

Minister of State Jennifer Carroll MacNeill
Opening Address – Oireachtas Joint Committee on
Public Petitions and the Ombudsmen
Insurance for Thatched Properties
Thursday, 16 November 2023
c. 10 Minutes

Introduction

A Cathaoirleach and Members of the Committee, I would like to thank you for the invitation to join you here today and for the opportunity to speak on this important – and complex – issue.

We all share a common interest, in ensuring that thatch property owners are treated fairly and can access insurance at an affordable price.

However, rather than a “silver bullet” that can quickly assist us in this regard, the appropriate response is multi-faceted that will require both time and buy-in from everyone involved – insurers, the government and thatch property owners themselves.

Solvency II

I understand that there have been discussions in this Committee as to the role the Solvency II Directive¹ plays in the insurance industry and in turn what Government can do to assist in plugging insurance “gaps”.

As Members are aware, Solvency II is an EU level framework has been in place since 2016 and contains provisions, including: minimum capital; supervisory; and reporting requirements that apply to almost all insurers and reinsurers across the EU.

¹ Directive 2009/138/EC

Essentially, this Directive helps ensure that insurance firms are run in a prudent, solvent manner and can meet policy holder liabilities as they fall due.

More specifically, Article 21 of Solvency II states that Member States *"shall not require the prior approval or systematic notification of general and special policy conditions, of scales of premiums, of the technical bases, used in particular for calculating scales of premiums and technical provisions, or of forms or other printed documents which an undertaking intends to use in its dealings"*. This, essentially, means that Governments cannot set the prices or the terms at which insurers can offer cover.

I note the correspondence received by the Committee from the European Commission through the European Ombudsman. It notes that "insurers are expected to require a level of premiums that is commensurate to the risk they accept and the level of uncertainty for the insurer".

Accordingly, this means that insurers may need to charge, according to the Commission, "high insurance premiums, which in some circumstances could also be considered unaffordable".

While on its face this appears unfair to affected policyholders, we must bear in mind that it is in all of our interests as consumers that the insurers we purchase products that are sufficiently financial backing in order to be able to pay out on claims that arise.

Therefore, the question needs to be raised if it would be irresponsible for firms to deliberately price premiums lower than the risk that they represent, as that would be unsustainable as a business model?

Thatch Properties' Riskiness

Thatch properties are a continuing "pinch point" that the Office to Promote Competition in the Insurance Market has been examining for some time now.

Such properties experience a number of issues that make them more difficult to insure than non-thatch, or “conventional”, ones. Minister of State Noonan will speak more on this, but the biggest issue is a much higher risk of fire.

Department of Finance officials have been informed by the industry that for insurance providers, thatch is too risky for many to take on.

As reported to this Committee last year, the Department of Housing, Local Government and Heritage estimates there are around 2,000 thatch properties in the State. Its *Report on Insurance and Fire Safety in Thatch Properties*, published last November, indicated that there were 72 fires in thatch properties in the previous five years. This is a rate of fire much higher than with conventional properties.

As a consequence, many insurers have experienced large losses and are reluctant to re-enter the market, leading to a lack of competition. Those who remain in the market generally either impose strict exclusions as part of their policies or charge high premiums to reflect the risk involved in covering a thatched building.

Nevertheless, there are ways in which the market can be improved in order to work more fairly for both insurers and consumers.

European Commission Correspondence

In that regard, the correspondence received from the European Commission reference to certain “interventions” in the market is worth considering.

There are three broad options that are often suggested when dealing with insurance “pinch points” – and it should be noted that these are not limited to thatched properties.

The correspondence notes them briefly, but it is important that we appropriately consider the impact that each may have.

The first option considered is that of **mandatory insurance**.

As the letter notes, this is allowed under Article 179 of Solvency II, and indeed mandatory insurance products vary across Member States.

In Ireland, there are four such mandatory insurance products, all for various forms of transport – drivers (*motor insurance*), aircraft, light rail vehicles (*Luas trams*) and ships.

However, in other countries across the EU the scope can be wider. Nevertheless, as the letter notes, where an insurance is made mandatory, it is done so “as part of a broader set of actions that, taken together, were intended to improve the effectiveness of their national insurance market”.

Therefore, making insurance mandatory for thatch owners in itself would not improve the situation as we would not be addressing the root cause of the issue, which is the riskiness of the properties due to fire hazards.

It would also not mean that the price of cover will simply reduce, as the thatch property market is very small and cannot benefit from economies of scale in the same way motor insurance can. In addition, if we make thatch insurance mandatory, then we also need to legally enforce that requirement.

The second option mentioned in the letter is that of a **public-private partnership**, such as in the form of a State insurance company.

While this may sound like an easy, attractive option, it is not. Any such solution will be required to abide by the *Solvency II* rules. This would require a substantial input of capital – most likely funded from the Exchequer – as well as appropriate expertise in the form of staffing to ensure compliance with the Solvency II rules.

Most importantly, such a venture would not be able to provide cover at below-market rates without flagrantly breaching prudential requirements.

Another unforeseen impact could be to **reduce** competition in the market, as existing insurers may decide to stop writing business in “trickier” lines if the State becomes seen as the ‘insurer of last resort’.

The danger is they will have no incentive to write business for difficult sectors if the State provides it regardless of risk. This is precisely the opposite of what we in Government are trying to achieve, in encouraging competition and new entrants into the Irish market, bringing down prices and widening product choice for all consumers.

The third and final option discussed in the letter is that of **introducing into law provisions to require insurers to cover certain risks**.

Again, this sounds like an easy, attractive – and some might say, obvious – solution to what is a very complex problem. The letter notes, however, that any such measure would need to abide by state aid rules, *Solvency II* rules, and other EU laws and rules.

Therefore, we can introduce a requirement for insurers to offer insurance for thatched properties, but the price will still need to reflect the risk, meaning that there would be no noticeable savings.

Furthermore, insurers may become alarmed by such a move – fearing the “slippery slope” – and pull out of segments of, if not the entire market, thus reducing competition in the sector.

As a wholly unintended consequence, if forced to provide cover for one part of the market, underwriters may simply compensate by withdrawing from another. This does nothing to further our common goal of ensuring a stable and consistent insurance market for all consumers.

Given the niche nature of thatched properties – there are around 2,000 nationwide – it is impossible for solutions like the three just outlined to work.

For instance, we can make motor insurance mandatory as there are over 2.9 million² vehicles on the roads, meaning there are greater economies of scale to offer efficiencies and lower prices.

The wider number of insurers in that market for motor insurance means that other solutions such as the Declined Cases Agreement can be formed and work well than they could for smaller, more unique types of insurance such as that for thatched properties – which are much more complex to classify and insure than their “conventional” counterparts.

It is for this reason that the solution lies not in interfering with the insurance market, but by improving safety standards in thatched properties to align them with “conventional” properties with slate and similar-style roofs.

We have seen improved insurance outcomes for several other groups through better use of such mitigation and improved health and safety standards, such as in **childcare, play centres, equestrian activities and for ice skating**. This is the more sustainable role for Government to play.

If thatched property owners can work with Government to improve their properties by ensuring they are in line with the recently published fire standards, I expect that the insurance industry will acknowledge this and treat thatched homes as they would any other property.

Homeowners and insurers need to work together on this, and exchange of data in this regard is necessary.

In this, the Department of Finance is willing to assist in any way it can.

However – and I have emphasised this before – it is important that any proposals contain specific, realistic solutions and not simply generalities. Broad-brush suggestions do not help anyone.

² <https://www.gov.ie/pdf/?file=https://assets.gov.ie/262816/9d7a6354-2599-47f4-b4f4-ad6345ccd297.pdf#page=null>

Developments since Last Committee Attendance

Based on the *Report on Insurance and Fire Safety* data, it is understandable that many insurers – who are subject to strict prudential requirements – are hesitant to take on such elevated risks.

In order to ensure that they are able to be insured on a sustainably, we must work together to reduce the risk of fire in thatched properties. Prevention is better than the cure, and it is important from a heritage perspective that we work to maintain the thatched housing stock we currently have, as in many cases

I am aware that following a fire a thatch property will simply be re-roofed with slate or similar materials. This is not just an insurance issue, but a wider safety and heritage issue.

In that regard, the Department of Housing, Local Government and Heritage has recently published new fire safety guidelines for thatched properties which should assist owners of thatched properties to identify and remedy risks.

However, I will let Minister of State Noonan speak more on this and on the work of his Department in relation to thatched properties in greater detail.

Conclusion

To conclude, I would again like to note that Government is interested in workable solutions that are considered and fair for all sides involved.

In that regard, I again wish to emphasise how important it is that Government, homeowners and the insurance industry come together to ensure that fire safety is improved for thatched properties in order to reduce the riskiness of the sector.

The spin-off effect of this should not only be a better insurance market, but safer properties for owners and recognition of the value such buildings have for our collective heritage.

While interventions in the market – including those that are theoretically “allowed” by Solvency II – may sound promising on paper, they often fail to take into account wider considerations and could have many adverse impacts.

Indeed, this is why, as the letter from the Commission notes, such measures are introduced as part of a broader set of actions.

In our case, the most effective action will be the implementation of fire safety measures and reducing the risk fire poses to thatched buildings. That is why this remains the priority for Government.

Thank you for your time.

I am happy to take any questions that members of the Committee may have.