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Romania economy briefing:
Major changes on the Motor Third Party Liability insurance market in Romania

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Major changes on the Motor Third Party Liability insurance market in Romania

After the bankruptcy of City Insurance in September 2021, the largest provider of Motor Third Party Liability (MTPL) insurance on the Romanian market, the prices for this mandatory policy increased significantly. A draft law for capping the prices at reference rates imposed by Financial Supervisory Authority (FSA) for six months is under approval in the Parliament, for restoring the situation on the market and providing stability. Moreover, a new state insurance company is about to be launched in the summer, under the coverage of CEC Bank. The new player is set to sell a wide range of insurances, but it is expected to act especially in the MTPL area, for restoring price balance and adding quality on the market.

A law regarding the capping of the prices for the MTPL compulsory insurance at the reference rate established by the FSA is under adoption in the Parliament. The aim is to protect consumers and ensure the stability of the market. FSA, which is the initiator of the draft law, motivates that the capping of tariffs is temporary, for a period of 6 months, due to the accelerated upward evolution of premium rates charged by MTPL insurers and the classification of a large number of MTPL policyholders in the category of high-risk insured (specifically, policyholders who receive offers from at least three different insurers for 12 months that are 36% more expensive than the reference rate). The institution proposes differentiated rates for individuals and legal entities, depending on the purchasing power of each category and the degree of risk to which it is exposed. The request for capping comes after FSA found some speculative activities on the market after the bankruptcy of City Insurance, with prices 30-45% higher than the average rates on MTPL policies. Under these circumstances, the FSA reference tariff becomes a threshold that can no longer be exceeded by insurers when setting the price for the MTPL policy. The insurer calculates an insurance premium so as to cover all the obligations arising from the conclusion of the MTPL contracts, without exceeding the value of the reference tariff established by FSA. Currently, the reference rates are neither minimum nor maximum rates, but only benchmarks for insurers who provide MTPL policies, but also for those insured. Therefore, insurance companies set their own rates based on these benchmarks.

The price of MTPL policies has risen sharply in 2021, the main cause being the insolvency, in September, of City Insurance, the market leader at the time in terms of MTPL insurance, with a share of over 45%. FSA withdrew the operating license of City Insurance after finding irregularities with regard to policy settlements and delays in the payment of claims. In addition, the company had not complied with insurance legislation for a long time. As such, FSA requested the opening of bankruptcy proceedings against the company after, six months before, it had filed a complaint with the prosecutor's office. Prior to the bankruptcy, the company was the market leader in the field of MTPL insurance, with over three million policies.

Although the gap left by the company was immediately filled by the rest of the insurers, the price of the policies increased. At the end of last year, the average prices for MTPL was, on average, higher by over 30% for young drivers (maximum 30 years) and by 12.3% for trucks with a mass equal to or greater than 16 tons. Other calculations showed that in the case of young drivers, prices have risen by between 45% and 103%. Several transport unions have called for a capping decision as a matter of urgency.

However, several players in the insurance market said that, most likely, the policies will become more expensive again at the end of the six months, because no insurer will want to sell at a loss. The decision of the MTPL price cap will actually have a boomerang effect, as in 2017, when prices were forcibly lowered by the Government for six months, and subsequently, after the cap expired, the price of the insurances doubled. Insurers indicate that the Government cannot impose a lowering of the insurance price if a similar intervention is not it followed by a freeze in the prices charged by car services. Measures such as capping the MTPL price cannot be a medium- or long-term solution. Insurers consider it imperative that these solutions be based on well-founded technical analysis for customer protection, so as not to affect the ability of insurance companies to play their most important role: timely payment of compensation to road accident victims. In addition, they ask for stability and predictability on the insurance market.

In addition, the increase in compensation costs is among the cause of the increase in MTPL prices, as the paid average damage has grown significantly over the last few years. The combined damage rate for car insurances (MTPL and Casco) has increased alarmingly in 2021 compared to previous years and is reaching record levels, according to the annual report of the FSA. Thus, the combined rate of MTPL damage hit a record level of over 160%, compared to 122.12% in the previous year. This means that for every RON 100 received, the companies that sell MTPL policies paid RON 160 for damages, taxes and marketing and sales expenses. In other words, they lost RON 60 for every RON 100. All the companies authorized by FSA to practice MTPL policies had supra-unitary combined ratios.

Moreover, the MTPL market continue to remain highly concentrated. At the moment, there are 8 actors. The more a market is covered by more competitors, the more likely it is to create a dispersion of risk. FSA stated that the excessive concentration on the MTPL market in recent years is gradually starting to decline, following the bankruptcy of City Insurance. Now, the market share of the most important player (Euroins insurance company) has increased only marginally, from 35.4% in 2021 to 37.6% at the end of January 2022. The second player has a market share of 18.7%, followed by 14.5% for the third largest company. City Insurance provided policies at very low prices and unsustainable rates, as later seen. The same price level was at Euroins, which, after the problems at City, significantly increased its MTPL prices and came with capital increases of over RON 500 million to recover financially. In short, MTPL prices have become very close among insurers in the market, which can explain this increase in the market share of other companies. The situation was even more concentrated at the end of the first quarter in 2021, when the top two insurers at the time - City Insurance and Euroins - gathered about 77% of Romania's MTPL insurance contracts. Euroins, back then the second player, had 31.17% of the MTPL market, followed by the third and fourth largest players with only 6% of the market.

After the insolvency of City Insurance, the discussions about the launch of a state insurer reappeared, an idea that has been circulated in the last at least 5 years. The insurer with state capital is going to be established through CEC Bank, where the Ministry of Finance is the main shareholder. It is very possible that the new player will start its activity this summer, as all the steps are taken, according to the legislation, for CEC Bank to sell a wide range of insurances, not only MTPL policies. There is already a state-owned insurer on the market, Eximasig, controlled by Eximbank, but the company has a limited activity, being specialized in guarantee insurance, commercial credit insurance and other types of products for companies and especially for those who practice export-import activities.

The entry of the future insurer controlled by CEC Bank is expected especially in the MTPL area, where the market feels an acute need for competition, but MTPL will not be the favourite target, at least in the first phase. Most likely, the company will focus on insurance related to credit and savings products, which can be provided together with other banking products. However, analysts consider that CEC Bank can also enter the MTPL segment profitably, especially since it benefits of a large branch network. If it were to develop a product suitable for online sale, the advantage of CEC would be significant, given that the costs of insurers with the distribution MTPL policies are around at least 13-15%. Thus, a new player active in the MTPL area will mean an increase in competition and a halt to the price increases after the bankruptcy of City. Moreover, a new player will bring an extra quality in this area.

The emergence of a state insurer can bring some balance to this market. Any new company is welcomed in a segment that is getting narrower and narrower, according to the analysts. Therefore, the higher the competition, the more the consumer has to gain. In addition, economists are optimist that if the new state company manages to strike a balance between premiums and risks, while there are harmonized rules for all players and an authority referee who oversees compliance with the rules, there will be a functioning MTPL market.