



The storm surge has uncovered major gaps in the insurance coverage

The storm surge in October has brought a number of issues with the storm surge scheme to the surface – and left many policyholders without coverage for their losses.

By Martin Wex

Three thousand claims and damages totalling more than DKK 1 billion. According to the Danish Natural Hazards Council, this is the preliminary result of the storm surge that hit Denmark on 20 October. The damage was mainly to buildings along the south- and east-facing coasts, where the storm caused the water level to rise several metres above normal and caused major flooding in coastal areas.

Water damage caused by high water levels and flooding is not normally covered by the company's own insurance policies, but when the Danish Natural Hazards Council declares that it is a storm surge, damage to buildings and movable property may be covered by the national storm surge scheme.

The scheme provides compensation for direct losses in Denmark if two conditions are met:

- The damage is caused by storm surge or flooding from rivers and lakes
- The company has taken out fire insurance in Denmark

No cover for indirect losses

However, the storm surge in October has brought some unpleasant truths to the surface, as – to the surprise of many policyholders – not all losses are covered by the scheme.

»Since the storm surge in October, many policyholders have unfortunately had to realise that the storm surge scheme only covers direct losses. In most cases, companies can therefore receive compensation for damage to buildings and inventory, but there is no compensation for indirect losses such as operating losses and staff costs,« says Chief Broking Officer Jesper Danvad from WTW.

This can have major financial consequences for the shop owner who has to close shop and for the manufacturing company that has a production line that is at a standstill due to the storm surge.

Not all subsidiaries are covered

International companies with a subsidiary in Denmark are particularly vulnerable and, in the worst-case scenario, risk being left without insurance cover in the event of a storm surge. Only companies that have taken out fire insurance in Denmark and contribute DKK 30 per year to the storm surge pool can receive compensation through the storm surge scheme.

»Foreign companies that have chosen a global insurance solution without a local Danish policy are at a particular disadvantage in the event of a storm surge, as the storm surge scheme only provides coverage if the company has a Danish fire insurance and pays an annual fee to the national pool. The foreign

company therefore only receives coverage for its storm surge damage in Denmark if the company's global insurance programme has been extended to include coverage for storm surge, which is far from always the case,« says Jesper Danvad.

An uncertain future

The storm surge in October was a so-called 100-year event in several of the exposed areas because it was so severe and so rare that it only occurs every 100 years. However, the question is if another 100 years will pass until it happens again, or whether climate change is making natural disasters more common in Denmark.

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Jesper Danvad | Chief Broking Officer

»We are looking at a whole new insurance market if flooding – whether due to storm surges or cloudbursts – becomes the new normal in Denmark. If what we currently characterise as extreme weather becomes normal, the entire insurance equation will change. This will have major consequences in exposed areas, where commercial property will either become very expensive to insure or completely uninsurable because the risk of damage is simply too great,« says Jesper Danvad.

He therefore also believes that companies should take a closer look at what they can do to reduce the risk of damage.

»Those who have had water on the shop floor or in the factory hall will know that they need to take

prevention seriously and that they must do everything they can to prevent it from happening again – for example, by establishing dikes. Alternatively, they may have to consider moving elsewhere. At the same time, those who are about to build new buildings will probably think twice before choosing to locate their property or factory close to the coast,« says Jesper Danvad.

WTW has developed an advanced climate model, Global Peril Diagnostic, which can provide answers to how vulnerable a particular area is to being hit by a natural disaster. This can help Danish companies plan where in Denmark – and where in the world – they can best locate their buildings and production facilities.

The storm surge scheme

- Storm surge is the term for a flood that occurs due to extremely high sea levels and occurs less frequently than every 20 years.
- The Danish Natural Hazards Council (formerly the Danish Storm Council) decides whether the storm qualifies as a storm surge after opinions from the Danish Meteorological Institute and the Danish Coastal Directorate.
- Private individuals and companies that take out insurance against fire for movable or immovable property pay an annual fee of DKK 40 to the state. DKK 10 goes to the windfall pool, and DKK 30 to the storm surge, flood and drought pool.
- All damages covered by the flood scheme are covered with a 14 percent deductible – and a DKK 14,000 excluding VAT minimum.