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AB 4175 (10/04)  
Paris, October 2004

## PROPERTY INSURANCE COMMITTEE

### Plenary Meeting PARIS – 10/11 June 2004 (List of Conclusions and Action Plan)

#### **PRESENT:**

<b>Chairman</b>	<b>Mr Dominique Santini (FR)</b>	<b>Directeur Général Adjoint Marchés des Entreprises et de la Réassurance</b>	<b>Generali Assurances</b>
Vice-Chairman	Mr Ragnar Kayser (NO)	Senior Executive Director - Vice-President	Vesta Insurance Com.
AT	Dr Othmar Ederer	Managing Director	Grazer Wechselseitige Versicherung AG
AT	Ms Gabriele Koerner	Magister	Verband der Versicherungsunternehmen
BE	Mr Pierre-Paul Leroy	Conseiller	Assuralia
CH	Mr Gerhard Felder	Treaty Underwriting – Manager	Swiss Re
CH	Dr Max Gretener	Property/Casualty	Swiss Insurance Association
CZ	Dr Michael Neuwirth	Managing Director	Allianz Pojistovna, a.s.
CZ	Mr Pavel Rybar	Head of Commercial Insurance Department	Kooperativa Pojistovna
DE	Mr Hans Schüngel	Dipl. Ing	VdS Sachdenverhütung i. A. GDV
DE	Ms Monika Wehr	Dipl. Ing. Geschäftsführer	Gesamtverband der Deutschen
DE	Mr Wolfgang Wopperer	Leiterin Versicherungstechnik	Versicherungswirtschaft e.V.
DK	Mr Bo Balschmidt	Fondé de Pouvoir Supérieur	Allianz AG
DK	Mr Klaus Vogel	Chief Engineer	Danish Insurance Association
ES	Mr Ignacio Eyries Garcia de Vinuesa	President Agrupación Patrimoniales	If-Skadeforsikring
ES	Mr Miguel Saldaña	General Manager/Industrial Engineer	Unespa
FI	Mr Olavi Kauppila	Senior Executive Vice-President	Cepreven
FI	Mr Veli Matti Ojala	Director, Loss prevention	Pohjola Non-Life Insurance Company Limited
FR	Mr Benoît Clair	Délégué Général	Federation of Finnish Insurance Companies
FR	Mr Frédéric Guédin du Pavillon	Responsable du département statistiques assurance de biens et de responsabilité	CNPP
FR	Mr Roland Nussbaum	Directeur	FFSA
FR	Ms Claudine Quillevere	Responsable département des risques particuliers, ACPS et construction	Mission Risques Naturels
FR	Mr Guillaume Rosenwald	Directeur des marchés d'assurance de biens et de responsabilité	FFSA
GB	Mr Peter Dower	Manager Property & Household	Zurich Insurance Company
GB	Ms Jane Milne	Chairman of Property Insurance Committee	Association of British Insurers
GR	Mr Yannis Linos	Manager	Association of Insurance Companies - Greece
IT	Mr Aldo Marzano	Chairman Prevention & Criminality Cttee	ANIA
NL	Mr Robert Crommelin	Senior Vice-President	Association of Dutch Insurers
NL	Mr Pieter Polet	Assistant Director	Aegon General Insurance
NO	Mr Ingunn Skaalen Berg	Dept. Director	Gjensidige Nor Forsikring
NO	Mr Andreas Pihl		Norwegian Financial Services Asso.

PL	Mr Andrzej Pitynski	Specialist in property insurance	Polish Chamber of Insurance
SE	Mr Christer Midgard	Vice-President	If P&C Insurance Ltd
SE	Mr Jan Carlsson	Chief Underwriter Property	If P&C Insurance Ltd
TR	Mr Barbaros Yalçin	Assistant General Manager	Milli Reasürans T.A.S
<u>External</u>	Dr Richenda Connell	Technical Director	UK Climate Impact Programme
<u>Speakers</u>			
	Dr Sebastian Catovsky	Policy Adviser	Natural Perils, ABI
<u>Observers</u>	Mr Marc Gillet	Director	Onerc
	Mr Jean-Michel Attlan	Advisor	Mission Risques Naturels
<u>Apologies</u>	Dr Gerhard Wagner (AT)	Chairman "Catastrophe Claims Management"	Uniqa
<u>received from</u>		WG	
	Portugal		
<u>Secretariat</u>	Mr Daniel Schanté	Director General	CEA (partly)
	Mr Jean-Louis Marsaud	Director	CEA
	Ms Josette Nougier	Manager Property	CEA
	Ms Alexandra Sempé	Trainee	CEA

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### 1) **Opening of the meeting – Approval of the Summary Record of the June 2003 meeting in Istanbul**

The Chairman, Mr Santini, welcomed all the delegates.

The Summary Record of the Plenary Meeting held in June 2003 was approved.

Mr Marsaud said that at the Management Committee meeting which preceded this one, Mr Santini had been appointed Chairman of the Committee for the next two years.

## **2) Presentation of the work of the CEA "Non-life Insurance" sector by Mr Marsaud**

Mr Marsaud outlined the work of the other Non-life Insurance Committees, in particular that of the General Liability and Motor Committees.

## **3) Report on the "Natural Events" Working Group by Mr Nussbaum**

*The natural events Working Group has met twice since the Istanbul plenary meeting: at the beginning of November 2003, then at the beginning of April 2004.*

*The membership of the group has increased again thanks to the arrival and active participation of the Austrian and Italian delegations, bringing the field of activity of the group to a total of 13 markets. In addition, the group came out in favour of inviting representatives of the major European reinsurers.*

*In addition, work currently under way in the groups:*

- *"management of catastrophic claims" on the one hand,*
- *"flood and storm prevention", within the Prevention Sub-Committee, on the other hand,*

*has been accompanied by the migration of members from the "natural events" Working Group, which has been favourable to cross-fertilisation. Likewise, the arrival within these new structures of delegations not yet represented in the group (Denmark and Norway in particular), also had the effect of opening up new horizons for sharing experiences which were beneficial to the work of the different groups. The option open to the convener of the natural events groups to take part in the work of these two other structures allowed the group to support the Non-Life Insurance Management Committee of the CEA Secretariat in the strategic management of CEA work in this area. This capacity was expressed during the year by the invitation of an official of the Environment DG to the November 2003 meeting, support for the Secretariat in the preparation of its presentation at a hearing of the European Parliament and on numerous occasions during meetings and in representing CEA vis-à-vis European Commission services.*

*Whereas the previous year had been characterised by an essentially "reactive" approach in the face of current political, legislative and regulatory events, the past year did not experience such tumultuous developments and therefore allowed the work carried out by the group to resume a more normal pattern, in line with the priorities laid down for 2003-2004.*

*This is why this report will immediately tackle the issue of progress on work themes, i.e.:*

- *The update of the document on cover, reinsurance conditions and equalisation provisions by market,*
- *The definition of "uninsured damage",*
- *The cartography and zoning of flood risks by market*
- *Initial exchanges on the attitude of the insurance sector faced with the issues associated with climate change*
- *Miscellaneous issues.*

*This is concluded by the directions proposed for 2004-2005.*

## **1. Documents on insurance cover on the one hand, reinsurance conditions and equalisation provisions on the other hand**

Originating from the initial work undertaken by the Working Group since its reactivation in 2000, these two documents have continued to be extended and restructured over the past few years, without yet attaining a satisfactory standard favouring the decision to publish them, because of evident shortcomings on some markets.

The Secretariat once again asked all the Committee's delegations to supplement and update these document, now available under new reference numbers:

- AB4074 – The insurance of natural events on European markets – April 2004
- AB4075 – Reinsurance Equalisation provisions – April 2004

*It is proposed that the Committee should now plan to publish them, preferably on the CEA site, given the constraints of frequent updating....*

## **2. Definition of uninsured damage**

This specific issue had been recognised as a priority at last year's plenary meeting, based on the report of activities carried out as a "reaction" to the Council decision of 11 November 2002, establishing the European solidarity fund for natural disasters.

In involving itself in this issue, the group knew that it would encounter major difficulties both in relation to methodology and access to relevant information...

During the initial stage, a semi-quantitative approach had been proposed, inviting delegations to carry out estimates of the different customer and cover segments. But this method proved to require upstream economic studies which were too great for the delegations.

Another route was therefore tried, seeking to exploit some of the statistics obtained from EUROSTAT on statistical variables of companies which were most closely in contact with the areas of activity affected by the scope of the fund, so as not to depend on results which could not be obtained within the sector. This again was a failure, perhaps due to a lack of resources to request and exploit the data which could be obtained from EUROSTAT.

With the assistance of the Secretariat<sup>1</sup>, we fell back on a much more simple approach, that of submitting a questionnaire to the delegations seeking only to determine whether the different categories of goods/activities/infrastructure elements included in the scope of the fund were insured by the State or by the private insurance market.

Ten delegations responded to all or part of the Secretariat's questionnaire on this occasion.

These responses provided initial indications in accordance with the intuition which had guided CEA's reactions to the Council's draft regulation:

- Clear problems of the precise legal definition of the public services concerned made the issue highly complex: for the infrastructures of both networks and public transport, the question arises as to whether the operator running a public service or the assets (network, fixed or mobile) are necessary for the functioning of this service.
- Probable dynamics of rapid development in view of the requirements for conformity to certain community principles for the competitive management of public services,

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<sup>1</sup> Taking into account the deadline for a conference on the use of the European solidarity fund, scheduled by the Commission for mid June 2004, at which the CEA Secretary General was invited to speak. This deadline was subsequently postponed.

- The existence of a broad range of national situations with regard to insurance cover, from the "all State" (GR) to the "all private" (BE<sup>2</sup>, CZ<sup>3</sup>, CH, IT, NL<sup>4</sup>), going via all the combined situations, both for the same category of public service (ES, FR...) and according to the categories of activity (NO).

To exploit these results, in a dialogue with the Commission services responsible for this issue, with the greater added value specific to the insurance sector, one could envisage, whilst retaining the quality, *devising small studies on specific issues, relating to some categories particularly typical of the public services.*

### 3. Experience of markets in relation to flood risk cartography and zoning

This primary area of activity of the group began, at its 2001 autumn meeting, with the presentation by the German delegation of its ZÜRS project<sup>5</sup> for the zonal rating of flood risks, following a presentation of this project at the Helsinki plenary meeting of the Committee.

It had then been decided to organise presentations of experience in the matter by different delegations at the end of the group's meetings. The experience, practices or projects by delegations had then been successively presented:

- British, Spanish and French (spring 2002),
- Belgian (autumn 2002),
- Swiss and Czech (autumn 2003),
- Austrian and Italian (spring 2004).

It should be stressed that the great novelty of the subject and ongoing developments meant that it was not possible to ask the delegations to present their experiences in accordance with a pre-defined format.

In preparation for the 2003 autumn meeting to which the official from the Commission's Environment DG responsible for this issue was invited, a particularly detailed questionnaire<sup>6</sup> originating from this DG and intended for the competent authorities of the Member States had been sent to the delegations. The eight responses obtained (CH, CZ, ES, FR, GB, NO, PL, TU) had been commented on to highlight the fact that the insurance sector constituted, admittedly to various degrees, a player in its own right in the production and/or use of natural hazard maps. These findings whetted the appetite of the Commission services for the proposed status report of the various markets on the production and use of hazard maps, announced as one of the group's objectives for 2004.

Drafting of this report is now in its next stage, with the prospect of being able to examine a sufficiently advanced version for the group's autumn 2004 meeting.

It is envisaged that this report should contain a main part comprising a comparative analysis and summaries of trends and further annexes with a more detailed presentation of the situation by market. *To this end, a draft document for the standardised presentation of the situation by market<sup>7</sup> was recently circulated to the delegations. Within the very short timescale allowed, six responses*

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<sup>2</sup> Partial response

<sup>3</sup> Partial response

<sup>4</sup> with the exception of road transport, half State, half private.

<sup>5</sup> Zonierungssysteme Überschwemmung Rückstau Starkregen

<sup>6</sup> "Questionnaire on Hazard Mapping" (multi-peril), downloaded from the DG Environment site / horizontal action on cartography as an information tool for population safety.

<sup>7</sup> Flood risk mapping and zoning - Information sheet on current situation and practices by insurance market

were obtained which, added to the information already obtained now allows us establish some trends. However, it is planned to carry on working with the delegations which have submitted their experiences to obtain a more satisfactory level of presentation of the situation by market.

### **Trends noted:**

1. Contrasting situations in terms of the **density of flood insurance** going from approximately 10% (BE, DE, IT) to nearly 100% of the core contracts (ES, FR, GB). The property insurance companies writing issue the flood extension cover within the framework of an optional natural risks package, unless this is compulsory (as in DK, ES, FR, NO and BE – new law – and discussions currently under way in CZ, DE, IT).
2. **Types of flood hazards involved:** all types on all markets, excluding:
  - a. Marine submersion (DE)
  - b. Rise in ground water level (DE, GB also if "long term rising ground water")
3. **Market motivations for access to cartography and zoning:**
  - a. mainly linked to the determination of the conditions of cover, both in relation to availability and with regard to conditions (AT, CH, CZ, DE, GB), with exceptions (ES, FR) and interesting "intermediate" cases being developed (BE, IT), which it will be necessary to comment on
  - b. also very much focused on the assessment of the exposure (ditto + FR)
  - c. and to a lesser extent the statistics and assistance for decision-making to prepare the organisation in the case of a crisis.
4. **Analysis of the relevance and availability of hazard maps originating from the public authorities:**
  - a. Variability with regard to the scenarios (20, 50, 75, 100, 200, HKWL<sup>8</sup>...)
  - b. Availability of the maps indicated as limited to not more than the order of 50%,
  - c. Timescale for obtaining cover assessed as 5 – 10 years,
  - d. Unanimity in the diagnosis of the lack of consistency and compatibility between the cartographic data ,
5. **Existence and progress of rating zoning projects at the initiative of markets:**
  - a. So called "FRAT" tool (AT and CZ), designed with the collaboration of Swiss Re and in operation since the end of 2003,
  - b. So called "ZÜRS" tool (DE) in operation in its second version since June 2004,
  - c. MRN Professional portal site for access to the hazard mapping issued by public authorities (FR)
  - d. Projects of tools in CH (cantons open to market insurance) and IT
6. **Existence of developments at the level of individual players**
  - a. To be integrated and supplemented by additional functionality (e.g. documentary portfolio database, with inspection reports, photos of claims, portfolio assessment)
  - b. To break away from dependency on incoherent or inadequately developed address-based reference systems: recording on a portfolio data file of the GPS positions of insured sites (in corporate industrial risks)
7. **Forms of public/private partnership** in this precise field

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<sup>8</sup> Highest Known Water Levels (historic rise in water level)

- a. Difficult characterisation to be developed in accordance with several criteria such as the status of the geographical data and a proprietary "address reference", market involvement in the management of a hazard model (with control of the associated technical tools such as the digital land model, etc),
- b. On first analysis, a very broad spectrum between situations of "passive" (ES) or "active" (FR) dependence vis-à-vis the public authorities at the initiative of proprietary projects on the part of the market (cf. point 5 above), going via forms of partnership which have been established (GB: partnership between the Environment Agency, ABI and Council for Mortgage Lenders).

*At the same time as finalising this report, it is proposed that a similar approach should be initiated with regard to seismic risks in accordance with the wishes of the delegations of countries particularly exposed to this hazard.*

#### **4. Initial exchanges on the attitude of the insurance sector faced with the challenges associated with climate change**

An initial survey was carried out among the delegations to determine their level of involvement in national discussions or debates on the challenges or effects associated with climate change. Three delegations responded that they were currently already involved in such debates (ES, FR, GB), but all the delegations indicated an interest in this subject. Only the British delegation has so far presented to the group the different aspects of its involvement (cf. presentation at plenary meeting).

#### **5. Miscellaneous issues**

The Chairman of the group was able to arrange many occasions on which to present the points of convergence between national insurance markets on the role of insurance in the management of natural risks (Document AB 3070) in several conferences or international bodies:

- October 2003: Madrid - international conference co-organised by the Spanish Civil Protection and International Secretariat for Disaster Reduction (ISDR),
- November 2003 - Naples: Franco – Italian meeting on the prevention of natural catastrophes,
- December 2003 – Paris: international seminar organised by the French Ministry of Ecology and Sustainable Development on the inclusion of socio-economic issues in flood prevention, participation of the ABI,

- March 2004 – Strasbourg: Franco-German meeting between the French association for the prevention of natural disasters (AFPCN) and the Deutsches Komitee für Katastrophen-Vorsorge (DKKV). The latter body is the author of an interesting document recounting experiences on the Elbe floods<sup>9</sup>, in German, with a summary available in English,
- April 2004:- Brussels: invited guest at the steering group meeting of the Disaster Science Platform, Euro-Mediterranean Disaster Information Network (EU-MEDIN) programme of the European Commission Research DG,
- May 2004 – Brussels: invited panellist, final conference, Environment DG EUROSION programme

*The last two events provided the opportunity to forge relations and to significantly increase the documentation on the various community programmes, in order to brief the group on the development of public/private partnership strategies, inasmuch as some Commission services might require this.*

***It was proposed to develop the common position document (AB 3070) in the form of a standard intervention medium, to be published as well on CEA's web site, so that the different delegations would be able to use it in their own operations.***

## **6. Conclusions and directions proposed for 2004-2005**

Thanks to a relative pause in current community action on the subject, the group continued to work in accordance with the main aims for the work assigned to it.

But new developments in community areas could arise rapidly, always catalysed by the occurrence of new disasters.

Important decisions for legislative reforms are also expected from a number of countries (DE, IT in particular).

All these topical issues can only encourage still more delegations to come and join this group in order to share not only the experiences but also the common positions which are emerging on the role of insurance in the management of natural risks.

The increased identification with the work of the group among the Commission services may also promote the consideration of effective public/private partnerships such as to mobilise European financing into research and development projects which are beneficial to the insurance sector and to crisis management. Formalised attempts could be made on different programmes of different community policies (RTD, IST, ENV) with increased chances of success.

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<sup>9</sup> Deutsches Komitee für Katastrophenvorsorge e.v. (DKKV) – German Committee for Disaster Reduction within the International Strategy for Disaster reduction (ISDR): “ **Flood risk reduction in Germany – Lessons Learned from the 2002 Disaster in the Elbe Region** ” – February 2004

**Three or four areas are therefore proposed for 2004-2005:**

- a) a detailed study of the definition of insurance damage by market, according to the natural risks, in conjunction with the Regional Policy DG,**
- b) finalisation and publication of the comparative study of the zoning criteria and cartography methods for the flood risk, in conjunction with the Environment DG, paying special attention to the definition of forms and possible interfaces of public/private partnerships;**
- c) starting work in parallel on experience-sharing presentations on the criteria for the cartography and zoning of seismic risks**
- d) a study of the different possible forms of integration in order to meet the needs of the sector in European programmes and of leverages for promoting operations of the latter, by community policy (IST, Environment, RTD, Region, etc)**

The Chairman thanked Mr Nussbaum for his outline. He added that this subject showed a wide disparity between cover mechanisms throughout Europe. He underlined the fact that the authorities had an important role to play in this area and that this did not prevent private insurers from adopting a proactive approach because a large majority of claims were covered by them.

#### **4) Presentation by Dr Richenda Connell and Dr Sebastian Catovsky on "The impact of climate change on insurance" and discussion**

Dr Richenda Connell, Technical Director of the UKCIP, responsible for preparing programmes in the United Kingdom to face up to the impact of climate change, presented her talk in four parts: the causes of these changes, the main expected impact, the tools available to deal with them and finally the partnerships envisaged and the activities to be undertaken at local and regional level.

Dr Sebastian Catovsky of the British association (ABI) showed, with very striking examples, that these events had already an effect on insurance and that it would develop ineluctably if the sector remained inactive.

He underlined the fact that insurers should be messengers of the change and play an important communication role vis-à-vis their insureds. It devolved on insurers to help insureds to understand and measure the risks to which they were exposed from a long-term point of view.

The Chairman thanked both speakers for their talk. The ensuing discussion showed that it was very important for undertakings and the authorities to quickly become aware of this crucial question of climate change and its consequences at all levels. Insurers had also a role to play in this sector so as to contribute, with scientists, to the emergence of a political will to reduce greenhouse gases. Mr Marsaud added that, given the economic interests at stake, it would be important for the Kyoto Protocol to be signed quickly at European level.

*(Dr Connell's and Dr Catovsky's presentations are available from the Secretariat)*

## 5) Report on the "Catastrophe Claims Management" Working Group by Dr Wagner

In the absence of Dr Wagner, Ms Nouguier outlined the work which had taken place at the last two Group meetings. The written report by Dr Wagner is below.

- 1) The committee decided to study in particular the subject of "catastrophic risks" in 2004. Among other things a Working Group was therefore set up which is solely working on claims management after massive damage.
- 2) The first meeting of this Working Group took place on 25 February. The tasks and aims were defined in this meeting:
  - Mr Nussbaum reported on results to date from the "Natural Events" Working Group which he led. This presentation was particularly valuable because it would allow duplication of work to be avoided.
  - The aim of our Working Group is to devise a "best practice" solution, which will be made available to member associations as a recommendation for dealing with massive damage.
  - Associated with this is:
    - The definition of the concept of a "catastrophic claim".
    - The organisation of efficient procedures in loss investigation (in collaboration with the loss adjusters' organisations).
    - Laying down standards for claims settlement.
    - The organisation and flow of information with insureds, the authorities and the media.
    - The organisation of psychological care for those affected.
  - An initial survey among participants in the Working Group showed that there was no universal system in any country which was used to manage catastrophic claims. Almost everywhere it is left to the individual companies to develop appropriate processes. There are therefore some strategies which are, however, mostly only related to specific situations and which have not ultimately led to any general system.
  - As a further procedure it was therefore decided to survey the national associations by means of a questionnaire (Annex /1) on practices in dealing with catastrophic claims. The responses should form the basis for further work by the Working Group.
  - The questionnaire was answered by 11 countries in all. An overview of the responses received is enclosed (Annex /2).
- 3) In our second meeting on 5 May we worked intensively on a few points and tried to find common elements:

- Probably the most difficult task was that of drawing up a generally applicable definition of the term "catastrophic claim". The definitions provided – if they were given at all – remained rather general. Mostly the events were listed which can give rise to catastrophic claims (floods, earthquakes, storms,...), but there were only a few really specific criteria for the magnitude at which one can talk about a catastrophic claim (scope of damage, number of victims). Since in some cases reference was just made to paragraphs of the law in the questionnaires, we shall ask for further details.

We shall study this in detail in the next few meetings.

- On the topic of "loss assessment" there was agreement that this was the decisive factor that had to be resolved. Its importance is evident from several aspects:
  - For victims it is extremely important to feel that someone is looking after them and that they have not been left alone. The expert can for the most part also give advice about which initial measures should be taken to remedy or reduce the damage.
  - **For insurers it is not only important to obtain an overview of the scope of the damage (specific and total damage) as soon as possible.** Giving rapid advice to victims also helps to reduce the scope of the damage. Finally, rapid assessment also facilitates claims settlement without delay which from experience also has a positive effect on the extent of damage.

We shall therefore study this theme in detail in our next meeting. It is also intended to invite representatives of the loss adjusters' organisations (FUEDI).

- On the topic of "claims settlement" (compensation) there are approaches which can be developed based on experiences from previous catastrophic claims.
  - Claims notifications received via a simplified procedure dispensing with the need to submit claims in writing (call centres).
  - Payment of initial compensation (on account) dispensing with the need to submit invoices from professionals.
  - Increased use of payment agreements dispensing with invoices from professionals.
  - Settlement of small claims without the need for inspection by a loss adjuster (with a general notification that random samples are required to prevent fraud by customers and professionals).
- The organisation and flow of information with insureds, the authorities and the media should function well in all countries. There were fixed procedures in only a few countries, but in the case of a catastrophe the necessary information is adapted to the situation concerned and distributed rapidly and efficiently using all available technologies (the Internet, television, radio, the press, (mobile) phone). Constant contact between the insurance associations and the relevant insurance supervisors is also guaranteed. The importance of a well-functioning flow of information is recognised in all countries and it is no longer necessary to stress this specifically. The Working Group will limit itself to drawing up a checklist.

- Psychological care for victims is little developed at insurer level. This area is left to the public and church authorities.

The Working Group will also study whether and in what form solutions should be offered to the national associations and/or individual insurance companies.

#### 4) Conclusions:

- The collection of information from the national associations has largely been completed.
- The procedure adopted in individual countries is, as expected, not standardised. There are, however, enough common elements on which guidelines for generally applicable management after catastrophic claims can be set up.
- The next meeting of the Working Group is set for 16 September 2004 and should bring some initial concrete results. Participants are asked to prepare proposed solutions on the individual subject areas for this meeting.

## 6) Summary of developments in European Markets in 2002/2003 by Mr Gudin du Pavillon

Mr Gudin du Pavillon outlined the main figures for 2002 and the trends and developments per country in 2003. The summary of these results was covered in a reported dated June 2004, made available to delegates in French and in English.

The main conclusions were as follows:

- For all of the EU, GDP had grown by 1.2% in volume in 2003 after 1.0% in 2002.
- 2003 had been marked by the ongoing and very substantial drop in stockmarket prices in Europe and throughout the world. The pace of inflation had slowed down to 1.6% in the EU.
- With a total premium income of € 72.1 billion in 2003, property damage grew by 8.8%, i.e. slightly more than total non-life resources.
- The share of property damage in total non-life turnover was 19% for all CEA countries.
- The turnover for fire insurance (specific and multirisk contracts) in 2002 was up by 11.2%. For individuals, this growth was 4.8% and for professionals 20.4%.
- With regard to technical results, there was a drop in the loss ratio in 6 out of 10 countries which had provided information.
- The average cost of claims over € 15 million (business and professional fire risks) should drop from € 33 million in 2002 to less than € 31 million in 2003.

- In theft insurance, 11 countries had been able to provide information.

The total cost of theft claims in 2002 represented approximately 5% of total premiums in property insurance. This has remained practically the same since 2000 as it was at 5.0% for these same countries.

The global total for theft claims for all countries was more than € 1.3 billion in 2002 for undertakings and professionals.

- With regard to natural events, the total compensation paid out in 2002 was € 4.8 billion for a total number of claims of over € 1.7 million.
- The importance of this damage remained on average 7% of the volume of property insurance premiums in 2002 compared with 4% in 2001.
- Amongst the main topical subjects noted in 2003 there were:
  - damage consecutive to terrorism and terrorist acts
  - the rise in crime
  - insurance of natural events

Mr Santini thanked Mr Gudin du Pavillon for his presentation. He recalled for delegations the need to have credible figures vis-à-vis the Brussels authorities. He urged that next year the questionnaire should be better completed and arrive at the Secretariat within the deadlines.

He then gave the floor to Heads of Delegations asking them to indicate salient points for their market for 2003 and the start of 2004\*.

## **7) Report on work by the IT Risks Sub-committee by Mr Wopperer**

### **1. Autumn meeting of the IT Risks Sub-committee in Paris on 6 November, 2003**

At this meeting, 5 participants from 4 different countries took part. After having approved the summary record of the previous meeting which was held in Paris on 3 April 2003, and after having adopted the agenda for the current meeting, the IT Risks Sub-committee looked at the project topic: “Acts of terrorism against computer installations and the role of the Internet in the context of international terrorism.”

Since the previous meeting in April 2003, group members had already collected a large amount of documentation on this subject from their national media and had had a constructive exchange of views. A questionnaire on the availability of insurance cover in the different member states had been sent to group delegates in May 2003 and enabled very valuable information to be collected. With the aid of national press articles and replies to the questionnaire, the chairman of the IT Risks Sub-committee had prepared a draft document. The Working Group, which met on the morning of

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\* These reports were circulated to delegates by letter in June 2004.

the same day, had discussed the project at length. The draft article as well as the final article are structured as follows:

- Introduction
- Terrorist acts against computer installations
- The role of the Internet in the context of international terrorism
- Insurance and reinsurance of terrorist acts against computer systems
- Summary

The dominant idea was based on the fact that a large part of cyber-terrorism was not insurable and prevention should therefore be encouraged. After the November meeting, the draft document was sent to members of the IT Risks Sub-committee for their comments. After having included the necessary amendments and having finalised the documents in February 2004, the article was given to the Management Committee in order to obtain their information on how to circulate it.

The most important points are summarised as follows:

Cyber-terrorism is distinguished from other acts of commercial crime or incidents of hacking by its severity. Attacks that disrupt non-essential services or that are mainly a costly nuisance are not classified as cyber-terrorist attacks. Cyber-terrorism as such is a new quality of threat which only emerged in the 1990s coinciding with rapid technological development and the connection of computers in networks, amongst them, above all, the Internet. With targeted attacks against decisive infrastructure systems such as telecommunications, the supply of gas, oil and fuel European public life could be slowed down and an atmosphere of common uncertainty and helplessness could be created. Since 9/11/2001 at the latest, the threat from the computer to governments and economies has reached a new and real dimension. One central question to be answered in this context is whether cyber-terrorists could attack simultaneously two or more of the critical infrastructure areas. As far as the costs caused by cyber-terrorist attacks in the past are concerned, the figure is rather low. The possible threat is the imminent exposure that could turn into real costs in the future and this is the main concern of governments, the military, public and private sectors. It is not only the Internet that can be used as an entry point for terrorist attacks. E-mail programmes can have security gaps which allow hackers to enter a network. The advantage of cyber-terrorism is that it is financially affordable, not risky for the perpetrator but nevertheless harmful above all economically. There are several basic measures which should be taken in times when the danger of terrorist attacks is imminent. Anybody who searches for security-relevant information on the Internet only needs to spend some time but no special technical infrastructure. From pages with free access and created by public authorities, enterprises, associations and private persons, an explosive information cocktail could be designed. Currently, experts are mostly expecting bomb attacks but in the future terrorists will use information technology not only for planning their attacks but will be able to start such attacks directly from the Internet. The quality and the consequences of cyber-terrorism are, however, very different in comparison to traditional terrorist attacks such as bombing. Cyber-terrorism will cause loss, distortion and corruption of data; it can lead to a standstill of public life because essential services such as telecommunications or gas and oil supplies are blocked or impaired. In most cases, it will not come to physical damage. It can be clearly said that because terrorism cover is restricted to physical damage and cyber-terrorism activities in general have non-physical harmful effects, insurance cover for cyber-terrorism is not available. In cases where perils

cannot be covered through the insurance market, the insurance part of the protection has to be replaced by prevention measures in order to enhance the security level.

The Sub-committee then turned its attention to topics that were recently in the focus of the national press of the member countries represented. In general, it can be stated that contrary to the two preceding years, 2001 and 2002, the end of 2003 saw increased attention by the public as far as IT topics are concerned. Press articles focusing on IT risks have started to become more numerous again and, coinciding with this, new issues have emerged and attracted special interest.

One of these issues is the problem of cyber-crime. In a study which was carried out by PwC Deutsche Revision, managers in Europe were interviewed on which factors they perceive as a major threat in the years to come. Surprisingly, cyber-crime was named second (mentioned by 42% of those interviewed) just after fraud and embezzlement (43%), but before corruption (23%), balance sheet manipulation (20%), product piracy (18%), industrial espionage (15%) and money laundering (10%). Project work that had been carried out by the IT Risks Sub-committee in previous years showed that insurance against the effects of cyber-crime still poses a challenge for the insurance industry which up to now has not been fully met.

Another topic that was discussed was the fact that M-commerce (buying and selling over a mobile telephone) did not meet the high expectations which had been foreseen in the late 1990s. Over recent years, numerous articles have been written concerning the bright future and great potential of so-called M-commerce. Optimism was only exceeded by the expenditure for marketing this gadget. To date, however, it turned out that the real product assets were not able to match the high expectations and left users frustrated. The time in which technology "per se" was defined as useful seems to be over. The market for this sales channel was highly over-estimated and the shortcomings as far as technical features are concerned were of a major character. Too many systems for M-commerce were developed in too little time. Due to complicated handling, security concerns of the potential users and frequent technical failures and problems, nearly none of these concepts found success in the markets. Nevertheless, a substantially ameliorated technical performance, an easy and uniform handling of the systems as well as a high security standard could still save M-commerce and reconfirm its position as a promising sales channel.

The second half of 2003 and the first half of 2004 were considered to be the year of computer viruses. After Bugbear, which had emerged in autumn 2002 and had then been classified as a blended threat with a high loss potential, at the end of August 2003 the Sobig series of viruses emerged on a world-wide basis. Sobig F especially is considered to be the most widely spread and most aggressive computer worm in IT history. It was so spread that at AOL one mail out of 17 was infected. Compared to Bugbear, which at its peak infection period contaminated one out of 100 e-mail messages, Sobig F showed an enormously high potential of harmful effects. As with previous computer viruses, the users of Microsoft operating systems were mostly affected. In the US, railway traffic was impaired because of a failure of signal technology. The flights of Air Canada were delayed because the worm had infected the reservation system. Sobig F even attacked the computer system of the New York Times. This worm does not destroy data files but blocks the Internet by increasing e-mail traffic by up to 40%. It spreads through e-mails which are hardly detectable as contaminated and installs a Trojan horse which allows external access to the data which is stored in the infected computers. As already perceived during major virus events that had happened before – such as Melissa in 1999, I Love You in 2000 and Bugbear in 2002 – the range of the estimated loss

amount was enormous and reached from EUR 500 m. to EUR 30 bln. As already explained in earlier years, the reason for this is that there is no widely and commonly accepted method of assessing a loss caused by a computer virus. Many different methods are applied and most of them lack reliability. It can, however, be clearly said that, compared to the high loss estimations, as far as the economic loss is concerned the insured loss was low and not significant. One of the reasons for this is certainly that after the y2k-problem nearly all insurance companies world-wide had removed cover for virus attacks from the range of perils covered under their insurance policies. Moreover, similar to the problems of assessing the economic loss which is caused by a computer virus, the assessment of the insured loss is extremely difficult and the methods applied have acceptance problems. At the beginning of 2004, another major virus attacked the world of computer and Internet users: end of January 2004, Mydoom and Mydoom B at peak infection times contaminated one out of three e-mails sent in Europe. In such periods, the worm increased e-mail traffic by 20 to 30%. Various sources state that Mydoom most probably is the most widespread and costly virus in IT history. The economic cost is suspected to be nearly US\$ 40 bln.

Another major issue in the world of IT risks remains credit card misuse. In Germany, in 2002, 39,969 cases of fraud with stolen cards were reported. The average loss amounted to EUR 1,471 per case and the total loss amount to EUR 54.4 m. This phenomenon poses another challenge for the insurance industry: cover against credit card misuse is hardly available in the market.

In the past, the danger of misuse of client data – above all of credit card details – was a major obstacle to the development of commerce over the Internet. Some years ago companies started to establish so-called pay systems in order to create safe money on the net and thus to increase the confidence of potential on-line buyers and sellers. In the meantime, most of the approximately 50 pay systems in Europe have disappeared. Coinciding with the concentration process in the market, customer confidence in the prevailing systems increased. These systems help to process orders more quickly and to save administration costs. Unfortunately, a whole lot of companies are still not using pay systems, mostly because they lack the necessary know-how. In Germany, the volume of on-line business by mail order companies in 2003 rose by 34% compared to the previous year and reached a total volume of EUR 3.6 bln. Amongst the most ordered articles were digital cameras, DVD recorders, jewellery and high-quality coffee-machines. On the side of the customers, 25% of the so-called “on-liners” in the European Union still avoid using web-shops because of security concerns – this figure is, however, constantly reducing.

Ms Nougier recalled that at the previous meeting, she had referred to a proposed EP and Council regulation for the creation of a “European agency responsible for safety of IT networks”. The proposal to establish this agency was adopted on 8 October last by the EP Industry Committee with certain amendments. She recalled that this agency was intended to prevent problems such as computer crashes, bugs in computer networks, viruses and interception of communications by unauthorised persons. This agency would constitute a centre for expertise which member states and institutions in the EU could approach for all questions linked to cyber-security. Its budget was now known; it would be EUR 24.3 m. and, for the first time, the EC proposed to establish an agency for a limited period (January 2004 to December 2008). The proposal envisaged recruiting personnel gradually. The decision on the head office of the Agency would be taken six months after the adoption of the regulation. The Industry Committee added in its amendments that this new Agency should ensure that safety solutions adopted should be easily accessible to small and medium-sized undertakings. It should also provide advice to the Commission, the EP, competent European and

national bodies as well as to the world of business. It was also up to it to publish tenders for research in the area of IT safety. The text underlined also that the EP and the Council would have their say as to the extension of the life of the Agency beyond 2008; this decision would not only be left to the EC.

Another recent project: the EC just announced on 24 October that a “Joint Research Centre” – in partnership with French and British electronic and telecommunications centres and the universities of Namur in Belgium, St. Andrews in Scotland and Stuttgart in Germany – had developed a method of guaranteeing the safety of on-line transactions. More precisely, these partners had established a link between cyber-criminality and law. The aim of the project entitled “Cyber Tools On-Line, Search for Evidence” (CTOSE) was to protect the rights of users and cybernauts and to prevent fraud when purchasing over the Internet. Concluded on 30 September last, the project was financed in the framework of the community research programme on “IT technology”. The EC contributed up to EUR 1.14 m. for the total budget of this research centre which was EUR 1.75 m. The project would make it possible to develop tools to enable computer crime to be identified. Standardised procedures had been established with European IT and security experts. This would make it possible to obtain proof to be produced in the course of legal proceedings throughout Europe. The tools thus established in the framework of this project would represent overall the first method for accompanying inspectors throughout their difficult task of identifying computer crime. For further information, delegates were invited to consult the following address: [www.ctose.org](http://www.ctose.org).

## **2. Spring meeting in Paris on 11 March, 2004**

Coinciding with the constant increase in e-mail traffic world-wide, new hazards for users of this medium are also emerging. The average traffic per day is estimated at 70 bln e-mails world-wide, 15 bln sent from the European Union. One major hazard for the senders and recipients of e-mails is the spam phenomenon. It has become a topic of major focus over the past two years. For spam, a great number of different definitions exist such as: “Internet spam is one or more unsolicited messages, sent or posted as part of a larger collection of messages, all having substantially identical content.” A judicial definition backed by the Supreme Court of the State of Washington is as follows: “The term spam refers broadly to unsolicited bulk e-mail (or junk e-mail) which can either be commercial (such as an advertisement) or non-commercial such as a joke or chain letter”. The German news magazine Focus published research that of all e-mails sent and received 56% can be classified as spam and only 44% can be classified as conventional e-mails. The phenomenon of spam has already attracted the attention of the courts. A US court sentenced a Californian marketing company to pay US\$ 2,000,000 on the basis of a new anti-spam law. 25% of e-mail users have reduced their use of this medium because of the increased dangers and nuisance which has been created by spam. Spam is mainly considered as being a nuisance and has the following inconvenient characteristics: spam blocks computer capacity, it devours staff working capacity, slows down traffic on the Internet and creates a stress factor for cybernauts. Moreover, spam can become a real danger because it could lead to a denial of service because of message overflow. Spam mails can be infected by viruses which cause loss, distortion or erasure of data and contingent business interruption. Spam can even open computers for external espionage. When opening spam messages, unsolicited programmes can be started in the background. The user might not even be conscious of these programmes getting started. Important messages can unwillingly or/and inadvertently be deleted because they are taken as spam by the stressed cybernaut. Special types of spam are so-called scam (or e-scam) which describes spammed messages with a fraudulent goal. If this fraudulent goal consists of the intention of spying out the internaut's account or credit card data, spam is given the special terminology of “fishing”.

Potential risks from the use of mobile phones and mobile phone networks again came into the focus of the public at the beginning of 2004. To date, there has been no evidence of damage or harmful physical effects due to high frequency magnetic and electrical fields. Amongst the public, however, a common opinion has developed that mobile phones as well as mobile phone infrastructures have harmful effects on the human organism. On 31 January 2004, the biggest local newspaper in Munich published a cover story focusing on the personal experience of a lady who lives in the vicinity of mobile phone main and base stations. This lady, whose name is Trixi Millies, complained of constant headache, sleeplessness and other symptoms for which she accused mobile phone transmission units of being the source. She was talking about pale and stressed children in her neighbourhood and how she used a new device called tachyon which she fixed to her own mobile phone in order to decrease the harmful effects of the radiation. As a summary, she claimed that so-called electro-smog is making her sick and that she was living proof of the fact that radiation from mobile phone masts is harmful to health. None of her statements was scientifically based, but she raised wide concern and fear amongst the population of the city and started a serious and intense discussion in public. At least in the German-speaking part of Europe, each region has its own Trixi Millies who causes the population fear and uncertainty. Numerous court cases involving legal actions against the installation and running of mobile phone masts have already impaired the availability of services and created white spots in some – above all rural – regions. Concerns about this technology might be justified but on the other hand mobile phones have already saved numerous lives in cases of emergency. Non-availability of mobile phone services certainly also leads to a lower level of security in life.

The insurance industry already fears similarities with asbestosis. Insurers are terrified and classify the risk as not calculable and thus not insurable. In Germany, Austria and Switzerland, companies exclude third party liability risks for mobile phone network operators as well as for producers of mobile phones as such. An exclusion of risks due to electro-smog has become usual for third party liability covers for all kind of companies. As this phenomenon was brought to the public's attention only recently and the exclusion was also implemented not long ago, a latent exposure due to late losses affecting old policies and reinsurance contracts nevertheless prevails. Experts so far have failed scientifically to prove the harmful effects of high frequency electrical and magnetic fields. For them it is, however, more probable that low frequency electrical and magnetic fields have a more adverse effect on human health than previously before. The medical sector especially as well as electricity supply with its high-tension pylons are a possible source of hazard. A Swiss Re publication of 1996 concerning the phantom risk of electro-smog has gained actuality again. This study draws attention to the fact that in the case of liability risks, the dangers for the insurance industry do not result from health risks but proceed from potential plaintiffs. The question of what court decisions might be expected in future EMF liability cases proves to be unanswerable. There seems to be much political and financial interest in convincing society to see electro-smog as a health hazard.

In spite of drastically increased control during the past year, the problem of pirate software has not been solved. A BSA study which was published in the German insurance magazine *Versicherungswirtschaft* reports that in many countries more than half of the newly installed software for companies consists of pirate copies, i. e. illegal and illicit software often from ambiguous sources. This problem is of major importance in the People's Republic of China, where 92% of the installed software is not legal; China is followed by Russia (89%) and Brazil (55%). In the European Union, Poland (54%) is ranked first in this negative list, followed by Spain and Italy (47%), France (43%), Czech Republic (40%), the Netherlands (36%) and Germany (32%). The lowest reported proportion of illegal software shows the USA with a mere 23%. The use of pirate

software is not only an offence but is also a source of hazard for the user as well as for a potential insurer of data and software. Illegal software can contain viruses which delete, distort or erase data and entire data files. Although data insurance covers normally exclude the use of illegal software as a cause of loss, in case of loss it can hardly be checked whether the installed software was illegal and whether it really led to a loss. Just imagine the great variety of software programmes normally in use in a company.

There is a certain link between the topic of pirate software and our project topic for 2004. At the start of the 1990s, the importance of data and software was re-assessed by experts. Whereas in earlier years hardware (most is in the form of mainframe computers and host technology) was classified as the most valuable IT assets of the companies, the value of data and software now gained more and more importance coinciding with a decrease in values for hardware components which was mainly due to technological change (change from mainframe solutions to personal computer networks and from host technology to server technology) and to a general fall in price for hardware units. In 1990, experts even backed the statement that the value of data and software had exceeded hardware value. This had a substantial influence on the business policy of insurance companies which gave cover for IT risks: the insurance of data was predicted to become one of the most important lines of business in the insurance of electronic systems. Prognoses were that that in some years to come (1995 – 2000), premiums for data and software insurance covers would exceed the premium volume for the insurance of the hardware. This expectation, however, has failed to occur to date because of several reasons: for insurance agents, it was at least difficult if not impossible to make their clients aware of the “value” of their data. Because of the slow economic development of the second half of the 1990s and in the first years of the new millennium, companies were cutting costs substantially and more often than not they saved money intended for insurance premiums, thus accepting gaps in cover. Coinciding with the cost-saving trend, real life cycles (not: technological life cycles) for hardware components were extended. Until the end of the 90s, a laptop computer which was three years old was considered to be out-dated and was replaced by a new state-of-the-art model. Nowadays, the ultimate model is reserved for the highest management levels and the rest of the staff often has to work with technology dating from the mid or end of the 1990s. Companies were somehow “re-evaluating” the value of the money spent and thus also attaching a higher value (value here not meant in the sense of amounts of money but in the sense of an economic reallocation of limited resources) to their hardware units. One major reason why data insurance covers did not find the expected success was that none of the methods developed and used in order to assess the value of data gained widespread acceptance either in the insurance industry or amongst insurance clients.

One, in the meantime rather out-dated, approach to assess the value of data is to base this value on the storage capacity which is available to the client. Another method is based on how much working time is needed to manually re-enter all data which is worthwhile recreating. Which data is worthwhile re-creating after a data loss and how much time is consumed for this has to be estimated by the insurance client. Time is then multiplied by working costs. Especially for bigger risks that have to be audited in detail before issuing the respective insurance cover, the value of data to be insured is often estimated by experts. The methods used are not of a uniform character. In past years given an increased sensitivity to the threat posed by computer virus attacks, the value of data is sometimes determined by creating a worst-case-scenario which is most often represented by a computer virus attack. The potential downtime due to such an attack is then valued by comparing it to the IT budget of the respective client for the whole year. Still the most widely used approach is to base the value and thus the sum insured for data on the clients’ estimation. This sum insured is then covered on a first loss basis. This method is simple and therefore practical but often leads to an

under-estimation of costs that have to be incurred after a data loss. Other approaches derive the value for data and self-programmed software from the insurable value of the hardware units.

It will be the project work of the IT Risks Sub-committee throughout 2004 to analyse which of the different methods in use is the most practical and gives the most reasonable results. Only if the methods of assessing the value of data and self-programmed software can be enhanced and a uniform and widely acceptable approach recommended, can the necessity and attractiveness of covers that insure not only the hardware but also software be increased. Nowadays, everybody who is involved in business agrees that a loss of data can have severe consequences for a company. It can result in high costs that have to be borne in order to re-enter data (and such re-entering cannot always be smoothly done by reloading the data out of back-up data files), some data might not be retrievable and lost forever and, last but not least, losses of data can lead to substantial downtime for businesses or parts of businesses, thus resulting in an enormous loss of profit. Therefore, we back the opinion that there is a necessity for insurance not only for hardware components but also for losses of data and software.

### **3. General focus on IT risks and outlook**

Throughout 2002 and still in the first half of 2003, we saw a tremendous decrease in interest as far as topics in the field of information technology was concerned. Now, in early summer of 2004, we are far from being able to speak of a revival of IT topics. Nevertheless, the number and quality of articles recently published in the specialised press in member countries has substantially increased in comparison with one year earlier. 2004 saw a drastic increase in cases of virus contamination and is often – as was the case before the second half of 2003 - called the “year of computer viruses”. Up to now, the perception of economic loss and especially of insured loss has not been outstanding. Other than security devices like fire-walls and anti-virus software, which are now at a better quality level compared to some years ago, the non-availability of insurance cover for such events also kept the insurance industry from getting terrified. Personal computers especially used at home and for private purposes are nowadays affected because their level of protection is usually lower than in big companies which can hardly risk not investing in IT security. Experts suppose that two out of three privately-used computers are already infected by viruses the results of which are often ignored by the users: slow processing speed or the continuous pop-up of unsolicited sites. One of these bugs is aimed at the world-leader in search engines, Google. Every time the internaut tries to work with Google, another unsolicited and useless search engine pops up and prevents the user from searching with his preferred engine. Flooding mail-boxes and servers with junk mail messages, which are now classified under the term of spam, has already been considered a nuisance over the past years. Coinciding, however, with an enormous increase in the quantity of such messages, how spam is perceived by the users of the Internet and electronic mail has started to change from a mere nuisance to a real danger. Spam is time-consuming, can be contaminated by viruses, slows down the processing speed and can lead to an accidental and unsolicited erasure of important messages. For these reasons, some countries have already started to develop and enforce anti-spam laws. Another major topic in the IT world – and this is a topic which is also of concern and even terrifying to the insurance industry all over the world – is the potentially harmful effect of so-called electro-smog on the human body. In this respect, the focus is currently on mobile phone network installations and mobile phones as such. Being afraid of an uncontrollable future exposure – similar to the asbestosis

risk – companies have already started to exclude this peril from insurance covers which they issue and thus leave their clients without cover.

As far as the insurance sector is concerned, there is still a substantial gap between the risks to which users of IT technologies are exposed and the solutions that are available in the markets in the form of insurance covers. Many perils such as cyber-terror, credit-card misuse, computer viruses, harmful effects of spam and, last but not least, the potentially damaging effect of high-frequency installations and devices become or remain excluded from cover. In order to bridge this gap in cover, clients have to increase their level of loss prevention in order not to be able to bear the risks. New and innovative insurance solutions would need high investments in research and development, training and market testing and they are often prone to a whole lot of factors which can lead to total failure caused by non-acceptance by clients, non-acceptance of the sales channels or even an economic failure by high loss ratios. At a time when the insurance industry is fighting for higher returns on equities and against a cost level which is generally classified as being unacceptably high, an investment in such costly experiments as highly-specialised and innovative niche covers is not opportunistic and has to be deferred for a better future.

Following the study on "Acts of terrorism against computer installations and the role of the Internet in the context of international terrorism" published in 2004, the Sub-committee envisaged for 2004/2005 studying "Insurable values for data and self-programmed software". A draft plan had already been prepared on this theme and a document should be available at the start of 2005.

Other themes such as risks linked to marketing of insurance products over the Internet or risks linked to the use of mobiles could be the subject of interesting studies in future.

This programme was accepted. Mr Santini thanked Mr Wopperer for his outline.

## **8) Report on work by the "Crime Control" Working Group by Mr Crommelin**

“During our last plenary meeting in Istanbul last year your Committee decided that our Working Group (WG) could continue its activities on the basis of the presented proposals. It was clear that you accepted the ideas of Public Private Partnership in combating and controlling crime at the national and European levels and that these should be promoted. As a result of these encouraging decisions the Chairman and Secretariat of our Property Committee decided to send all your delegations a Questionnaire to find out what the wishes are in the different countries, which are to be developed by the Crime-control Working Group.

The different views on the future development of our WG were highlighted during the Management Committee meeting of November 21<sup>st</sup> last year, and it was decided that our WG should make a shortlist of the main subjects that emerged from the answers to the Questionnaire and which are of interest for our Property Committee, bearing in mind the possibility of a move towards a multi-class approach. I promised to convene our WG in early 2004 (it became February 18<sup>th</sup>), to prepare a discussion paper and to report the WG’s proposals in the next meeting of the Management Committee on April 27<sup>th</sup>. A decision would also be taken on the future status of our WG: it would either be evolved as a horizontal group or as a monitoring group meeting as and when need be.

We consequently met in February. Attendance was good and two documents were leading during our very fruitful discussions. These documents are:

1. The outcome of the Questionnaire initiated by the Secretariat, which was very interesting and stimulating;
2. The discussion paper I wrote in which a number of new European developments are summarized and the pro-active role our WG can play in that respect.

The Questionnaire, which was completed by 12 countries, led to some very important conclusions:

1. There is great enthusiasm for this subject by almost all members of the Property Committee and the members believe that our WG should continue. The replies demonstrated that the subject is one that stirred people into action, and that national associations were particularly interested in the CEA pursuing its work in this area.
2. The subjects of interest that should be handled in our WG differ strongly per country, although there were some common popular subjects. Accordingly we felt free to create some boundaries within which we believe we should operate. The most important one is that we do not profess to be a prevention or other technical WG. We decided that subjects at the European abstraction level would have our main interest. From the replies, the WG has identified four/five priority subjects often quoted as being of concern by associations, namely:
  - fraud;
  - organised crime;
  - freight transport safety;
  - exchange of information (with police and prosecuting authorities) classified as “confidential”;
  - (possibly) domestic theft, as the EU is interested in Volume crime.
3. We must proactively stimulate the position of the CEA in these different subjects as a reliable partner of Public Private Partnership in Europe. This will create a spin-off to the member countries to initiate PPP activities in their community. The fact that such a spin-off might already have been fruitful was a big surprise to us, as the results of the Questionnaire showed that other countries have also started PPP initiatives. We will ask these countries – Belgium, Spain and Norway – to join our WG and to stimulate others.
4. Regarding its status, the variety of the subjects of interest has demonstrated that the WG should adopt a multi-class approach. Rather than being seen as a ‘Monitoring Group’, the WG should be considered a pro-active group that deals with PPP problems in general. The idea of setting up a horizontal group was not welcomed by all CEA groups concerned. Therefore, the proposal was made to the Management Committee to invite the chairmen (or a representative) of CEA-groups dealing with other types of crime (like fraud) once a year to participate in the debates and to have a constructive exchange of information. Since the EC just has published a communication document on crime control in Europe that particularly stressed the need to combat volume crime (like burglary and domestic theft), a horizontal approach could reinforce the CEA position vis-à-vis Brussels.

5. Besides the strategic subjects mentioned above, the proposal of the WG focuses on some specific aspects such as:
- a new Secretary General of the EUCPN (the European Crime Prevention Network) has been appointed. It would be apposite to visit him in order to continue the good contacts we have with this important Secretariat of the Directorate General for Justice and Home Affairs;
  - the WG must closely monitor new developments (such as the new ideas about combating mass crime) in the DG for Justice and Home Affairs and must start new initiatives to broaden the European network;
  - the secretariat of the WG should update the document on best PPP practices in each country and make it more illustrative by focusing on special effects and the results of some proven examples. We want to take initiatives to create and support PPP initiatives in the different countries, and the experience of our WG can be of great assistance in this endeavour;
  - in light of the Dutch presidency of the EC this year, the Dutch Government has invited the CEA, via our WG, to prepare a presentation of the message that the CEA – as an important (and the only) private umbrella organisation in Europe which is a reliable partner in combating Crime through PPP – wants to put across at the European Congress scheduled for December 9<sup>th</sup> in the Hague and sponsored by the EUCPN and the Dutch Ministry of Justice.

Our WG was very pleased and encouraged by the great enthusiasm and support shown by the majority of the members of the Management Committee during the last meeting on April 24<sup>th</sup> in Paris. We look forward to implementing the programme I have just proposed to you at our next meeting on October 21<sup>st</sup> and to discuss the draft message we will put across at the European Congress in The Hague on December 9<sup>th</sup>.

Thanks to you, we are able to position the CEA more and more as an important and reliable partner in Public Private Partnership on the EC-Crime Control map. Our WG is very much stimulated by you to work on this and we would like to thank you very much for your support. We look forward to presenting you with the first results at our next Plenary Meeting”.

In the light of what had just been said, the work envisaged by the Working Group for future was as follows:

- Studying priority subjects identified by national associations: fraud, organised crime, the safety of fret transport, exchange of confidentially classified information. This work should be based on the development of a PPP.
- Encouraging the study of crime from a horizontal point of view inviting the Chairmen of other CEA Groups dealing with other forms of crime to participate once a year in a constructive exchange.
- Contacting the new Secretary General of the "European Crime Network" which reported back to the DG "Justice and the Internal Affairs".

- Monitoring closely the work of DG which had just published a communication on crime prevention in the EU (in particular domestic theft) and which was preparing a second communication on organised crime in Europe.
- Updating the document on best practices in force in each country in regard to P/P/P and supporting initiatives taken in this area.
- Preparing the presentation of the message of CEA at the European Congress on the fight against organised crime by the Dutch government in the framework of its EU Presidency.

The proposals made by Mr Crommelin were approved. The Chairman thanked him for his outline.

## **9) Report on Prevention Sub-Committee work by Mr Schüngel**

### **1. Tasks and philosophy**

The Prevention Sub-Committee perceives its role as follows:

- A platform for insurers to exchange experiences in the field of loss prevention. This includes in particular the identification of new sources of risk and the reaction to changing claims occurrences.
- Collaboration with the European standardisation organisations CEN and CENELEC in order to ensure that the justified interests of insurers are taken into account in European standardisation.
- Collaboration with the European associations EFSAC, EUROFEU, EURALARM, CFPA Europe, ARGE, etc in order to "pull together" with regard to loss prevention and to jointly agree loss prevention concepts.
- To draw up CEA specifications in areas where there are no European standards or as a supplement to existing standards, where insurers' interests are not sufficiently taken into account.

The Prevention Sub-Committee prepared itself very early on for the fact that European standardisation would increasingly also encompass the area of components and systems for fire protection devices which had until then been controlled by insurers. This resulted in the decision made some years ago in order to avoid duplication of work, only to be active where there are gaps in standardisation or the justified interests of insurers are not taken into account in the relevant standards. In order to attain a high quality level at the development stage of standards, if possible the CEA experts collaborate in the relevant European standardisation bodies and try to push through the requirements for the quality of components and systems which are necessary for the interests of insurers - a venture which is becoming more and more difficult, because most of the CEN work groups are increasingly dominated by the industry and in addition the main focus is increasingly on personal protection and less on the protection of material assets in the field of fire protection.

### **2. Restructuring of the Prevention Sub-Committee**

The restructuring of the Prevention Sub-Committee decided on at the CEA annual assembly in June 2003, which resulted in a considerable potential for savings as a result of the abolition of the fire and theft sections, has proved its worth in practice. It is, however, problematical that the chairmen

of the expert groups are represented in some cases by the delegates from their country. This hinders the leadership of the expert groups and collaboration with the expert groups, because the information flow does not take place directly, but only indirectly. It must also be noted that it is becoming more and more difficult to find suitable experts to make up the expert groups. This applies particularly to experts who are to take over as the chair of a group.

### **3. Construction Products Directive**

The Construction Products Directive (CPD), which has been in existence for more than 10 years, has serious effects on the loss prevention work of insurers. It lays down the safety requirements for construction products, which also includes components for fire protection installations in buildings. Moreover, it also lays down conditions for using the CE marking. The aim of the CPD is solely to facilitate unrestricted cross-border trade in products. The use of the products (planning, installation and maintenance) on site still comes within the responsibility of the EU member states.

#### 3.1 Fire protection technology products

The technical specifications for fire protection technology products are generally harmonised European standards (hEN) which are drawn up by the European standardisation organisation CEN. These are the basis for the CE marking. A number of hEN have now been completed. These include in particular the standards for sprinkler installation components, fire detection installations, CO<sub>2</sub> extinguishing installations, and smoke and heat extraction installations, which have been published in the European official journal. This is associated with the fact that after a specific transitional period the relevant products must have a CE marking.

Because of the conditions laid down in the Block Exemption Regulation, it is not possible for the CEA or the national member associations affiliated to the CEA to draw up supplementary requirements with regard to fire protection. In this connection it is, however, welcome that the quality of the European harmonised standards for extinguishing and fire detection installations drawn up to date is high not least because of the collaboration of CEA experts in the relevant European standardisation bodies - one more reason for CEA experts also to be committed in the future in their participation in standardisation work.

#### 3.2 Planning and installation of sprinkler installations

Up to now the insurance industry has taken the view that the field of the planning and installation of fire protection installations should not be an area covered by the European standardisation organisations, which in no way means that insurers would like to draw up the rules and principles required in this respect on their own. One of the principles in the CEA prevention work is still that all work should take place in close consultation with interest groups from industry, and in particular with the European associations represented in the European Fire and Security Advisory Council (EFSAC).

In addition, insurers have up to now always taken the view that the standards for the planning and installation of fire protection installations cannot be mandated. The aim of the construction products directive is to reduce trade barriers! A "thoroughbred" standard for planning and installation can, however, never be a trade barrier, provided it does not include any hidden equipment requirements. In various discussions, which the CEA held last in Brussels at the beginning of the year with the authority responsible for the construction products directive, the Enterprise Directorate General, this viewpoint was confirmed, especially since the guidelines for the planning and installation of fire detection installations, inert gas installations and CO<sub>2</sub> extinguishing installations are not subject to a mandate.

Nevertheless the question of whether the guidelines for the planning and installation of sprinkler installations fall wholly or partly within the scope of the CPD, is still discussed very controversially

in the European standardisation organisation CEN. The aim of some firms and organisations in doing so is to so "tilt" the opinion of the Enterprise Directorate General so that the CEA would be forced to withdraw the CEA specifications for the planning and installation of sprinkler installations, which have now been introduced into a number of countries.

#### **4. Work of the Prevention Sub-Committee and its expert groups**

The Prevention Sub-Committee has been very productive in the last few years. In particular the wealth of specifications drawn up testify to this, the majority of which have received EFSAC endorsement. European standardisation work in particular has also profited from this, because a number of CEA specifications have been used as a basis for harmonised European standards.

##### 4.1 Fire sector

###### 4.1.1 GEI 3 - Components of water extinguishing installations

In the period under review, the CEA specifications for "Extended coverage side wall sprinklers" were completed, and obtained EFSAC endorsement. The next job of the expert group will be to draw up specifications for the EFSR sprinkler K25 and residential sprinklers for large residential developments incorporating commercial enterprises, e.g. doctor's practices.

###### 4.1.2 GEI 4 - Planning and installation of sprinkler installations

The CEA specifications for planning and installation guidelines for sprinkler installations have been supplemented and updated:

- **Classification system:** The classification of stored goods and business risks has been revised and will shortly be published as an annex to the existing CEA specifications after agreement with the CEA member associations.
- **Protection of private homes:** It is planned to draw up special specifications for the planning and installation of sprinkler installations in single and two-family houses.
- **Water supply:** The CEA specifications have been supplemented by an informative annex.

In addition, the expert group has drawn up a proposal for the revision of the questionnaire for the statistical surveys of the success rate of sprinkler installations. With reference to the protection of stored non-inflammable small plastic trays, the expert group is, moreover, in close contact with FM.

###### 4.1.3 GEI 7 - Installation of gas extinguishing installations

The work on spark detection and extinguishing systems was completed in the expert group. EFSAC endorsement could be obtained for the corresponding CEA specifications.

After detailed negotiations with the European manufacturers' organisation EUROFEU, the specifications for gas extinguishing installations with inert gases and halocarbons was, moreover, completed. Unfortunately EURALARM did not agree to EFSAC endorsement, although EUROFEU experts collaborated with the expert group from the outset.

The door fan test research project, a method for checking the air-tightness of rooms which are protected by gas extinguishing installations, was concluded. The final report has now been published by CEA. The CEA research projects have made a considerable contribution to the improvement of European work on standards and guidelines.

The expert group assumed two new tasks:

- Drafting of a questionnaire for the determination of statistical data on the success rate of gas extinguishing installations.

- Drafting of CEA specifications for the planning and installation of oxygen reduction installations. This installation engineering can be regarded in some cases as a sensible extension of preventive measures.

#### 4.1.4 GEI 13 - Installers of fire extinguishing installations

In the past, national and European competition authorities repeatedly criticised the fact that the insurers had not yet reached agreement on a uniform recognition procedure for installers who install fire and theft protection installations. Drafting of the relevant CEA specifications is therefore an important step towards the mutual acceptance of recognitions in Europe. In the meantime expert group GEI 13 has completed the draft of detailed requirements and the resulting examination criteria for installers of extinguishing installations. The comments from the CEA member associations and from EUROFEU are to be discussed and taken into consideration, if applicable, in a final meeting. Representatives of industry (EUROFEU) were also involved in the work of the expert group so that the CEA specifications can be granted EFSAC endorsement.

#### 4.1.5 GEI 14 - Fire Safety Engineering

The expert group has been newly set up. The aim of the group is to draw up principles for the application and interpretation of computational methods for risk determination and risk classification. The work is still at an initial stage.

#### 4.1.6 GEI 15 - Protection of cold rooms

The expert group has also been newly set up. It has the task of drawing up a prevention concept for cold rooms. In so doing it should take into account organisational measures as well as structural aspects and installation engineering based fire protection.

### 4.2 Theft sector

The entire theft protection section falls outside the scope of the construction products directive. Unlike the fire protection standards, none of the European standards in this field have any statutory nature and can be supplemented by CEA specifications if necessary.

#### 4.2.1 GEV 3 - Facade protection

Co-operative tests are currently being carried out in collaboration with the European manufacturers' association ARGE to determine whether the specifications drawn up by the expert group for burglary resistant locks and fittings and the resulting test methods lead to the same test results in the laboratories established in Europe. The result of the tests will determine whether the relevant specifications can be granted EFSAC endorsement.

#### 4.2.2 GEV 6 - Closed-circuit television systems (CCTV)

The recommendations drawn up by the expert group for the installation of closed-circuit television systems are to be supplemented by corresponding specifications for the planning, installation and maintenance of closed-circuit television systems. Because of the extreme complexity of the subject matter, the work cannot be completed at the end of 2004 as originally intended, but only at the end of 2005.

#### 4.2.3 GEV 7 - Planning and installation of intruder detection installations

The work of this expert group has ceased at present, since France has withdrawn the chairman.

#### 4.2.4 GEM 3 - Installers of fire and intruder alarm systems.

The expert group has to a large extent concluded its work. The documents drawn up have now been sent out to the CEA member associations for comments. Once the requests for amendments and additions have been taken into account, it should be possible to obtain EFSAC endorsement for the specifications drawn up.

#### 4.3 Flood/storm prevention expert group

A new expert group was set up recently following a decision by the CEA Management Committee, which is to work on drawing up prevention concepts in the flooding and storm fields. First of all it is planned to start with the flooding sector. In the first stage it is planned to analyse the loss prevention brochures available in some countries in order to draw up concrete recommendations in a second stage, e.g. advice for property owners and architects which must be taken into account in the building planning phase, as well as advice on measures which should be taken before buildings are flooded.

The Chairman thanked Mr Schüngel for his outline.

In the course of the next year, the Prevention Sub-committee would continue its task of exchanging experience in the field of prevention and above all identifying new types of risk to combat.

This task was done in full cooperation with the European associations such as EFSAC, CFPA-EUROPE but also with the safety equipment manufacturers' associations.

It would also continue its contact with the European authorities such as DG Enterprise and those with the standardisation bodies, CEN and CENELEC;

Finally, via its Working Groups, the Sub-committee would continue to prepare specifications in cooperation with EFSAC which would serve as a basis for the preparation of standardised European norms.

### **10) Presentation of the work of CEA by Mr Schanté**

Mr Schanté gave a general presentation of current CEA work stressing key issues which would be developed at forthcoming meetings. He furthermore put the accent on the main challenges which CEA would have to face in a very fast moving European landscape and faced with European legislation which was perpetually accelerating.

## 11) Conclusions

Ms Nouguié outlined the main decisions which had been taken at the meeting. They were shown in a box in the above text.

Mr Marsaud added that the Sub-committee should focus its attention on very important subjects such as climate change, terrorism and also the problems relating to the P/P/P.

Before closing the meeting, Mr Santini stressed the need in the future to give a practical dimension to the work of the Committee. To do so, delegates from 3 or 4 countries for example should try to isolate national insurance mechanisms on topical concerns such as terrorism or natural catastrophes.

This could result in specific group work concerning multinational cover mechanisms.

### **Date of the next Plenary Meeting:**

The next Plenary Meeting would take place in Warsaw on 16/17 June 2005 at the kind invitation of the Polish association.

The Chairman warmly thanked the Chairmen of Sub-committees and Working Groups as well as all delegates who had taken part in the working sessions.

