Norsk Naturskadepool
Norwegian Natural Perils Pool

Underwriting Guidelines for Natural Perils Insurance

What natural perils insurance covers

and how the premium is to be calculated.

Apply from 1 March 2020
Replaces the guidelines of 1. januar 2019

Revised 01.01.2025 according to new regulations for natural perils insurance

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Section 1 What is the Norwegian Natural Perils Pool

1.1 Background

After amendments of The Act on Natural Perils and the Act relating to Insurance Contracts it was decided in 1979 to introduce General Insurance against Natural Perils in Norway with effect from January 1, 1980. From July 1, 1990, The Act on Natural Perils Insurance of June 16, 1989, no. 70 became effective. The Act has later been adjusted, last by January 1, 2025.

The Natural Perils Insurances scheme is managed by Norwegian Natural Perils Pool (NNPP). A separate regulation has been issued for natural perils insurance, FOR-2024-01-26-111 (hereafter referred to as the regulation), which replaces the original instructions for the Norwegian Natural Perils Pool of 21.12.1979. All non-life insurance companies that cover natural perils in Norway must be members of NNPP, cf. the Act on Natural Perils Insurance, sections 1 and 4. Natural Perils Insurance is mandatory in the sense of that it is automatically linked to fire insurance of physical objects.

NNPP's task is to be a contact link between the member companies and the Norwegian Directorate of Agriculture. Furthermore, NNPP will every quarter equalize the compensations paid for claims caused by natural perils between the member companies and arrange for reinsurance for Norwegian Natural Perils Insurance.

The Underwriting Guidelines have been issued by NNPP's Committee for Terms and Conditions to get a uniform handling of Natural Perils Risks in the various member companies. The NNPP's Claims Committee has issued a handbook containing detailed rules about what the Insurance against Natural Perils is covering. In particular, there is a reference to the Common Terms and Conditions about what can be balanced in the NNPP. The Insurance Companies may have wider covers than those having been stated in the Common Terms and Conditions, but compensation according to any such extension must be paid by the Companies themselves.

Please see:

- Underwriting Guidelines
- Handbook
- Common Terms and Conditions

1.2 Settlement and reporting

Each member company settles and pays out natural perils indemnity claims to its own clients.

Through NP, the year's natural perils claims are distributed among the member companies in the same ratio as the ratio between the companies' shares of the total sum insured for fire-insured property/objects.

The basis for equalization is calculated each year based on the total sum for fire-insured property/objects as of 1 July reported by the member companies.

Section 2 What natural perils insurance cover

Insurance contracts covering natural perils are governed by the provisions of the The Act on Natural Perils Insurance.

Insurance against natural perils is mandatory for all objects that are natural to insure against fire and must be included in all insurance products that cover fire as a risk, cf. The Act on Natural Perils Insurance.

All objects for which it is not natural to be insured against fire, must be insured through insurance products, that do not result in equalization through the NNPP. Member companies must choose forms of insurance that take into account this limitation for objects that are not natural to insure against fire.

The insurance covers damage that is directly caused by natural disasters in form of landslides, storms, floods, storm surges, tsunamis, meteorite impacts, earthquakes or volcanic eruptions, cf. The Act on Natural Perils Insurance.
For detailed terms, see section 3 of the Terms for Settlement through the NNPP.

Section 3 Calculating the premium

3.1 Premium basis

Breaches of these Guidelines may result in the company not having a claim equalized through the Pool.

A natural perils premium is to be calculated on the basis of the sum insured against fire for property/objects, i.e. normally buildings, machinery, equipment, furnishings, effects and goods. The sums insured for these objects are used as the equalization basis. It is not permitted to choose a different premium calculation basis for natural disaster insurance than for fire insurance, determined according to guidelines from the Committee on Rates and Indices.

Fire insurance normally forms part of a comprehensive or all-risks policy.

3.2 Premium rate for natural perils insurance

The premium rate for natural damage is set annually by the board of NNPP, cf. the regulations. The premium is calculated as a percentage of the premium basis in accordance with the rules in the previous section.

The following rules also apply to the calculation of the premium:

- When calculating the minimum premium, the natural perils premium comes on top. The natural perils premium must be at least NOK 1.

- Credit charges are to be calculated using the standard rules if the premium is paid in two or more instalments.

- Any return of premium must be divided into the ordinary premium and the natural perils premium.

- Where contracts are cancelled and transferred before they expire, the premium paid is to be returned pro rata.

- In the case of contracts to which more than one company is party (co-insurance etc.), the lead insurer collects the natural perils premium and includes 100% of the sum insured in its equalization basis for the Pool. **See also Section 4.8.**

- Insurance products with Loss limit must the natural perils premium not be calculated of Loss Limit-sum, but of the total insurance sum of the risk. **See also Section 4.9.**

3.3 Insurance products where no natural perils premium is to be calculated, cf. The Act on natural damage insurance § 1

- Machinery insurance without fire cover

- Motor vehicle insurance and motor vehicle trailer insurance

- Leisure boat insurance

- Luggage/baggage insurance

- Transport/cargo insurance

- Products without fire cover

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Section 4 Special guidelines

4.1 First loss policies

Due to the fixed natural perils premium rate for all risks insured against fire, there have been attempts to use first-loss policies as a means of reducing the compulsory natural perils premium. This is not permitted.

It is not permitted to write first-loss policies for multiple objects where the sum insured reflects only the maximum loss on the largest object covered by the insurance, such as a stretch of cable. In such cases, the natural perils premium is to be calculated on the basis of the value of all of the objects, and these must also be included in the Pool's equalization basis.When the real value of the building does not match with the premium basis which appears on the basis according to guidelines from the Committee on Rates and Indices , then the premium basis to NNPP can be based on first risk/agreed amount.

Examples of this are:

- Buildings that are not used to its original purpose, such as operating buildings on abandoned farmland.

4.2 Collective home insurance, group insurance and no-agreed-value covers

The natural perils premium is set on the basis of the average value per member for each scheme. It is a condition that the average value per member is calculated on the basis of rigorous analysis of the overall portfolio. For the natural perils premium to be correct, the average value of furnishings and effects must be index-linked and adjusted annually. The Pool's Board approves the average value for each scheme each year. The equalization basis for the Pool is the annual average value multiplied by the number of scheme members.

4.3 Products referred to as « home products with unlimited insurance value»

Individual insurance values for home products on each individual policy must be calculated- same way as ordinary home products. It is not known to use a single insurance sum for such as home products. This sum should be reported to NNPP as part of the fire insurance basis.

4.4 Other no-agreed-value covers

Municipal and county policies are often designed in such a way that machinery, equipment and effects are jointly insured without specifying separate sums insured on the certificate of insurance. Instead, it is stated in the insurance terms that the contents of buildings are insured up to the same amount as that stated for the building.

The relationship between the value of building and contents is based on averages, and it has been found that machinery, equipment and effects amount to 25% of the sum insured for the building, and this therefore constitutes the premium basis for machinery, equipment and effects.

To obtain the correct equalization basis, a factor of 1.25 is applied to the sum insured for the building at companies providing no-agreed-value cover for municipalities.

Similarly, the full replacement cost for buildings must be adjusted by a factor of 1.25 before calculating the natural perils premium charged to the customer.

4.5 Construction, project and contractor insurance

Policies of this kind are normally issued on an all-risks basis and include fire cover. A natural perils premium must therefore be calculated.

Objects that may not be equalized through the Pool (cf. section 2) are subtracted from the premium basis before the natural perils premium is calculated. In such cases, a distinction is to be drawn between premium-triggering and non-premium-triggering parts of the project.

4.5.1 Construction and installation projects

These projects are insured individually, i.e. the insurance term runs from the start date to the completion date. The premium is to be calculated only for the part of the project that is covered by fire insurance.

How the natural perils premium is calculated depends on the length of the project – see below.

1. **Projects lasting up to a year**

Contract value/2 x natural perils premium rate x contract duration in days/365

2. **Projects lasting more than a year**

The value of the project accrues over time. This is taken into account when calculating the premium.

In the first year, the project's opening value is set at 0, and the project's closing value (its value on 31 December) is added. The total is then divided by two and multiplied by the premium rate and period.

The second year starts with the closing value for the previous year, to which the value on 31 December in the second year is added. This is then halved and multiplied by the premium rate and period.

The example below shows a project running over 32 months with a contract value of NOK 1 billion. The project starts on 1 January in year 1 and is completed on 31 August in year 3.

Year	Number of months	Opening value of project on 1 January	Closing value on 31 December	Opening value + closing value / 2	Premium rate	Period	Natural perils premium
1	12	0	400,000,000	200,000,000	0.000065	12/12	13,000
2	12	400,000,000	700,000,000	550,000,000	0.000065	12/12	35,750
3	8	700,000,000	1,000,000,000	850,000,000	0.000065	8/12	36,833
Total natural perils premium for the project							**85,583**

4.5.2 Insurance for contractors and builders (12-month policies)

These are policies for construction projects where the individual projects are not registered, and the premium is instead calculated based on the contractor´s annual operating revenue.

4.6 Insurance for home computers and consumer electronics and sale/warranty cover for electrical products

These are policies where the premium is often paid at the start of the contract for a period of several years (commonly three years). Provided that the policy includes fire risks, the same principle is to be used as for project insurance, i.e. the natural perils premium is calculated by multiplying the premium rate by the sum insured regardless of the term (calculated only once even if the contract runs for several years).

Companies may also opt to calculate an annual natural perils premium if this better suits their insurance solution and computer systems.

4.7 Insurance contracts with a declaration scheme

The premium for natural perils is calculated in advance using the standard rules and adjusted in line with the declarations on the expiry of the insurance term. The declared value is the equalization basis.

4.8 Co-insurance

Rules for co-insurance are made to section 5 of the of the regulation on Instructions for the Norwegian Natural Perils Pool. In addition, the Norwegian Natural Perils Pool has decided the following rules:

1. The lead insurer collects the whole natural perils premium for the co-insured risk.
2. The lead insurer reports the entire sum insured in its equalization basis for the Pool.
3. The lead insurer reports and settles claims on behalf of the other co-insurers.

The companies' individual shares in the co-insurance arrangement must not be reported separately.

4.9 Loss limit

Loss limit coverage means that the compensation is limited up to a specified amount. The limited amount will possibly be lower than the insurance sum.

A natural perils premium is to be calculated from the total sum insured. The insurance sum must reflect the actual total risk.

Companies can settle up to the Loss limit amount.

Section 5 Design of certificate of insurance

Under the regulations, the natural perils premium is to be specified on the certificate of insurance.

There is not, however, a requirement for the natural perils premium to be specified on the notice of premium.

Nor is there any requirement for the premium rate and sum insured for natural perils to be stated on the certificate of insurance.

Section 6 Terms for Settlement through the Natural Perils Pool

The Terms for Settlement through the Natural Perils Pool specifies what member companies can equalize through the Pool. The Terms for Settlement and the The Act on Natural Perils Insurance together provide the framework for how natural perils losses are to be handled. The Terms for Settlement are provided and administered by the Pool.