



**OECD Conference on the  
Financial Management of Flood Risk**

Building financial resilience in a changing climate

**PRESENTATIONS –  
SESSION 5**

**12-13 May 2016  
Paris, France**



# OECD Conference on the Financial Management of Flood Risk

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FEMA

## The National Flood Insurance Program- United States

|           |   |   |   |  |
|-----------|---|---|---|--|
| Strengths |  Covers almost the entire country          |  Building and land use standards related to flood risk |  Available to all homeowners and renters         |  Price Stability                           |
|           |  Binary understanding of risk "In or out"? |  US Treasury (taxpayers) bears the Program's debt      |  Limitations of a federal government-run program |  Policyholders don't understand their risk |

- The Federal government underwrites the Program, which is largely delivered to customers through private sector insurance companies
- Insurance is a mitigation and disaster recovery tool- residential survivors of flood disasters recover more quickly and fully when they are insured
- The NFIP faces public policy challenges around solvency and affordability





**Spanish extraordinary risk coverage system**  
**Consorcio de Compensación de Seguros (CCS)**

Alfonso Nájera  
 Consorcio de Compensación de Seguros

**Model:** Public-private partnership solution (1954)

**Management:** CCS (public institution with own legal nature and assets. Non profit)

**Method:** Direct coverage compulsorily included in policies issued by companies

**Comprehensive coverage:**

- \*Lines of insurance: property, life and personal accidents
- \*Risks covered: Nat. Cat. (Floods & others) and Terrorism
- \*Exposures covered: Properties and persons
- \*Damage covered: material & BI – Death & disabilities

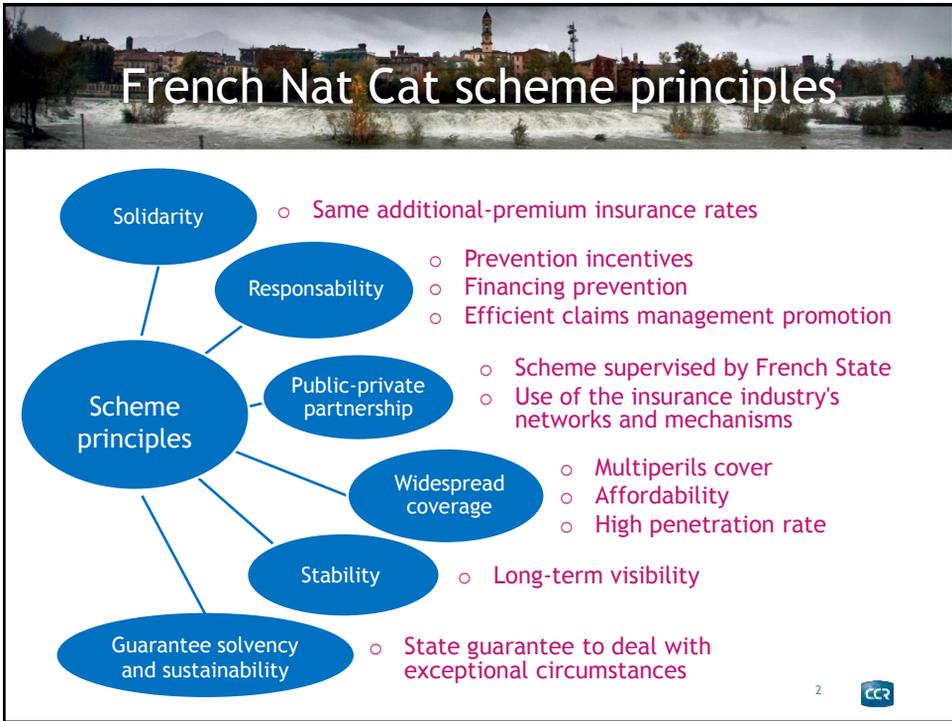
**Philosophy:** Principles of **compensation & cooperation** with market (no competition)

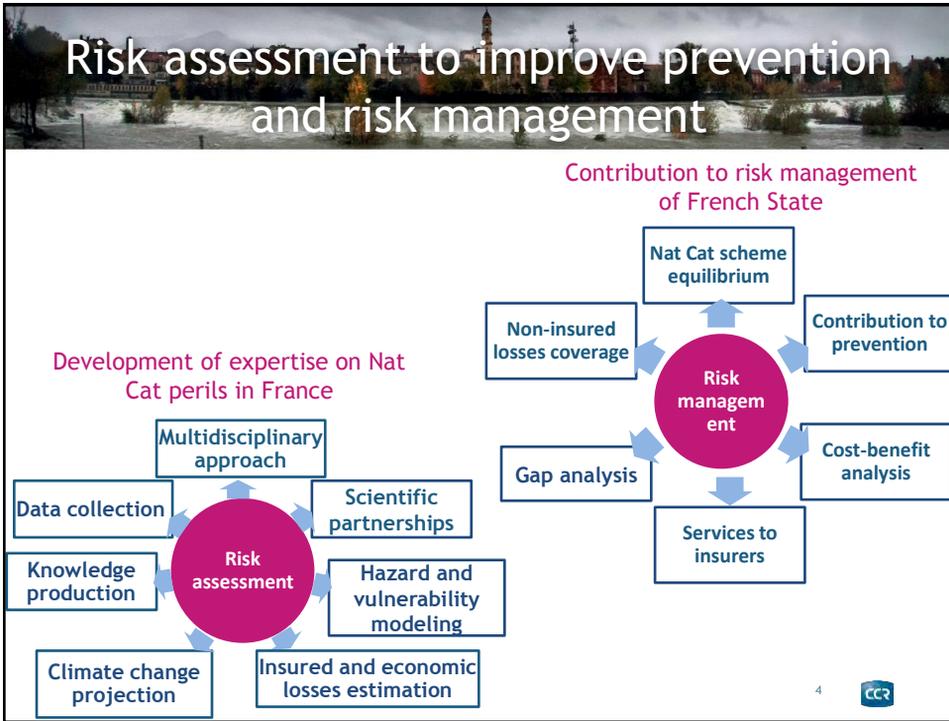
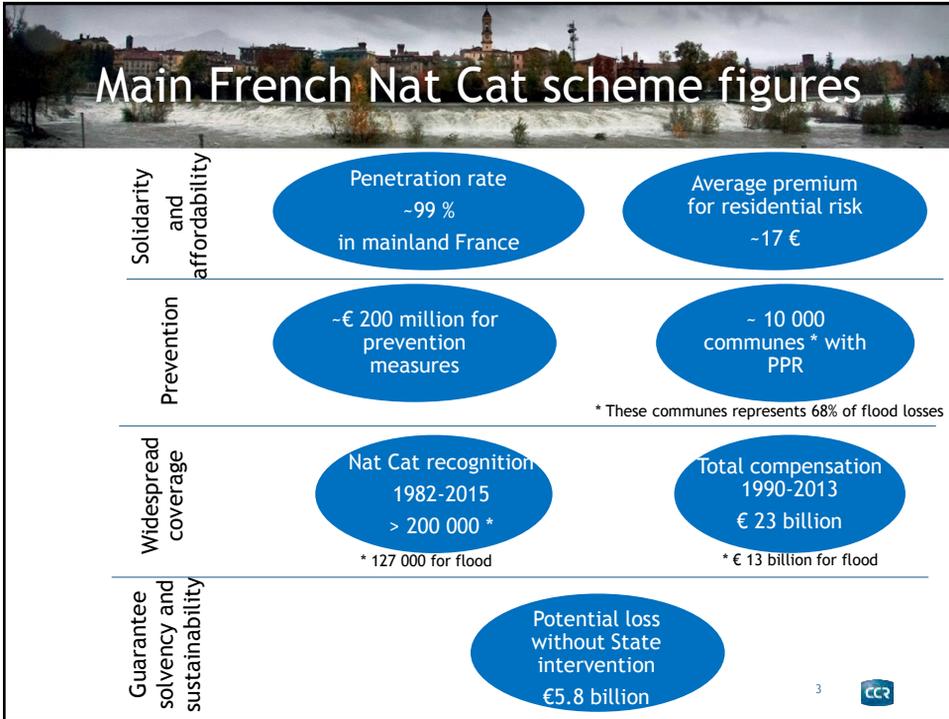
**Price:** **Compulsory surcharge.** It differs by type of exposure (Aggregate risk-based tariff)

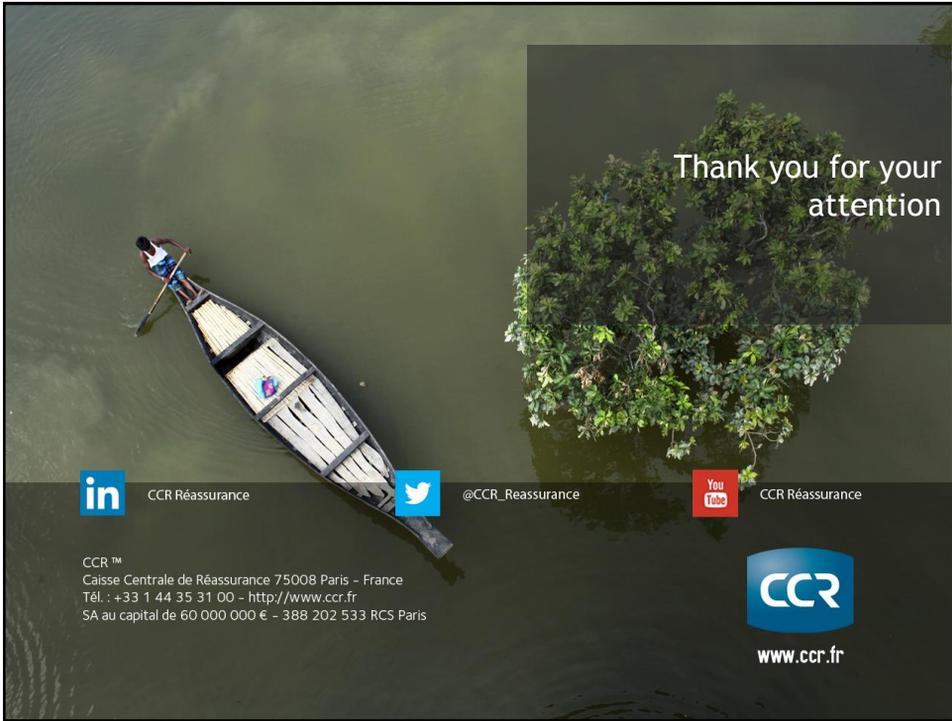
**Financial instrument:** **Equalization reserve** (2015: 7.3 bn. €) - State guarantee (never used)

**Target:** Availability, affordability, financial strength, insurance market resilience

**Challenges and Commitment:** climate change impacts & involvement in risk reduction strategies







Thank you for your attention

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## Flood Re

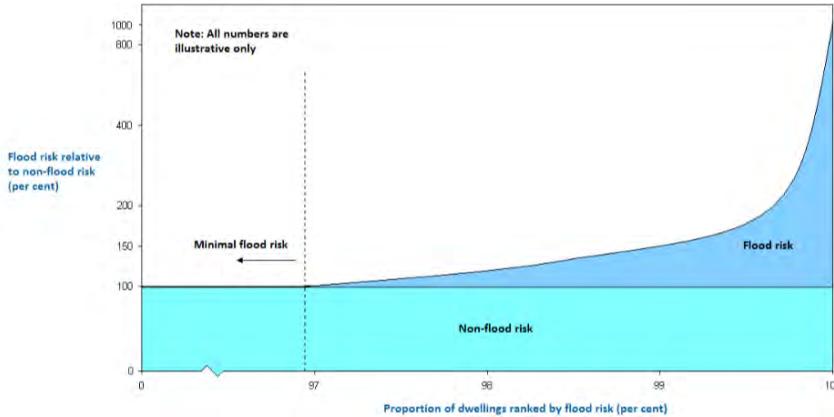
### Strengths

- Solution to a long standing problem relating to the availability and affordability of flood insurance benefitting up to 500,000 households
- Customers continue to buy their home insurance in the same way. Flood Re sits in the background
- Customers and insurers given certainty through affordable levy and excesses, and through approach of 'following the fortunes'
- Financial certainty through statutory levy on insurers spread proportionately according to GWP
- Owned and operated by the insurance industry with public accountability to Parliament

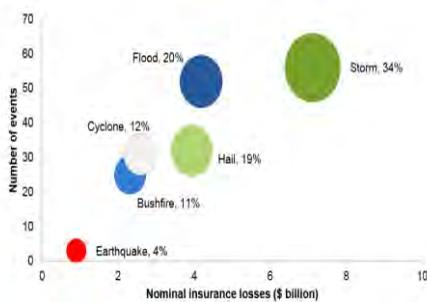
### Weaknesses

- Length of time from initial idea of Flood Re to launch due to complexities of negotiating with Government and the insurance industry
- Arguably reduces incentives for householders and communities to take action to reduce risk
- Fixed levies and premiums regardless of risk

**What is the flood insurance problem?**

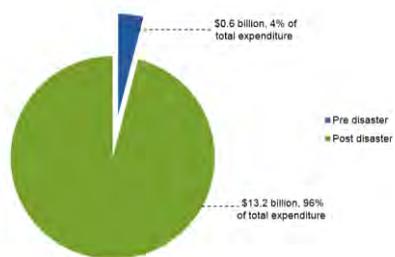


**Insurance losses by natural hazard<sup>a</sup>**

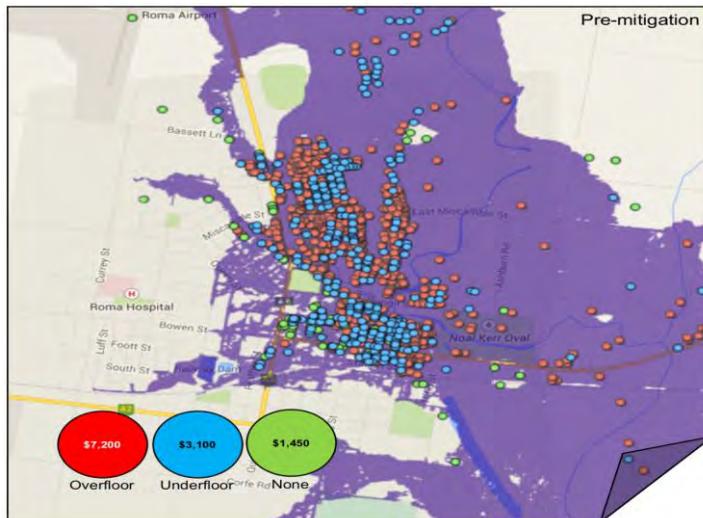
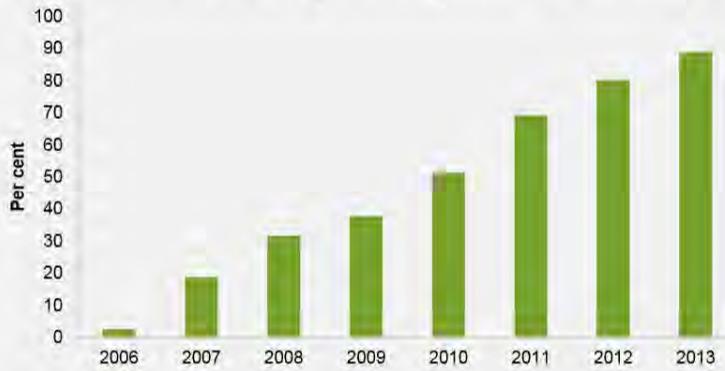


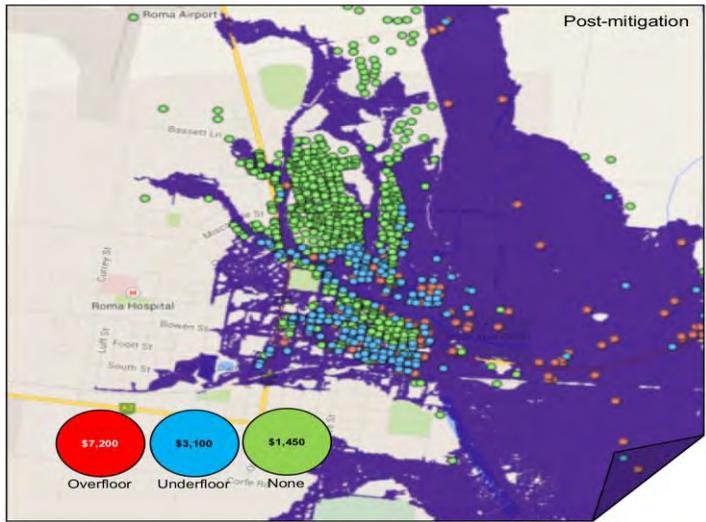
<sup>a</sup>A larger bubble represents a greater proportion of total disaster cost attributed to that category

**Estimated Australian Government expenditure pre and post disaster, 2002-03 to 2014-15**



Proportion of household building insurance policies that include flood cover





## Session 5: Protecting households against flood risk – comparing the different approaches across OECD countries

### AUSTRIA

Anton Matzinger



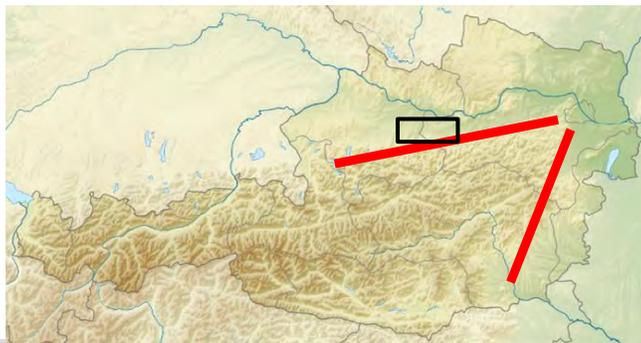
## Austria - Federal System

Austria is a federal country; 8.7 mio. inhabitants

- 9 Länder – own budget, parliament, government, administration

There are two large-scale geographic areas in Austria with respect to flood risk:

- Alpine area
- Danube river basin and tributaries



**Flood risk management and protection**

- shared responsibilities of Federal and Länder Governments
- technical protection and spatial planning

**Ex post public compensation for losses**

- Länder responsibility
  - identifying flood losses
  - administrative procedures



**Public Co-Financing**

- Länder and federal contributions for public financing
- Federal contribution: esp via Natural Disasters Fund

- Risk of floods
- HORA – Natural hazard overview and risk assessment Austria – maps the zones with risk of floods – 30, 100, 300 years

30-year risk zone, detail

Population in  
30 year risk zone: 150.259  
100 year risk zone: 343.394  
300 year risk zone: 651.963

WIFO, Naturgefahren und die Belastung von Landeshaushalten, Wien 2016



<http://wisa.bmfuw.gv.at/fachinformation/hochwasserrisiko/hochwasserrisikoplan/managementplan.html>

## Austria - Natural Disasters Fund

| 2016                            | Mio. €       | %          | Compensation covers                   |
|---------------------------------|--------------|------------|---------------------------------------|
| Risk Management                 | 289          | 73.3       |                                       |
| Public compensation             |              | 26.7       |                                       |
| - Private Sector                | 16.6         | 4.2        | Average: 30%,<br>12% States, 18% Fund |
| - Public Sector                 |              |            |                                       |
| Federal Gov.                    | 4.9          | 1.2        | 50%                                   |
| States                          | 13.1         | 3.3        | 50%                                   |
| Local Gov.                      | 35.9         | 9.1        | 50%                                   |
| Fire brigades                   | 35.1         | 8.9        | 100% – up to available means          |
| <b>Σ Natural Disasters Fund</b> | <b>394.4</b> | <b>100</b> |                                       |
| GDP 2016 350 bn. €              |              |            |                                       |

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## Austria - Concluding remarks concerning compulsory insurance

Flood Insurance available, but ...

Hora –System → risk is known to customers → lemons market?

Relatively small proportion of population in highrisk areas

Resistance of risk free population to be expected

High tax quota in Austria: 43,9%  
→ politics very reluctant to increase compulsory contributions

Preference for tax financed solidarity? → Veil of ignorance

Besides: large efforts of governments to prevent floods  
→ negative effect to private insurance market?

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Flood risk management works!

Might that cause  
negative effects  
for insurance  
market  
development?



[http://www.umweltbundesamt.at/fileadmin/site/umwelthemen/klima/FloodRisk/FloodRisk\\_Evaluierung/Bewusstseinsbildung-TB-Oeffentlichkeitsbeteiligung.pdf](http://www.umweltbundesamt.at/fileadmin/site/umwelthemen/klima/FloodRisk/FloodRisk_Evaluierung/Bewusstseinsbildung-TB-Oeffentlichkeitsbeteiligung.pdf)

Thank you for attention!