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Insurance against Storms: Old and New Shortcomings.

Insurance against storms is widely available at low cost in Europe – as far as the main exposed sectors (buildings, contents, business and motor insurance) are concerned. There are two sectors, however, that do not conform to this finding: damages to forests and economic loss due to power cuts. These were our findings of 2003 in Ahrweiler (DKKV 2003, p.7), and the picture has essentially not changed since then but partly disimproved.

The take out of storm insurance by forest owners is still way below 5% in France and only about 2% in Germany.[1] The risk awareness among this group is generally low. What we need is an organized dialogue between forest owners and insurers in Germany, France and - to some extent – also in Switzerland. This dialogue must be tailor-made because the problem is not a problem of forest owners in general but of forest ownership in these countries. There are other countries in Europe, such as the U.K. and Denmark, where more than 65% of the private forest is insured. The difference between France or Germany and these countries lies in the fact that the majority of forests in France and Germany is publicly owned (about 70 %) while only 30% is private.[2] Forests are far less important as a source of income to public owners such as municipalities and the federal state than to commercial owners. In a recent study among forest owners in Switzerland, Holthausen (2004) finds that less than one-third of the public forest owners see “forests as a source of income”, whereas more than 85% of commercial private forest owners subscribe to this view.[3] This ‘non-of-my-business’-attitude of many public owners explains the general disinterest in forest insurance in countries with a large share of public ownership. The same attitude may also lead to a disinterest in preventive measures against storm damages, and it may explain the political silence of forest owners in the face of minimal governmental support for storm-related damages. For example, in the case of Hurricane Lothar (1999), the forest damages in Baden-Württemberg amounted to 1,5 billion German Mark (0,75 billion Euro) while public relief for forest owners was capped at 100 million Mark (50 million Euro). In other words, less than 10 per cent of the forest damage of Lothar was covered by public funding. There are several strategies for this dialogue:

[1] Picard et a. (2002); figures refer to the total forest area.
[2] Private ownerships control larger forests areas on average, so that 45 % of the forest area in Germany is privately controlled compared to 55% under public ownership.
[3] Importantly, non-commercial private owners (e.g. small and medium farmers) depict a similar disinterest in the economic outcome of their forestry activities; cp. Holthausen (2004), p. 428.

encourage public owners to take out insurance by denying state relief altogehter (less promising strategy), increasing state relief conditional upon good forestry practices (promising strategy to stimulate the prevention of storm damages), or making windstorm insurance mandatory - a controversial but potentially very powerful strategy (as can be seen in some Swiss Kantons, e.g. Basel-Land[4]). Key for success will in any case be to address the specific needs and perceptions of the group of public forest owners. Intermediaries such as banks and institutional investors can play an important role in this dialogue. The high density of storm coverage in the South East of the United States (> 90%, specifically in North and South Carolina) is driven by forest investors such as the Wachovia bank, the largest investment bank in the U.S., who are asking for comprehensive forest insurance to secure their interest.

Consequential loss due to the interruption of power supply is becoming an increasingly important category of storm damages. In the last few years, we experienced unprecedented power cuts in Europe following extreme weather events:

- 90.000 households in the Munsterland region (in North-Rhine Westfalia) were cut off from power supply for several days after heavy snow fall in 2005,
- Sweden's 'historical power failure', lasting for several weeks in some areas, happend as a result of storm Erwin (Gudrun) in 2005,
- the three hours-collapse of the total power supply in Italy (affecting 57 million households) happend in 2003 when a falling tree limb disabled a Swiss power transmission line.

This series of events is partly due to the ever increasing severity of storms in Europe (eventually caused by climate change), but it is clearly also caused by an increasing vulnerability of the grid infrastructure – following new regulatory pressures on grid owners to economise their capacity usage and investment. In fact, many grid companies in Europe have recently withdrawn excess capacity to offer lower tariffs, while investment in new transmission facilities has decreased. This occurs in front of a constantly growing 'electricity hunger' in Europe. As a joint consequence we face an ever increasing risk of power cuts across Europe - irrespective of the very divergent grid ownership structures we find in different European countries. In our 2003 meeting, the EnBW representative Thomas Hiller

[4] Cp. Holthausen (2004),

took pride in saying: “South-Western Germany got off lightly with (Hurricane) Lothar. 540,000 customers were affected by power cuts; 95% of these customers had power again within 24 hours. The key: redanduncy in various electricity areas.”[5] I am not so sure if he would repeat this statement as an outlook today, given the recent developments in this sector. My point is: Facing an increasing risk of power cuts due to severe storms in Europe, we will see increasing consequential losses in the affected businesses. This economic loss is currently excluded from business insurance (under the force-majeur-clause). Only few suppliers offer special contracts for that purpose. We, therefore, need another organized dialogue – this time with the power industry (i.e. power suppliers and grid owners), business insurers and the European Commission to define a balanced strategy of managing storm risks, decreasing the vulnerability of the sector, sharing the loss of affected sectors, and achieving the Lisbon goals of increasing competition in the sector. The recent Green Paper on Energy Security (EU Commission 2006) is not sufficiently addressing this risk of intertwined natural, economic and insurance risks.

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[5] DKKV (2003), p.4.