

# Renewal information 2019

CATASTROPHE EXCESS OF LOSS PROGRAMME  
IN PREPARATION FOR 2019 REINSURANCE RENEWAL



Natural Catastrophe Insurance  
of Iceland

# At a Glance

## Basic information about NTI

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. The purchase of catastrophe insurance for earthquakes, volcanic eruptions, avalanches, landslides, rock falls, riverine-, coastal- and glacial floods is compulsory for all buildings; as well as for contents insured against fire. 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, harbors 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.

In 2018, a revision of the NTI legislation has included, among other updates, increased minimum deductibles. This is expected to lead to a meaningful reduction in gross exposure.

**All numbers in EUR (exchange rate as at August 2018. 1 EUR = 124.41 ISK)**

## About the cover

### Compulsory coverage

- Properties – all buildings in Iceland
- Contents – if insured against fire
- Public infrastructure
  - Water distribution networks
  - Geothermal heating-systems
  - Sewage systems
  - Electric power systems
  - Harbors
  - Bridges
  - Ski-lifts

### Perils covered

- Earthquakes
- Volcanic eruptions
- Snow- and mud avalanches
- Landslides and rock falls
- Riverine-, coastal- and glacial floods

### Perils not covered

- Windstorms / tornados
- Hail
- Surface / flash floods

### Premiums

For properties and contents the premium is 0.25 ‰ of the fire insurance value. For public infrastructure the premium is 0.20 ‰ of the replacement value.

Kambur and Fýlsdalsfjall, Reykjarfjörður in Strandir, 315 km from Reykjavík



# a Glance

## Changes to the legislation

### Clarified role of NTI as a catastrophic insurer

On July 1st 2018, changes to NTI's legislation took effect, that were approved by the Icelandic Government in May 2018. The new version of the legislation can be found on pages 17-19. A review of NTI's Act had been ongoing since 2011 with the participation of a wide range of stakeholders. The review aimed to clarify NTI's role, i.e. that NTI provides compensation for damages occurred due to a natural catastrophe. Other notable changes in the legislation include:

### Name of the institution

Náttúruhamfaratrygging Íslands (NTÍ) stands for Natural Catastrophe Insurance of Iceland (NTI). The new name is transparent and reflects the purpose of the institution.

### Deductibles

The own risk of the insured will decrease from 5% to 2% of each loss. The minimum deductibles will be ISK 400,000 (EUR 3,215) for properties, ISK 200,000 (EUR 1,608) for contents and ISK 1,000,000 (EUR 8,038) for public infrastructure. This represents an increase in minimum deductibles of approximately 500% for properties, and 1000% for contents.

### Reconstruction requirements

The policy-holder is now required to use the compensation to repair/reconstruct the damaged item. Furthermore, if the damage is related to the structural system of a building, affects the safety and health of people or exceeds 15% of the buildings fire valuation, the NTI is not allowed to pay compensations until the property has been repaired/reconstructed.



# Perils Covered

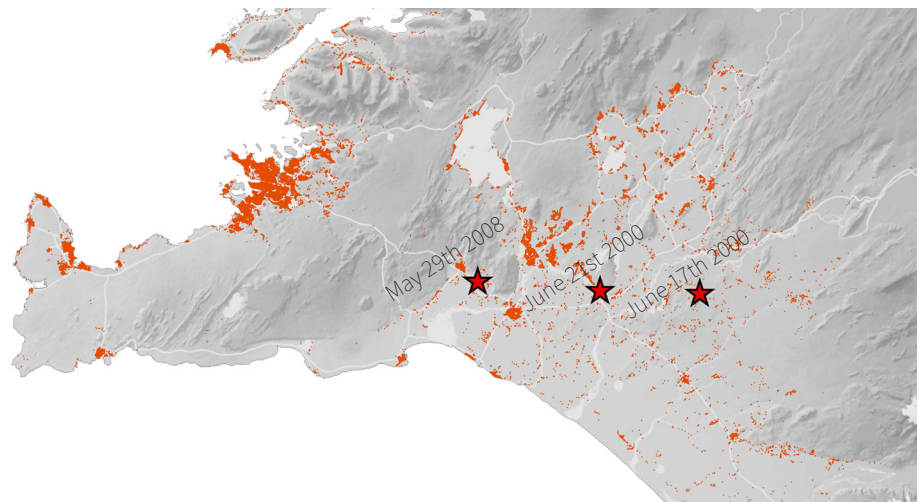
## Earthquake hazard

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 account 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, which the NTI takes into account in structuring its reinsurance cover.

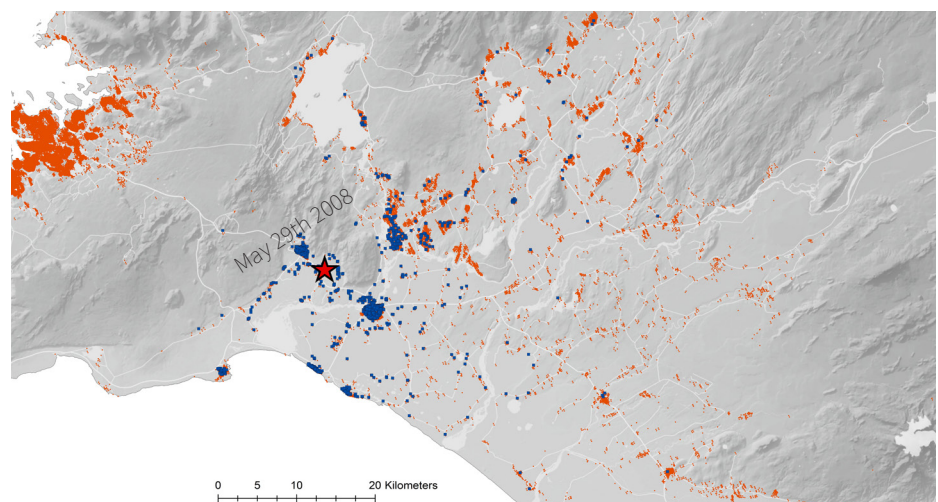
On June 17th and 21st 2000, two earthquakes of magnitude 6.5 (Mw) occurred in Southern Iceland. The highest recorded peak ground acceleration in these earthquakes was 0.84g. The surrounding area of both the earthquakes is rural with the small village Hella in about 12 km distance from the June 17th event epicenter and the small town Selfoss in 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 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, in about 4 km and 7 km distance from the epicentre, respectively. Significantly less damage was observed in the small villages Eyrabakki and Stokkseyri and in the rural area at further distance from the epicentre.



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



The orange dots represent insurance policies and the blue show losses from the earthquake 2008

# Perils Overview

## 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 km<sup>3</sup>) 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 consist of downpour of tephra, major basaltic flood eruptions and lava flows.

**Downpour of tephra** (ash fall) and fluorine poisoning of crops and livestock which is not 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 be affected. The very fine tephra from Eyjafjallajökull 2010 and Grímsvötn 2011 was noticed in Reykjavík, more as an annoyance rather than calamity.

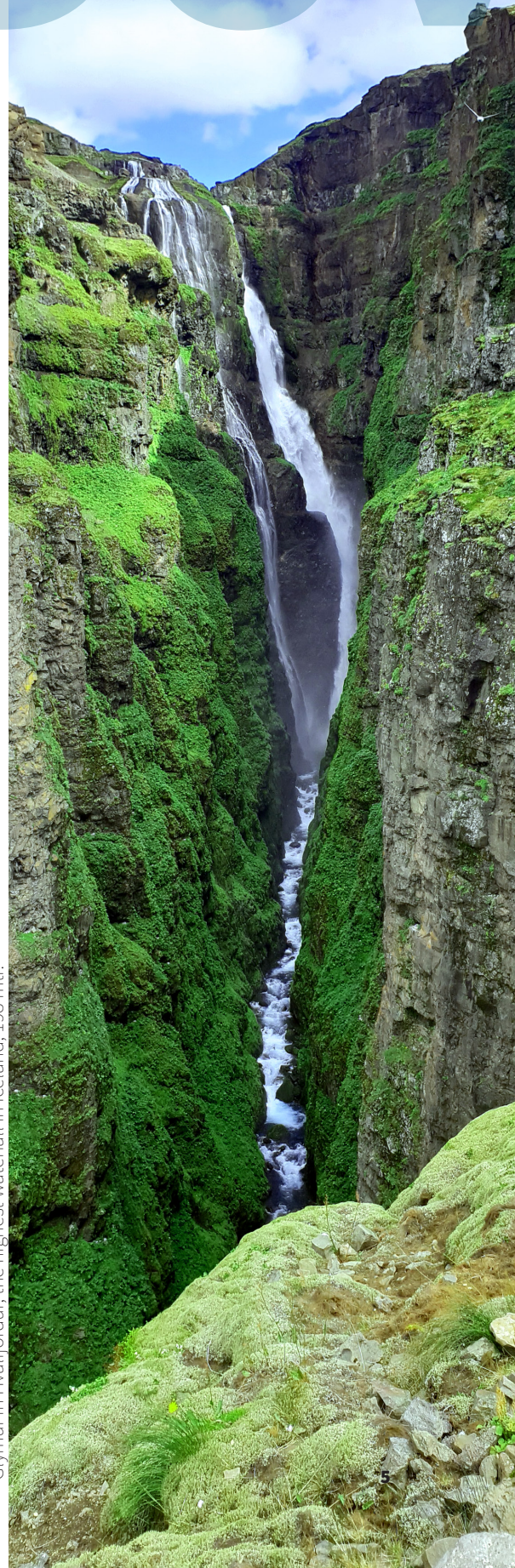
**Major basaltic flood eruptions** (similar to the Laki eruption in 1783 which had widespread effects all over Europe) would mainly be hazardous to power stations and communication systems.

**Lava flows** mostly affects 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 serious effect on farms and villages. No active volcanoes are close to large urban centres in 2018.

## Other perils |

Floods and avalanches may cause isolated damage but it is unlikely that an event could exhaust the NTI's reinsurance retention. 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 East Fjords, and flood related to rockfall in the West Fjords.

Glymur in Hvalfjörður, the highest waterfall in Iceland, 198 mtr.



# Loss History

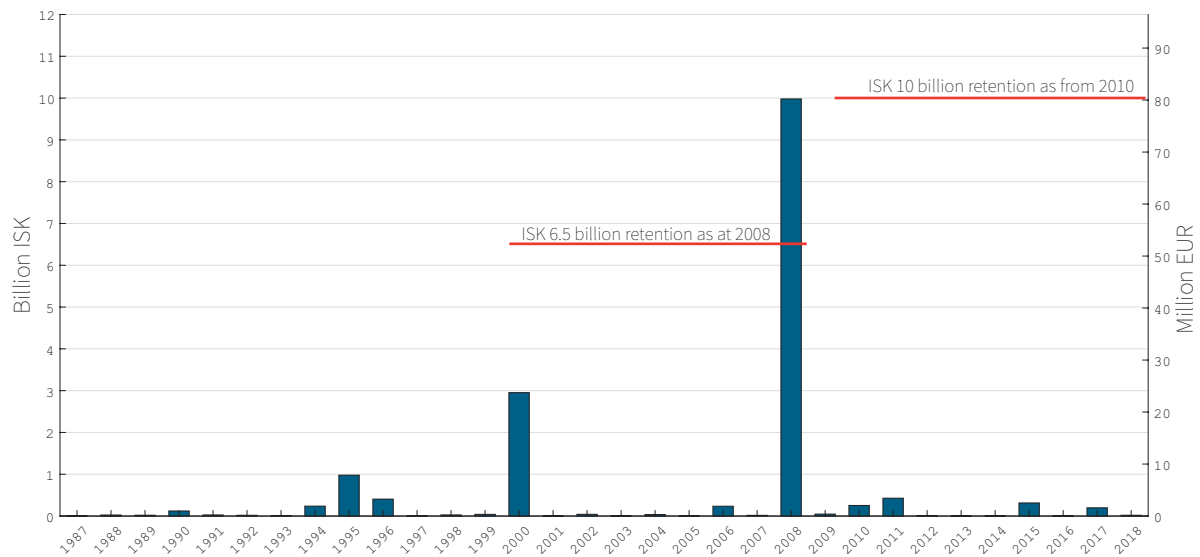
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## Loss history from 1987-2018

Since 1987 ICI has paid out losses from 246 events in total; 127 floods, 73 avalanches, 32 rockfall / mud floods, 12 earthquakes and two volcanic eruptions. In 1995, villages and several farms in the West Fjords and the East Fjords were hit by avalanches. Total loss paid by NTI was about 3.5 billion ISK. In 2000, two 6.5 Mw earthquakes shook South Iceland. Total loss paid out by NTI was about 8.5 billion ISK.

## NTI's only reinsurance loss

The total paid out loss in the 2008 earthquake as at August 2018 was ISK 9.97 billion with nearly 5,000 claims. The NTI reinsurance retention in 2008 was ISK 6.5 billion hence the reinsurance loss is currently at ISK 3.47 billion. That was NTI's only reinsurance claim since it was established in 1975. Net ultimate losses from 1987 to 2018 are shown in the table below, according to NTI's books. Indexed loss information for the same period will be shown in the detailed renewal information that will be sent to reinsurers by end of October.



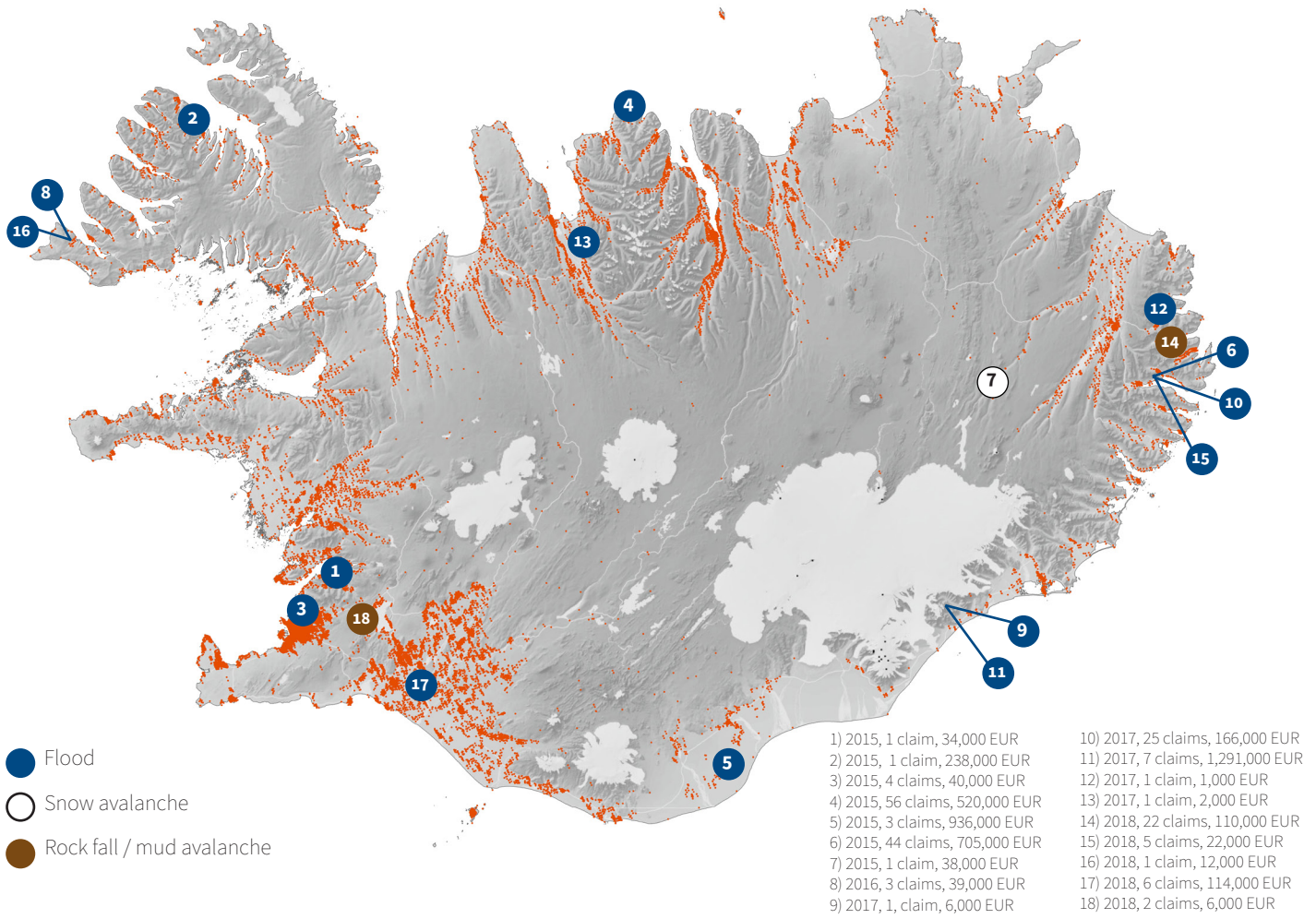
Kópavogur, one of the outskirts of Reykjavík



# Loss History

## Detailed losses last four years

To give an indication of common losses, the below chart provides detailed information about the 18 events which the 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 each time. Events from the last four years include floods, snow avalanche, mud avalanche and rockfall. During the same period NTI had four events with claims that did not lead to any insurance losses due to their nature.



# Exposure Info

NTI covers assets of ISK 12,028 billion situated all over the country (ISK 11,101 billion as at Sept. 2017.) This represents an increase of ISK 927 billion (8.3 %). Most of the increase is due to changes to the fire insurance value of properties as assessed by the State Land Registry Office (Iceland Registers). According to the Iceland Registers, there is a 1.3 % increase in number of buildings within the Icelandic building stock. Because of the compulsory nature of the insurance, assets from relatively low risk areas such as the capital region (60%) make up most of the portfolio. 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.



A typical observation in the center of Reykjavik in 2018: The Icelandic property market has been facing an undersupply for the last few years and construction activity has increased.

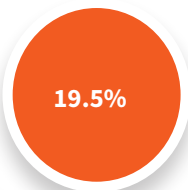
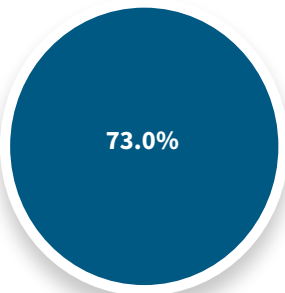
Þríhnjúkar (the three peaks) in Mosfellsdalur, 20 km from Reykjavík



# Exposure i

## Properties

8,782 billion ISK  
(70.6 billion EUR)



## Contents

2,344 billion ISK  
(18.9 billion EUR)

## Public infrastructure

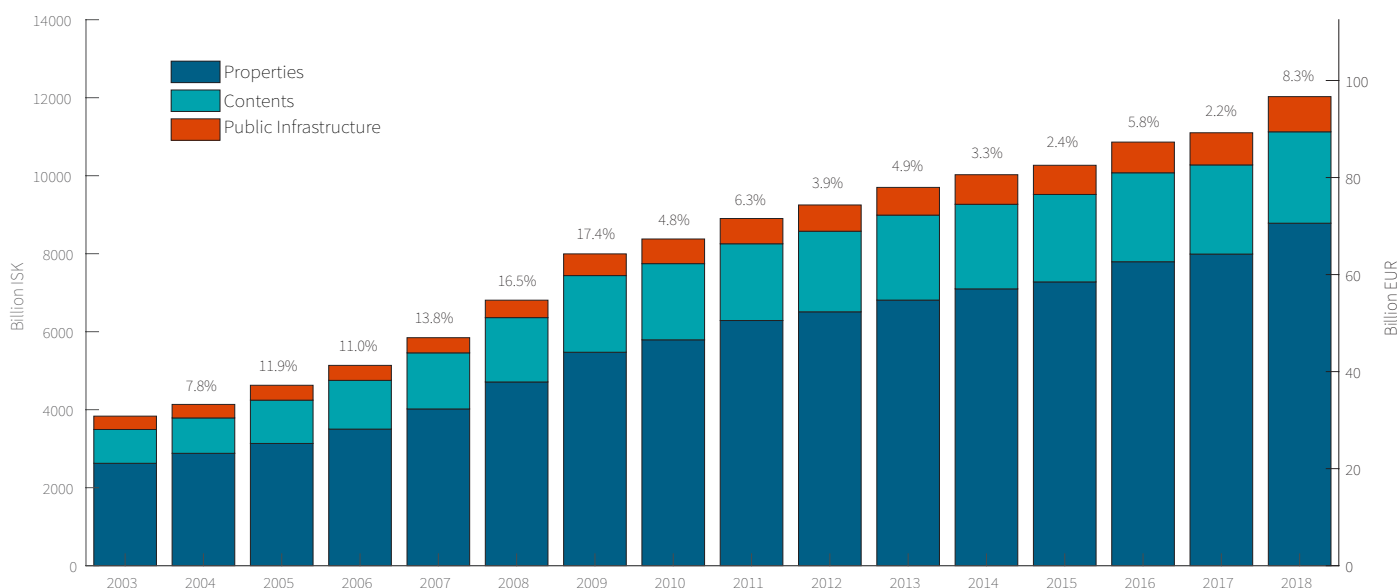
902 billion ISK  
(7.2 billion EUR)



Since last year, there has been a proportional market reduction in content insurances compared to previous years. Content insurance now makes up 19.5% of the total insurances compared to 20.6% last year. Properties go up by 1% from 72.0% to 73.0% and public infrastructure from 7.4% to 7.5%.

NTI's visits to all municipalities in the country in the years 2016 - 2017 resulted in improved registration of public infrastructure. The biggest change is seen in the insurance of sewage systems, around 18%, where the replacement value rose from ISK 146 billion (EUR 1.17 billion) to ISK 172 billion (EUR 1.38 billion).

Sum insured aggregates 2003-2018



# Risk Assessment

## Methodology |

In the aftermath of 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. After the 2008 earthquake as well as after the two destructive earthquakes in 2000 in the Southern Region, all damaged houses and facilities were inspected and the loss was evaluated by technical experts (engineers and adjusters). 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 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. These measurements formed the basis for a great deal of work on the specific attenuation formula used in hazard maps for building codes and in the modelling of earthquakes.

Extensive scientific data including bibliography with list of published papers and reports regarding seismicity, geology and geophysics in Iceland and a comprehensive catalogue of historical earthquakes were collected by experts at the University of Iceland and the Icelandic Met Office.

All of this information has been used in the development of a fully probabilistic bespoke model for Icelandic earthquake risk. This model is owned and maintained by the NTI team.

Marardalur in the geothermal area in Hengjill, 30 km from Reykjavík



# Risk Assessment



## Hazard module

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



## Exposure data

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



## Vulnerability

Damage functions were 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.

## Impact of the new insurance terms

Despite the decrease of the insured's own risk from 5% to now 2%, the minimum deductibles for properties show almost a fivefold increase from ISK 85,000 to ISK 400,000 (EUR 3,215) and a tenfold increase for contents, from ISK 20,000 to ISK 200,000 (EUR 1,608).

In general, the amount paid to the policyholder will increase in major damages, i.e. above ISK 8 million for properties and above ISK 4 million for contents. For damage less than the above mentioned thresholds, the amount paid to the policyholder will decrease.

NTI has done some analysis to estimate how this will change the overall risk. 27 historical earthquakes have been assessed, using NTI's earthquake scenario model. The calculations are based on the 2018 portfolio. The average gross loss caused by the 27 events decreased by 8% due to the new terms. Furthermore, the increase of the minimum deductibles will likely reduce the number of reported claims, especially at the outskirts of affected areas of major earthquakes. NTI, in cooperation with Aon, will further analyze the effects of the new terms and subsequently inform NTI's reinsurers. Details of the above calculations are also available on request.

## Reinsurance structure

At this moment, NTI has no plans to change its reinsurance structure. The renewal package will be sent out by the end of October. It will include detailed information about NTI's loss history, NTI's exposure/portfolio, results of the probabilistic seismic risk modeling and more. As usual, NTI aims for an early renewal.



# Monitoring Risk

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.

## Information to reinsurers

NTI takes great effort to provide reinsurers with value-adding information that are as accurate as possible at any given time. NTI maintains close relationships with its primary stakeholders regarding natural hazards: The Icelandic Met Office, scientists from the University of Iceland, the Department of Civil Protection and Emergency Management and the National Commissioner of the Icelandic Police. If the IMO's instruments measure an unusual behavior of the earth's crust, NTI will assess possible damages due to earthquakes or other catastrophic events that might occur, e.g. volcanic eruptions or floods.

NTI and the Department of Civil Protection and Emergency Management have formed a partnership where NTI provides the department with information on estimated damages and its consequences on properties in the area so that possible scope can be discerned and proper arrangements or responses can be made. NTI has analyzed these events and issued memorandums for reinsurers, first and foremost to inform reinsurers of the possibility of a particular catastrophic event. Any possible loss is assessed conservatively. However, such an assessment is always subject to considerable uncertainty.

Memorandums are generally prepared if research indicates a possible impending catastrophic event that would cause significant losses, even if reinsurers would be unaffected. Since September 2017, reinsurers have been informed of two possible events via a memorandum, both relating to increased seismicity, one in Öraefajökull in October 2017 and the other in Grímsey in February 2018. For sudden events that cause little or no damages, memorandums are not necessarily prepared, e.g. a large landslide occurred in Hítardalur in July 2018 and a flood occurred in Skaftá in August 2018. Neither one of those events resulted in any damage to insured items. Details of these four events are shown in the schematic overleaf.

Selvogsgata, hiking path between Hafnarfjörður and the South coast in November 2017



# Monitoring

Landslide.

**Hítardalur, valley**, July 2018.

Unusual event, no losses.

Further details can be found:

<http://en.vedur.is/about-imo/news/a-large-landslide-falls-in-hitardalur-valley>

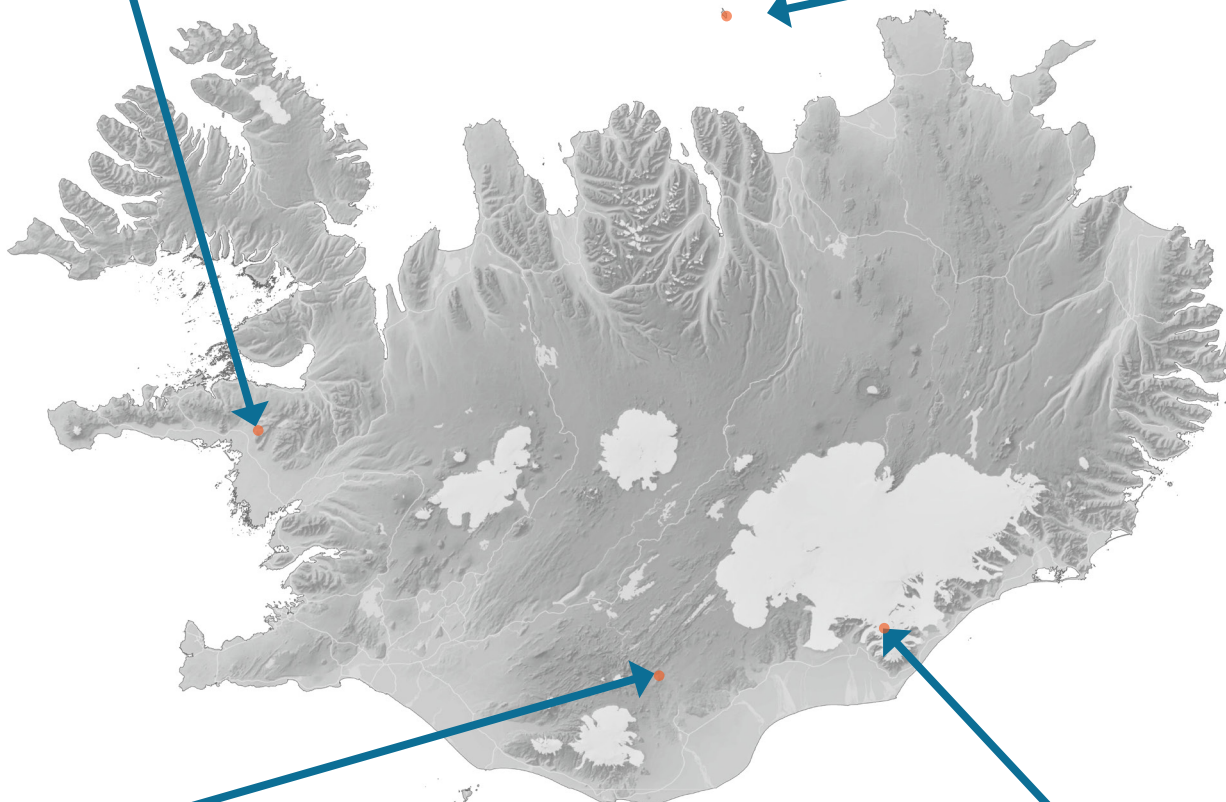
Increased seismic activity.

**Grímsey, Iceland**, February 2018.

Reinsurers were informed via memorandum.

Further details can be found:

<http://en.vedur.is/about-imo/news/seismic-swarm-east-of-grimsey-on-the-decline>



Glacial Flood.

**Skaftá, river**, August 2018.

Quite regular interval, no losses.

Further details can be found:

<http://en.vedur.is/about-imo/news/the-august-glacial-outburst-one-of-the-larger-jokulhlaups-to-have-affected-skafta-in-recent-decades>

Increased seismic activity and magma intrusion.

**Öræfajökull, glacier**, October 2017.

Reinsurers were informed via memorandum.

Further details can be found:

<http://en.vedur.is/about-imo/news/the-imo-and-the-icelandic-civil-protection-agency-reassess-the-status-for-orae-fajokull>



Ou



Botnssúlur in Hvalfjörður, April 2018. A palagonite mountains, 70 km. from Reykjavík



# ur Team

## Our Team



Jónína, Jón Örvar, Tinna, Halldór and Hulda ready for the next journey.

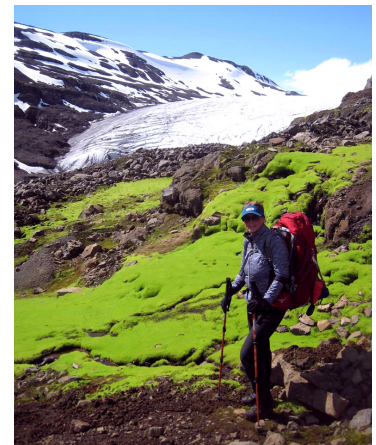
If it wasn't for the great team work at NTI, we would need more people to successfully manage all the projects in time. The team has a great experience of finding solutions to complicated projects. Once in a while we do something to boost the team spirit, which can be a great hike to a close mountain or a delicious dinner in one of the great seafood restaurants we have in Iceland.

NTI also works in close cooperation with Aon, its reinsurance broker. This partnership includes strategic reinsurance and risk management advice with a foundation in robust analytics, to ensure NTI is adequately protected by reinsurance.

NTI and Aon also work hard to ensure NTI's core principles of honesty and transparency are reflected in our approach to marketing and the information we share.

The staff at NTI welcomes its reinsurers at the office in Kopavogur at any time.

All the pictures in this report were photographed by our CEO, Hulda, while hiking in all kinds of different areas in Iceland, all year around. The picture on the front page was taken in August 2018 in Fjallabak, Nature Reserve. On the right side of the picture, a special area named Green Ridge (Grænihryggur) can be seen. The Fjallabak region takes its name from the numerous wild and rugged mountains with deeply incised valleys. The topography of the Torfajökull, central volcano found within the Fjallabak Nature Reserve, is a direct result of the region being the largest rhyolite (liparite) area in Iceland and the largest geothermal area (after Grímsvötn in Vatnajökul). The Torfajökul central volcano is an active volcanic system, but is now in a declining fumarolic stage as exemplified by numerous fumaroles and hot springs.





**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.

