



**Norsk Naturskadepool**

Norwegian Natural Perils Pool

# Reinsurance Principles for the Norwegian Natural Perils Pool

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## 1 Purpose

This document sets out the principles for the purchase and management of reinsurance for the Norwegian Natural Perils Pool (Pool) based on the applicable Rules and risk tolerance per loss event [and frequency to the extent required by the Regulation](#).

The Pool equalises natural perils claims between insurers that write fire insurance in Norway. Participation in the Pool is compulsory for companies that write this class of insurance in Norway. The Pool obtains reinsurance cover for natural perils insurance on behalf of participants as set out in section 12 of the Rules for the Norwegian Natural Perils Pool.

These Reinsurance Principles are to be approved by the Pool's Annual Meeting.

## 2 Legal basis

Section 12 "Reinsurance" of the Rules for the Norwegian Natural Perils Pool (effective 1 February 2011) issued by royal decree of 21 December 1979 pursuant to the second and third paragraphs of section 81d of Act No. 20 of 6 June 1930 on Insurance Contracts on the recommendation of the Ministry of Justice and Police and amended by Regulations Nos. 1129 of 8 December 1988, 1027 of 25 November 1994, 1184 20 November 1997, 478 of 10 May 2001, 1094 of 11 October 2002, 1607 of 21 December 2007 and 39 of 14 January 2011.

The activities of the Norwegian Natural Perils Pool have their legal basis in Act No. 70 of 16 June 1989 on Natural Perils Insurance.

## 3 Reinsurance programme

The Board of the Pool obtains reinsurance on behalf of participants as set out in section 12 of the Rules for the Norwegian Natural Perils Pool.

The reinsurance programme is [to be a responsible programme in accordance with the Pool's objects and duties](#). ~~intended as a catastrophe programme and will not therefore cover frequency losses.~~



The pricing and terms of the programme must be in line with market prices, and it must be possible to place 100% of a non-proportional ~~the~~ programme in the reinsurance market.

### 3.1 Limit and retention

#### 3.1.1 Limit

The limit for the reinsurance programme corresponds to the limit on participants' combined liability for a single natural catastrophe set out in the applicable laws and regulations. The limit of liability for the Pool must be taken into account when setting the limit for the reinsurance programme ~~in section 2 of Regulation No. 1335 of 15 December 1989 on Retention and Limitation of Liability in Natural Perils Insurance.~~

#### 3.1.2 Retention

The retention on the reinsurance programme must strike a balance between the risk tolerance evaluated and decided by the Board, per loss event aggregated by year, and participants' combined reinsurance costs.

The retention is to be set on the basis of a statistical model of the Pool's own losses.

~~Insights from t~~ Technical modelling from methodologies based on one or two more of the ~~three main market-leading~~ suppliers of catastrophe risk models may also be used. ~~÷~~

- ~~○ AIR Worldwide (AIR)~~
- ~~○ Risk Management Solutions (RMS)~~
- ~~○ EQECAT~~

~~The retention is to take account of return periods, such that the reinsurance programme covers loss events with a return period (how often they are expected to recur) of 10-15 years.~~

Based on the model results, the retention level is to be considered in relation to prices and terms in the reinsurance market. The reinsurance solution chosen is to be seen in the context of the need for protection and the Board's choice of risk profile. The Board decides the reinsurance solution and retention level.

#### 3.1.3 Maximum retained loss

The maximum retained loss comprises:

- Share of loss after reinsurance
- Costs relating to loss
- Reinstatement premium, which may be compulsory for losses incurred by the reinsurance programme

The maximum retained loss does not include any credit risk losses the Pool incurs as a result of a reinsurer proving unable or unwilling to pay its share of the loss.

The Board decides on the level of retention for the reinsurance cover.

## 4 Back-to-back cover

The Reinsurance Committee, together with the Administration, is responsible for ensuring that the reinsurance protection and business covered by the Pool are "back to back"



[provided this is available in the market](#). This means that the reinsurance cover corresponds to the definition of natural disasters set out in the Natural Disasters Act.

## 5 Criteria for reinsurers

### 5.1 Rating

The reinsurance programme is to be placed with recognised companies with a satisfactory security rating. The Board sets minimum security rating criteria for the Pool's reinsurers. Use of a reinsurer that does not satisfy the security rating criteria must be approved by the Board.

### 5.2 Risk exposure

Diversification across reinsurers is an important way of spreading credit risk. Reinsurers' maximum risk exposure for the whole programme is to be limited as follows:

- External reinsurers:
  - The maximum percentage share may be based on ratings. Reinsurers with the best rating are to be offered the same maximum percentage share.
  - External reinsurers choosing to act as fronting reinsurers for participants may not have a higher total percentage share than the risk exposure decided on by the Board.
  
- Participants acting as reinsurers:
  - Participants in the Pool are entitled to act as reinsurers for the Pool at the percentage requested by the participant subject to an upper limit of the participant's most recently measured share of the Pool.
  
  - For participants to act as reinsurers for the Pool, they must satisfy the same minimum security rating criteria as set by the Board for external reinsurers.
  
- Participants acting as reinsurers using fronting reinsurers:
  - Fronting reinsurers are subject to the same requirements as other external reinsurers.
  - Fronting reinsurers enter into an agreement on a percentage share on the same terms and hence with the same liability as all other reinsurers in the programme, and are liable to the Pool for claims brought against the programme.
  - The fronting reinsurers that may be used are to be chosen from a list prepared by the brokers, recommended by the Reinsurance Committee, and approved by the Board. The quoting reinsurers must not be on this list. The list is to be approved by the Board by 1 July each year prior to renewal.
  - If participants with a market share in excess of the percentage share decided on by the Board wish to use fronting reinsurers, their use of fronting reinsurers is to be split such that none of the fronting reinsurers exceeds the maximum percentage share set by the Board for external reinsurers.

The Board sets the limits for external reinsurers annually.



## **6 Governance and responsibilities for reinsurance**

### **6.1 Administration**

The Administration's roles and responsibilities are to:

- Prepare annual renewal information in collaboration with brokers and the Reinsurance Committee
- Obtain annual quotations for the whole reinsurance programme

### **6.2 Reinsurance Committee**

The Reinsurance Committee's roles and responsibilities are to:

- Advise the Board on taking out joint reinsurance on behalf of participants
- Prepare information for reinsurers in collaboration with the Administration
- Manage the wording of reinsurance contracts
- Review quotations and make recommendations concerning the renewal of the programme
- Recommend brokers
- Issue guidelines on what reinsurers are to be used
- Approve reinsurers before cover commences

The Committee is to have at least four members and elects its own chairperson. It should be composed such that members have practical skills and can propose general guidelines in the field. The Committee reports to the Administration.

### **6.3 Board**

The Board's roles and responsibilities are to:

- Appoint members of the Reinsurance Committee
- Take out reinsurance on behalf of the Pool in line with these Reinsurance Principles
- Set minimum rating criteria
- Set external reinsurers' maximum risk exposure
- Approve list of fronting reinsurers
- Set the retention on the reinsurance programme
- Approve prices

### **6.4 Annual Meeting**

The Annual Meeting's roles and responsibilities are to:

- Approve these Reinsurance Principles

## **7 Information**

The Pool and its participants have a mutual duty of disclosure to ensure adequate knowledge of the Pool's total loss exposure and ensure alignment of the underlying portfolio and the terms of the reinsurance programme. Known departures from this that may result in the maximum retained loss being exceeded must be approved by the Board.



## **8 Reporting**

In the quarter preceding contract renewal, the Board is to be given a report setting out the contours of the coming year's reinsurance renewal. The report is to contain updated model results so that the Board is in a position to set the retention level on the basis of the principle set out in section 3.1.2.

Once the contract for the reinsurance has been placed, a report is to be prepared for the Board with a description of the reinsurance programme entered into and an assessment of what was actually achieved relative to the expectations outlined.

## **9 Ethics**

The Reinsurance Committee is to act professionally and maintain high ethical standards as set out in Finance Norway's ethical rules, both internally and externally.

## **10 Choice of reinsurers and brokers**

The Pool is to use the best and most appropriate suppliers in the market. The Pool must strive for good relationships with its reinsurers and brokers, and prioritise mutual confidence with good communication and transparency. At the same time, the Pool must ensure a strong commercial focus and a professional distance when choosing reinsurers and brokers.

## **11 Documentation**

The Pool must at all times maintain a contract archive of original documents covering the past ten years.