

Natural Catastrophe Insurance in Iceland

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By professor Eiríkur Jónsson and part-time lecturer Ivana Anna Nikolic– University of Iceland¹

Under Act No. 55/1992 the Natural Catastrophe Insurance of Iceland provides a natural catastrophe insurance. This is an unusual insurance, inter alia because it is operated by a public institution and its terms are primarily regulated by law and regulation rather than an insurance contract. This paper provides a comprehensive overview of the insurance and the public institution that operates it. It outlines the insurance's background and history, as well as its contents and interplay with general rules. The paper further describes the assets insured and the insured risks. Moreover, it explains the process of claiming and the rules on assessment of damage. This includes a description of a number of decisions rendered by the Natural Catastrophe Insurance Appeals Committee, together with judgments from the Icelandic courts. Additionally, it discusses the recent and ongoing natural disasters near the town Grindavík and examines how these natural disasters fit within the framework of the natural disaster insurance system established in Iceland, as well as measures that authorities deemed necessary in response to these natural disasters, who have been characterized as the greatest challenges related to natural disasters ever faced in Iceland. Lastly, the paper highlights certain issues that could potentially be improved within the field of natural catastrophe insurance.

*This article is primarily based on Eiríkur Jónsson's article on natural catastrophe insurance, which was published in the journal *Tímarit lögfræðinga* in Iceland in 2021 and later used in his co-authored book with Viðar Már Matthíasson, research professor and former Supreme Court judge, *Bótaréttur IV*. The article is used here with Viðar Már's consent.*

1. Introduction

Under Act No. 55/1992 the Natural Catastrophe Insurance of Iceland provides a natural catastrophe insurance. The insurance is a mandatory property insurance and is to some extent subject to general rules of insurance law. However, the insurance is unusual, inter alia, because it is operated by a public institution and its terms are primarily regulated by law and regulations rather than insurance terms. The reason for this is primarily because the insurance is for events that are excluded from insurance on the general insurance market but are so common and serious that it has been considered important to have insurance for them. This was among the things stated in the bill that became the current law on this matter:

“This is based on the premise that it is desirable for the [institution] to continue insuring properties that are difficult or impractical to insure in the general insurance market yet are so vital that their damage without insurance from significant natural disasters could pose a national risk.”³

This paper provides a comprehensive overview of the insurance and the public institution that operates it, based on the Act on Natural Catastrophe Insurance of Iceland No. 55/1992 (hereinafter referred to as the Natural Catastrophe Insurance Act) and the Regulation on Natural Catastrophe Insurance of Iceland No. 770/2023 (hereinafter referred to as the Regulation on Natural Catastrophe Insurance), which recently repealed and replaced the identically

titled Regulation No 700/2019. The Natural Catastrophe Insurance Act and the Regulation on Natural Catastrophe Insurance provide a framework for the institution, the insurance and its content, but in other respects, the Act on Insurance Contracts No. 30/2004 (hereinafter often referred to as the Insurance Contracts Act), applies, cf. Article 25 of the Natural Catastrophe Insurance Act.

The paper outlines the background and history of the insurance, as well as its nature and interplay with general rules. The paper further describes the assets insured and the insured risk. Moreover, it explains the process of claiming compensation and the rules on assessment of damage. Additionally, it will discuss the recent and ongoing natural disasters near the town Grindavík, that started in 2023, and examine how these natural disasters fit within the framework of the natural disaster insurance system established in Iceland under the Natural Catastrophe Insurance Act, as well as the measures that authorities deemed necessary in response to these natural disasters which have been characterized as the greatest challenges related to natural disasters that has been faced in Iceland.⁴ Finally, the paper will summarize key points and perspectives.

2. The background and history of the insurance

Due to the volcanic eruption in Heimaey in the year 1973, a so-called Relief Fund was established, which compensated for damage caused by the eruption. Later, it was also tasked with compensating for damage caused by a deadly avalanche in the town

¹ Eiríkur Jónsson is also a Judge at the Icelandic Court of Appeals, and Ivana Anna Nikolic is also a Judicial Law Clerk at the Icelandic Court of Appeals.

² See, among others, Eiríkur Jónsson and Viðar Már Matthíasson: *Bótaréttur II*. Reykjavík 2015, pp. 249–250.

³ Alþingi Parliamentary Records 1991–1992, Section A, p. 1315. In the explanatory notes accompanying the bill that became amendment act No. 46/2018, it was stated, among other things, that the purpose of catastrophe insurance was “to safeguard the foundational pillars of society in the event of natural disasters, so that residential housing and business activities can be rebuilt”. Alþingi Parliamentary Records 2017–2018, Section A, parliamentary document 538 – case 388.

⁴ The research underpinning this primarily focused on statutory law, data from Alþingi related to legislation, court precedents and administrative practices. Additionally, other sources deemed having relevance were considered, such as Opinions of the Parliamentary Ombudsman of Iceland, existing academic writings, and the terms of Icelandic insurance companies. Based on this data and the legal method, an effort is made here to describe what constitutes applicable law in the area under discussion.

Neskaupsstaður in December 1974. With Act No. 62/1975, a compulsory insurance was established for volcanic eruptions, earthquakes, landslides, avalanches and floods, and the Icelandic Catastrophe Fund took over the assets and liabilities of the Relief Fund. Significant amendments were made to the Act in 1982, cf. Act No. 50/1982, which included, among other things, that the insurance obligation was extended to cover more assets than before.

In 1992, the current law was enacted and was called the Icelandic Catastrophe Fund Act No. 55/1992. It was amended by Act No. 46/2018, which changed, among other things, the name of the institution and the laws to its current form. In addition, it simplified the administration. According to Articles 1, 4 and 5 of the Act, the role of the institution is to insure specific assets against damage caused by specific natural disasters. Over the years, it has compensated for damage caused by various types of natural disasters. One of the most significant insurance events in its history is the earthquake in the South of Iceland on May 29, 2008. In total, the payments due to the event, extrapolated using the building index to the end of 2019, amount to 16 billion Icelandic krona (ISK). Examples of other recent insurance events include flooding in Hvanneyrará near the town Siglufjörður in August 2015 and landslides in the town Seyðisfjörður in December 2020. The latter resulted in the greatest loss covered by the insurance since the 2008 earthquake in the South of Iceland. The most recent, and also the largest event to date since the earthquake in South of Iceland, is the natural disasters, mainly earthquakes and volcanic eruptions, near the town Grindavík in 2023, during which thousands of people had to evacuate their homes, many of which sustained damage. These events will be discussed in detail in Chapter 7.

3. The nature of the insurance

As previously mentioned, the natural catastrophe insurance is intended to cover losses that are excluded in insurance policies on the general market, where insurance companies exempt themselves from liability for damage caused by natural disasters. In that way, natural catastrophe insurance steps in where other insurance policies leave off. Regarding the distinction between these insurances, the following court ruling can be noted:

Judgment of the Court of Appeal of Iceland from November 8, 2019, in case no. 161/2019. A, along with his companion, was backcountry skiing on the slopes of Eyrarfjall mountain above the Municipality of Ísafjörður in Skutulsfjörður. When they were nearly at the top of the slope, an avalanche occurred, causing A both bodily injury and property damage. He claimed compensation from an accident insurance and household insurance provided by the insurance company Sjóvá-Almennar tryggingar hf. (S). S denied liability, referring to an exclusion clause in the insurance terms, which stated that the company does not cover damage caused by avalanches and that damages resulting from natural disasters are

covered by the Icelandic Catastrophe Fund. A then directed his property damage claim to the Icelandic Catastrophe Fund, but the institution rejected the claim on the grounds that the avalanche was triggered by human activity and did not qualify as a natural disaster. A filed a lawsuit against S, seeking recognition of his right to compensation under the insurance policies. In the case, an expert opinion from an avalanche risk manager at the monitoring and forecasting division of the Icelandic Met Office was obtained, which argued that it was highly unlikely that the avalanche was triggered by natural causes. It was concluded that the primary cause of the avalanche was the presence and movement of A and his companion, and therefore, it could not be classified as a natural disaster under the terms of the insurance.

As previously mentioned, the Natural Catastrophe Insurance Act is based on the premise that it is necessary to have property insurance against natural disasters, which insurance companies do not provide. The legislature has therefore established a system prescribed by law, that deviates in several respects from what generally applies to insurance. This has been described in legal commentary as a “combination of traditional non-life insurance and welfare insurance”. What primarily distinguishes catastrophe insurance from general market insurance is the following:

It is a statutory compulsory insurance, meaning that it is mandated by law for owners of certain specified assets to insure them in accordance with the rules of the Natural Catastrophe Insurance Act and the Regulation on Natural Catastrophe Insurance. Premiums for the insurance are generally collected alongside fire insurance premiums.

A public institution, the Natural Catastrophe Insurance of Iceland (here after referred to as NTÍ, also in instances where it is referenced prior to the enactment of Act No. 46/2018 when the name of the institution was slightly different), is responsible for managing the insurance. This entails, among other things, that the rules of administrative law apply to the handling of cases by the institution, which conclude in administrative decisions. Following the changes introduced by Act No. 46/2018, it is explicitly stated in paragraph 1 of Article 19 of the Natural Catastrophe Insurance Act that NTÍ must make decisions “in accordance with the provisions of the Administrative Procedures Act when handling cases”. Additionally, the institution’s decisions can be appealed to a special administrative committee, the Natural Catastrophe Insurance Appeals Committee (hereafter referred to as ÚNTÍ, also when referenced prior to the enactment of Act No. 46/2018, when the name of the committee was slightly different). The special role and nature of the institution, compared to insurance companies, are reflected, among other things, in Articles 20 and 21 of the Natural Catastrophe Insurance Act, which grant the institution’s board authority to borrow

5 Alþingi Parliamentary Records 1991–1992, Section A, pp. 1312–1313, and the website of the Icelandic Catastrophe Insurance, www.nti.is.

6 Natural Catastrophe Insurance of Iceland: *Annual Report 2019*. Reykjavík 2020, p. 6.

7 Natural Catastrophe Insurance of Iceland: *Annual Report 2023*. Reykjavík 2024, p. 8.

8 Alþingi Parliamentary Records 2017–2018, Section A, parliamentary document 538 – case 388.

9 See, for example, Alþingi Parliamentary Records 1991–1992, Section A, p. 1313.

10 With the legislation, the appeals process was simplified, and the administrative levels were reduced from three to two. Previously, it was possible to appeal the institution’s decision to its board and then further to the appeals committee. However, the legislation removed the option to appeal to the board, leaving only two administrative levels—namely, NTÍ and ÚNTÍ. This simplification had previously been recommended by the National Audit Office, cf. *Icelandic Catastrophe Fund*. National Audit Office, Reykjavík 2013, p. 4.

with a state guarantee and provide funds for research and grants.¹¹ Despite the existence of this special institution, insurance companies in the market still have roles under the law. For example, according to Paragraph 3 of Article 11 of the Natural Catastrophe Insurance Act, they are required to collect premiums for NTÍ under Articles 23–24 of the Act.¹²

The premium is statutory and is not categorized by risk, meaning the amount of the premium does not depend on the assessed likelihood of a property being damaged by an incident covered by the Natural Catastrophe Insurance Act. Similarly, risk assessment does not determine what causes are insured; the insured risks are legally defined. The same applies to deductibles due to own risk and the minimum compensation amount. This deviates from the general principles of insurance, as it is a common feature of insurance definitions that the insurance company's risk assessment governs which causes (risks) the company chooses to insure against, under what terms, and how the premium is determined.

The right to compensation does not depend on the agreement between the insurer and the insured party but is instead governed by the Natural Catastrophe Insurance Act and its associated regulation.

On the other hand, catastrophe insurance shares a common feature with private insurance in that it requires the payment of a premium as a general prerequisite for the right to compensation. Additionally, general rules of insurance law are of considerable relevance to the insurance, as Article 25 of the Natural Catastrophe Insurance Act specifies that, unless otherwise provided by the law, the provisions of the Act on Insurance Contracts shall apply as appropriate. This means that the rules of insurance law applicable to non-life insurance, more specifically property insurance, apply unless otherwise stipulated by the Natural Catastrophe Insurance Act and the Regulation on Natural Catastrophe Insurance. There is, in fact, a close alignment between the rules governing catastrophe insurance and those that have applied to fire insurance. It can be said that the connections primarily lie in the following aspects:

Real estate and movable assets covered by fire insurance are automatically insured against natural disasters, provided that the fire insurance qualifies as property insurance, cf. Paragraph 1 of Article 5 of the Natural Catastrophe Insurance Act.

All property with fire insurance is also covered against natural disasters for the same amount as their fire insurance coverage, cf. Section 1 of Article 9 of the Natural Catastrophe Insurance Act.

Insurance companies that provide fire insurance for items covered under catastrophe insurance are, as previously stated, required to collect premiums for catastrophe insurance alongside fire insurance premiums, and both must have the same due date.

With Act No. 46/2018, similar rules on the repair and reconstruction obligations of the insured were established as have applied to fire insurance. These will be discussed in Chapter 6.6.

Finally, it should be noted that authorities other than NTÍ also play a role in addressing the impacts of natural disasters or preventing such events. For example, the Rescue Fund, under Article 8 of Act No. 49/2009, is tasked with providing financial assistance to individuals and organizations to compensate for significant direct damage caused by natural disasters. However, damages that are covered by general insurance protection or can be compensated through catastrophe insurance are not eligible for compensation, cf. Paragraph 2 of Article 8 of the Act. Additionally, the Landslide and Avalanche Fund, under the Act on Avalanche and Landslide Protection No. 49/1997, is tasked with allocating funds for measures to protect against such natural disasters. This paper does not delve further into these authorities but instead focuses on the protection provided by catastrophe insurance.¹⁴

4. Insured properties and insurance amounts

As previously mentioned, natural catastrophe insurance entails mandatory insurance for certain types of assets, which can be categorized into three groups.

Firstly, it is mandatory to insure all real estate properties that are fire-insured with an insurance company licensed to operate in the country, cf. Sub-paragraph 1, Paragraph 1, Article 5 of the Natural Catastrophe Insurance Act.

Secondly, it is mandatory to insure the following movable property, cf. Paragraph 1, Article 5 of the Natural Catastrophe Insurance Act and Article 4 of the Regulation on Natural Catastrophe Insurance:

- Movable property that is fire-insured, cf. Sub-paragraph 1, Paragraph 1, Article 5 of the Natural Catastrophe Insurance Act, and assets insured pursuant to Section 8, Paragraph 1, Article 20 of the Insurance Activities Act No. 100/2016.
- Movable property insured under a general composite insurance policy that includes fire insurance and falls under property insurance, cf. Section 5, Paragraph 2, Article 20 of Act No. 100/2016, cf. Sub-paragraph 2, Paragraph 1, Article 5 of the Natural Catastrophe Insurance Act. If the insurance covers household contents, items that do not belong to general household belongings must be specifically listed on the insurance certificate.
- Movable property specifically approved for insurance by the board of the Natural Catastrophe Insurance of Iceland, cf. Sub-

¹¹ For examples of such grant allocations, see, among others, the opinion of the Parliamentary Ombudsman of Iceland from December 17, 1999, in Case No. 2487/1998. Additionally, reference may be made to the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 19, 2017 in case no. 4/2015, where the complainant argued that an assessor should be disqualified in participating in the case due to receiving a grant for a doctoral project from the Icelandic Catastrophe Fund. This argument was rejected.

¹² See here also the obligation of insurance companies to seek the institution's approval in specific cases, cf. Article 7. It should be noted that this relationship between NTÍ and insurance companies raises certain questions that cannot be elaborated on further in this brief overview of catastrophe insurance.

¹³ It is stipulated in Section 2 of Article 9 that the minister shall, upon receiving proposals from NTÍ, establish rules regarding the determination of insurance amounts for other items.

¹⁴ Here, reference can be made to the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 16, 1996, in case no. 1/1996, where compensation for specific damages under the catastrophe insurance was denied. The appeals committee referred, among other things, to a legal provision regarding the Landslide and Avalanche Fund and noted that it specifically addressed circumstances somewhat comparable to those disputed in the case, but the Landslide and Avalanche Fund was intended to cover such costs.

paragraph 3, Paragraph 1, Article 5 of the Natural Catastrophe Insurance Act.

In this regard, Paragraph 2, Article 4, of the Regulation on Natural Catastrophe Insurance also states that the insurance covers damage that occurs at the insured location specified in the insurance certificate. However, the insurance may also cover damage to movable property that is temporarily located at the damage site, provided that it can be unequivocally demonstrated that the policy holder is the actual owner of said property. Compensation in this regard is limited to 15% of the insured amount as specified in the insurance certificate. Finally, Article 4, paragraph 3, states that it is not permitted to insure real estate, as defined in Article 3, Paragraph 1 of the Act on Registration and Valuation of Real Estate no. 6/2001, as movable property with the institution.

Thirdly, it is also mandatory to insure the following structures, even if they are not fire-insured, cf. Paragraph 2, Article 5 of the Natural Catastrophe Insurance Act:

- *Geothermal heating systems, water supply systems and sewage systems owned by municipalities or the state treasury.*
- *Harbor structures owned by municipalities or the state treasury.*
- *Bridges that are 50 meters or longer.*
- *Electricity structures, including distribution networks, dams, and water intake structures, owned by the government.*
- *Telephone and telecommunication facilities owned by the government.*
- *Ski lifts.*

Article 5 of the Regulation on Natural Catastrophe Insurance, in accordance with Paragraph 4, Article 5 of the Natural Catastrophe Insurance Act, further specifies which structures fall under this category.

It seems rare that disputes arise regarding whether a property is covered by natural catastrophe insurance or not. However, the following ruling may be noted:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 16, 2017, in case no. 2/2016. By the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from July 6, 2015, in case no. 2/2013, the board of the Natural Catastrophe Insurance of Iceland (NTÍ) was ordered to pay A full compensation, in accordance with the rules on total loss, for damage caused to a silage tower on his property in Ölfus. Subsequently, a dispute arose, regarding A's claim for damage to the silage stock stored in the tower. In the ruling of ÚNTÍ, it was stated that the alleged damage to the silage stock could not be considered direct damage stemming from the damage to the silage tower; and it was established that the silage stock had not been fire-insured movable property according to Article 5 of the Natural Catastrophe Insur-

ance Act. As a result, the liability of NTÍ did not extend to the alleged damage to the silage stock.

Regarding the insurance amount, Article 9 of the Natural Catastrophe Insurance Act specifies that, in the case of fire-insured property, it corresponds to the same amount as the fire insurance at any given time (assessed value for fire insurance). However, the insurance amount for those structures referred to in Paragraph 2, Article 5 of the Natural Catastrophe Insurance Act is based on the estimated replacement value (rebuilding cost), with an additional 10% for demolition costs of the reconstruction value, cf. further provisions¹⁵ in Article 7 of the Regulation on Natural Catastrophe Insurance.

The amounts of premiums are, as previously mentioned, regulated by law, cf. Article 11 of the Natural Catastrophe Insurance Act. There it is stated, among other things, that the premium for fire-insured real estate shall be 0.25% of the property's insurance amount, but it is not considered necessary to elaborate further on the premiums for the insurance. However, it is worth mentioning that, under Act No. 16/2024 concerning the purchase of residential housing in the town of Grindavík, which will be discussed in detail in Chapter 7, the Minister of Finance and Economic Affairs was granted authorization to allocate up to 15 billion ISK from the funds of the Natural Catastrophe Insurance of Iceland for the purchase of residential housing in Grindavík. This amounts to 25% of the institution's equity. The expenditures from the institution's funds are in addition to the compensation payments the fund¹⁶ is required to pay to claimants for insured property under the law.

The institution expressed concerns about this decision by the Parliament, stating that the aforementioned measure would significantly weaken the institution's financial capacity in the long term and leave it less prepared to respond to future natural disasters.

To address this issue, the institution's board has now been granted the authority to collect insurance premiums for properties under Paragraphs 1 and 2 of Article 5 of the Natural Catastrophe Insurance Act, with a surcharge of up to 50%, should net assets fall below 4% of estimated insured amounts at the end of the calendar year. This surcharge will remain in effect until the 4% threshold is reached, pursuant to a temporary provision in the Natural Catastrophe Insurance Act and Article 44 of Law No. 127/2024.

The deductible for the insured is also regulated by law, cf. Article 10 of the Natural Catastrophe Insurance Act. It states that the deductible shall be 2% of each damage but not lower than ISK 200,000 for movable property, ISK 400,000 for fire-insured real estate, and ISK 1,000,000 for structures insured pursuant to paragraph 2, Article 5 of the Act.²⁰ The deductible is further defined in Article 12 of the Regulation on Natural Catastrophe Insurance.

¹⁵ In Paragraph 3 of Article 5 of the Natural Catastrophe Insurance Act, it is stated that these properties may be insured elsewhere than with NTÍ.

¹⁶ Here, reference can also be made to discussion in the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 16, 2010 in case no. 1/2008* regarding whether the structures in question were considered insured properties, which they were.

¹⁷ It may be noted that Article 18 of the Catastrophe Insurance Act sets specific outer limits on NTÍ's total payment obligations, but there is no reason to elaborate on those rules in detail here.

¹⁸ Natural Catastrophe Insurance of Iceland: *Annual Report 2023*. Reykjavík 2024, pp. 6–7 and 10.

¹⁹ Natural Catastrophe Insurance of Iceland: *Annual Report 2023*. Reykjavík 2024, pp. 7 and 10.

²⁰ With Act No. 46/2018, the deductible was reduced from 5% to 2%, and the minimum compensation amounts were increased, for instance, from ISK 85,000 to ISK 400,000 for residential properties. This was intended to exclude minor damages from the insurance while simultaneously improving the position of those who suffered significant damages. See Alþingi Parliamentary Records 2017–2018, Section A, parliamentary document 538 – case 388. There, examples of events where compensation would have been higher if the amendments had been in effect are

5. Insured risks

According to Article 4 of the Natural Catastrophe Insurance Act, the Natural Catastrophe Insurance of Iceland shall insure against direct damage caused by the following natural disasters: Volcanic eruptions, earthquakes, landslides, snow avalanches, and floods. Furthermore, the Minister of Finance and Economic Affairs is tasked with defining in more detail through regulations what is covered by the article. This has been done by the Minister in Article 2 of the Regulation on Natural Catastrophe Insurance, which states as follows:

The natural catastrophe covered by natural catastrophe insurance, cf. Article 4 of Act No. 55/1992 on Natural Catastrophe Insurance, are as follows:

- *Volcanic eruptions, i.e., when lava, ash, or tephra causes damage or destruction to insured property. It is not covered by the insurance if ash has settled but is later carried by wind onto the insured property, causing damage or destruction. The same applies if ashfall does not directly cause damage but requires cleanup.*
- *Earthquakes that cause damage or destruction to insured property. When assessing liability, consideration shall be given to the magnitude of the earthquake, the distance of the insured property from its epicentre, the localized effects of geological layers, and any recorded peak ground acceleration values, if available. It is also permissible to consider whether general property damage occurred in the area at the time of the earthquake if the criteria in the Sub-Paragraph 2 do not lead to a definitive conclusion.*
- *Landslides, i.e., when a landslide from a mountain or slope suddenly falls on insured property, resulting in damage or destruction.*
- *Snow avalanches, i.e., when a snowslide suddenly falls from a mountain or slope onto insured property, causing damage or destruction. It is not considered an insured event when property collapses or sags under snow accumulation due to snowfall, drifting snow, or windblown snow.*
- *Floods, i.e., when flooding occurs because rivers or streams, which normally flow within their banks, suddenly overflow or when a tidal wave from the sea or lakes suddenly inundate land, causing damage or destruction to insured property. The same applies when a sudden flood originates from a glacier due to ice melting. It is not covered by the insurance when flooding occurs due to precipitation and meltwater. The same applies to floods partially or wholly caused by human actions, e.g., when water reservoirs, dams, or other structures fail for reasons other than natural disasters.*

If insured property is damaged in a fire that can directly be traced to any of the aforementioned natural disasters, the Natural Catastrophe Insurance of Iceland shall compensate for the damage.

For liability to arise for insured property, it must be established that the event in question qualifies as one of the natural disasters defined in the article, and that this event caused the damage to the property for which compensation is claimed; that is, there must be a causal link between the natural disaster and the damage.

In majority of cases, there is no doubt that the event forming the basis of a compensation request is considered a natural disaster, such as the earthquakes in South Iceland in 2000 and 2008 and the landslides in Seyðisfjörður in 2020. However, in some cases, such matters have been disputed, as illustrated by the following examples:

Judgment of the Supreme Court of Iceland from October 28, 1999, in case no. 103/1999. During a storm in the autumn of 1995, a breach occurred in a harbour wall in Keflavík. The harbour wall was under mandatory insurance with NTÍ, but the institution's board rejected liability for the event, citing that the damage could not be attributed to a natural disaster. The main issue was whether the event qualified as a flood, as defined by both the previous and current regulations, which include as floods instances where "tidal waves from the sea or lakes suddenly inundate land and cause damage or destruction to insured property." ÚNTÍ upheld the board's decision, prompting the claimant to take the matter to court. In its ruling, the Supreme Court concurred with ÚNTÍ and the district court that the catastrophe insurance covers all types of sea-related disasters that could be considered natural disasters according to the general understanding of the term, regardless of whether they could be traced to earthquakes or snow avalanches. Based on ÚNTÍ's findings regarding the weather and wave heights at the site during the event in question, and evidence about the condition of the harbour wall, it was concluded, in agreement with the district court, that the claimant had not demonstrated that the circumstances constituted a natural disaster as defined in Article 4 of the Natural Catastrophe Insurance Act.

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from March 23, 2016, in case no. 2/2015. The Municipality of Ísafjarðarbær claimed compensation "due to flooding during rapid thaw" on February 8, 2015. NTÍ denied that the damage fell under the coverage scope of catastrophe insurance. This position was based on the argument that the incident did not constitute flooding as defined by the regulation, that is rivers or streams overflowing their banks, but rather an immense amount of meltwater flowing after heavy rainfall and warm temperatures. ÚNTÍ overturned NTÍ's decision, citing significant procedural and decision-making flaws, as detailed in Chapter 6.3. Following the ruling, NTÍ appears to have acknowledged liability and paid out compensation.

It should be noted that tempests are not considered natural catastrophes under the meaning of the Natural Catastrophe Insurance Act. From time to time, it has been debated whether it would be appropriate to mandate windstorm or storm insurance for buildings and possibly also for movable property. However, the conclusion has been that natural catastrophe insurance should not cover damage

mentioned and include the avalanches in Súðavík and Flateyri in 1995. Conversely, examples of events where compensation would have been lower include the volcanic eruptions in Eyjafjallajökull in 2000 and Grímsvötn in 2011.

21 See Halla Ólafsdóttir: "Samkomulagsbætur vegna flóða í Ísafjarðarbæ", <http://www.ruv.is>, March 28, 2017. Here, reference can also be made to the discussion in the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 16, 2010 in case no. 1/2008*, which states, among other things, that the committee considers "there can be no doubt that this was a flood in the sense of Paragraph 5, Article 1 of Regulation No. 83/1993, that is, a natural disaster, as the flood was neither annual nor regular, and all weather conditions were such that they are classified as a natural disaster."

caused by tempests, as it is deemed preferable for the general insurance market to provide such coverage,²² which it already does to a significant extent.

In recent years, discussions have occasionally arisen regarding whether "man-made earthquakes" can be considered natural disasters as defined by the Natural Catastrophe Insurance Act. These discussions are primarily linked to earthquakes caused by the reinjection of geothermal water at power plants. NTÍ has explicitly stated its position that such earthquakes are not considered natural disasters within the meaning of the Act,²³ but it does not appear that this matter has been specifically tested in case law. When Act No. 46/2018, amending Act No. 55/1992, was introduced to Parliament, it included a provision aimed at resolving this issue. Specifically, it was proposed that a paragraph would be added to Article 4 of the Act stipulating that those disasters referred to in Paragraph 1, which could be traced to intentional acts or gross negligence, would not constitute compensable natural disasters under the meaning of the Act.²⁴ The explanatory notes to the bill addressed this as follows:

"Disasters can be caused by human actions, and the practice has been that the Icelandic Catastrophe Fund does not compensate for damages caused by such events from the catastrophe insurance. Such damages may, for example, occur due to the reinjection of water at power plants or explosions during construction projects that cause damage to nearby residential properties. To eliminate doubt and to formalize current practice, the bill proposes that damages resulting from events caused by human actions, whether intentional or due to gross negligence, shall not be compensated from the common compensation fund for those who insure their property against natural disasters."²⁵

However, the aforementioned provision was removed from the bill during its deliberation in Parliament, following a recommendation from the Economic and Trade Committee, which justified it as follows:

"In submissions and during a meeting with a geoscience expert, the committee was informed that the relationship between geothermal utilization and actual earthquakes is more complex than simply determining whether or when a particular earthquake is a direct consequence of a specific activity. It is likely impossible to prove a direct causal relationship, and it is also known that the pumping up or reinjection of water in geothermal areas can shift the timing of earthquakes, either accelerating or delaying an earthquake that would have occurred at some point anyway. Additionally, energy companies are often required to reinject water. For these reasons, it was considered reckless to add this provision to Article 4 of the bill along with its legal interpretation in the accompanying explanatory notes.

The committee agrees with these viewpoints and proposes that Article 4 of the bill be removed. The committee encourages consultation between authorities and stakeholders regarding the limits of liability for natural catastrophe insurance."²⁶

From this, it is clear that certain issues may arise regarding the coverage of the insurance for events occurring in nature but linked

to human activities. As of yet, it seems that no damage from incidents of this nature has been tested in administrative rulings or court cases. Regarding human-caused events, however, it is worth noting the *judgment of the Court of Appeal of Iceland from November 8, 2019, in case no. 161/2019*, discussed in Chapter 3, where an avalanche caused by human activity was not considered a natural disaster, as well as the conclusion of Section 5, Paragraph 1, Article 2 of the Regulation on Natural Catastrophe Insurance, where floods caused by human actions are explicitly excluded from the concept of flooding.

As previously mentioned, it is not only required that the event qualifies as a natural disaster as defined by the Natural Catastrophe Insurance Act, but also that there is a causal link between the disaster and the damage for which compensation is claimed. The same principles for evidence apply as in insurance law in general,²⁷ and there are various examples of disputes over causation in administrative ruling practices, such as, for example:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from August 19, 2013 in case no. 6/2012. A museum building under construction in Flóahreppur was damaged in an earthquake on May 29, 2008. NTÍ obtained one expert assessment (Assessment 1), and the building's owners obtained another expert assessment (Assessment 2). There was disagreement among the experts about the extent to which the cracks in the building could be attributed to the earthquake. The board of NTÍ determined that 25% of the damage to the building could be attributed to the earthquake, while 75% was due to the design of the floor plate. In the ruling of ÚNTÍ, it was stated that neither of the expert assessments could be considered thoroughly justified, precise, or unequivocal. Furthermore, the conclusion of the NTÍ board was considered poorly reasoned. The ruling states: "Based on the aforementioned, it cannot be concluded with sufficient certainty that the damage to the property in question caused by the earthquake corresponds to [the damage assessed in Assessment 1], nor is there proof that the earthquake caused the claimants damage amounting to ISK 2,307,300, as assessed in [Assessment 2]. The Appeals Committee also considers that the basis for the NTÍ board's conclusion—that only 25% of the damages could be attributed to the earthquake—lacks credibility. Given the circumstances and the available evidence, which include significantly differing conclusions from the experts, the ÚNTÍ concludes that the percentage used in the appealed ruling is too low, and that it should instead be set at 50%." The board of NTÍ was instructed to pay compensation to the building's owners in accordance with this conclusion.

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from November 29, 2013, in case no. 7/2012. A owned a summerhouse in Holtá- og Landssveit that sank and sustained damage due to events he believed originated from an earthquake on May 29, 2008. Experts from NTÍ concluded that the sinking of the summerhouse was not caused by the earthquake. A obtained an assessment that reached a different conclusion and appealed the NTÍ board's decision to deny compensation to ÚNTÍ. ÚNTÍ's ruling stated that, given the significantly differing conclusions of

²² Alþingi Parliamentary Records 1991–1992, Section A, pp. 1314–1315.

²³ See, for example, "Viðlagatrygging greiðir ekki bætur", <http://www.ruv.is>, October 18, 2011.

²⁴ Alþingi Parliamentary Records 2017–2018, Section A, parliamentary document 538 – case 388.

²⁵ Alþingi Parliamentary Records 2017–2018, Section A, parliamentary document 538 – case 388.

²⁶ Alþingi Parliamentary Records 2017–2018, Section A, parliamentary document 928 – case 388.

²⁷ See, for example, Eiríkur Jónsson and Viðar Már Matthíasson: *Bótaréttur II*, p. 269 and forward.

the engineers involved in the case, there was reason for the NTÍ board to seek another opinion on the matter of dispute. The ruling then referred to the existing data and the committee's investigations and stated: "The Appeals Committee considers it can be concluded that the summerhouse shifted suddenly on its foundation, and in this context, special attention is drawn to damaged steel ties that connect the beams of the house to its foundation. The board finds overwhelming likelihood that the sinking of the summerhouse began during or immediately after the earthquake, and therefore, it is not merely a case of gradual sinking of the house. The Appeals Committee finds it clear that, considering the standard practices and requirements for constructing foundations under a house of this size and in this location, the work on the building and its foundation was largely carried out in a reasonable manner. [...] Finally, the Appeals Committee rejects the assertion that damage could not have occurred due to an earthquake 38 km away from its epicenter. There are numerous examples, both domestically and internationally, of damage to structures occurring at such distances from the epicenter of an earthquake of this magnitude (6.3 on the Richter scale), and even further away. [...] Based on everything outlined, the Appeals Committee concludes that sufficient evidence has been presented to determine that the damage in question can be attributed to the earthquake in South Iceland on May 29, 2008." The NTÍ board was instructed to pay A compensation.

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from November 29, 2013, in case no. 1/2013. The NTÍ board denied compensation for damage to a summerhouse deck in Bláskógabyggð, concluding that the damage could not be attributed to an earthquake on May 29, 2008. ÚNTÍ overturned this decision and instructed the board to pay specific compensation. In the reasoning for this conclusion, the ÚNTÍ ruling stated: "The evidence at the scene strongly indicates that a sudden movement occurred on the deck due to a powerful lateral force, which aligns with the notion that the earthquake initially caused the displacement and later initiated the deck's sinking. The Appeals Committee considers it beyond reasonable doubt that the origin of the damage can be traced to the earthquake on May 29, 2008. The alleged weakness in the deck's foundation is unlikely to be the cause of the damage, as there is no indication that the soil edge beneath the gravel pad in front of the deck has shifted forward. [...] As previously stated, the Appeals Committee finds that the primary cause of the damage to the deck [...] is the earthquake. The entire foundation construction appears to have complied with the requirements and customary practices for building such decks. Therefore, the conclusion in this case is that the claimant's request for compensation for the damage to the deck should be accepted."

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from September 28, 2021, in case no. 1/2021. The owner of a property in downtown Reykjavik claimed that his garage had been damaged during a wave of earthquakes on the Reykjanes Peninsula on February 24, 2021. NTÍ denied the claim, and the owner appealed this decision to the ÚNTÍ. In the ruling of the Appeals Committee, reference was made to a condition inspection of the property conducted in December 2019. Taking this inspection

*into account, along with the accompanying photographs and ÚNTÍ's site investigation, it was concluded, in agreement with the NTÍ experts, that the structural walls of the garage were in such poor condition before the earthquakes that they were, in fact, hazardous in terms of the load-bearing capacity of the exterior walls. It was only a matter of time before the walls would completely or partially collapse unless specific measures were taken immediately or soon. The Appeals Committee further noted that the primary issue with the garage's condition lay in its poor structural integrity. However, the damage cited by the claimant involved the partial collapse of the garage's plastering. Repairing this plastering would have always been unavoidable as part of the structural improvements that were necessary even before the wave of earthquakes occurred. Even if it were assumed that the plastering fell off during the wave of earthquakes on February 24, 2021, the claimant would be in the same position as before — needing to repair the plastering just as he had needed to before. Furthermore, the seismic acceleration in Reykjavik during the wave of earthquakes was considered very low and unlikely to cause property damage. In the conclusion of the ruling, it was stated: "Based on all of the above, it must be concluded that the damage the claimant claims to have incurred cannot be attributed to the wave of earthquakes but rather to the pre-existing condition of the garage. Additionally, there is no such uncertainty regarding the above-mentioned points that would require the NTÍ to obtain a new expert assessment on them." The decision being appealed was therefore upheld.*²⁸

The aforementioned and other rulings indicate that, although similar principles for evidence apply as in insurance law generally—where the burden of proof lies with the claimant—the requirements for proving a causal link are often not very strict. It is also assumed that the NTÍ may have an obligation to seek further expert assessments if the existing assessments do not agree on causation. This is partly due to the fact that the NTÍ is an institution bound by the rules of administrative law, including the rule of investigation outlined in the Administrative Procedure Act no. 37/1993, as further detailed in Chapter 6.3.

Finally, it should be noted that disputes over causation do not always concern only the connection between damage and natural disasters but also the connection between specific repairs and natural disasters. In other words, whether the repairs are necessary due to the damage caused by natural disasters, as seen, for example, in *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from August 19, 2013, in case no. 6/2012*, and the following ruling:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from May 10, 2013, in case no. 3/2012. A residential house in Selfoss was damaged during an earthquake in 2000 and again in 2008. NTÍ commissioned an assessment of the damage, and the experts' report (Assessment 1) concluded that the damage amounted to ISK 1,727,000. The homeowners obtained another assessment (Assessment 2), which identified the need for significantly more extensive repairs estimated at ISK 9,487,700. NTÍ settled the case based on Assessment 1, denying further compensation, and the homeowners brought the case to ÚNTÍ. In the Appeals Committee's

²⁸ See also the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from May 23, 2014 in case no. 3/2013, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 27, 2015 in case no. 1/2011, and ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 19, 2017 in case no. 4/2015.*

²⁹ See also regarding the obligation in that regard the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from October 24, 2014 in case no. 1/2012*, which is discussed later.

ruling, the methodology used in preparing Assessment 2 is described. It then states: “It is the Appeals Committee’s assessment, after reviewing the available documents and conducting a site visit to the property, that [Assessment 2] is well-executed and convincing regarding the condition of the property and the actions necessary to address it. It is necessary to remove all fixtures and interior walls except the load-bearing wall, break up the flooring, and re-level the floors. Furthermore, it is essential to pour support columns under the foundation walls, straighten the house, replace all flooring materials, install new interior walls, and reassemble the fixtures. [...] Based on the foregoing, it must be concluded that [Assessment 2] provides a logical and credible estimate of the costs required to repair the property to its pre-earthquake condition, or as close as possible, following the earthquakes of 2000 and 2008.” The NTÍ board was instructed to settle compensation based on this assessment.

6. Handling of claims and the determination of compensation

6.1 Introduction

The provisions of the Natural Catastrophe Insurance Act and the Regulation on Natural Catastrophe Insurance contain various rules regarding the handling of claims and the determination of compensation. In addition to these, general rules of administrative law and insurance law also influence these matters. This chapter will discuss these rules.

First, the process of handling cases will be described generally, from beginning to end. Then, attention will be given to the administrative law rules that apply both to the case handling by the NTÍ and to the substance of its decisions. Following this, the provisions of the Natural Catastrophe Insurance Act and the Regulation on Natural Catastrophe Insurance regarding the determination of compensation will be discussed, as well as the general rules of insurance law that supplement these provisions. Finally, there will be a brief mention of the obligation to repair or rebuild that was legislated with the amendment act no. 46/2018.

6.2 The process of handling cases

According to Article 12 of the Natural Catastrophe Insurance Act, when an insurance event occurs, the insured party must immediately report it to the institution or the insurance company that issued the insurance. If the insurance company receives such a notification, it must promptly inform the institution of the insured event. In practice, it seems most common for damage to be reported directly to the institution, which can be done electronically on its website.

Once NTÍ becomes aware of damage, the institution must, as soon as possible, take measures to determine whether the damage should be compensated and, if applicable, have it assessed, cf. Sub-paragraph 2, Paragraph 2, Article 12 of the Act. Additionally, according to Article 13, it must assess whether special measures are needed to rescue the insured property or to prevent further damage. Such measures must be carried out in cooperation with the Civil Protection authorities. This obligation of the institution does not relieve the insured party of their duty to take measures to prevent damage, as stipulated in the Act on Insurance Contracts.

The institution’s initial response is generally to arrange for the damage to be assessed, with more detailed instructions provided in Article 10 of the Regulation on Natural Catastrophe Insurance. It states that when an insurance event has occurred, NTÍ shall take measures to inspect and assess the damage and may summon qualified and impartial assessors for this purpose. The institution may also, as appropriate,³² request that the damage be assessed by court-appointed experts. The insured must always be given the opportunity to be present during the inspection and to present their views, and the assessors must submit a written assessment report and complete their work as quickly as possible. Once the damage has been assessed, NTÍ generally offers compensation in accordance with the assessed damage. From existing practice, it is clear that disputes often arise regarding the extent of damage caused by the insured event. Sometimes,³³ multiple assessment reports that do not align are presented, such as an assessment commissioned by the institution shortly after the notification of damage, an assessment by court-appointed experts, and a reassessment by court-appointed

³⁰ See the website of the Icelandic Catastrophe Insurance, <https://www.nti.is/tjon/>.

³¹ Regarding these obligations, reference can be made, among others, to Eiríkur Jónsson and Viðar Már Matthíasson: *Bótaréttur II*, pp. 341–345.

It may be noted that in the bill that became the Natural Catastrophe Insurance Act, Article 13 stated, among other things, that due to the unique nature of insurance against damages caused by natural disasters, it would likely be less common for the insured to lose their rights due to neglect of these obligations compared to most other non-life insurances. See Alþingi Parliamentary Records 1991–1992, Section A, pp. 1320–1321.

³² As an example of court-appointment of assessors at the institution’s request, see the *judgment of the Supreme Court of Iceland from September 30, 2010, in case no. 501/2010*.

³³ As examples of such disputes, reference can be made to the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from May 10, 2013 in case no. 3/2012, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from August 19, 2013 in case no. 6/2012, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from October 10, 2013 in case no. 8/2012, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from November 29, 2013 in case no. 7/2012, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from November 29, 2013 in case no. 1/2013, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from May 23, 2014 in case no. 3/2013, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 27, 2015 in case no. 1/2011, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 29, 2016 in case no. 7/2013, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 12, 2016 in case no. 1/2014, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 12, 2016 in case no. 2/2014, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 2, 2016 in case no. 6/2013, ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 19, 2017 in case no. 3/2015, and ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 19, 2017 in case no. 4/2015.*

experts.³⁴ In resolving what should be considered as the basis, general rules of evidence apply. These include the principle that, in general, an assessment by court-appointed experts is regarded as stronger evidence than an assessment obtained outside a court, and a reassessment by court-appointed experts is stronger evidence than a original expert assessment. However, such considerations can only serve as general guidelines, which specific circumstances may warrant deviation from.³⁵

As previously mentioned, decisions made by NTÍ are subject to appeal to a special administrative committee, ÚNTÍ, unlike the general practice in insurance law, where appeals are made to the Insurance Complaints Board.³⁶ Paragraph 1 of Article 19 of the Natural Catastrophe Insurance Act stipulates that a claimant can appeal an NTÍ decision regarding payment obligation and the amount of insurance compensation to ÚNTÍ within 30 days of receiving the decision. The appeal period is therefore short, whether compared to the period for appeals to the Insurance Complaints Board (one year) or the general appeal period under Article 27 of the Administrative Procedure Act no. 37/1993 (three months). However, if the appeal is submitted late, consideration must be given as to whether it should nonetheless be processed based on Article 28 of the Administrative Procedure Act. This can be illustrated by the following examples of ÚNTÍ cases:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 8, 2013, in case no. 4/2012. The claimants, who had received notification of the NTÍ board's decision on March 26, 2012, appealed the decision to ÚNTÍ on May 10, 2012. The appeal was therefore submitted after the statutory 30-day appeal period, and it was neither deemed excusable that the appeal had not been submitted sooner nor considered that significant reasons justified its review, cf. Paragraph 1 of Article 28 of the Administrative Procedure Act. Consequently, the appeal was dismissed by the Appeals Committee.

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from October 23, 2015, in case no. 1/2015. The claimant demanded that she be paid penal interest on the compensation she had received. In a letter from the managing director of NTÍ, dated February 3, 2014, it was stated that the NTÍ board's position was

that the conditions for the payment of penal interest were not met. Nearly a year later, on February 2, 2015, the claimant submitted an appeal to ÚNTÍ. Although the appeal had been submitted late, the Appeals Committee nonetheless accepted it, as it deemed the delay excusable under Section 1, Paragraph 1, Article 28 of the Administrative Procedure Act. In this context, it was noted, among other things, that the board's decision, under appeal did not include any guidance on the right to appeal.

When an independent administrative committee has been established, and the authority to rule on appeals has been transferred from the ministry to such a committee, the right to appeal to a minister is eliminated.³⁸ It is therefore puzzling that in 2016, the Ministry of Finance and Economic Affairs processed an administrative appeal, where the ruling stated that specific decisions of the NTÍ board, concerning the rejection of reopening an earlier case, were upheld, cf. *the ruling of the Ministry of Finance and Economic Affairs dated April 20, 2016, in case FJR16010104/16.2.0*. At that time, however, the appeal committee (ÚNTÍ) was handling the case of the complainant in question. The circumstances were, in many respects, unique, and it must be assumed that the ministry's handling of the case on that occasion represents an absolute exception, as it is highly inconsistent with the general rules deriving from the existence of the independent administrative committee for the ministry to review individual NTÍ decisions in compensation cases.

A claimant who is dissatisfied with a ruling from ÚNTÍ can, of course, turn to the courts.³⁹ They may even go directly to the courts following a decision by NTÍ, as it is not a requirement for a lawsuit that ÚNTÍ be approached first. On the other hand, it cannot be considered that NTÍ itself can take legal action if the institution is dissatisfied with a ruling from ÚNTÍ, as a lower administrative

³⁴ It varies whether the claimant or the institution requests court-appointment of assessors, but both are entitled to do so. According to Article 63 of the Civil Procedure Act, No. 91/1991, the party requesting the assessment pays the court-appointed assessors. If the claimant requests such an appointment, they do so at their own risk and bear the cost if the assessment does not reveal additional damage beyond what has already been evaluated. However, NTÍ may sometimes be obliged to obtain an assessment from court-appointed assessors, for example, if the case is not sufficiently clarified otherwise, cf. *the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from October 24, 2014, in case no. 1/2012*, where the board of NTÍ was instructed to obtain such an assessment. In the decision, it is stated that the conclusion regarding the compensation amount in the case cannot be based on the evidence on which the NTÍ decision relied, nor on the assessments obtained by the complainant. It further states: "Given the circumstances of the case, the committee considers it unavoidable, in order to carry out the final compensation settlement, to obtain an assessment by court-appointed assessors regarding the damage suffered by the property in question due to the earthquake and the costs of repairing it to restore it to its previous condition or as close as possible to it before the earthquake. As the appealed decision was based on insufficient evidence, and in light of the statutory role of the Icelandic Catastrophe Fund, Paragraph 2 of Article 11 of Regulation No. 83/1993, and general rules on the authority of higher administrative bodies, the committee considers that the board of the Icelandic Catastrophe Fund must be instructed to carry out such an assessment." In contrast, in *the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 8, 2013 in case no. 2/2012*, it was rejected to instruct NTÍ to reassess damage to a specific property.

³⁵ See Eiríkur Jónsson and Viðar Már Matthiasson: *Bótaréttur I*. Reykjavík 2015, pp. 520–522.

³⁶ See further Eiríkur Jónsson and Viðar Már Matthiasson: *Bótaréttur II*, pp. 84–87.

³⁷ See also *the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 8, 2013, in case no. 2/2012*, where the lack of a duty to provide guidance on the right to appeal led the NTÍ board to process an appeal despite it not being submitted within the statutory appeal period.

³⁸ See the Report *Starfskiýrði stjórnvalda*. Prime Minister's Office, Reykjavík 1999, pp. 89–90.

³⁹ See, for example, *judgment of the Supreme Court of Iceland from October 28, 1999, in case no. 103/1999*.

authority would require legal authorization for such litigation,⁴⁰ which is not present.

It should also be noted that a claimant who believes that the rules of administrative law have not been followed generally has the option to seek assistance from the Parliamentary Ombudsman. There are several examples of this.⁴² The claimant also has the option to request a review of a ruling by ÚNTÍ or, as applicable, a decision by NTÍ, provided the conditions set forth in Article 24 of the Administrative Procedure Act are met.⁴³ There are several examples of such reviews being requested.⁴⁴ Finally, it should be emphasized that if new damage comes to light that was not assessed in the claimant's concluded case, they generally have the right for it to be assessed and compensated, as reflected in the following ruling:

*Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 8, 2013, in case no. 2/2012. The claimant had been compensated for damage to his property caused by an earthquake but believed they were entitled to further compensation. ÚNTÍ upheld the NTÍ board's decision in the case but stated in the ruling: "This decision naturally pertains to the damage on which the claimant bases their case here, according to the circumstances presented when the matter was referred to the Appeals Committee. However, it does not preclude further claims should other damage become apparent later, as it is known that damage caused by earthquakes can take a long time to emerge."*⁴⁵

6.3 The significance of administrative law rules

From the aforementioned administrative status, it follows that the handling of cases by NTÍ, as well as ÚNTÍ, must comply with the requirements of administrative law, as a decision on whether, and if so, how much compensation should be paid, unequivocally constitutes an administrative decision. As previously mentioned, this is specifically emphasized in Sub-paragraph 1, Paragraph 1, Article 19 of the Natural Catastrophe Insurance Act, which states that NTÍ shall make decisions on the obligation for payment and the amount of insurance compensation "in accordance with the provisions of the Administrative Procedure Act on case handling".

This includes, among other things, that the investigation⁴⁶ must be thorough, and the right to be heard must be respected. The instructions in Article 10 of the Regulation on Natural Catastrophe Insurance, as outlined in Chapter 6.2, are partly intended to promote this during the NTÍ's case handling. The Appeals Committee has also traditionally held meetings with complainants, giving them the opportunity to express their views, in addition to conducting site visits to inspect the property related to the reported damage.⁴⁷ It is also worth noting that in many of the cases appealed to ÚNTÍ, NTÍ sought court-appointed assessors during the processing of the

⁴⁰ See for example Eiríkur Jónsson, Friðrik Ársælsson and Kristín Benediktsdóttir: *Opinbert markaðseftirlit*. Reykjavík 2012, p. 171, and *judgment of the Supreme Court of Iceland from September 22, 1998, in case no. 297/1998*.

⁴¹ As a specific example of disputes in court regarding repair costs following an earthquake, reference can be made to the *Judgment of the Supreme Court of Iceland from May 31, 2001, in case no. 42/2001*, where a construction contractor, whom the claimant had tasked with negotiating with NTÍ and handling the repairs, demanded additional payment from the claimant beyond what was included in the agreement with NTÍ. The case was dismissed by the court due to insufficient substantiation.

⁴² See, for example, *Opinion of the Parliamentary Ombudsman of Iceland from May 25, 2020, in Case No. 10245/2019*, where the Ombudsman found no reason to comment on the handling of a case by ÚNTÍ. Additionally, the *Opinion of the Parliamentary Ombudsman of Iceland from April 29, 2024, in Case No. 12705/2024*, addressed a complaint regarding NTÍ's damage assessment of a property in Grindavík, requesting a comprehensive review of the procedure. The Ombudsman dismissed the case, citing that the assessment was still ongoing. Furthermore, the complainant had yet to appeal the case to ÚNTÍ, a necessary prerequisite for the Ombudsman's examination. Lastly, the *Opinion of the Parliamentary Ombudsman of Iceland from August 30, 2024, in Case No. 12848/2024* addressed a complaint regarding access to a damage assessment. The case was dismissed, primarily because the report was yet to be finalized by NTÍ.

⁴³ See the conditions for reopening, among others, in Páll Hreinsson: *Stjórnsýslulögin*. Reykjavík 1994, pp. 243–246.

⁴⁴ See, for example, the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from September 27, 2019 in case no. 1/2019; ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from September 28, 2021 in case no. 2/2021; ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from June 14, 2022 in case no. 1/2022 and ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from November 21, 2024 in case no. 2/2024*, where the request for reopening was denied.

⁴⁵ Reference can also be made to the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from May 10, 2013, in case no. 3/2012*, where it was deemed that claimants had not forfeited their right to make additional claims for earthquake-related damages by accepting compensation without reservation. It was noted that their signing of the settlement did not include any statement of a final settlement or that no further claims could be made. Furthermore, the assessment that formed the basis of the settlement explicitly stated: "If additional damage later comes to light that can be traced to the earthquakes, it is possible for the claimant to report the damage to the property again. Such additions are open for at least four years after the event of damage." See also the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 12, 2016 in case no. 1/2014*, where claimants were deemed to have demonstrated additional damage beyond what had been evaluated in the assessment underlying the previous settlement.

⁴⁶ See, among others, Páll Hreinsson: *Málsmeðferð stjórnvalda*, Reykjavík 2019, regarding the principle of investigation, the principle of the right to be heard, and other procedural rules for administrative bodies.

⁴⁷ It is appropriate to emphasize that although investigative obligations rest on the relevant authorities, this does not, of course, exempt the claimant from all requirements. A claimant who believes their damage has been inadequately compensated based on existing assessments and decisions must provide evidence that this is the case, or that further evaluation is necessary to confirm whether this is the case. Reference can be made to the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from October 24, 2014, in case no. 4/2013*, where claimants who had received compensation for damages caused by the 2008 earthquakes in southern Iceland argued that lingering odors in the bathroom had not yet been fully addressed. ÚNTÍ rejected the claim with the following reasoning: "Part of the compensation paid to the complainants was for

case at ÚNTÍ to further clarify the matter in question.⁴⁸ Additionally, there are instances where the Appeals Committee has instructed the institution to obtain court-appointed assessors for the same purpose.⁴⁹

As an example of disputes regarding whether the case handling was in compliance with the rules of administrative law, the following rulings can be highlighted:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 8, 2013, in case no. 2/2012. The claimant argued that there were various procedural deficiencies in NTÍ's handling of the case, including that the assessor was unfit to participate in the matter and that the right to be heard had been violated. ÚNTÍ rejected these claims. On the other hand, it was determined that NTÍ's procedures had violated the unwritten rule of administrative law that a person submitting a written request to an administrative authority is generally entitled to receive a written response. Furthermore, the obligation to provide guidance regarding the right to appeal had not been observed. These procedural flaws were not deemed sufficient to uphold the claimant's demands in the case. However, the latter flaw led to the appeal being accepted for consideration despite being submitted after the deadline to lodge the appeal.

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from March 23, 2016, in case no. 2/2015. The Municipality of Ísafjarðarbær claimed compensation "due to flooding during a rapid thaw" on February 8, 2015. NTÍ rejected the claim, stating that the damage did not fall within the scope of compensation provided by the catastrophe insurance. In the decision of ÚNTÍ, substantial criticisms were made about NTÍ's case handling. Among other things, it was considered that the right to be heard had been violated, that the reasoning of the disputed decision barely met requirements, and that the rule of investigation had not been sufficiently followed. In the conclusion of the decision, it is stated: "[T]he appeals committee considers such significant deficiencies in the case handling and the disputed decision that they cannot be remedied at a higher administrative level. For this reason alone, the complainant's claim for the annulment of the decision must be accepted."

In addition to meeting the requirements of procedural rules, the resolutions of NTÍ and ÚNTÍ must comply with the substantive

rules of administrative law, which primarily include the principle of equality, the proportionality rule, and the rule on objective considerations.⁵⁰ In this context, there has mainly been debate about whether the principle of equality has been violated, but this has generally been rejected, see for example:

Judgment of the Supreme Court of Iceland from October 28, 1999, in case no. 103/1999. This ruling was previously addressed in Chapter 5, where liability for damages to a harbour wall in a harbor during a storm was denied. Arguments by the claimant regarding a violation of the principle of equality were rejected. The Supreme Court ruling states that NTÍ's decisions regarding compensation payments in other cases, to which the claimant referred, do not provide grounds to overturn the conclusion. It further states: "Although the evidence regarding these cases indicates that the damage was primarily caused by extreme weather, it has not been demonstrated through assessment or other clear comparison that the circumstances were different from those which may generally be considered natural disasters, or that the institution's management discriminated against the principal appellant in its stance on this case."

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from October 24, 2014, in case no. 1/2012. The committee did not accept that the principle of equality justified the claimant's request for his damages to be compensated as total loss. Regarding this, the decision states: "By their nature, real estate properties are often diverse, their fire insurance valuations differ, and the damages they sustain during earthquakes vary. Although the complainant referred to other properties in his argument, the committee finds that no comparable case has been demonstrated to have been resolved differently, such that a violation of the principle of equality could be considered to have occurred."⁵¹

However, there are examples where the principle of equality has been invoked to support the annulment of a decision, cf.:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from March 23, 2016 in case no. 2/2015. This ruling has been referenced before, and it annulled a decision to deny Ísafjörður municipality compensation for flood damage on February 8, 2015. Among the arguments presented by the municipality was that the event was similar to incidents in Mosfellsbær on March 14, 2015, and in Siglufjörður on August 28, 2015, and that

measures taken to address odors in the bathroom following the earthquake. The complainants argue that the odor persists despite the measures taken and compensated. The assessments and memoranda of the assessors on record are unequivocal that no odor is currently detectable in the said bathroom. The claimants have not provided arguments or evidence that would justify disregarding the assessors' findings and have, in fact, not pursued the matter further before the appeals committee after the latest inspections of the property. Based on the case as presented, there is no basis to conclude that the odor is still present in the bathroom. Furthermore, the claimants have not presented any other arguments that could lead to a conclusion that their damages are not fully compensated or that there is uncertainty regarding this issue."

⁴⁸ See, for example, the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from September 11, 2015 in case no. 8/2013; ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 29, 2016 in case no. 7/2013; ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 2, 2016 in case no. 5/2013; and ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 2, 2016 in case no. 6/2013*. In some cases, an assessment made during the handling of the case before the appeals committee has resolved the dispute in question. See, for example, the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from March 22, 2013 in case no. 5/2012*, where the position of the claimant and NTÍ aligned after a new assessment was conducted.

⁴⁹ See, for example, the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from October 24, 2014, in case no. 1/2012*.

⁵⁰ See, among others, regarding these rules Páll Hreinsson: *Stjórnsýslulögin*, pp. 118–146, Páll Hreinsson: "Meðalhöfsregla stjórnsýslulaga". In the publication *Lögberg*, Reykjavík 2003, pp. 503–533, and Ólafur Jóhannes Einarsson: "Réttmætisreglan". In the publication *Afmælisrit Björn P. Guðmundsson sjötugur 13. júlí 2009*, Reykjavík 2009, pp. 253–277.

⁵¹ See also similar remarks in the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from September 11, 2015 in case no. 8/2013; the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 29, 2016 in case no. 7/2013; and the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from September 27, 2019 in case no. 1/2019*.

Ísafjörður's case had not been treated similarly, thus violating the principle of equality. The decision of ÚNTÍ states, among other things: "It cannot be seen that representatives of the Icelandic Catastrophe Fund visited the site, as was done in the cases of the floods in Mosfellsbær and Siglufjörður later that same year, cf. the available memos on those events, which indicate that representatives of the Icelandic Catastrophe Fund visited the sites to assess whether the institution's liability for compensation applied. These three memos indeed raise certain questions regarding the principle of equality in administrative law." The contested decision was subsequently annulled due to significant procedural defects and issues with "the decision-making process and the contested decision."

6.4 Rules of the natural catastrophe insurance act and the regulation on natural catastrophe insurance on determining compensation

There are no provisions in the Natural Catastrophe Insurance Act on how the amount of compensation should be determined. However, as previously stated, Article 9 provides for the insured amount, which, among other things, specifies that in the case of items insured against fire, the insured amount equals the fire insurance valuation. Additionally, Article 4 clarifies that the insurance only covers "direct damage." In tort and insurance law, direct damage refers to damage or destruction of the property itself. Indirect damage, on the other hand, refers to damages arising as a consequence of the direct damage.⁵² This means that various damages resulting from the destruction of a property insured against natural disasters are not eligible for compensation, as they are considered indirect damage. Examples of such damages include loss of use, operating loss, costs related to inspection and assessment of damages, and expenses incurred in reporting damages.⁵³

There are detailed provisions on determining the amount of compensation in Article 11 of the Regulation on Natural Catastrophe Insurance. It states that when determining compensation, one should "follow Act No. 55/1992 and this regulation, and otherwise adhere to the fundamental principles of insurance law, including the following rules":

- *The insurance only compensates for direct damage to insured real estate, movable property, and structures. The insurance does not cover consequential damage, such as operating loss, or damage resulting from the inability to use the property during the intended time or in the intended manner, as well as other indirect damage. If the damage only causes appearance defects without reducing the value or usability of the insured property, no compensation is paid. Damage related to historical value, special material selection, or craftsmanship is not compensated, and when determining compensation, the most economical methods regarding materials and construction techniques must be used—unless it is evident that such material selection and construction methods were accounted for in the fire insurance assessment, additional insurance, or revaluation that such ma-*

terial or constructions techniques were used for construction, reconstruction, or maintenance of the insured property.

- *When determining compensation in cases where the insured property is completely destroyed, an assessment shall be made as to whether the insured amount, according to Article 7, corresponds to the insurance value of the property, according to Article 8. Compensation is limited to the insurance value if it proves to be equal to or lower than the insured amount.*
- *In cases of partial damage, compensation is determined based on the cost of repairing the damaged part so that it is restored to its previous condition or as close as possible to it before the insurance event. Compensation determined in this way can never exceed the difference in value before and after the insured event, whether for individual items or the property as a whole. Repairs to the surface areas of a property, i.e., exterior walls, roofs, interior walls, ceilings, and floors, are limited to the area that is damaged. Repairs or replacement of flooring and ceiling are restricted to the specific room that is damaged. If the rooms are open or continuous, the property's floor plans should be used to define the affected area. [...]*
- *When assessing depreciation according to Paragraph 1, Article 8, the following should be taken into account:*
 - a. *Furniture depreciates by up to 10% of its original value per year.*
 - b. *Audio equipment, bicycles, and electrical appliances depreciate by up to 10% of their original value per year.*
 - c. *Clothing, televisions, players, cameras, and skiing and camping equipment depreciate by up to 15% of their original value per year.*
 - d. *Computers, computer equipment, mobile phones, smartwatches, and other similar equipment depreciate by up to 20% of their original value per year.*
- *Depreciation of items according to sections a, b, and c can never exceed 70% of the original value. It is permitted to require the presentation of items that have been fully compensated. If the insured item is worth more than the insured amount, it is considered underinsured. In these kinds of instances, the damage is compensated proportionally as follows: $\text{Damage amount} \times \text{Insured amount} / \text{Actual value} = \text{Compensation}$. The insured party's deductible⁵⁴ is subtracted from the compensation amount thus calculated.*

These rules include, among other things, that if a property is completely destroyed due to a natural disaster, compensation for it corresponds to its fire insurance valuation unless the Natural Catastrophe Insurance of Iceland demonstrates that its actual value was lower on the date of the damage. Similarly, the rules stipulate that if it is possible to restore the property to its previous condition or "as close as possible to it before the insurance event" "at a lower cost than its fire insurance valuation (or the value of the property if proven to be lower than the fire insurance valuation), the amount of compensation corresponds to the repair costs. Based on existing practice, it is clear that disputes over compensation amounts often revolve around whether it is possible to restore the property to its

⁵² See, for example, Eiríkur Jónsson and Viðar Már Matthíasson: *Bótaréttur I*, p. 53.

⁵³ See Marcus Radetzki: *Skadestandsberäkning vid sakskada*. Stockholm 2019, p. 28.

⁵⁴ Article 11 also includes provisions regarding compensation for products manufactured by the insured for sale and the claimant's obligation to preserve damaged property. However, it is not considered necessary to elaborate on these aspects here; instead, reference is made to the article itself.

previous condition and whether compensation should be based on that, or whether the matter should be settled as total loss with payment corresponding to the fire insurance valuation, see for example:

*Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 29, 2016 in case no. 7/2013. The dispute concerned the settlement for damage to a residential house in Flóahreppur caused by an earthquake on May 29, 2008. The NTÍ had paid certain compensation, but the claimants argued that it was a total loss and demanded compensation based on the fire insurance valuation. Their claim was primarily based on an existing report and analysis by an engineer connected to the claimants. During the proceedings before the committee, the board of NTÍ obtained an expert assessment from court-appointed evaluators. ÚNTÍ concluded that this expert assessment was the most significant piece of evidence regarding the damage caused by the earthquake and should therefore form the basis of the decision. The expert assessment indicated that it was possible to restore the residential house to a condition comparable to its state immediately before the event, and the costs of those repairs were described therein. The decision further states: “Based on this conclusion, and as previously stated regarding the need to rely on the expert assessment of the court-appointed evaluators and the provisions of Article 12 of the Regulation on the Icelandic Catastrophe Fund No. 83/1993, there are no grounds to compensate the damage to the property as a total loss. Instead, it should be based on the aforementioned conclusion, which, in accordance with Section 5 of the article, involves an evaluation of “the cost of repairing the damaged part so that it is restored to its previous condition or as close as possible to it before the insurance event”.*⁵⁵

It is evident that the aforementioned rules include, among other things, that the claimant is not entitled to bring their property into compliance with the latest standards if those are stricter than what the property met before the insurance event occurred, see for example:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from October 24, 2014, in case no. 1/2012. The dispute concerned the settlement for damage to a residential house in Hveragerði, which was built in two phases, in 1948 and 1957, and damaged by an earthquake on May 29, 2008. ÚNTÍ rejected using an original expert assessment and reassessment by court-appointed evaluators as a basis, arguing that the evaluation questions were not consistent with the rules applicable to determining compensation. Regarding this, the decision states, among other things: “As questions 1 and 2 of the assessment were framed, they did not directly ask about the specific damage the property had sustained due to the earthquake but rather whether it was possible to repair the house to meet the load-bearing requirements of the latest building regulations and the associated costs of such repairs. The reassessment’s conclusion regarding costs thus represented an evaluation of the expenses needed to repair the property to ensure it complied with the requirements stipulated in building regulation no. 441/1998, which inherently involves replacing old with new. [...] It is clear that evaluating the costs of bringing the property in question into compliance with the requirements of building regula-

*tion no. 441/1998 does not fully reflect the rule on determining compensation as outlined in Section 5 of Article 12 of the Regulation on Icelandic Natural Catastrophe Insurance no. 83/1993, which states that in cases of partial damage, compensation is determined based on “the cost of repairing the damaged part so that it is restored to its previous condition or as close as possible to it before the insurance event.” For this reason alone, the committee finds it unsuitable to base the decision on compensation amounts for the claimant on the aforementioned reassessment, and the same applies to the original expert assessment, as the evaluation questions were identical.*⁵⁶

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from September 11, 2015, in case no. 8/2013. The dispute concerned the settlement for damage to a residential house in Selfoss caused by an earthquake on May 29, 2008. During the proceedings before the committee, the board of NTÍ obtained an expert assessment from court-appointed evaluators. In the responses of the evaluators, two approaches were outlined for cost assessment. One approach was based on repairing the foundation of the house, which the evaluators deemed to have been inadequate before the earthquake, while the other focused on the costs of repairs excluding the foundation. ÚNTÍ referred to the fact that the latter approach pertained to the cost of restoring the property to its previous condition before the earthquake, whereas the former involved “preventive measures”, which were not encompassed within the compensation framework established by Article 12 of the regulation. Consequently, the claimant was awarded compensation in accordance with the latter approach.

It is evident that the situation remains unaffected in this regard, even if permission is not granted for repairs to restore the property to its previous condition before the insurance event. Compensation will still correspond to the cost of such repairs, as reflected in the following decisions:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 16, 1996, in case no. 1/1996. On March 19, 1995, an avalanche struck the factory of A in Seyðisfjörður, causing damage. The conclusion of the evaluators appointed by NTÍ was that the damage constituted partial loss under Section 5 of Article 12 of the regulation, and compensation was paid accordingly. However, the municipal authorities in Seyðisfjörður denied permission to rebuild the part of the factory affected by the avalanche, and A argued that the factory was therefore useless, constituting a total loss. NTÍ, on the other hand, maintained that the law only provided for compensation for physical damage, not indirect damage such as the cost of relocating structures, even if those structures were situated in avalanche hazard zones. The ÚNTÍ decision stated that, based on the clear wording of Article 4 of the Natural Catastrophe Insurance Act and its explanatory notes, it must be concluded that it was not the intention of the legislature for NTÍ to compensate for the type of damage claimed in this case. This conclusion was further supported by a recent legal provision regarding the Avalanche Fund, which specifically addressed situations somewhat comparable to those in the case at hand and

⁵⁵ See also the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 19, 2017, in case no. 3/2015.

⁵⁶ See also the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 2, 2016, in cases no. 5 and 6/2015, which is the later decision of the committee regarding the same damage.

stipulated that the Landslide and Avalanche Fund should bear the associated costs. The claim made by A was therefore rejected.⁵⁷

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from March 23, 2016, in case no. 3/2014. A residential house in Flóahreppur sustained damage during an earthquake on May 29, 2008, and compensation was paid based on an expert assessment. The claimant believed the damage was not fully compensated. He argued that due to the requirements of the building inspector, it was not possible to carry out the repairs outlined in the expert assessment without addressing the foundation of the house, and the assessment did not account for the cost of improving the foundation. Such repairs would be extremely costly, and therefore, the damage should be settled as a total loss. In the ÚNTÍ decision, the content of Article 12 of the regulation was reviewed, and it was stated that the evaluators had not considered the foundation of the house to have been damaged by the earthquake. Thus, the claim essentially sought to improve the condition of the foundation, which had not been damaged by the earthquake, resulting in the claimant receiving a new foundation to replace the old one, even though the old foundation was in the same condition as before the earthquake. The conclusion of the decision stated: “Despite the building inspector’s position that it is necessary to repair the foundation as part of repairing the damage attributed to the earthquake, this does not change the fact that the foundation cannot be considered to have sustained direct damage during the earthquake, nor does it change the fact that with repairs as outlined in the expert assessment, the property would be considered “restored to its previous condition or as close as possible to it before the insurance event.” The aforementioned rules therefore do not support accepting the claimant’s demands.”

The Natural Catastrophe Insurance Act includes specific provisions that may lead to a claim being denied entirely or the compensation amount being reduced. Article 16 states that it is permissible to reduce compensation or deny a claim altogether:

1. When a house or other structure that is damaged is built in a location that was generally known beforehand to be hazardous with regard to natural disasters, for example, if a structure in the same location has sustained similar damage more than once. The same applies to movable property stored in a house or other structure under such circumstances.

2. When the construction or maintenance of a house or other insured item is unconscionable or contrary to law and regulations, and it is evident that damage has occurred or worsened as a result of these actions.

This article has been part of the legislation on this subject since the beginning. In the explanatory notes on the article, it is stated that there would hardly be any examples of the article being applied. It further states:

“Nevertheless, it is considered necessary to retain the authorization provision in the law to prevent unreasonable claims for compensation for houses or other structures built in hazardous loca-

tions, etc. However, the rules of Article 16 would only be applied in exceptional cases. For example, if a house is built in an area where volcanic activity has occurred and there is reason to fear its continuation for some time, or if a ski lift is constructed in a known avalanche zone.”⁵⁸

Accordingly, this is an authorization provision that must be interpreted narrowly, and it is clear from existing practice that its application has generally been rejected, cf. the following decisions, with the latest one clearly indicating that significant circumstances are required for the provision to be applied:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from June 18, 2008, in case no. 1/2006. A filed a claim for compensation from NTÍ for damage to a pumping station in Rangárvallasýsla caused by earthquakes in June 2000. ÚNTÍ found that it had not been demonstrated that the construction of the structure was unconscionable and that it had resulted in the damage from the earthquakes being more extensive than it otherwise would have been, cf. Section 2 of Article 16 of the Natural Catastrophe Insurance Act. Therefore, there were no grounds to reduce the compensation amount stipulated in Articles 9 and 10 of the Act.

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 31, 2012, in case no. 2/2011. A sought compensation from NTÍ for damages incurred when the overflow of the upper dam of Djúpadalsvirkjun in Eyjafjörður ruptured on December 20, 2006, resulting in the reservoir of the dam emptying rapidly, flooding the course of Djúpadalsá, and causing damage to structures and equipment of Djúpadalsvirkjun, among other things. The board of NTÍ denied liability. In the ÚNTÍ decision, it was found that A’s entitlement to compensation was neither diminished nor forfeited under Article 16 of the Natural Catastrophe Insurance Act. The decision stated, among other things, that there was no information indicating that the locations where Djúpadalsvirkjun I and II were built were hazardous with respect to natural disasters. Nor was it known that structures in the same location had “more than once” sustained similar damage prior to the construction of the power plants. Therefore, Section 1 of Article 16 could not justify reducing or denying A’s right to compensation. Furthermore, it was considered beyond doubt that buildings, other structures, and equipment damaged in the event, excluding the dam and overflow of the upper dam, could not be classified under Section 2 of the same article, and thus that provision could not grant NTÍ the right to reduce or deny compensation. However, A’s compensation was reduced by one-third under Paragraph 2 of Article 27 of the Act on Insurance Contracts, as detailed in Chapter 6.5.

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 27, 2015, in case no. 1/2011. After an earthquake on May 29, 2008, a property owned by A in Hrunamannahreppur began to sink. The board of NTÍ denied liability for the damage based on Section 2 of Article 16 of the Natural Catastrophe Insurance Act, arguing that the sinking of the house was attributable to unconscionable foundation work for which A was responsible.

⁵⁷ Reference can also be made to the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from July 20, 2007, in case no. 2/2006, where compensation for a residential house was based on a partial damage, despite a letter from the building inspector indicating that the house was destroyed and entirely unfit for repair. The conclusion in the case does not appear to have been based on an interpretation of the extent of the insurance coverage but rather on the fact that the claimant had received legal assistance and agreed to the earlier settlement, which was based on partial damage, despite the previously stated position of the building inspector.

⁵⁸ Alþingi Parliamentary Records 1991–1992, Section A, p. 1321.

⁵⁹ The appeals committee had previously issued another decision regarding the same damage. See the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 16, 2010, in case no. 1/2008.

However, ÚNTÍ deemed it unlawful to reduce compensation under this provision. Regarding this, the decision stated that while the foundation work and the investigations into soil conditions had not entirely adhered to prescribed regulations regarding measurements and inspections, it could not be definitively asserted that formal inspections of the soil and foundation would have prevented the damage that had occurred. The decision then refers to previously outlined explanatory notes accompanying the bill that became the Natural Catastrophe Insurance Act, stating: “The committee believes that insufficient evidence has been provided to conclude that gross negligence or intent was involved in the foundation work of the house [...] Therefore, the committee finds it unavoidable to annul the decision of the board of the Icelandic Catastrophe Fund from October 7, 2010.”

Attention should be drawn to Article 8 of the Natural Catastrophe Insurance Act, which states that structures built in defiance of governmental prohibitions or contrary to provisions of law, in such a way that it can be assumed they are more vulnerable to damage from natural disasters, are not eligible for natural disaster insurance, regardless of whether they are fire insured or not. In the explanatory notes on the article, it is stated that the article does not specify what impact it has on the institution’s obligation to pay when insurance has been obtained contrary to the article. However, it is noted that in such cases, the application of Article 16 and provisions of the Act on Insurance Contracts regarding the duties of the policyholder and the insured should be considered.⁶⁰ From this, it can be inferred that the institution’s obligation to pay does not lapse in such cases due to Article 8 but rather depends on Article 16 of the Natural Catastrophe Insurance Act and general principles of insurance law as to whether the right to compensation is limited.⁶¹

According to Article 17 of the Natural Catastrophe Insurance Act, insurance compensation must be paid out as quickly as possible, cf. Article 48 of the Insurance Contracts Act. This implies, among other things, that the compensation must be paid in a lump sum as soon as it becomes feasible, see for example:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 19, 2017, in case no. 3/2015. The committee annulled the decision of the board of NTÍ, referring, among other things, to the fact that it was inconsistent with Article 17 of the Natural Catastrophe Insurance Act. The ÚNTÍ decision stated: “The expert assessment by the court-appointed evaluators, and consequently the contested decision, is also flawed in that it does not resolve the case. This is because it is assumed that it will be determined later whether doors, windows, and walls need to be repaired, and therefore it is not considered impossible that further damage could exist beyond what is evaluated in the assessment. On this basis, the conclusion of the contested decision states: “If the levelling of the residential building leads to an excessive inclination in walls/windows/doors, the Icelandic Catastrophe Fund will assess and compensate for it as appropriate, provided that a specific notification to that effect is later submitted to the institution and within the statutory limitation period.” Such an approach is

inconsistent with the current rules on damage assessment and settlement, as well as Article 17 of Act No. 55/1992 on the Icelandic Catastrophe Fund.”

Finally, it should be noted that in accordance with the fact that the insurance only covers compensation for direct damage, and since there is no legal basis to award legal costs, ÚTVÍ has dismissed claims for compensation regarding legal assistance or other professional services, see for example:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from June 18, 2008, in case no. 1/2006. The decision denying liability was overturned, and A was awarded compensation along with interest and penal interest. However, the claim for appeal costs was dismissed with the following reasoning: “Regarding the committee’s authority to address appeal costs in its decisions, it must be considered that the committee’s powers are defined by Act No. 55/1992, Regulation No. 83/1993, and the general principles of the Insurance Contracts Act, No. 20/1954. In the legal provisions contained in these laws and regulations, no authorization is found for the committee to rule on appeal costs against the defendant, the Icelandic Catastrophe Fund. Consequently, it cannot be considered possible to decide on such costs without legal basis. This conclusion is supported by the principle of legality under Icelandic constitutional and administrative law, which, among other things, stipulates that administrative decisions must have a legal basis. Therefore, the claimant’s demand for appeal costs is dismissed by the committee, and the claimant must bring the matter before the courts in case of a dispute.”⁶²

This stance aligns with the general principle described in the judgment of the Supreme Court of Iceland from May 4, 2016, in case no. 585/2015, which states that citizens must bear the costs of their submissions to administrative authorities and legal proceedings before them. If they choose to seek assistance from experts for such submissions and incur costs as a result, they cannot claim reimbursement for those costs unless a specific legal provision allows for it. Given that appeals to ÚNTÍ may entail certain expenses for claimants, one might, however, consider whether it would be appropriate to enact authority for the committee to award legal costs, as is practiced by certain administrative committees, such as the Public Procurement Complaints Commission, cf. Paragraph 3 of Article 111 of the Public Procurement Act No. 120/2016. Regardless of this, it is clear that apart from compensation from the insurance itself, the claimant may have a right to further compensation from NTÍ based on general principles, as exemplified by the following judgment:

Judgment of the Court of Appeal of Iceland from February 5, 2021, in case no. 772/2019. In a ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 2, 2016, in cases no. 5 and 6/2015, the Appeals Committee directed the board of NTÍ to pay A additional compensation beyond what had previously been awarded for damages to his residential property caused by an earthquake on May 29, 2008. Earlier, in a ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from

⁶⁰ Alþingi Parliamentary Records 1991–1992, Section A, p. 1319.

⁶¹ In the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from June 18, 2008 in case no. 1/2006; the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 16, 2010 in case no. 1/2008; and the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 31, 2012 in case no. 2/2011, it was not considered that the circumstances described in Article 8 were present in these cases.

⁶² See also, for example, the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 12, 2016, in case no. 1/2014, and the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 16, 2017, in case no. 2/2016.

October 24, 2014, in case no. 1/2012, the Appeals Committee had annulled an earlier decision by the board of NTÍ regarding the same property and instructed the board to obtain an expert assessment by court-appointed evaluators. A also pursued two additional cases before the Appeals Committee concerning other properties, and in both cases—rulings of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 2, 2016 in cases no. 5/2013 and 6/2013—he was awarded further compensation beyond what NTÍ had paid. In all these decisions, ÚNTÍ dismissed A's claims for the costs of pursuing the cases before the committee, as it lacked legal basis to rule on such costs. However, in the first-mentioned decision, the committee criticized various aspects of NTÍ's handling of the case, stating that the institution's procedure had not adhered to good administrative practices, resulting in "unnecessary delays in case proceedings, inconvenience, and, to some extent, costs for the claimant." The decision further noted: "It should be emphasized that the committee believes compensation for the claimant's costs incurred due to the above could be considered, based on general principles, but as previously stated, the committee lacks legal basis to rule on this, and such a claim would have to be resolved by the courts." Following these decisions, A filed a lawsuit against NTÍ to claim damages for the expenses he incurred while pursuing his administrative cases. The Court of Appeal found significant flaws in NTÍ's case handling, which violated the procedural speed requirement in Article 9 of the Administrative Procedures Act No. 37/1993, as A's case had not been processed in the manner prescribed by the Natural Catastrophe Insurance Act and the associated regulation. Furthermore, the procedure also breached Articles 7 and 10 of the Administrative Procedures Act. The conditions of negligence and unlawfulness were therefore met, and A was awarded damages based on an estimate, amounting to ISK 5,500,000. However, A was not deemed to have provided sufficient reasoning to satisfy the conditions of Article 26 of the Tort Damages Act No. 50/1993 for awarding non-pecuniary damages.

6.5 The significance of general principles of insurance law

As previously stated, general principles of insurance law apply except where specifically provided for in the Natural Catastrophe Insurance Act and the Regulation on Natural Catastrophe Insurance. For instance, general rules concerning interest and penal interest on compensation under the insurance apply, specifically Article 50 of the Insurance Contracts Act and Chapter III⁶³ of the Act on Interest and Indexation No. 38/2001, see for example:

*Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from September 1, 2017, in case no. 1/2017. The dispute concerned the settlement of compensation for damages to the property of A and B in Ölfus following an earthquake on May 29, 2008. In the ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 19, 2017, in case no. 3/2015, the board of NTÍ was directed to pay A and B compensation in accordance with an assessment dated October 18, 2013. Subsequently, disputes arose over interest and penal interest, prompting A and B to return to ÚNTÍ. The committee's decision referred to Article 25 of the Natural Catastrophe Insurance Act, stating the following regarding the rules governing interest and penal interest: "In response to the complainants' references to Articles 8 and 9 of the Act on Interest and Indexation No. 38/2001, found in Chapter IV of that Act, it should be noted that general interest on claims for insurance compensation are addressed in Article 50 of the Insurance Contracts Act No. 30/2004. This provision specifies the starting point for general interest, while their rate is governed by the same rules as those applicable to damages under Act No. 38/2001, cf. Sub-paragraph 1, Paragraph 6 of Article 50 of Act No. 38/2001. Based on the foregoing, as well as the nature of the compensation involved as insurance compensation, the provisions of Articles 8 and 9 of Act No. 38/2001, which address interest on claims for damages, are not applicable when determining the starting point for interest. Instead, the conclusion regarding general interest is based on Article 50 of Act No. 30/2004 and concerning penal interest Article 5 of Act No. 38/2001, which is in Chapter III of that Act." The aforementioned assessment dated October 18, 2013, which formed the basis of the settlement, was based on pricing levels in that month. It was thus concluded that, according to Paragraph 5 of Article 50 of the Insurance Contracts Act, which constitutes an exception to the main rule in Paragraph 1 of the same article, A and B were entitled to general interest from October 18, 2013. The views of the board of NTÍ that the conditions of Sub-paragraph 2 of Paragraph 4 of the same article applied were rejected. Furthermore, under Paragraph 3 of Article 5 of Act No. 38/2001, A and B were deemed entitled to penal interest from November 18, 2013, one month after the assessment was completed.*⁶⁴

In this context, it may be noted that examples can be found where NTÍ, during settlements, has calculated damages interest on older payments from the institution before deducting them from the total compensation amount. However, ÚNTÍ has explicitly rejected this approach.⁶⁵ In the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from September 1, 2017, in case no. 1/2017*, as previously outlined, an earlier payment by NTÍ from

⁶³ See, regarding the general rules in this regard Eiríkur Jónsson and Viðar Már Matthíasson: *Bótaréttur II*, pp. 488–492.

⁶⁴ See also the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from June 18, 2008, in case no. 1/2006*, where interests and penal interests were awarded to the claimant pursuant to Act No. 38/2001; the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from October 23, 2015, in case no. 1/2015*, where it was determined that the conditions for penal interests were not met under Paragraph 3 of Article 5 of Act No. 38/2001, cf. Paragraph 6 of Article 50 of the Insurance Contracts Act; and the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 12, 2016, in case no. 1/2014*, where, with reference to Paragraph 3 of Article 5 of Act No. 38/2001 and Sub-paragraph 2 of Paragraph 6 of Article 50 of the Insurance Contracts Act, cf. Article 25 of the Natural Catastrophe Insurance Act, the claimant's right to penal interests was recognized from one month after their claim was submitted.

⁶⁵ See the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 2, 2016 in case no. 6/2013*; the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 2, 2016 in cases no. 5 and 6/2015*; and the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 15, 2016, in case no. 1/2016*, which states, among other things: "In the contested decision, compensation interest is calculated on the mentioned payments, which are then deducted from the compensation amount. The board of the Icelandic Catastrophe Fund has provided no justification as to how payments to the claimant and the previous owner could

2009 was, however, index-adjusted before being deducted during the settlement, which was based on an assessment reflecting pricing levels in October 2013. This was undisputed before the committee.

General rules on limitation also apply, cf. Article 52 of the Insurance Contracts Act,⁶⁶ which provides for a relative limitation period of four years (starting at the end of the calendar year in which the insured "received the necessary information about the circumstances that form the basis of their claim") and a maximum limitation period of 10 years (expiring, at the latest, 10 years after the end of the calendar year "in which the insurance event occurred"). On this matter, the following decisions can be referenced:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from May 23, 2014, in case no. 3/2013. A and B sought compensation from NTÍ for damages to their residential property in Flóahreppur caused by earthquakes in southern Iceland in 2000 and 2008. The board of NTÍ considered the claim related to the 2000 earthquake to be time-barred. In its decision, ÚNTÍ noted that the Natural Catastrophe Insurance Act does not address limitation periods, but Article 25 states that if the Act does not provide otherwise, the rules of the Insurance Contracts Act shall apply as appropriate. The decision outlined the content of Article 29 of the older Insurance Contracts Act No. 20/1954 and Paragraph 1 of Article 52 of the current Insurance Contracts Act, stating that there was no evidence to suggest that A and B could reasonably have known, until well after July 10, 2003, that NTÍ considered the damage they had reported to the institution to be ineligible for compensation. Based on this and with reference to the aforementioned legal provisions, it was concluded that the claim by A and B for compensation due to the subsidence of their residential property caused by the 2000 earthquake had not become time-barred during the period from July 10, 2003, to November 2009, as NTÍ had assumed. Consequently, the claim was not time-barred under the four-year limitation period, and the 10-year maximum period was not applied by NTÍ.

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from January 29, 2016, in case no. 7/2013. A and B demanded additional compensation beyond what NTÍ had already paid for damage to their property in Flóahreppur caused by earthquakes in 2000 and 2008. The claim concerning the 2000 earthquake was considered time-barred, and the ÚNTÍ decision states: "[In] subparagraph 3, paragraph 1 of Article 52 of the Insurance Contracts

Act No. 30/2004, applicable here cf. Article 146 of the same Act and Article 25 of the Natural Catastrophe Insurance Act No. 55/1992, a specific maximum period is established for filing claims. Specifically, it states that a claim becomes time-barred at the latest 10 years after the end of the calendar year in which the insurance event occurred, and the same 10-year maximum period is applied under sub-paragraph 2 of Article 29 of the older Act No. 20/1954. The claim for the June 2000 earthquake became time-barred under the aforementioned rule at the latest by the end of 2010, but the claimants' claim in this regard was not submitted until 2012. How the Icelandic Catastrophe Fund handled the proceedings more than 11 years earlier cannot be considered to affect the fact that when the claimants' claim was submitted, the maximum period had already expired. It should also be noted here that under paragraph 1 of Article 12 of the Act on Icelandic Catastrophe Fund No. 55/1992, the duty to notify damage to the insured rests, in this case, with the claimants and the third owner."

In addition to the rules on limitation periods, it should, with reference to Article 25 of the Natural Catastrophe Insurance Act and considering Paragraph 1 of Article 12 of the same Act, be assumed that the notification period outlined in Paragraph 1 of Article 51 of the Act on Insurance Contracts applies to compensation under natural disaster insurance.⁶⁸ This provision states that the insured loses the right to compensation if they do not notify the company of their claim within one year "from when they became aware of the circumstances on which the claim is based" (relative period). Paragraph 1 of Article 51 has, however, seen limited application in practice, as the institution appears to have seldom relied on this provision. Nevertheless, the following decision provides an example:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from February 12, 2016, in case no. 2/2014. Early in 2009, NTÍ paid compensation for damage to a property in Hveragerði caused by an earthquake on May 29, 2008. In March 2013, the claimant reported additional damage, but the NTÍ board rejected their claim, partly based on the argument that the notification deadline under Paragraph 1 of Article 51 of the Act on Insurance Contracts had expired by the time the notification was submitted. Additionally, the claim was considered time-barred under Paragraph 1 of Article 52 of the same Act, as the four-year limitation period had begun four years after the previous compensation set-

form the basis for compensation interest that would apply to the complainant and be deducted from the final settlement against them, nor have other criteria or reasoning been presented for this. As the case stands, the mentioned deduction for compensation interest must therefore be rejected, and it must be considered that it is not feasible to further deduct due to earlier payments to the complainant beyond their amount, that is, ISK 8,095,246".

⁶⁶ See regarding those rules Eiríkur Jónsson and Viðar Már Matthíasson: *Bótaréttur II*, pp. 504–505.

⁶⁷ See also the *ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from June 1, 2018, in case no. 4/2017*, where a notification was submitted on August 16, 2016, regarding damage caused by earthquakes in the year 2000. It was determined that the 10-year maximum time limit had expired, and the claim was therefore barred by limitation. The claimants argued that they were entitled to an extended deadline to pursue the claim under Article 10 of Act No. 150/2007 on the limitation of claims and Article 7 of the earlier Act No. 14/1905 on the limitation of debts and other claims. This was rejected with reference to the fact that Article 7 of the earlier act applied in this case and that there was no indication that NTÍ had fraudulently concealed or neglected to disclose information about the events, nor were the conditions of the mentioned article for an extension of the deadline otherwise fulfilled.

⁶⁸ See regarding that deadline Eiríkur Jónsson and Viðar Már Matthíasson: *Bótaréttur II*, pp. 493–498. It is worth noting that prior to the enactment of the Natural Catastrophe Insurance Act, a much stricter rule applied, whereby the insured would lose all rights to compensation if they did not notify of an insurance event within 30 days from the time it occurred. This rule was abolished with the Natural Catastrophe Insurance Act, citing that it was contrary to the fundamental principles of insurance law. See Alþingi Parliamentary Records 1991–1992, Section A, p. 1320.

⁶⁹ On the other hand, it must be considered that Paragraph 2 of Article 51 of the Insurance Contracts Act does not apply, as Article 19 of the Natural Catastrophe Insurance Act provides specific rules on those matters.

tlement. NTÍ nevertheless assessed the damage, and the assessors concluded that no further damage to the property had occurred beyond what was evaluated in 2009. In its decision, ÚNTÍ stated that the grounds provided by the board for the expiration of the notification period and the time-barring of the claim could not be accepted. On this point, it elaborated: "In this context, it should be noted that the claimant's notification on March 12, 2013, constituted a report of damage which the claimant stated they had not become aware of until the previous month, and the maximum limitation period under Sub-paragraph 2 of Paragraph 1 of Article 52 of the Insurance Contracts Act No. 30/2004 had not expired. Even though the relative periods in Sub-paragraphs 1 and 2 of Paragraph 1 of Article 52 of the same Act, or Paragraph 1 of Article 51, might have been relevant if further damage caused by the earthquake had been confirmed, it was not appropriate to draw the general conclusion, based on the reasoning provided, that the notification deadline had passed and the claim was time-barred. It is evident, as stated in the contested decision, that after the claimant's notification, the Icelandic Catastrophe Fund conducted an assessment of the property damage, as is done "when information indicates that the claimant had not become aware of their damage within the aforementioned time limits." Based on the findings of two assessments concluding that no additional damage had occurred, the claimant's demand was ultimately rejected.

In addition to the rules outlined in Articles 8 and 16 of the Natural Catastrophe Insurance Act, as described in Chapter 6.4, a claimant, based on general principles, may face elision or reduction of NTÍ's liability if they are deemed to have caused the insured event intentionally or through gross negligence, or if they have intentionally or through gross negligence neglected their duty to prevent the insured event or report it, cf. Articles 27 and 28 of the Insurance Contracts Act. The following decision can be referenced in this regard:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from December 31, 2012, in case no. 2/2011. This decision, previously mentioned in Chapter 6.4, concerned damage to the Djúpadalsvirkjun hydroelectric plant in Eyjafjörður. The ÚNTÍ decision concluded that A's rights were neither reduced nor lapsed under Articles 8 or 16 of the Natural Catastrophe Insurance Act. However, A was held responsible for a portion of their own damage under Paragraph 2 of Article 27 of the Insurance Contracts Act. This was based on the finding that A's actions following a prior flood on June 5, 2006, had been unconscionable. Court-appointed assessors had described those actions as "both unreliable and unprofessional". The decision stated that, given the assessors' findings, which had not been challenged, it had to be concluded that A exhibited gross negligence as defined in Paragraph 2 of Article 27 of the Insurance Contracts Act. The failure to promptly undertake repairs following the June 2006 flood and to empty the reservoir constituted such neglect that it amounted to gross negligence, leading to the decision that A should bear one-third of the damage themselves.

It can also be mentioned that if the policyholder provides incorrect information during the formation of the contract or fails to pay the premium on the due date, it may affect the insured's right to compensation under the Insurance Contracts Act.

6.6 Obligation to repair or rebuild

With the amendment act No. 46/2018, rules regarding the obligation of claimants to repair or rebuild were legislated. These rules are similar to those that have applied to fire insurance, cf. Article 3 of the Act on Fire Insurance No. 48/1994, whereas prior to the enactment of Act No. 46/2018, no such rules were in place for catastrophe insurance. The explanatory notes to the bill that became the law mention, among other things, that it is known that compensation has not always been used to repair damaged residential properties, which has created distrust in the housing market. The issue has arisen concerning how settlements are handled for subsequent damage in such cases, see the following decision:

Ruling of the Natural Catastrophe Insurance Appeals Committee (ÚNTÍ) from May 10, 2013, in case no. 3/2012. A residential house in Selfoss suffered damage in an earthquake in the year 2000. In 2002, the then-owner of the house was paid compensation based on specific renovations, which the owner, however, did not undertake. Subsequently, the property changed ownership and was again damaged in an earthquake on May 29, 2008. Disputes arose regarding the settlement. The assessment that ÚNTÍ deemed to best represent the damage encompassed both earthquakes. With reference to Section 5 of Paragraph 1 of Article 12 of the regulation, the appeals committee considered it untenable to base the settlement fully on the assessed amount. Instead, it determined that the payment made to the previous owner in 2002, adjusted for inflation up to July 2011, which was the point in time to which the amounts in the assessment were referenced, should be deducted from the assessed total.

In the new Article 15 of the Natural Catastrophe Insurance Act, Paragraph 1 states:

"The claimant must use insurance compensation to repair or rebuild a property that has been damaged due to natural disasters. If the insurance compensation exceeds 15% of the insured value of the property or if the damage affects the property's safety or health conditions, the Natural Catastrophe Insurance of Iceland shall ensure that the compensation is appropriately allocated before it is paid to the claimant."

According to this, the institution will continue to pay compensation directly to the claimant for minor damage to residential properties (less than 15%), but the law imposes an obligation on the claimant to use the amount for repairs or renovations. Similarly, the institution will continue to pay compensation directly to the claimant for damage to other properties, without the law stipulating an obligation for repairs on them. In cases of more significant damage to residential properties (15% or more, or if it affects the property's safety or sanitary conditions), the institution is, however, tasked with ensuring that the insurance compensation is used for repairs or renovations.

According to paragraph 2 of Article 15, the Icelandic Natural Catastrophe Insurance (NTÍ) is authorized to grant an exemption from the obligation to repair or rebuild, in consultation with the municipal council, provided that 15% is deducted from the compensation amount. This primarily applies when a property suffers total loss due to a natural disaster and a decision is made not to rebuild it. Finally, under Paragraph 3 of Article 15, municipalities

⁷⁰ See regarding these articles Eiríkur Jónsson and Viðar Már Matthíasson: *Bótaréttur II*, pp. 297–316 and 337–348.

⁷¹ See Alþingi Parliamentary Records 1991–1992, Section A, p. 1313.

⁷² See Alþingi Parliamentary Records 2017–2018, Section A, parliamentary document 538 – case 388.

are authorized to acquire damaged properties, subject to the condition that the estimated repair cost, taking into account the property's age and condition at the time of the damage event, exceeds half of the insured amount, and that it is deemed necessary to remove the property due to the risk of recurring natural disasters.⁷³ This may, for instance, apply in cases involving avalanche risk.

7. Natural disasters in Grindavík — how did the natural disaster insurance perform?

7.1 Introduction

The system outlined in the foregoing chapters is intended to broadly cover natural disasters that may occur and ensure appropriate compensation for damages. However, natural disasters are inherently unpredictable, at least to a large extent, and when they occur, their fit within the system is tested, determining whether the response is sufficient to address the damages. This was recently put to the test in Iceland in a very tangible way when the natural disasters in Grindavík began. Recurring earthquakes and volcanic eruptions—still ongoing—have posed one of the greatest challenges regarding natural disaster management in the country.

These disasters are unique because they have persisted for several years, raising uncertainty about whether the town of Grindavík is viable for future habitation. This contrasts with other natural disasters previously mentioned, such as the earthquakes in South Iceland in 2000 and 2008, and the landslides in Seyðisfjörður in 2020, which were single events or occurred over a relatively short period. In this chapter, it will specifically be examined how the exceptional circumstances in Grindavík align with the existing natural catastrophe insurance system, particularly in terms of risks and damages covered by the insurance under the Natural Catastrophe Insurance Act, as well as compensation payments and obligations imposed on claimants to repair and rebuild. Additionally, the measures deemed necessary by authorities due to these disasters will be analyzed, especially Act No. 16/2024 regarding the Purchase of Residential Properties in Grindavík (hereinafter referred to as Act No. 16/2024 or Act on the Purchase of Residential Properties

in Grindavík) and the main provisions of that legislation. Finally, it will be summarized how these two systems interact. It should be noted that the objective is to provide a broad overview rather than an exhaustive analysis of the subject matter.

7.2 General aspects of the natural disasters in Grindavík

In December 2019, a period of geological upheaval began on the Reykjanes Peninsula, marked by seismic activity, underground magma movements, and repeated volcanic eruptions. The first eruption that breached the surface occurred in March 2021, followed by several others, including eruptions in Meradalir in August 2022, near Litli-Hrútur in July 2023, at Sundhnúkagígur in December 2023, and at Hagafell in January 2024.⁷⁴ On November 10, 2023, signs indicated that magma might reach the coastal town of Grindavík, prompting authorities to declare a state of emergency. As a result, the town was evacuated, and residents were prohibited from returning except by special permission from law enforcement.⁷⁵ At the time, Grindavík had approximately 3,700 residents living in around 1,100 households, representing roughly 1% of Iceland's population.

Since the initial evacuation, the town has been evacuated multiple times and residents either temporarily barred from staying or strongly discouraged from returning, though not explicitly banned to do so.⁷⁶ Authorities have repeatedly allowed residents to enter the town to check on their properties and salvage valuables. The civil protection alert level in Grindavík has remained at emergency or hazard levels since November 2023, with no clear indication of when the situation will pass.

Authorities have responded to this situation with various measures, including the construction of protective barriers north of Grindavík to potentially redirect lava flows and mitigate damage to the town. However, in January 2024, a volcanic fissure opened within these barriers, causing lava to flow into the town and completely destroy several residential houses before stopping. Despite this, the barriers have largely prevented lava from freely entering Grindavík and causing damage.⁷⁷ Nevertheless, the ongoing sequence of earthquakes in the area have caused significant property damage and disruption to the community, with no clear end in sight.

⁷³ Alþingi Parliamentary Records 2017–2018, Section A, parliamentary document 538 – case 388.

⁷⁴ See Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 12.

⁷⁵ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, p. 1 and Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 4.

⁷⁶ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 4–5 and Website of the Department of Civil Protection and Emergency Management of the National Police Commissioner: “Rýming í Grindavík – Neyðarstig Almannavarna”, November 10, 2023.

⁷⁷ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 5 and Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, pp. 1 og 26.

⁷⁸ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 6 and announcements from the Department of Civil Protection and Emergency Management of the National Police Commissioner from November 14, 2023, <https://www.almannavarnir.is/frettir/grindavik-rymd-af-oryggisastaedum/>, December 30, 2023, <https://www.almannavarnir.is/frettir/auknar-likur-a-eldgosi/> and February 5, 2024, <https://www.almannavarnir.is/frettir/almennar-upplýsingar/>.

⁷⁹ See Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 6.

⁸⁰ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 6 and announcement from the Department of Civil Protection and Emergency Management of the National Police Commissioner from December 18, 2023, <https://www.almannavarnir.is/frettir/eldgos-hafid-nordan-vid-grindavik/>.

⁸¹ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 5 and Natural Catastrophe Insurance of Iceland: *Annual Report 2023*. Reykjavík 2024, pp. 8 and 11.

These events have affected not only residential homes but also critical infrastructure, including roads and hot water pipelines.⁸²

Experts estimate that a new volcanic era has begun on the Reykjanes Peninsula and that the situation could persist for decades.⁸³ Many indicators suggest that recurring magma flows, accompanied by seismic activity⁸⁴ and fissure formations, may lead to further volcanic eruptions.⁸⁴ As a result, significant uncertainty surrounds the future of Grindavík, and authorities are facing one of the largest natural disaster challenges ever encountered in Iceland.⁸⁵

As previously noted, these natural disasters are unique and complex, far more so than other natural disasters that authorities and NTÍ have had to deal with, mainly because they have lasted for an extended period with no clear end in sight or certainty about whether Grindavík will remain habitable once they do. Additionally, there is significant uncertainty regarding the total extent of property damage, as conditions in the area have complicated damage assessments, other processing, and settlement procedures.⁸⁶ The situation remains highly unpredictable, with changes occurring rapidly, posing risks such as ground collapses into fissures and fissure shifting within Grindavík.⁸⁷ In the next chapter, it will be examined how these specific natural disasters fit within the existing natural catastrophe response system outlined in the previous chapters.

7.3 How do the natural disasters in Grindavík align with the natural catastrophe insurance act?

7.3.1 Insured risks and insured property

As outlined in Chapter 5, in most cases, there is no doubt that the event for which compensation is sought qualifies as a natural catastrophe under Article 4 of the Natural Catastrophe Insurance Act. The same applies to the natural disasters on the Reykjanes Peninsula, which primarily consist of volcanic eruptions and earthquakes. Additionally, many properties, particularly residential buildings and movable assets, have suffered damage due to these events. By the end of September 2024, NTÍ had processed 523 claims related to the seismic activity in Grindavík since November 2023. Of these, 363 involved damage to residential properties, 87 concerned commercial buildings,⁸⁸ 65 were for movable assets, and 8 were for utility infrastructure. At this point, most real estates in Grindavík were either lightly or entirely undamaged, but 63 properties had suffered total destruction. Among them, 35 were residential buildings and 28 were commercial structures. The total

loss of these properties was primarily due to their location on or near fissures, which caused, inter alia, structural damage.

As outlined in Chapter 6.4, the Natural Catastrophe Insurance Act provides coverage only for direct damage to movable assets, real estate, and structures, as specified in Articles 4 and 5 of the Act. In cases where lava has covered insured properties or fissures have formed, causing structural damage, it is clearly regarded as direct damage under the law. However, a variety of other damages affecting real estate, movable assets, and structures in Grindavík will not be compensated under the Act. These fall into three main categories.

First, there is indirect damage to real estate and movable assets due to lava flowing over hot water or electrical infrastructure, leading to heating or power outages. Examples include frozen pipes or damage to perishable goods caused by refrigeration failure. As previously noted, indirect damage is not covered under the Natural Catastrophe Insurance Act. Second, there is damage caused by fissures near real estate, rendering them unusable or reducing their functionality, even if the real estate itself has suffered little to no damage. This also qualifies as indirect damage and falls outside NTÍ's coverage. Closely related to this is more general indirect damage where properties cannot be used due to government-imposed restrictions affecting access to the town. Finally, there is damage to structures not insured by NTÍ, such as hot water pipelines owned by HS Orka, which were destroyed by lava flow. Since these are not covered under the Act, no compensation under the Natural Catastrophe Insurance Act is granted for the damage.⁸⁹

7.3.2 Obligation to repair and rebuild

Chapter 6.6 discussed the general principle outlined in Article 15 of the Natural Catastrophe Insurance Act, which states that compensation should primarily be used to repair or rebuild damaged real estate affected by natural disasters. This obligation requires that reconstruction occurs on the same plot of land as the original property. However, this requirement for repair and rebuilding presents a unique challenge for real estate owners in Grindavík, as, as previously noted, it remains uncertain whether the town will be habitable in the coming years—or even decades.

However, under paragraph 2 of this provision, NTÍ is permitted to grant an exemption from the repair and reconstruction obligation outlined in Paragraph 1, provided that the municipal government has been consulted and that 15% is deducted from the compensation amount. This deduction does not apply if reconstruction is prohib-

⁸² Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, pp. 5 and 7 and Natural Catastrophe Insurance of Iceland: *Annual Report 2023*, pp. 6 and 8.

⁸³ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, p. 4.

⁸⁴ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, pp. 6 and 12.

⁸⁵ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, p. 4.

⁸⁶ Natural Catastrophe Insurance of Iceland: *Annual Report 2023*. Reykjavík 2024, p. 6.

⁸⁷ See NTÍ's website: "Um tjónamál í Grindavík", <https://island.is/s/nti/>.

⁸⁸ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, p. 49.

⁸⁹ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, p. 49.

⁹⁰ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, pp. 49–50.

⁹¹ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 8.

ited due to zoning regulations or other circumstances beyond the claimant's control.

At the end of 2023, the Grindavík Town Council reviewed a list of real estate from NTÍ that had suffered total loss in Grindavík. NTÍ had formally requested the town's official stance on whether repair and reconstruction of these properties would be permitted. During its meeting on December 29, 2023, the town council decided not to allow reconstruction of specific residential plots until a hazard assessment⁹² and revised zoning regulations for those plots were completed. This decision established a temporary ban on rebuilding homes in the affected areas. Following this decision, NTÍ announced that, in light of the circumstances, it would grant⁹³ exemptions from the reconstruction requirement for these plots.

The Grindavík Town Council discussed similar requests from NTÍ in its meetings in January and March 2024, where specific properties were listed, reaching the same conclusion—reconstruction would not be permitted until a hazard assessment and revised zoning regulations were completed.⁹⁴ In April 2024, the council again addressed damage to structures in the town, but this time without limiting the discussion to properties that had sustained total loss. It was formally stated that reconstruction and repairs in urban areas of Grindavík would not be allowed if the damage required a building permit. The council's decision was made with the goal of ensuring that real estate owners in Grindavík could receive the fastest possible resolution of their cases through NTÍ. The council also reiterated that if uncertainty remains regarding the continuation of natural disasters in and around Grindavík, there are no grounds to issue building permits for repairs or reconstruction of damaged homes. Its position would be reassessed if circumstances warranted it. However, the council would respond to reasoned requests from property owners for building permits⁹⁵ in exceptional cases, despite its previously stated stance.

Based on the previously stated position of the Grindavík Town Council, there are grounds to grant exemptions from the repair and reconstruction obligation under Paragraph 1, Article 15 of the Natural Catastrophe Insurance Act. It is also unlikely that the 15% deduction provision in Sub-paragraph 2 of paragraph 2, Article 15, will be applied to claimants in Grindavík, as it is clear that the circumstances are beyond their control.

7.3.3 Conclusion

From the discussion above, it follows that owners of total loss properties can receive compensation under the Natural Catastrophe Insurance Act, that will allow them to invest in new properties elsewhere and continue their lives. However, the situation is somewhat more complex when it comes to other properties that have sustained compensable damage. Their owners will only get compensated for necessary repairs, and not the full insured value. Meaning, they can't use their equity in the properties to invest in

others and continue with their lives elsewhere, or at least not to the same extent as those that have gotten compensated for total loss. In addition, there is also a challenge in determining the damage. This issue was addressed in the legislative proposal that became Act No. 16/2024, concerning the Purchase of Residential Properties in Grindavík, that will be discussed in next chapter. The proposal noted that there were challenges in determining necessary repairs, as required by the Natural Catastrophe Insurance Act, since many of the affected properties stand in heavily fissured areas and are exposed⁹⁶ to ongoing seismic activity, increasing the risk of further damage.

The proposal also addressed the fact that no decisions have yet been made regarding whether residential habitation in the area will be permitted in the future. The same uncertainty applies to properties that have sustained little or no damage but are still located on unstable land, where infrastructures, such as roads and utility systems, have been compromised. Additionally, the proposal emphasized that it was not realistic to make final determinations on compensation rights and payouts under insurance terms and existing laws until a new hazard assessment of the town had been conducted. At that point, the only basis for finalizing insurance settlements was for properties that had been fully assessed and determined to be either completely destroyed or severely damaged. Plans were in place to compensate a portion of the visible damage to residential properties in Grindavík, which could be evaluated through standard inspections.⁹⁷

As outlined in the preceding discussion, various types of damages have affected properties in Grindavík, but they will not be compensated under the Natural Catastrophe Insurance Act. The most notable example is indirect damage to real estate that has sustained⁹⁸ little to no damage but cannot be used due to nearby fissures. However, the government quickly implemented various measures to support Grindavík residents in alternative ways. The most significant of these was the Act on the Purchase of Residential Properties in Grindavík, which enabled the purchase of residential properties in Grindavík. This legislation aims to assist owners of residential property in the affected area, provided that they meet the specific conditions set out in the Act, as detailed in the following section. Other measures of the government will be discussed following that.

7.4 Key provisions of Act no. 16/2024 on the purchase of residential property in Grindavík

Act No. 16/2024 on the Purchase of Residential Property in Grindavík was enacted to address the unprecedented uncertainty in the town and to provide residents with the option to sell their homes at pre-determined terms to a state-owned entity. As a result, the risk of owning residential properties in Grindavík shifts from

⁹² See the town council meeting no. 549 on December 29, 2023: <https://www.grindavik.is/v/26890>.

⁹³ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 8.

⁹⁴ See the Grindavík town council meeting on January 24, 2024: <https://www.grindavik.is/v/26943>, March 6, 2024: <https://www.grindavik.is/v/27076> and January 31, 2024: <https://www.grindavik.is/v/26971>.

⁹⁵ See the Grindavík town council meeting on April 12, 2024: <https://www.grindavik.is/v/27168>.

⁹⁶ See the Grindavík town council meeting on April 12, 2024: <https://www.grindavik.is/v/27168>.

⁹⁷ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, pp. 8–9.

⁹⁸ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, pp. 8–9.

⁹⁹ See Natural Catastrophe Insurance of Iceland: *Annual Report 2023*. Reykjavík 2024, p. 10 and Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 7.

100 owners to the state. The purpose clause in Paragraph 1, Article 1 of the Act reflects this principle, stating the following:

“The objective of this Act is to protect the financial stability and well-being of residents in Grindavík amid the uncertainty caused by seismic activity by granting individuals in the town the opportunity to eliminate the risks associated with owning residential property in the town.”

The Act, which primarily provides authorization for the purchase of residential properties in Grindavík, applies to the acquisition of residential housing located within the town’s urban boundaries, as defined in the town’s general zoning plan at the time the law came into effect, cf. Paragraph 2, Article 1 of the Act. However, the law does not cover the purchase of all residential properties. To qualify, a residence must have been registered in an individual’s name as of November 10, 2023, and the owner must also have had their legal residence at that property. Exceptions to the residency requirement may be made in cases where temporary circumstances explain why the individual did not have their legal residence registered at the property, such as work or study obligations. Additionally, an exemption applies if the registered owner purchased the property to assist close family members in securing a home, for example, parents buying an apartment for their children. Furthermore, the Act extends to residential properties owned by estates of deceased individuals, provided that the property was used as a residence, as well as partially built residential properties, subject to specific conditions being met.¹⁰¹

As a result, not all residential properties fall within the scope of the Act, including those purchased for investment purposes and rented out, as well as those owned by companies. Consequently, some property owners will be unable to benefit from the measures provided under Act No. 16/2024. This limitation is explicitly addressed in the legislative proposal, stating that “the purpose of the proposal is not to support business operators but rather to ensure housing security for individuals who have been forced to leave their homes in Grindavík due to natural disasters.”¹⁰²

Under Act No. 16/2024, the Minister of Finance and Economic Affairs was granted authorization to establish a special asset management company responsible for the purchase and administration of residential properties covered by the Act, cf. Paragraph 2, Article 2. Based on this authorization, the asset management company Þórkatla was founded as a private limited liability company. Upon request from a property owner whose residential property falls within the scope of the Act, the company must enter into an agreement for the acquisition of the property, including the transfer of compensation rights related to the property—such as those from Iceland’s Natural Catastrophe Insurance—and, where applicable, any claims against the Natural Catastrophe Insurance for demolition and disposal costs. Additionally, upon the property owner’s request, the company must assume outstanding mortgage loans held by specified financial institutions, provided that the lender agrees, cf. Paragraph 1, Article 3 of the Act. The Act does not require the

company to conduct an independent assessment to determine whether an agreement should be made, as would typically occur in traditional real estate transactions. Instead, the process is determined by the individual’s choice and whether the objective conditions set forth in the legislation are met.¹⁰³

The purchase of residential property is not limited to cases where the property has sustained damage. Owners whose properties fall within the scope of the Act are eligible to request that Þórkatla acquire their property, even if they have not suffered direct damage or even any damage at all. This differs from insurance compensation under the Natural Catastrophe Insurance Act and highlights a fundamental distinction between these two legal frameworks. The legislative proposal leading to the Act on the Purchase of Residential Properties in Grindavík states that the law was designed, among other things, to ensure equal treatment for the residents of Grindavík, allowing them to access the equity tied up in their properties and secure alternative housing so they can continue their lives outside the town.¹⁰⁴

In connection with this, the Act provides that residents may request that their purchase agreement includes a priority right, cf. Article 5 of the Act, which expires three years after the law came into effect. This priority right may take the form of a purchase option, preemptive right, and/or leasing priority, cf. Paragraph 1, Article 6 of Regulation No. 311/2024 on the Purchase of Residential Property in Grindavík. The priority right grants property sellers in Grindavík the opportunity to reacquire their properties should conditions improve. One of the key objectives of Þórkatla is to maintain properties in Grindavík and, hopefully, enable residents to repurchase their homes once circumstances have stabilized.¹⁰⁵

Regarding the payment amount for residential properties, compensation is set at 95% of the fire insurance valuation on the purchase date, minus outstanding mortgage debt and, if applicable, insurance payments received from Iceland’s Natural Catastrophe Insurance, cf. Paragraph 2, Article 3 of the Act. As previously outlined in Chapter 4, insurance coverage under the Natural Catastrophe Insurance Act is based on fire insurance valuation. At first glance, it might appear that the compensation rights under the Natural Catastrophe Insurance Act are more favorable than those under Act No. 16/2024. However, this is not the case. The 95% valuation benchmark in Act No. 16/2024 aligns compensation payments with settlements under the Natural Catastrophe Insurance Act, factoring in, a 2% self-risk deduction and demolition costs.¹⁰⁶

If the fire insurance valuation of a residential property, or the estimated construction cost for properties being built, is significantly higher than its market value as of November 9, 2023, the compensation amount will instead match the market value, minus outstanding mortgage debt and insurance payments received, cf. Paragraph 1 and Sub-Paragraph 1 and 3, Paragraph 2, Article 3 of the Act.

The legislative proposal for Act No. 16/2024 specifically addresses, and indeed asserts, that the fire insurance valuation of properties in Grindavík now exceeds their market value, due to the

¹⁰⁰ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 22.

¹⁰¹ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 1, 16 and 22.

¹⁰² Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 14.

¹⁰³ See Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 13.

¹⁰⁴ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 12.

¹⁰⁵ Website of Þórkatla: “Fasteignakaupum í Grindavík senn að ljúka“, February 14, 2025

and Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 24.

¹⁰⁶ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 24.

sharp decline in demand for housing in the town under current conditions. The proposal also states that 95% of the fire insurance valuation for residential properties in Grindavík averages 70 million Icelandic krona in the case of fully completed residential properties owned by individuals who have their legal residence there. Taking existing debt into account, it is estimated that the average payout per apartment amounts to approximately 45 million Icelandic krona.

The Act on the Purchase of Residential Properties in Grindavík established a deadline for property owners in Grindavík to request the purchase of their properties. Specifically, requests for the purchase of residential housing initially had to be submitted no later than December 31, 2024, cf. Paragraph 5, Article 3 of the Act. Through Temporary Provision IV, cf. Article 60 of Act No. 127/2024, the deadline was extended to April 1, 2025, provided that lender approval was obtained. For applications submitted between January 1, 2025, and April 1, 2025, the purchase price was based on the fire insurance valuation as recorded on December 31, 2024.

As previously outlined, the Administrative Procedures Act No. 37/1993 applies to the case handling and decisions of NTÍ and ÚNTÍ, ensuring legal certainty for citizens.¹⁰⁸ Although Þórkatla is a private limited liability company, the provisions of the Administrative Procedures Act also govern its decisions regarding the purchase of residential properties, cf. Article 3, and the granting of priority rights, cf. Article 5 of the Act. As a result, the company must adhere to administrative law procedures when making these decisions. Additionally, affected parties have the right to appeal such decisions to ÚNTÍ, cf. Article 9 of the Act. This includes cases where an assessment is made as to whether the objective conditions of the Act are met, allowing for ownership transfers. Furthermore, the Act anticipates that other decisions may be made by Þórkatla, such as determining the compensation amount. These are considered administrative decisions under Act No. 37/1993, meaning that parties must be granted the right to object as well as other procedural rights.¹⁰⁹

Under the measures outlined in Act No. 16/2024, up to 1,000 properties may qualify. From the foundation of Þórkatla and until April 29, 2025, it received 998 applications for the purchase of residential properties and 13 applications for other types of real estate. As of May 2, 2025, the company had already approved the purchase of 956 properties and had taken possession of the majority of them.¹¹⁰ The company now owns most of the residential housing in the town and, as such, is the beneficiary of compensation from NTÍ, if applicable.

If the cost of the measures under Act No. 16/2024 is compared to the expenses incurred by NTÍ due to the natural disasters, it be-

comes clear that NTÍ covers only a small portion of the total costs. NTÍ's estimated expenses amount to 15 billion Icelandic krona, whereas the government's total expenditures for 2023 and 2024 due to the natural disasters stand at 80 billion, of which over 51 billion is attributed to Þórkatla.¹¹²

7.5 Other government measures in response to the natural disasters in Grindavík

The enactment of Act No. 16/2024 was only one part of the government's response to the natural disasters in Grindavík. After the disasters struck, authorities acted swiftly with the goal of ensuring housing security, job stability, and financial well-being for the town's residents. The first government measures focused on protecting the town and its critical energy infrastructure. In November 2023, the construction of lava flow barriers began to prevent lava from engulfing the town and its infrastructure. It is clear that these protective barriers have prevented significant damage. The total cost to the state for the construction of these barriers amounts to 10 billion Icelandic krona.¹¹⁵

The most significant government initiative concerning housing in Grindavík was undoubtedly the enactment of Act No. 16/2024 and the establishment of Þórkatla. However, several other measures were also introduced to ensure the financial security of residents. One of these was targeted housing support under Act No. 94/2023, which took effect on December 20, 2023. This Act established a housing assistance program in the form of monthly payments to reduce housing costs for Grindavík residents who had to temporarily rent accommodation outside the town. The monthly payment amount depended on the number of household members and could cover up to 90% of the rental cost. Additionally, financial aid was provided for wage payments under Act No. 87/2023, which aimed to protect the livelihoods of individuals unable to work due to the natural disasters and to maintain employment contracts during the period of uncertainty. By October 2024, total payments made under the Act had exceeded 4 billion Icelandic krona, with the majority of funds allocated to employers, who in turn paid wages to their employees. This program was set for a specific duration and ended on August 31, 2024. Furthermore, business operators were granted direct financial support from the state treasury under Act No. 15/2024 to cover fixed operating costs, subject to specific conditions. Additional measures were also implemented regarding corporate tax payments in Grindavík, including payment deferrals granted by the Directorate of Internal Revenue.¹¹⁴

Finally, the largest commercial banks in the country temporarily waived interests and indexation on housing loans held by Grindavík residents, while also offering them a payment deferral for several

¹⁰⁷ Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 18.

¹⁰⁸ Páll Hreinsson: *Stjórnsýsluréttur – málsmeðferð*, p. 14.

¹⁰⁹ See Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, pp. 13–14.

¹¹⁰ Website of Þórkatla: "Staða mála í Grindavík", May 2, 2025.

¹¹¹ See Alþingi Parliamentary Records 2024–2024, Section A, parliamentary document 1053 – case 704, p. 17 regarding the number of residential housing units in the town.

¹¹² Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, pp. 48 and 51–52.

¹¹³ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, pp. 1, 3 and 17.

¹¹⁴ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, pp. 3, 27–30 and 42–43.

months. During the period from November 2023 to April 2024, the banks waived interests and indexation on housing loans amounting to 740 million Icelandic krona. On the other hand, pension funds deemed themselves unauthorized to waive interests and indexation on member loans held by Grindavík residents. Consequently, the government decided to compensate affected individuals who had loans with pension funds by covering an amount equivalent to the interests and indexation following the same criteria used by the banks. The cost of this measure amounted to 140 million Icelandic krona. In the case of both banks and pension funds, this support was limited to loans of up to 50 million.¹¹⁵

There was also a recognized need for various social initiatives and psychological support for residents of Grindavík. To address this, service centers were established, and a special support team¹¹⁶ was formed for Grindavík residents under Act No. 40/2024.

Particular importance was placed on supporting children and ensuring their well-being. At the time of the town's evacuation in November 2023, approximately 800 children of preschool and elementary school age lived in Grindavík, along with around 260 students in upper secondary education. The Ministry of Education and Children mobilized inter-ministerial teams to provide assistance, and various stakeholders contributed to supporting children from Grindavík, particularly in areas such as education and sports programs.¹¹⁷

Authorities also undertook various initiatives to ensure the security of energy and water supply across the Reykjanes Peninsula, as well as the safety of telecommunications infrastructure and services. These measures not only affected Grindavík but also other towns in the region as well as Keflavík International Airport.¹¹⁸ Additionally, the government mapped and examined fissures and cavities within Grindavík. The primary purpose of these measures was to enhance safety for those moving through the area.¹¹⁹ Finally, it is worth mentioning that the Grindavík Committee was established under Act No. 40/2024 as an independent administrative body under the Minister of Infrastructure. The committee is responsible for a range of tasks related to the natural disasters in Grindavík, including oversight of repairs to critical infrastructure, risk assessments for urban areas in collaboration with the National Police Commissioner, and the operation of a service team where Grindavík residents can access information and guidance on various issues.¹²⁰

7.6 Summary

As evidenced by the discussion above, authorities undertook extensive measures to support residents and business operators in Grindavík following the natural disasters. The most significant measure for the residents of Grindavík was undoubtedly the enactment of

the Act on the Purchase of Residential Properties in Grindavík. The relationship between this Act and the Natural Catastrophe Insurance Act can be summarized as follows: properties that have suffered direct damage, whether they are considered at a total loss or partial damage, are primarily eligible for compensation under the Natural Catastrophe Insurance Act. Owners are not obliged to use compensation for repairs or reconstruction. They can also choose to request that Þórkatla acquire their properties under Act No. 16/2024, though at a more limited capacity. Their properties must qualify as residential housing, and further conditions must be met, such as the property being registered in an individual's name as of November 10, 2023, and the owner having their legal residence recorded at that address, except in cases where specific exemptions apply, as previously discussed.

Properties who have suffered indirect damage, whether minor or significant, are not eligible for compensation under the Natural Catastrophe Insurance Act. However, their owners have the option to request that Þórkatla acquire their properties despite that, allowing them to receive payments for their assets, subject to the limitations previously outlined. The same goes for those that haven't sustained any damage. Given these groups represents the largest portion of Grindavík's population, it is reasonable to conclude that, without Act No. 16/2024, these individuals would have faced severe financial difficulties.

This further underscores the fact that the framework for natural catastrophe insurance in Iceland, as established by the Natural Catastrophe Insurance Act, covers only a small fraction of the total damage caused by the natural disasters in Grindavík. In contrast, Act No. 16/2024 has played a crucial role in supporting Grindavík residents whose properties do not qualify under the Natural Catastrophe Insurance Act.

8. Summary and conclusions

An attempt has been made here to outline the key features of natural catastrophe insurance in Iceland. As has been described, this insurance holds a distinct status compared to other types of insurance. It is a mandatory property insurance that covers risks which insurance companies in the market do not insure against. A specialized public institution manages this insurance, the premium is legally regulated, and the right to compensation does not depend on an agreement between the insurer and the insured, but rather on the provisions of laws and regulations.

From the above and other matters discussed, it follows that the legal status differs in various ways from what applies to general insurance. For instance, administrative law rules apply to the procedures and content of the institution's decisions, and its resolutions

¹¹⁵ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, pp. 30–31.

¹¹⁶ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, pp. 3 and 15–16.

¹¹⁷ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, p. 34–38.

¹¹⁸ Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, pp. 17–24.

¹¹⁹ See the Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, pp. 24–25.

¹²⁰ See the Report of the Prime Minister on key government initiatives and evaluation of future projections regarding seismic activity and volcanic eruptions on the Reykjanes Peninsula, p. 45.

can be appealed to an independent administrative committee. Although general principles of insurance law apply where the provisions of the Natural Catastrophe Insurance Act and the Regulation on Natural Catastrophe Insurance are lacking, it is clear that the administrative nature of the institution has, to some extent, influenced the application of those general principles. For example, case law suggests that while the insured is responsible for proving the existence of a natural disaster and the causal link between it and the damage for which compensation is claimed, these requirements are often not stringent, and the institution may be responsible for gathering additional information on such matters, such as through court appointed assessors. This is partly due to the fact that NTÍ has a duty to investigate under Article 10 of the Administrative Procedures Act No. 37/1993.

Looking at the administrative practice since the enactment of the Natural Catastrophe Insurance Act, it seems reasonable to conclude that there has generally been a good level of agreement regarding its implementation. Complaints to the appeals committee were few, and the institution's decisions were rarely tested in court. However, a notable surge occurred following the earthquake in South Iceland on May 29, 2008, when the number of complaints to the appeals committee increased significantly. Over the next few years, many cases were handled, sometimes involving minor interests, where the differences in position between the complainants and the institution were minimal. In recent years, however, the number of cases brought to the appeals committee has decreased once again.

When examining the disputes that arose after 2008, three general aspects of the institution's practice can be criticized. Firstly, it was quite common for the institution, when claimants contested the conclusions of its assessors and submitted supporting evidence (for example, a new assessment report), to consult its assessors again with the question of whether there was reason to revise the initial report, rather than commissioning a new assessment. Experience showed that the assessors were unlikely to change their opinions, and this approach was poorly suited to resolve the disputes at hand. During the processing of cases before the appeals committee, however, the institution often obtained a new assessment report from court-appointed assessors, which then served as the basis for compensation decisions. It would have been preferable to obtain such reports earlier in the process.

Secondly, it cannot be overlooked that the assessors' evaluations of whether earthquake damage amounted to a total loss appeared to vary greatly in thoroughness. For example, in some cases, as-

sessors provided conclusions declaring certain properties as total losses with very limited reasoning and after relatively limited reviews. Meanwhile, other assessors conducted highly detailed evaluations of repair costs and whether they exceeded the fire insurance valuation. While the nature and condition of properties can vary significantly, and while it is sometimes obvious that a property has suffered total loss, and no violation of the principle of equality has ever been demonstrated in this regard, the cases suggest that many claimants believed there was inconsistency in the assessors' practices on this matter, leaving claimants feeling "unlucky" with the assessors assigned to them. Ensuring consistency in the assessment process is critical to avoiding mistrust.

Thirdly, it is clear that unacceptable delays occurred in the processing of some cases, not only within the institution and its administration but also at the appeals committee level. Such delays now appear to have mostly been resolved after the volume of cases following the earthquakes decreased. Additionally, the administrative system has been simplified by reducing the number of administrative levels from three to two, which is expected to expedite the resolution of cases at the administrative level in the future.

Additionally, it is worth noting that the cost of pursuing a case before the appeals committee can be significant, encompassing expenses for legal counsel and other experts, such as assessors. As previously outlined, the insurance only compensates for direct damages, and the appeals committee is not authorized to award legal costs. Even if the claimant wins the case entirely before the appeals committee, it cannot grant them compensation for such expenses. Although the claimant may indeed have the right to such reimbursement from the institution under general rules, as examples outline, it raises the pertinent question of whether it would be appropriate to legislate the authority of the appeals committee to award legal costs, as is already the practice with some other administrative committees.

Finally, regarding the natural disasters in Grindavík, it is evident that the authorities took comprehensive action to assist residents in the aftermath of one of the most challenging natural disasters the country has faced, with the most impactful measure being the Act on the Purchase of Residential Properties in Grindavík. Ultimately, the natural disasters in Grindavík exposed the limitations of Iceland's natural catastrophe insurance framework, which covered only a fraction of the total damages in the town. Therefore, the Act on the Purchase of Residential Properties in Grindavík played a crucial role in ensuring relief for residents in Grindavík.