident that the increase to the fire insurance value, as assessed by the Property Registry, is not expected to be fully transferred to NTI's reinsurers.

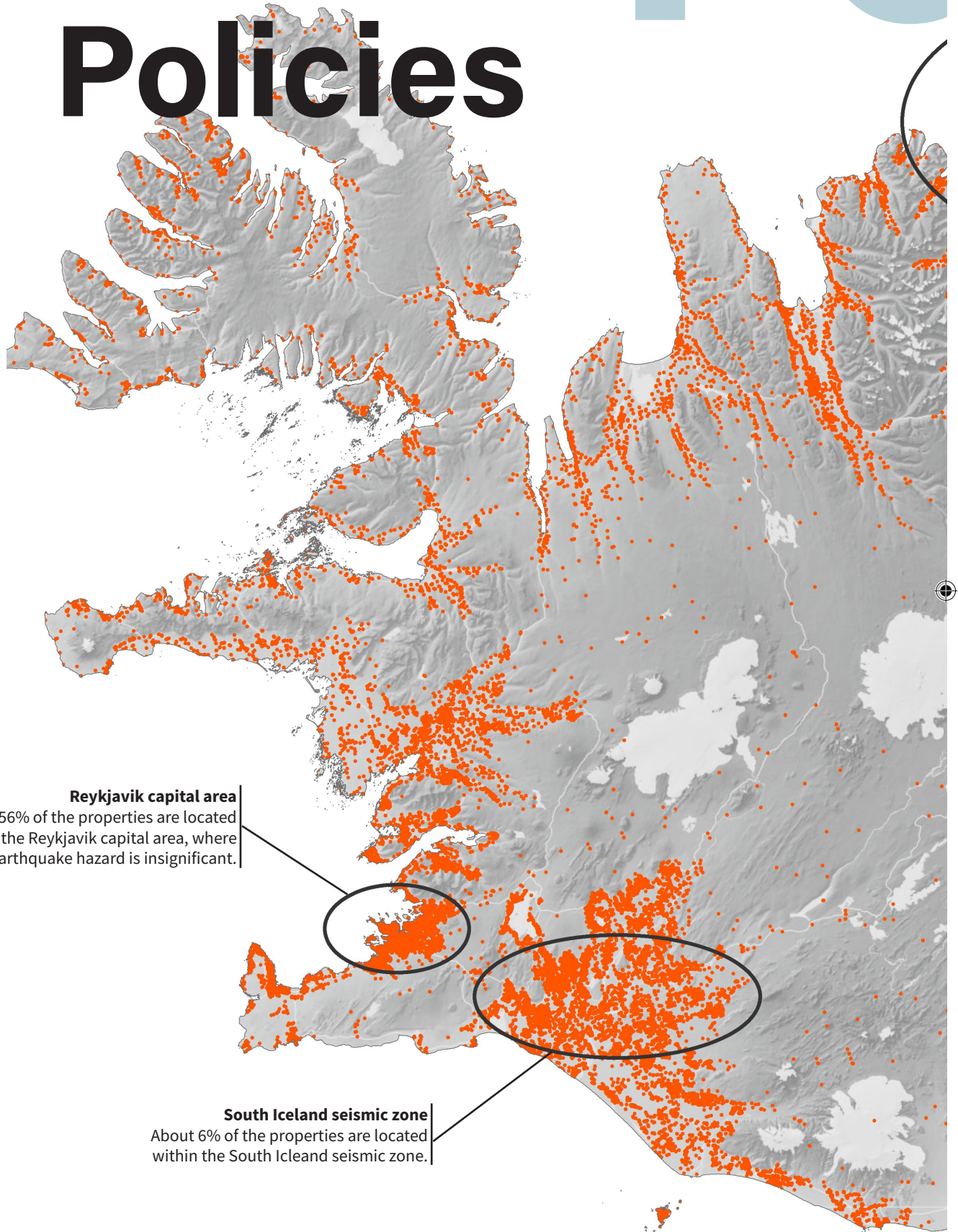
Sum insured aggregates 2004-2019



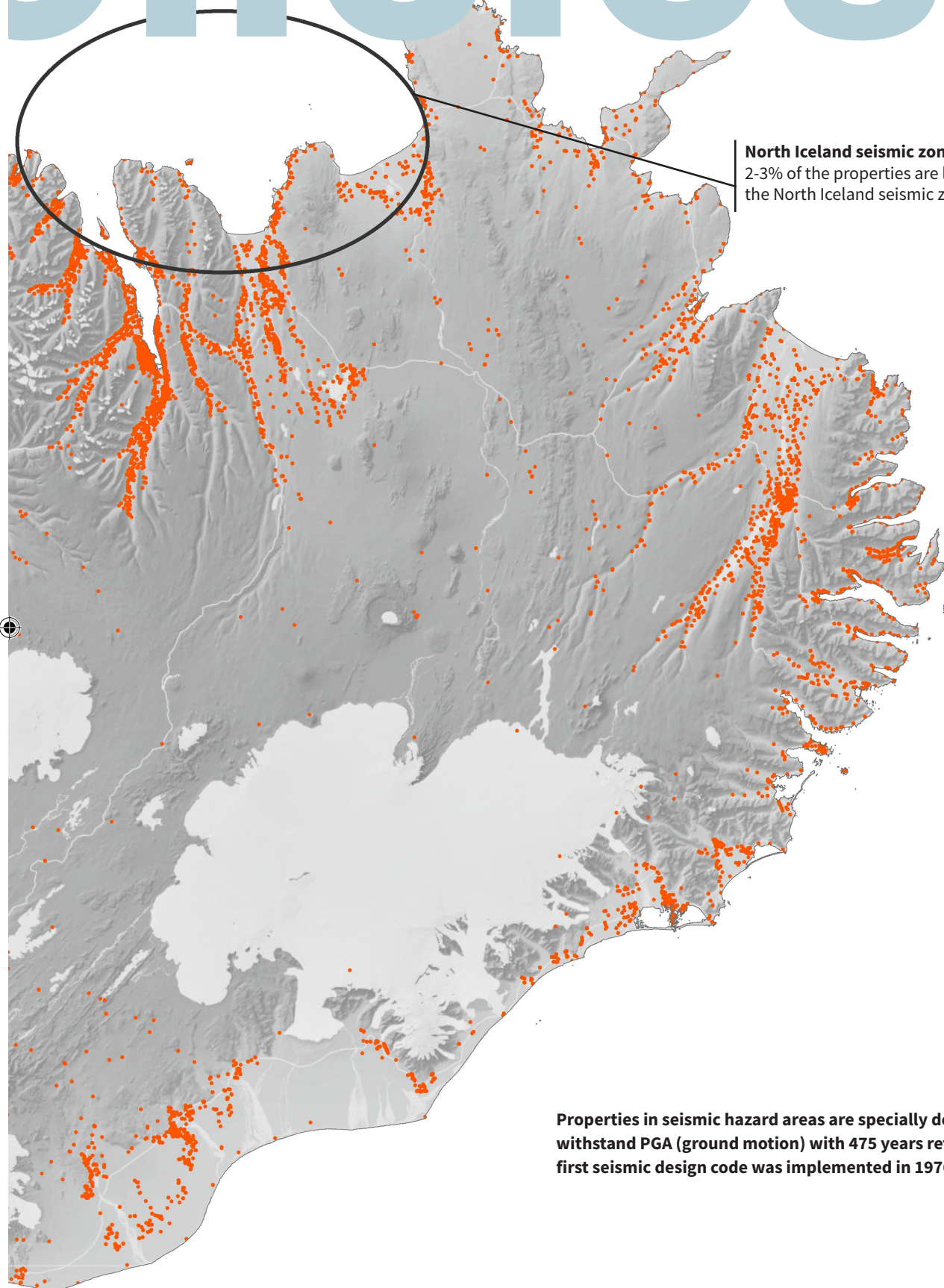


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Policies



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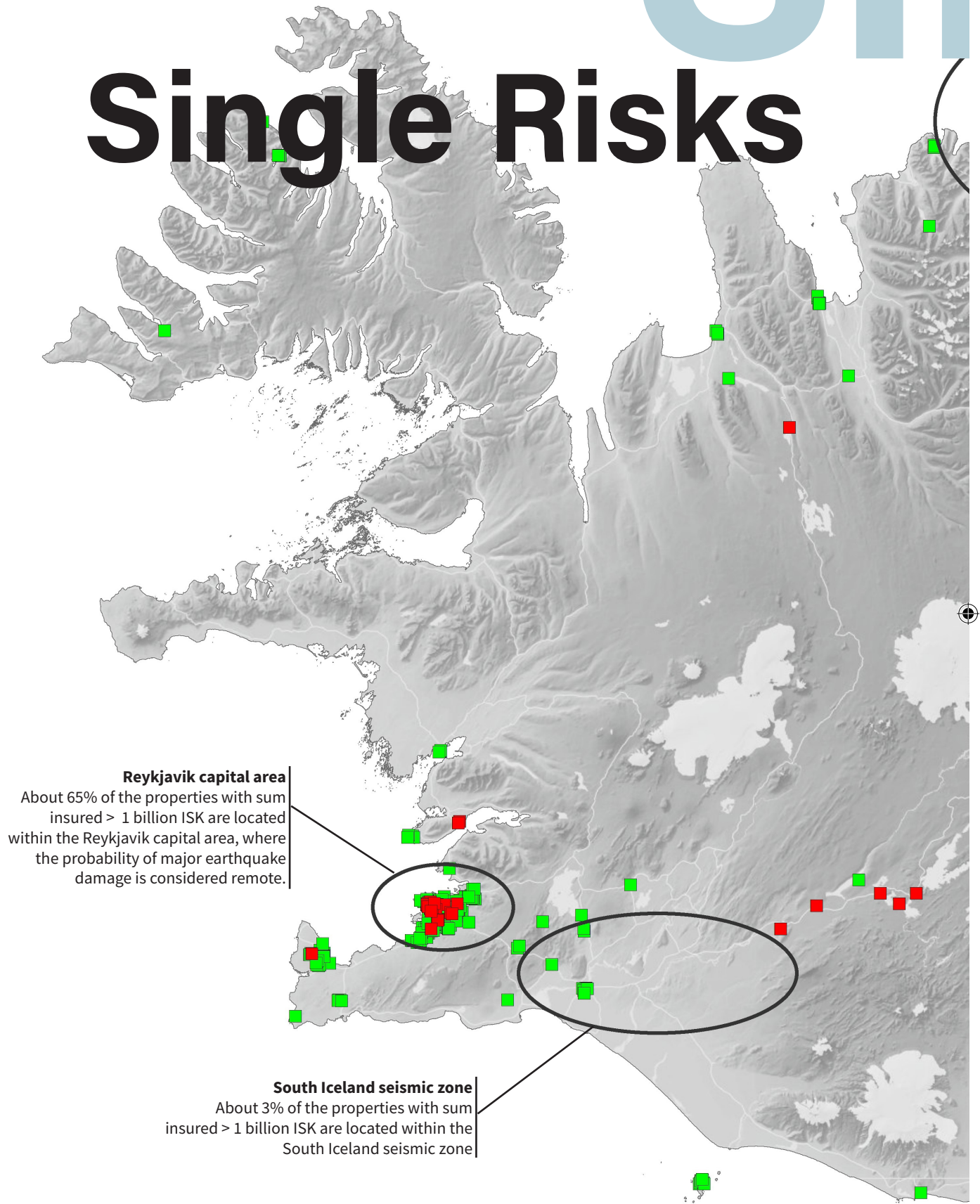
North Iceland seismic zone
2-3% of the properties are located within the North Iceland seismic zone.

Properties in seismic hazard areas are specially designed to withstand PGA (ground motion) with 475 years return period. The first seismic design code was implemented in 1976.



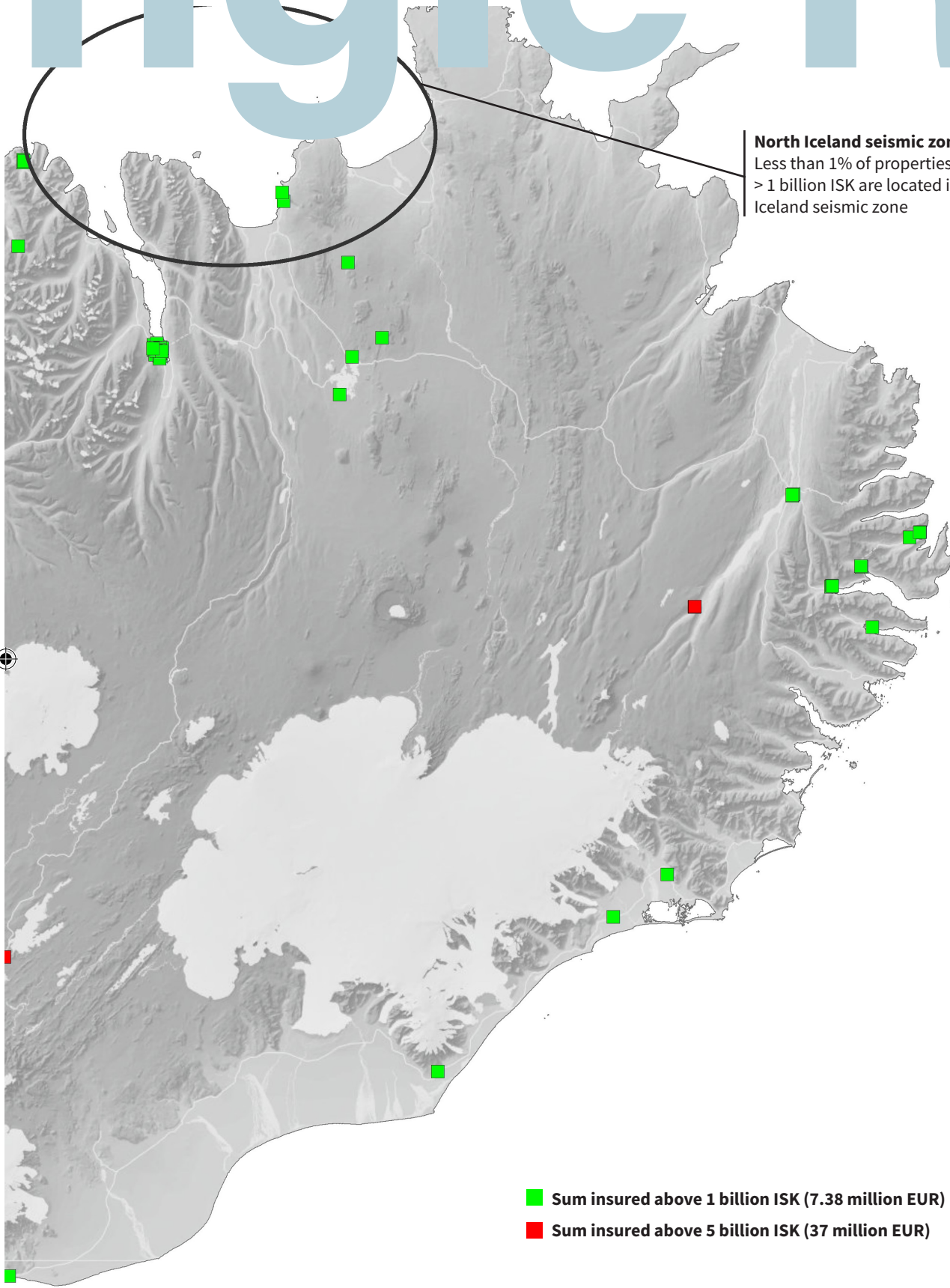
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Single Risks





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North Iceland seismic zone
 Less than 1% of properties with sum insured
 > 1 billion ISK are located in the North
 Iceland seismic zone

- Sum insured above 1 billion ISK (7.38 million EUR)
- Sum insured above 5 billion ISK (37 million EUR)





Ris

Risk Assessment

Methodology

From the 2008 earthquake, which caused serious damage in the western part of the Southern Region, it was obvious that a major revision of the inherent earthquake risk and loss probabilities was required. Therefore the focus in risk assessment has mainly been set on earthquake assessments and understanding the vulnerability of buildings in relation to earthquakes. This has resulted in a unique database where detailed information about the buildings, year of construction, size, materials etc. and the damage incurred by the earthquakes have been compiled with nearly 5,000 entries. This database is of greater use when combined with the Land Registry Database (Iceland Registers).

This is unique in the sense that all buildings in the country are registered in a common unified database with a detailed description, GPS coordinates and replacement values. The data is used (with depreciation factors for age and upkeep) as a basis for the compulsory fire insurance for the whole country. Furthermore, since the 1980's an important series of PGA measurements have been collected (PGA is a standard measurement of seismic intensity).

NTI will continue to inform reinsurers about these assessments to the best of its ability. NTI believes that transparency is one of the most important things in the insurance industry. From both the buyer's and the seller's side, the risk must be as well understood as possible. Anytime there are signs of possible natural hazards, which might be of reinsurers' interest, NTI strives to provide them with useful information.



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Hazard module

NTI, in cooperation with local scientists and Aon, NTI's reinsurance broker, have built a hazard module with state-of-the-art techniques (Probabilistic Seismic Hazard Analysis). All outputs have been peer-reviewed by external experts.

Exposure data

The Land Registry (Iceland Registers) have supplied the building database including detailed information of all buildings in Iceland. All building types are classified into 19 descriptive classes. Detailed information of contents (values and geographical location) is also included in the model.

Vulnerability

Damage functions are derived for the 19 building classes and for contents, by working with the collected data from the comprehensive damage surveys following the 2008 earthquake. Finally, a fully probabilistic model for Iceland based on the above components is used to compute the insurance risk.

Improvement of the volcanic risk assessment

NTI has also been working on some improvements of the volcanic risk assessment. NTI, in cooperation with local scientists from the University of Iceland and the Icelandic Met Office, has been collecting information about all significant volcanic activity back to the settlement of the country (~870). The data will improve NTI's understanding of frequency and severity of eruptions and will lead to risk assessment which includes more information about return periods of catastrophe events. NTI hope to be able to share such information with reinsurers in the near future.

Landmannalaugar, Mid Iceland





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ACT 55/1992 on The Natural Catastrophe Insurance of Iceland after changes to NTI's legislation in July 2018

Purpose and board of directors

Article 1

The purpose of The Natural Catastrophe Insurance of Iceland is to insure against loss caused by the natural catastrophes listed in Article 4 of this act.

Article 2

The board of directors of the agency shall be comprised of five persons. Three shall be elected by the Parliament of Iceland, one shall be chosen by those insurance companies which collect premiums, cf. Paragraph 3, Article [10]1), and [the minister] shall appoint one who shall be chairman 2). Alternates shall be chosen in the same manner. Directors shall be appointed for a term of four years.

1) Act 35/1995, Article 1.

2) Act 10/1995, Article 2.

The investment of assets and annual accounts

Article 3

The board of directors shall safeguard and invest the funds or keep the books of the agency or enter into an agreement with a party in the field of insurance for the investing of the agency's funds and/or keeping the books. When investing, the board of directors shall seek to ensure the value of the capital and risk diversification as possible at each time.

The fiscal year of The Natural Catastrophe Insurance of Iceland shall be the calendar year. Audited annual accounts shall be published on the agency's website.

The Icelandic National Audit Office audits the financial statements from The Natural Catastrophe Insurance of Iceland.

Insured risk

Article 4

The Natural Catastrophe Insurance of Iceland shall insure against direct losses incurred on account of the following natural catastrophes: volcanic eruptions, earthquakes, rock slides, avalanches and floods. A regulation shall further define what falls within the purview of the previous sentence.

Properties with mandatory insurance

Article 5

It is mandatory to insure all real estate and all movables that have fire insurance at an insurance undertaking which is licensed to operate in Iceland. It is also mandatory to insure any movables covered by general comprehensive policies which include fire insurance, as such insurance is considered to fall within the category of property insurance, cf. [Article 20 of Act 100/2016 on Insurance Activities]1). Should fire insurance be included in an all-risk insurance policy or a special insurance policy, e.g. fish farming insurance, the movables shall not be covered by natural catastrophe insurance, unless specifically approved by the board of directors of the agency.

It is further mandatory to insure the following structures against natural catastrophes, regardless of whether they are covered by fire insurance:

1. Geothermal heating systems, waterworks and sewage systems owned by municipalities or the government of Iceland.

2. Harbour installations owned by municipalities or the government of Iceland.

3. Bridges which are 50 m or longer.

4. Electric installations, including distributions systems, dams and utility facilities which are publicly owned.

5. Telephone and communications networks which are publicly owned. [6. Ski lifts.]2)

The assets listed in paragraph 2 may be insured elsewhere than at The Natural Catastrophe Insurance of Iceland.

The minister shall issue a regulation further outlining what falls under mandatory insurance according to paragraph 2, including making provisions for what categories of valuables are considered defined structures.

1) Act 84/1998, Article 6.

2) Act 35/1995, Article 2.

Properties with optional insurance

Article 6

[...]1)

1) Act 35/1995, Article 3.

Article 7

Upon an insurance undertaking receiving a request for a fire insurance policy for a building or movables which customarily are not subject to fire insurance or the risk of fire damage is insignificant, the insurance undertaking shall seek approval from the agency prior to calculating a natural catastrophe insurance premium from the insurance. Should the provisions of the article not be adhered to, the insured item shall not be considered insured against natural catastrophes.

Article 8

It is prohibited to insure structures which are erected in violation of a ban set by public authorities or contrary to law in such a way that it is likely that the building is therefore more susceptible to incurring damage from natural catastrophes than it otherwise would be, regardless of whether it is covered by fire insurance.

Amount insured

Article 9

The amounts insured shall be determined as follows:

1. All valuables covered by a fire insurance policy shall be insured against natural catastrophes for the same amount covered by the fire insurance policy at each time.

2. After having received recommendations from the board of directors of the agency, the minister shall establish rules on the determination of insurance amounts for other assets; cf. Paragraph 2, Article 5....1)

1) Act 35/1995, Article 4.

[Own risk of the insured]1)

Act 119/2008, Article 1

Article 10

[The own risk of the insured shall be 2% of each loss, although never of a lower amount than as follows:

1. For movables, insured cf. Paragraph 1, Article 5, ISK 200.000,-.

2. For buildings, insured cf. Paragraph 1, Article 5, ISK 400.000,-.

3. For structures, insured cf. Paragraph 2, Article 5, ISK 1.000.000,-.]1)

1) Act 119/2008, Article 1. The provisions apply to losses incurred from 25 May 2008, cf. Article 2 of the same act.



Insurance premiums

Article 11

Annual insurance premiums shall be calculated as follows:

1. For assets insured in accordance with Paragraph 1, Article 5, 0.025%
- [2. For assets insured in accordance with Subparagraphs 1-5, Paragraph 2, Article 5, 0.02%]1)
- [3. For assets insured in accordance with Subparagraph 6, Paragraph 2, Article 5, the premium shall be calculated in accordance with rules established by the board of directors of the agency.]1)

Should the net assets go below 0.1% of estimated amounts insured at the end of the calendar year, the board of directors of the agency may collect premiums in accordance with Paragraphs 1 and 2, Article 5 with a 50% surcharge until the 0.2% objective is reached.

Insurance undertakings which provide fire insurance for assets insured at the agency, cf. Paragraph 1, Article 5, shall collect premiums for the agency in addition to premiums for the fire insurance, with both premiums falling due at the same time. A regulation shall make provisions regarding bookkeeping and the remittance of premiums from insurance undertakings. The agency's access to data held by insurance undertakings shall be governed by Article 24.

Insurance premiums from other assets, cf. Paragraph 2, Article 5, shall be calculated and collected by the agency.

Natural catastrophe insurance premiums are subject to distraint. The insurance premiums are also secured by a statutory lien on the insured property. In order to enforce payment of an unpaid insurance premium a distress sale of the property may be requested without a prior judgment, settlement or levy of execution.

1) Act 35/1995, Article 6.

Notification of loss

Article 12

Upon the occurrence of an insurance event, the insured shall immediately notify the agency or the insurance undertaking that sold him the insurance.

Upon receiving such a notification, the relevant insurance undertaking shall immediately notify the agency of the insurance event. When the agency gains knowledge of a loss which can be expected to be subject to natural catastrophe insurance, it shall as soon as possible make arrangements to determine whether the loss shall be compensated and, if applicable, have the loss appraised.

Arrangements to avert loss

Article 13

Upon the occurrence of an insurance event, the agency shall determine whether specific arrangements are necessary to rescue insured assets or to avert further loss. Such arrangements shall, insofar as possible, be made in cooperation with the Icelandic Civil Protection Department. The provisions of Paragraph 1 do not release the insured from his duty to make arrangements to avert loss according to the law on insurance contracts.

Article 14

[...]1)
Act 46/2008, Article 11.

Payment of insurance compensation

Article 15

The claimant shall use the insurance compensation to repair or restore property damaged by a natural catastrophe. If the insurance compensation is greater than 15% of the insurance amount of the

property or if the damage affects the structure's safety or health standards, The Natural Catastrophe Insurance of Iceland shall ensure that the insurance compensation be rightfully spent before paying them out to the claimant.

The Natural Catastrophe Insurance of Iceland is permitted, in consultation with the municipal government, to grant exemptions from the repair or restoration obligation in Paragraph 1 on the condition that 15% will be deducted from the compensation amount. The deduction shall not be applied if the repair or restoration of a property is prevented by zoning regulations or other reasons that are not within the claimant's control. If a decision is made to grant an exemption from the repair and restoration obligation and if The Natural Catastrophe Insurance of Iceland believes that the amount insured obviously exceeds the insured property's market value the agency is permitted to use the property's market value as a base.

If a property is damaged and the approximated repair costs, with due consideration to the age and condition of the property at the time of the event, exceeds half of the amount insured and the municipal government deems it necessary to remove the property due to risk of repeated insurance events, the municipality can acquire the property. It will then pay the difference between the approximate insurance compensation from The Natural Catastrophe Insurance of Iceland and the property's amount insured.

The board of directors of The Natural Catastrophe Insurance of Iceland issues rules on procedures and handling of claims. The board of directors is permitted to entrust the settlement of claims to insurance undertakings.

[The minister] shall issue a regulation on appraisers and general principles in determining insurances compensation.

Article 16

It shall be permitted to lower compensation amount or reject a claim entirely:

1. When a building or other structure which is damaged is constructed at a location commonly known to be dangerous with regard to natural catastrophes, e.g. if a structure in the same location has more than once incurred the same kind of damage. The same shall apply to movables stored in a building or another structure in such conditions.
2. When the construction or maintenance of a building or other insured item is unconscionable or contrary to law or regulations and it is clear that this has resulted in loss or more extensive loss than it otherwise would have been.

Article 17

Insurance compensation shall be paid as soon as possible, cf. Article 48 of Act 30/2004 on Insurance Contracts.

Article 18

The total payment obligation of The Natural Catastrophe Insurance of Iceland due to each insurance event shall be limited to 0.75% of the total of insured amounts covered at the start of the insurance event. From 1 January 1994, the payment obligation is limited to 1% of the total insured amounts.

Should compensation on account of the same insurance event exceed the amount in Paragraph 1, the share received by each insured which suffered loss shall be reduced proportionally.

Article 19

The Natural Catastrophe Insurance of Iceland makes decisions regarding payment obligations and compensation amounts in accordance with provisions in the Administrative Procedures Act on





case handling. The claimant can appeal the agency's decision to the Appeals Committee within 30 days from having received the decision. The Appeals Committee shall be appointed by the minister. The Appeals Committee shall be comprised of four persons. One shall be appointed according to nomination from the Supreme Court of Iceland and shall be chairman and have specialised knowledge in the field of insurance law. The second person shall be appointed according to nomination from the School of Engineering and Natural Sciences of the University of Iceland and that person shall have specialised knowledge in structures. The final two persons shall be appointed without nomination and shall have specialised knowledge in the field of insurance, structures or damage assessment. Alternates shall be appointed in the same manner. Appointments shall be made for a period of three years. The Appeals Committee may seek the assistance of experts if deemed appropriate.

Risk management, reinsurance and authorisation to borrow

Article 19.a.

The Natural Catastrophe Insurance of Iceland shall have an efficient risk management system. The minister is authorised to issue a regulation with further provisions regarding risk management.

Article 20

The agency shall be permitted to reinsure its risk both domestically and abroad. Should the agency's assets and amounts received from reinsurers not suffice to pay compensation as prescribed for by this act, the agency's board of directors may, with the consent of the minister, borrow funds in order to be able to discharge its obligations. Such loans are unconditionally guaranteed by the government of Iceland.

Sundry provisions

Article 21

The board of directors of the agency shall be permitted to allocate funds to research and to subsidise construction intended to avert or mitigate loss on account of natural catastrophes. [Furthermore, the board of directors may allocate grants in relation to the education and training of those national organisations which have entered into a cooperation agreement with the [National Commissioner of the Icelandic Police]1) regarding intervention teams.]2) Annual allocation of funds in this regard may not exceed 5% of the book value of premiums received the preceding year.

- 1) Act 44/2003, Article 11.
- 2) Act 35/1995, Article 7.

Article 22

The Natural Catastrophe Insurance of Iceland is exempt from the payment of income tax.....1), municipal tax and facilities tax. Stamp duty shall not be paid on account of the agency's documents.

- 1) Act 129/2004, Article 97.

Article 23

The board shall negotiate with insurance undertakings and others which operate on behalf of the agency in accordance with this act. Should a disagreement on an insurance undertaking's compensation arise, it shall be resolved by an arbitration court of three persons. Each party shall nominate one person for the court. These court members shall choose a third member which shall be chairman of the court. A chairman shall meet the special conditions of qualification for district judges for processing handling cases. Should a court member not be nominated within 15 days of a demand or court members cannot agree

on a third member, the Act on contractual arbitration shall be followed. The provision of that act shall be complied with in other matters as applicable.

Article 24

The Natural Catastrophe Insurance of Iceland can demand any data and information from insurance undertakings regarding their operations on behalf of the agency. During regular office hours the agency shall further have a right to unhindered and immediate access to the books of such insurance undertakings and other data regarding premiums on natural catastrophe insurance.

Article 25

Unless otherwise prescribed for in this act, the provisions on the Act on Insurance Contracts shall be applied as applicable.

Article 26

After having received the recommendations of the board of directors of The Natural Catastrophe Insurance of Iceland, the [minister]1) shall issue a regulation2) with provisions further outlining the implementation of this act.

- 1) Act 10/1995, Article 2.
- 2) Regulation 83/1993.

Article 27

This act shall enter into force on 13 January 1993

Temporary provisions

- I. [...1) Act 35/1995, Article 8.

[II. A 10% surcharge shall be collected on premiums prescribed in Article 10 in the years 1995-1999. Income on account of the surcharge shall be diverted to the avalanche and rock slide fund, cf. Article 10 of Act 28/1985 on defences against avalanches and rock slides. The collection of this fee shall be governed by Article 10]1)

- 1) Act 36/1995, Article 1.

In the event of a dispute, the Icelandic version of the Act 55/1995, does apply.



Grænhyggur in Mid Iceland





REGULATION ON THE ICELAND CATASTROPHE INSURANCE No. 642/2017

Scope

Article 1

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

Risks insured against

Article 2

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.

Movables that are mandatory to insure

Article 3

Insuring the following movables, is mandatory cf. Paragraph 1, Article 5 of the Iceland Catastrophe Insurance 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.

Structures that are mandatory to insure

Article 4

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.

Changes to insurance policies

Article 5

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.

Amount of insurance for structures

Article 6

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.

Information on premiums

Article 7

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.

Premium maturity date

Article 8

The maturity date of premiums which the Iceland Catastrophe Insurance 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.

Appointed adjusters

Article 9

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.

Determination of compensation

Article 10

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:

loss amount x amount insured / actual value = compensation.

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

Demercation of own risk

Article 11

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. Movables 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.

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.

Guðrún Þorleifsdóttir

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