

ITALIAN COMPULSORY NAT CAT SCHEME

ON FEBRUARY 27, 2025, THE DECREE NO. 18/2025, WAS PUBLISHED IN THE OFFICIAL GAZETTE - CONTAINING THE REGULATION ON THE OPERATIONAL AND IMPLEMENTATION PROCEDURES FOR CATASTROPHIC RISK INSURANCE SCHEMES.

7th March 2025

On February 27, 2025, the Decree no. 18 dated January 30, 2025, was published in the Official Gazette - containing the Regulation on the operational and implementation procedures for catastrophic risk insurance schemes under Article 1, paragraph 105, of Law No. 213 of December 30, 2023.

The deadline for companies to comply is set for **March 31, 2025**, with no further extensions.

Enterprises registered in the Italian Businesses Register (*Registro delle Imprese*) must purchase a policy covering earthquake, floods and landslides. The State will consider the fulfillment of such obligation when granting contributions and subsidies to the enterprises, including those contributions following a Nat Cat event.

Subject of the Regulation

The Regulation governs:

- a) the procedures for identifying catastrophic and calamity events;
- b) the procedures for determining and periodically adjusting premiums, also taking into account the principle of mutuality;
- c) the limits on the risk assumption capacity of insurance companies;
- d) the updating of deductible and excess values in policies;
- e) the coordination procedures regarding regulatory and prudential supervisory acts under the competence of IVASS (Italian Insurance Supervisory Authority).

Which catastrophic events must be insured?

According to Article 3 of the mentioned Regulation, catastrophic events are the following:

- a) **Flood, inundation, and overflow:** water runoff, including the transportation or mobilization of sediments, even with high density, from the usual banks of rivers, natural or artificial basins, embankments of natural and artificial rivers, lakes and basins, even temporary, or artificial drainage systems, resulting from natural weather events. The continuation of these phenomena within seventy-two hours from the first manifestation is considered as a single event.
- b) **Earthquake:** sudden and rapid movement of the Earth's crust due to endogenous causes, provided that the insured assets are located in an area identified among those affected by the earthquake in measures taken by the competent authorities, as localized by the National Seismic Network of the National Institute of Geophysics and Volcanology (INGV) with respect to the earthquake's epicenter. The tremors recorded within seventy-two hours after the first event leading to the claim are attributed to the same event, and the related damage is considered as a single claim.
- c) **Landslide:** the rapid movement, sliding, or detachment of rock, debris, or soil along a slope or a whole elevation under the action of gravity, or the collapse of land and rocks, even without water infiltration. The continuation of these phenomena within seventy-two hours from the first manifestation is considered as a single event.

Who must insure themselves?

All companies with their legal headquarters in Italy and companies with their legal headquarters abroad that have a permanent establishment in Italy, required to register in the Company Register under Article 2188 of the Civil Code, except for agricultural businesses.

What happens if private companies do not insure themselves and if insurance companies do not provide coverage?

The Regulation adds nothing new regarding what is already established by Financial Law No. 213/2023, which states that "*failure to comply with the insurance obligation by companies [...] must be taken into account in the allocation of contributions, subsidies, or financial benefits from public resources, also with reference to those provided in the case of catastrophic and calamity events.*" Essentially, according to this article, private companies will be excluded from any public

compensation, not just for natural disasters. As for non-compliant insurance companies, the law provides that, if a violation or circumvention of the obligation to contract is detected, even during renewal, IVASS will impose significant administrative and financial penalties.

What assets must be insured?

It covers damage to land, buildings, machinery, and industrial or commercial equipment recorded in financial statements. The insurance obligation does not apply to goods, stocks and office equipment.

Deductibles and limits of indemnity

The deductible cannot be more than 15 % of the compensation sum.

insurance policies may provide for the application of maximum compensation limits or limits of indemnity which, if agreed between the parties, correspond to the following principles:

- For the sum insured up to EUR 1 million, an indemnity limit corresponding to the sum insured applies.
- For the sum insured between EUR 1 million and EUR 30 million, a compensation limit of at least 70 % of the sum insured applies.
- Notwithstanding the obligation to insure, the determination of maximum compensation limits or compensation limits for sums insured in excess of EUR 30 million or for “large companies” is left to free negotiation between the parties.

In any case, cover shall be provided for land in the form of “first loss insurance” up to the agreed maximum indemnity amount or indemnity limit, which shall be determined in proportion to the area of the insured land.

How is the premium calculated?

According to the new Article 4 of the Regulation, the premium is determined in proportion to the risk, also considering the location of the risk in the territory and the vulnerability of the insured assets, based on available historical data, hazard or risk maps of the territory, and scientific literature on the subject. If applicable, predictive models should be adopted that properly consider the evolution over time of the probability of occurrence of events and the vulnerability of the insured assets. For determining the premium, the possible adoption of measures by the insured company to mitigate the catastrophic event must also be considered.

Is everything clear?

Not really. This is the first time Italy has introduced a mandatory contracting requirement for damage caused by natural disasters, unlike other European countries. The new regulations introduce many changes that affect various areas of the insurance market, leaving the resolution of several practical issues to be addressed through practice. For example, the new regulation does not specify particular documents to refer to regarding the hazard and territoriality of the area needed to determine the premium, instead generically referring to the sector’s literature.

In short, the final conclusions can only be drawn over time, and for now, we just have to wait.

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AVV. GIORGIO GRASSO
g.grasso@btglegal.it

AVV. ESMERALDA FEDELE
e.fedele@btglegal.it

www.btglegal.it
www.globalinsurancelaw.com