

Romanian Parliament
Chamber of Deputies

OPINION

on

the Green Paper on insurance of natural and man-made disasters

COM (2013) 213

Having regard to the Treaty of Lisbon, and in particular Articles 5 and 12 TEU and Protocols 1 and 2 annexed to the Treaty,

Having regard to the Constitution of Romania, as republished, in particular Article 148 thereof,

Having regard to Decision No 11/2011 of the Chamber of Deputies on the working and decision-making procedure for the exercise of parliamentary scrutiny over draft legislative acts of the European Union,

Taking into account the draft opinion adopted by the Committee for the Budget, Finance and Banking at its meeting of 18 June 2013,

Taking into account the draft opinion adopted by the Committee for Public Administration, Regional Planning and Ecological Balance at its meeting of 4 June 2013,

Having regard to the information contained in the Information Sheet drawn up by the Chamber of Deputies' EU Law Directorate

Taking into account the views expressed by the Financial Supervisory Authority and the National Unit of Romanian Insurance and Reinsurance Companies (UNRAR), which have been incorporated into this opinion,

Taking into account the draft opinion adopted by the Committee for European Affairs at its meeting of 18 June 2013,

Having regard to the approval given by the Permanent Office of the Chamber of Deputies on 26 June 2013,

The Chamber of Deputies, acting in accordance with Article 40 of Decision No 11/2011 of the Chamber of Deputies of 27 April 2011, hereby adopts this opinion:

The Chamber of Deputies welcomes the following key aspects addressed in the Communication:

A. Measures aiming to promote insurance as a tool of disaster management, which will contribute significantly to a shift towards a general culture of disaster risk prevention and mitigation, and bring in further data and information.

B. The European Commission's desire to create a disaster management policy that encompasses prevention, resilience and reduction of individual vulnerabilities and strengthening eco-systems

C. The public-private partnership, which aims to encourage the adoption of measures to prevent and reduce risks and to improve insurance conditions.

Following analysis of the financial, commercial and legal aspects set out by the European Commission, the Chamber of Deputies presents the occurrence of natural and man-made disasters in the European Union during recent years, and would like to draw attention to the following points of interest:

1. The Chamber of Deputies proposes that a wide-ranging study on risks be conducted in order to determine to what extent insurance claims are influenced by the level of confidence in insurers' objective capacity to cover the risks.

We consider that there is a need for further research on property insurance claims and provision, as well as an in-depth analysis of man-made disasters.

The level of penetration of natural disaster insurance for residential risks in Romania has improved since 2010, after the implementation of the Compulsory Insurance Law.

The penetration rate has increased in particular with regard to the number of policies, but this is not the case as far as the size of gross written premiums or coverage is concerned.

Romania recently introduced compulsory insurance policies for property (called 'PAID'), but even so, the penetration rate of this type of insurance is still fairly low.

At the end of the first quarter of 2013, a total of 3 685 990 homes were insured, which equates to insurance coverage of approximately 44 % of Romania's housing stock.

2. The Chamber of Deputies believes that an aggressive but educational media campaign could be the long-term solution at EU level. Such action should be initiated once the findings of a specific study for each EU Member State have been presented.

3. The Chamber of Deputies believes that another alternative which could work is for Member States to recognise individuals' and companies' insurance premium expenditure as a tax-deductible expense, although this solution could have a significant impact only to the extent that this insurance becomes compulsory.

In view of the fact that, in 2010, only around 15 % of properties in Romania were covered by risk insurance, the introduction of compulsory property insurance against earthquakes, flooding and landslides was identified as a solution to increase the level of insurance coverage.

4. Compulsory insurance presents the benefits set out in the Green Paper. However, the compulsory nature of this insurance also raises adverse reactions. In Romania, as in many other countries, there is compulsory third-party liability motor insurance, and compulsory home insurance policies (PAID).

The Chamber of Deputies believes that the feasibility of implementing a mandatory requirement should also be taken into consideration as far as the possibility of establishing fines, penalties or administrative prohibitions is concerned. The implementation of such penalties would require a high administrative capacity both centrally and locally, and the existence of appropriate and effective laws. In the worst

case scenario, this kind of mandatory requirement could look like a tax, which is an undesirable outcome. It is difficult to say to what extent a person or company's lack of foresight can be remedied by a mandatory requirement and it is particularly difficult to support the argument that the requirement should be imposed on anyone who has the slightest risk in order to prevent an unacceptable increase in the financial burden on insurers, as such an idea is by implication unfair to the individuals and companies concerned.

5. To reduce the effects of moral hazard, different kinds of insurance terms and exclusions designed to instil risk-mitigating behaviour can be employed as part of insurance contracts. Consideration could be given to including excesses to be borne by the insured party, so that they also share responsibility for bearing the cost of any damages. These could also eliminate low value claims.

Contracts could also include coverage limits: either an upper limit for damages, or exclusion clauses for certain vulnerable items, such as old buildings with a high seismic risk or constructions which were not built in compliance with legal rules.

However, the level of deductibles and excesses should be carefully considered, as this could affect insured persons with low incomes claiming for 'insignificant' damages.

The state could help by directly supporting the cost of insurance for disadvantaged categories of client or by covering the difference between the actual cost of the insurance and the social cost borne by the population.

The Romanian legislation on compulsory property insurance does not make provision for excesses to be borne by the insured party, although it does lay down that where the owner fails to comply with the obligation to insure their property, they will not receive compensation from the state in the event of a natural disaster provided for by law. However, the legislation provides for help with the cost of insurance for disadvantaged categories of client.

6. Index-based parametric insurance or a combination of parametric and conventional insurance could be a solution, particularly in Romania, a country which is highly exposed to earthquakes and floods, but could be used primarily as a means of transferring disaster risks through reinsurance rather than insurance, particularly since it requires a high level of expertise and modelling tools. Among the factors that could be applied in Romania are magnitude of an earthquake, number of buildings affected, rivers, flow levels, and population affected.

7. In Romania, prices have been established according to risk, identifying problem areas, particularly with regard to earthquakes, following the provision of seismic maps to insurance companies from large insurance groups present in Romania or reinsurance companies active on the local market.

However, a relatively recent method of establishing risk-based pricing, for which probability models are currently available from many suppliers, has been considered as the basis for insurance companies' pricing policy. This proved that establishing prices according to risk did not, in the case of disaster risks, lead to greater responsibility among individuals and companies, although it is currently used by many local insurance companies as the basis for their rating techniques. However, a balance must be struck to avoid adverse risk selection.

Risk reduction and management measures depend to a large extent on the nature of the risks in question.

Assessing the effectiveness of risk reduction measures is quite subjective, given that risk tolerance is a psychological characteristic of each individual. For these reasons, it may be necessary to standardise the rules, at least for the purposes of facilitating comparison.

8. Flat-rate premiums are an alternative option based on the principle of mutuality, which provide protection to people in vulnerable areas with increased costs for those living in low-risk areas.

The Chamber of Deputies believes that this is a possibility only in the case of natural disasters which affect a large area. The Romanian system of compulsory property insurance uses this method. A compensation cap is also established for individual insurance premiums. Flat-rate premiums could be used for certain disaster risks such as storms and floods, where it is very difficult to predict which areas will be affected.

9. The Chamber of Deputies believes that better information is in the consumer's interest and, in the long and medium term, supports insurers. The proposed action at EU level in this regard is therefore welcome.

Harmonisation of pre-contractual and contractual information requirements at EU level would benefit policyholders and the insurance market, and would help the development of a common insurance culture based on best practice.

A harmonised pre-contract and contractual information could benefit policyholders and the insurance market and the development of an insurance culture based on best practice.

10. The Chamber of Deputies considers that deductible excesses or policyholder contribution-type excesses are the main tool to reduce moral hazard and damage frequency. Minor damage should not be covered by protection against catastrophic risks, as it can be borne by consumers with no major financial impact.

11. Cooperation between states with regard to losses resulting from the same event (flooding, for example) could provide a better overview of disasters affecting several countries. Cooperation between state and academic institutions could help to create a better database.

12. The mapping of disaster risks could be improved by establishing at EU level which information is to be taken into consideration in mapping the different types of risk.

Reasonable effort should be put into this mapping, since many of these risks are sufficiently known. It would be appropriate to examine to what extent this extension of mapping is an efficient use of European taxpayers' money.

13. The Chamber of Deputies considers that the participation of developing countries in formulating viable and appropriate solutions is crucial for the viability of the solutions and, in particular, for them to be accepted by the countries in question.

Each country has its own specific characteristics, but creating a unified database and sharing the experience of other countries would assist the creation and implementation of the best solutions to prevent the disasters specific to each county.

The possibility of accessing financing at reasonable interest rates is a fundamental problem for the development of protection systems in developing countries, and the European Union's involvement is crucial.

14. The Chamber of Deputies believes that, at present, there are insufficient data and tools to carry out an integrated analysis of the relevant industrial risks for all countries.

Strongly localised risks, such as those arising from the activity of SMEs and for which specific SME sector tools might be appropriate, should also be taken into consideration.

Cooperation between insurers, business and competent authorities could be improved by developing cooperation models and exchanges of experience focusing on drawing up reports on major industrial accidents.

15. Good information actually leads to a more responsible attitude towards risk.

The contractual conditions of third-party liability insurance policies should be disclosed to third parties in case of man-made disasters. It is expected that injured third parties need to access complete and accurate information. Claims could be settled more quickly, and the injured party would have the opportunity to address the insurer directly.

The obligation on insured parties to provide detailed information on the insurance they hold should be established by law.

16. The Green Paper addresses specific aspects related to the prevention and insurance of natural and man-made disasters. Another important issue, which has not been addressed in this document, is the specific risks linked to human activity in outer space, and the risk of cosmic events.

17. The Chamber of Deputies **recommends broadening and deepening consultation with the relevant European Commission departments for the issue under discussion, so as to ensure as far as possible the horizontal coordination of EU policies, in this case specifically environmental policies.**

This opinion is addressed to the Presidents of the European Parliament, the Council and the European Commission and to the Romanian Government.

PRESIDENT

Valeriu Ștefan Zgonea