



Natural Disaster Insurance Pool – PAID

Review of the first year of activity

Marius Bulugea, PDG



- ❑ Romania is one of the European countries significantly exposed to natural disasters, especially earthquakes and floods, which cause loss of life and damages with major social and economic impact.
- ❑ PRAC (the Romanian program for catastrophe insurance) was a project financed by the World Bank and resulted in a new law in the Romanian legislation (nr. 260/2008). The basis for this law was international experience in the field, with the difference that most pools were created “post event” (best example being Turkey).



Insurance - reinsurance company formed in November 2009, based on the law nr. 260/2008. PAID has 12 shareholders:

- ◆ ABC Insurance–Reinsurance ◆ ASTRA Insurance – Reinsurance Company ◆ CITY Insurance – Reinsurance Company ◆ CARPATICA Insurance ◆ CERTASIG Insurance – Reinsurance ◆ CREDIT EUROPE Insurance – Reinsurance ◆ EUROINS Romania Insurance – Reinsurance ◆ GENERALI Romania ◆ GRAWE Romania ◆ GROUPAMA Insurance ◆ PLATINUM Insurance ◆ UNIQA Insurances ◆



- ❑ July 15th, 2010 – issue the first mandatory home insurance policy (coverage for earthquake, flood and landslide risks)
- ❑ Potential – 8,4 million homeowners
- ❑ November, 2010 – amend the law; homeowners who have voluntary insurance are excluded from the obligation to buy compulsory insurance policy



- ❑ December, 2010 – May 2011: rate of sale for mandatory policy decreases dramatically (amid statements by representatives of the Ministry of Administration that have led people to believe that is no longer required to buy the compulsory policy)
- ❑ July & August, 2011: rate of sale for mandatory policy increases and reaches a peak of 20,000 policies per day
- ❑ Currently, the average daily sales is about to 200 policies; this level is ten times lower than what we estimated



- ❑ Mandatory home insurance policy boost the voluntary home insurance market
- ❑ Insurers have developed voluntary home insurance products similar with mandatory policy: 20.000 € sum insured/20 € insurance premium or 10.000 € sum insured/10 € insurance premium, depending on the type of construction



Major difference:

❑ mandatory home insurance policy is First Risk type while voluntary products can be a proportional type of coverage

❑ e.g.:

home value = 80.000 €

sum insured = 20.000 €

claim value (total loss for compulsory policy and partial loss for voluntary products) = 20.000 €

claim settled = 20.000 € by PAID (First Risk policy) and $20.000 \text{ €} / 80.000 \text{ €} \times 20.000 \text{ €} = 5.000 \text{ €}$ paid by voluntary products



- ❑ PAID owns an excess of loss reinsurance programme for 300 mil €, designated to provide real protection for PAID current portfolio. PAID has its own retention - 250.000€/event
- ❑ The placement of this programme was supported by four renowned national and international brokers, i.e. Aon Benfield, Guy Carpenter, Stellar Re and Willis Re. The reinsurance programme is placed 100%, among the participant reinsurers being Swiss Re, Munich Re, Sirius, Kiln and Lloyd's Syndicates.
- ❑ Claims paid in the first year: over 69.000 €, for 32 properties affected by floods and landslides



Current situation:

- ❑ Managed portfolio – 850.000 compulsory home insurance policies (10% from total housing fund)
- ❑ Underwriting rate has slowed substantially
- ❑ Renewal rate for expired policies is extremely low

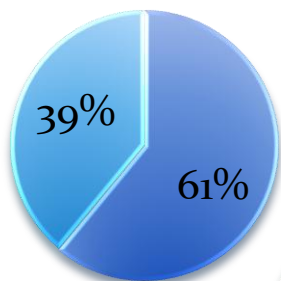
Conclusion:

Penalties provided by law for uninsured homeowners frightening rather than risks that are exposed. The need for protection is not aware.

Distribution per historical regions

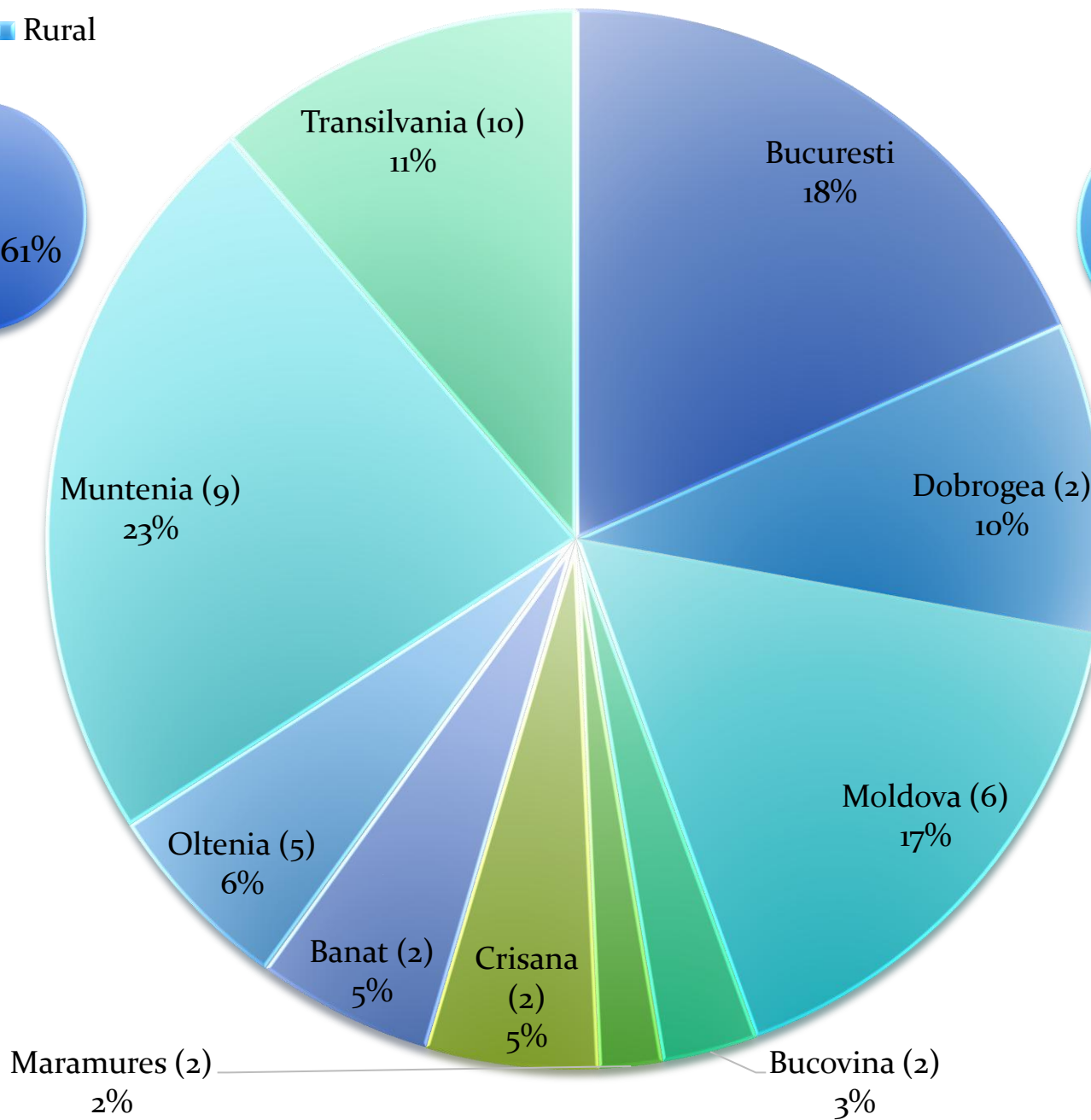
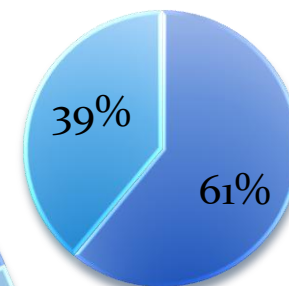
Location

Urban Rural

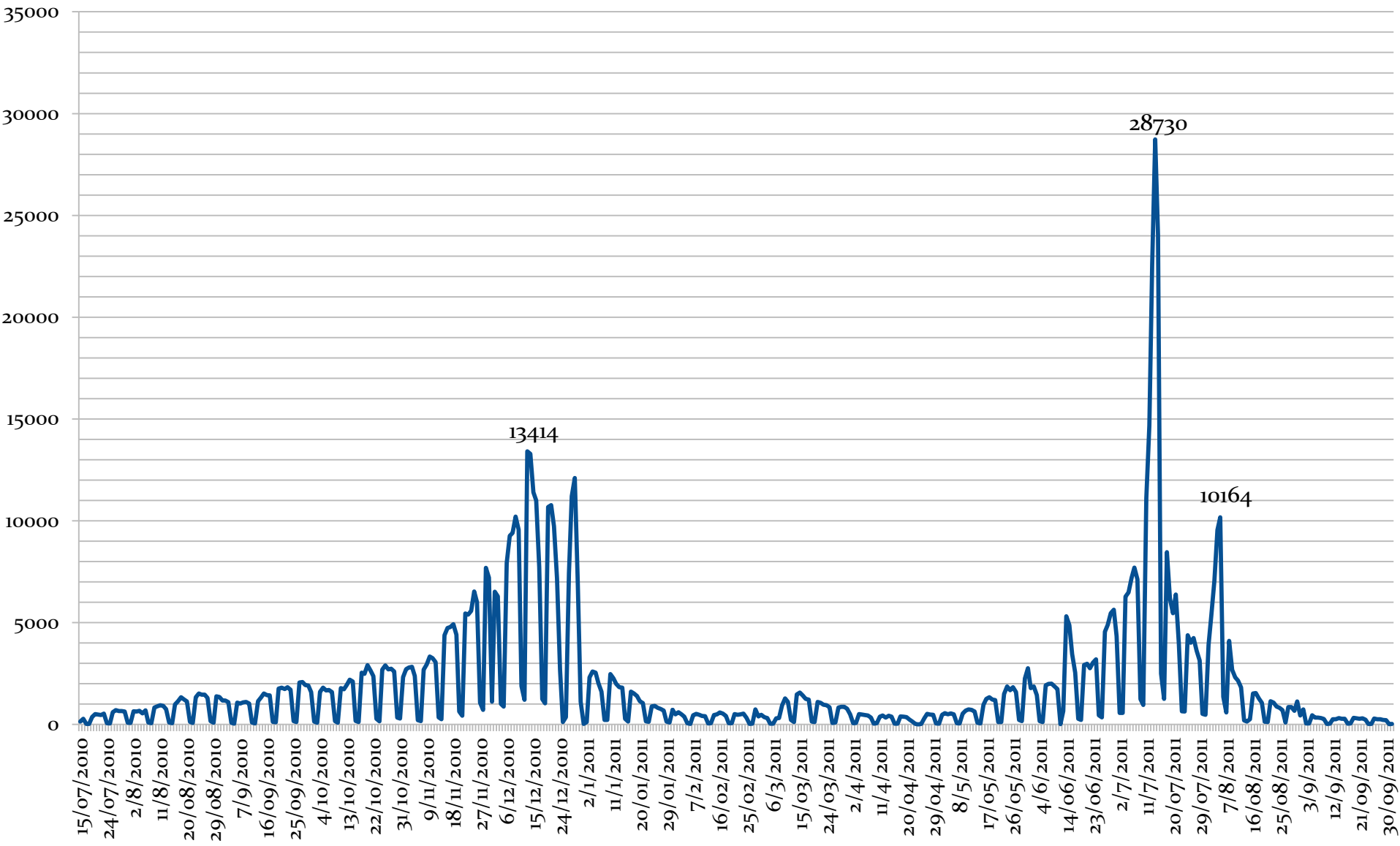


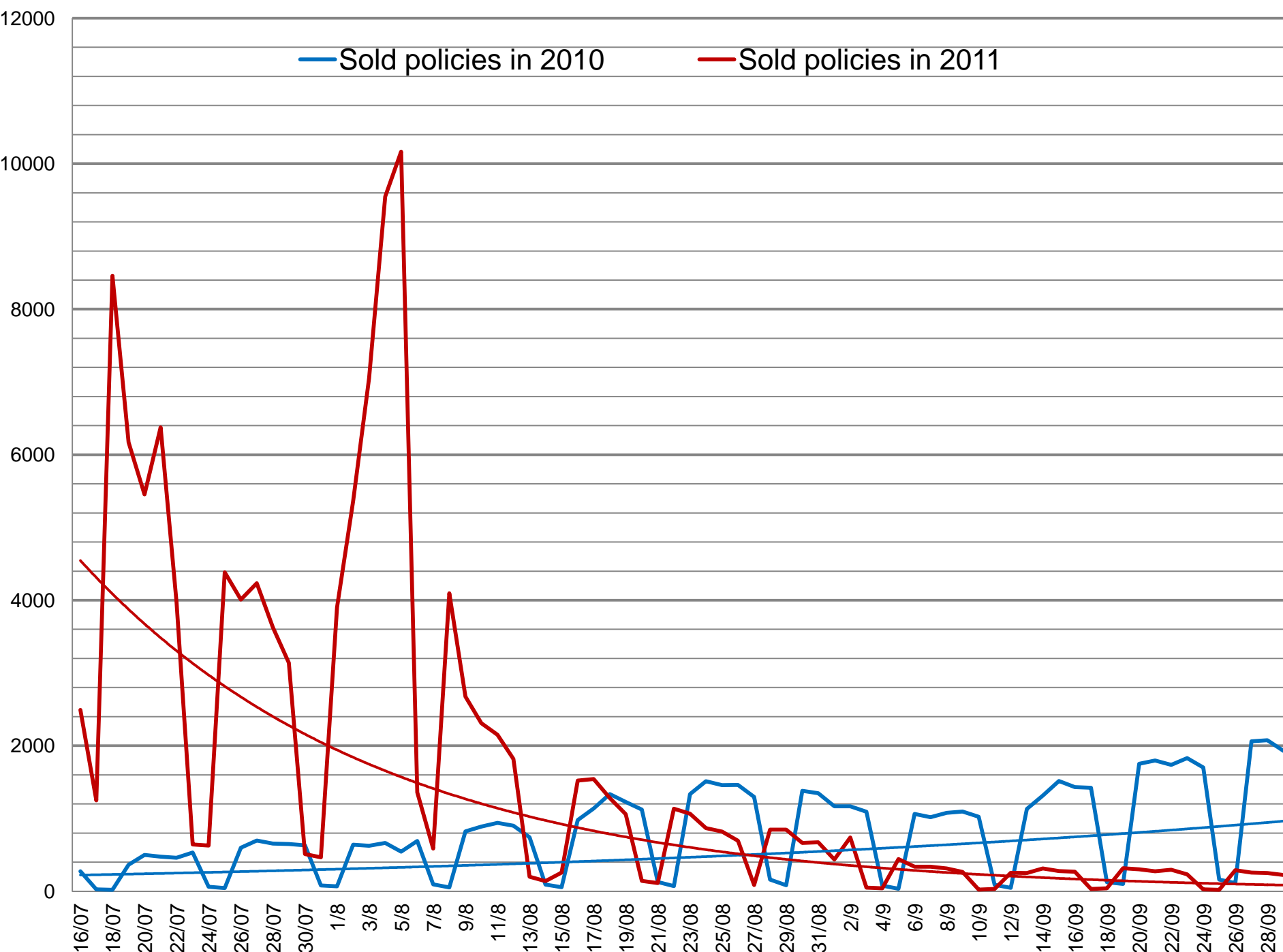
Building type

A B



Policies sold as of







Major problem:

- current legislation, who mixed the voluntary product with the compulsory policy, which can not compete with the voluntary products
- poor financial education; low level of insurance culture



Achievements:

- creating a national database with Romanian homeowners
- partnerships with local authorities
- running a national campaign to increase the awareness of compulsory home insurance
- organize monthly meetings with the media



Focus on:

- lobbying to change legislation
- increasing compulsory insurance product rate of coverage in total housing fund
- launch a promotion campaign with emphasis on rural zone