

Schadevoorziening bij brand- en bouwveiligheid



seo economisch onderzoek

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Schadevoorziening bij brand- en bouwveiligheid

Een evenwichtig systeem?

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“De wetenschap dat het goed is”

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Summary

This report concerns the distribution of liability for damages between citizens, businesses and the government, opportunities for insurance, and incentives for the prevention of damage within the realm of fire and building safety. The main questions of this study were: which parties pay for the damage of construction and fire accidents, and what incentives does the distribution of damages give: incentives to prevent damage, incentives to minimize the consequences of damage, and incentives to cover for damages. More specifically, the question was whether the current system can be improved upon.

Damage provision in the Netherlands

The analyses in this report do not suggest that there are many or large obstacles to a balanced provision of damages. Therefore, no revolutionary improvements are suggested.

Damage and liability insurance for companies

The analysis indicates a possible low spread and insured sum for damage (i.e. first party) and liability (i.e. third party) insurance for companies. A limitation on the supply side of liability insurance (a limited insured sum offered) may play a role here.

A question is whether companies are sufficiently aware of the risks of bankruptcy by business interruption and because of liability for damage to third parties. If this is not the case, improved provision of information may increase awareness. A role for the government in this respect would seem to be more appropriate regarding liability insurance than for damage insurance. This is due to the fact that decisions with regard to liability can have consequences for third parties.

A mandatory liability insurance for businesses would be a far-reaching government instrument. Possible introduction of this would first require a thorough analysis of whether or not supply constraints occur in the insurance market. An obligation would not resolve any existing supply constraints and would in that case not be effective.

Benefits of compulsory liability insurance are related to the extent to which companies take suboptimal liability insurance decisions for themselves and because of the consequences for third parties. The further away current decisions are from a (social) optimum, the greater the benefits of an obligation can be. The other way around, the costs of compulsory liability insurance are (positively) related to the extent to which decisions are already optimal and (negatively) to the extent to which this taken into account in the design of the obligation.

Prevention

Insurance affects the parties responsible for paying for the damage of construction and fire accidents. One step before that is the extent to which the damage occurs. This depends on preventive behavior and hence of the (perceived) costs and benefits of prevention. These are affected by laws and regulations relating to fire and building safety, the monitoring of compliance and the consequences of non-compliance. A complete analysis requires insight into the extent to

which current prevention decisions and laws and regulations and monitoring of compliance are in accordance with the individual and social optimum. This report finds no evidence of wrong incentives related to prevention, but also does not rule out that there may be a lack of incentives, for example in the form of (lack of stimulation) of private fire prevention measures or (too little) monitoring of compliance with laws and regulations by companies.

Availability of data

Drawing up conclusions in this report is limited by a lack of data. Some findings in this report are therefore necessarily formulated conditionally.

Estimating the importance of damage caused by fire and by construction accidents requires data on the frequency and extent of such damages over the years. To better indicate the degree of insurance requires more comprehensive data on the penetration rate and the insured sum for damage and liability insurance for companies. To say more about the relationship between insurance premium and risk reduction, more data is needed on premium levels and policy excess in combination with the degree of risk. Further statements about the extent to which the current prevention is socially optimal require more information about preventive behavior and the costs and benefits of additional preventive measures. The extent to which companies underestimate the benefits of damage insurance and liability insurance requires information on the frequency of damages, the extent of claims, the insurance premiums, the deductibles and the solvency of companies. To what extent prevention and insurance are sub-optimal depends amongst others on the degree of external effects (effects on others), for which it is necessary to know the specific volume of (residual) damage. Theoretical analyses often state that incentives depend on specific markets, circumstances and preferences. Inferences about the effect of incentives are hampered by lack of data on these subjects.

Suggestions for further research

In addition to data generation (see above), we have the following suggestions for further research.

Supply side of insurance

Further research could focus on whether there are actually supply constraints encountered in liability insurance of companies. Would companies want to choose a higher insured sum, without that being provided by the market? If there is indeed a limit, the next question is what the reason for that limit is (a lack of capacity in the insurance market?) and how that restriction can be removed.

Demand side of insurance

Research could address the risk assessment of companies and the extent to which it corresponds to the actual occurrence of damage, with particular attention to the risk of bankruptcy because a company is out-of-business during damage events, and because of the risk of liability for damages to third parties. The more the risk assessment differs from reality, the greater the potential importance of promoting risk awareness. In addition, quantitative assessment of the extent to which third parties are left with damage - because companies lack insurance - may shed more light on whether a mandatory liability insurance can be a social improvement.

Prevention

A world without incidents is a fiction. But are the current behavior of individuals and businesses in order to prevent incidents and the measures to reduce the consequences of incidents sufficiently close to what is socially optimal? This requires research into the current behavior and current measures, the cost of preventive behavior and the benefits in terms of reduced damage. This may shed more light on the usefulness of additional laws and regulations, more monitoring of compliance, increased punishment for non-compliance, provision of information, and encouraging preventive measures.

