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VEHICLE DAMAGE – PROFIT DECREASE FACTOR FOR THE ROMANIAN INSURANCE MARKET

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Abstract: *Present paper aims to highlight the evolution of damage into the Romanian insurance market between 2007 and 2013. Damage is the unfavorable final result insurer which is part of an insurance contract.*

By analyzing claims rate for the Romanian insurance market in the period to which we refer have found that the percentage of car damages were between 81 and 89% of the total general insurance compensations paid. In comparison to the amount of insurance underwritten premiums, we found that for some insurance classes the damage value is greater than the value of subscriptions. The vehicle damages decreased the insurance market profits that were brought by other classes.

Keywords: *insurers, insurance payments, gross written premiums, claims paid*

1. INTRODUCTION

The Insurance contract may have as a finality to pay higher or lower damages depending on insured amount and on the size of the damage. On the insurance market damages are compensation or indemnity paid for loss suffered as a result of an injury or breach of a contract or of a legal duties committed by another person. The damage produced by same cause must be compensated only once. The size of the damage vary between different classes. The nominal

damages are insignificant values. Real damages are compensation for actual injuries. Damages are divided into two types: general and special damages. General damages intended to compensate the defendant loss to the extent that this can be done with the funds, and special damages are damages for which the plaintiff has to prove that he had suffered in a particular case. [1]

Regarding our work we will be referring in particular to goods and properties damages and also to car damages.

2. INSURANCE CLAIMS EVOLUTION INTO THE ROMANIAN INSURANCE MARKET FOR GENERAL INSURANCE

Goods and properties insurance products are made for more than one risk. The most complete insurance policies type are the “All risk” type. These insurances are required especially for bank guarantees and credit insurance policies. In case of bank loans it is required a better risk coverage as possible. The best selling auto insurance policies from the insurance market are the following: Motor Hull type, MTPL, CMR and Cargo. Of these MTPL insurance is mandatory for all vehicles registered in the country, it is also compulsory for vehicles and motorcycles registered at local authorities. Insured sums for MTPL insurance are predetermined by the rules of the Financial Supervision Authority. Since 2007 the year of accession to the European Union, these amounts have been increasing, until 2012.

Starting January 1st, 2008 the compensation limit for damage was 150,000 euros and the limit of indemnity for bodily injury and death was 750,000 euros. Starting January 1st, 2009 the compensation limit for damage was 300,000 euros and the limit of indemnity for bodily injury and death was 1.5 million euro. Starting January 1st, 2010 the compensation limit for damage was 500,000 euros and the limit of indemnity for bodily injury and death was 2.5 million euro. Starting January 1st, 2011 the compensation limit for damage was 750,000 euros and the limit of indemnity for bodily injury and death was 3.5 million euro. Starting January 1st, 2009 the compensation limit for damage was 1 million euro and the limit of indemnity for bodily injury and death was 5 million euro.

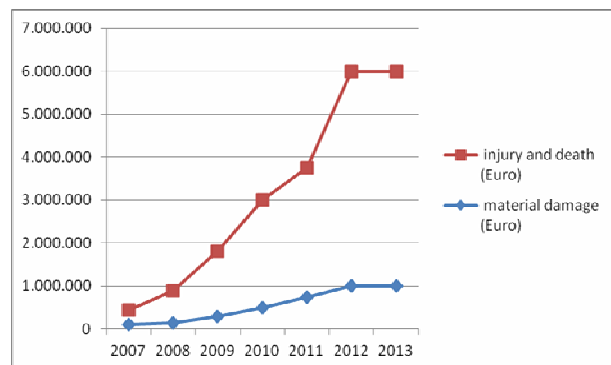
Same compensation limits mentioned above, are valid for 2014. We mentioned these upper limits as they have a great importance for the damage payments, especially for personal injuries and death. In most cases are required from the insurers, compensations payment at the maximum amount. Romanian insurers propose several variants of losses compensation offers, most of the times they are not accepted by the customer and then the compensation shall be determined in court.

Motor Hull insurance, CMR and CARGO are voluntary insurance. The insured amounts are established based on vehicle value and the value of transported goods is well specified in the transport documents. The occurrence of damage is much easier. The vehicles repair is made on repair estimates, the compensation and allowances are paid based for these. No repairs are made without the advice and consent of the insurer. For CMR and CARGO insurance the depreciation of transported goods is easy and correctly evaluated. Compared to MTPL insurance, cases that reach court are very few.

In Table 1.1 is shown the evolution of amounts of MTPL policies from 2007 to 2013.

The Table 2 summarizes the insurance premiums written by insurers in the period 2007-2013 for general insurance, general insurance claims paid and claims paid for auto.

Figure 1
Evolution of compensation limits for property damage, bodily injury and death for MTPL policies in Romania during 2007-2013



The Evolution of property damage, bodily injury and death compensation limits, for MTPL insurance policies in Romania during 2007-2013. It is noticed that damage to motor insurance has a very high value compared to the total damage from general insurance. During the entire analyzed period the auto insurance damage where having values greater than 80% of the total insurance damage market in Romania.

Figure 2 Total motor claims evolution during 2007 to 2013



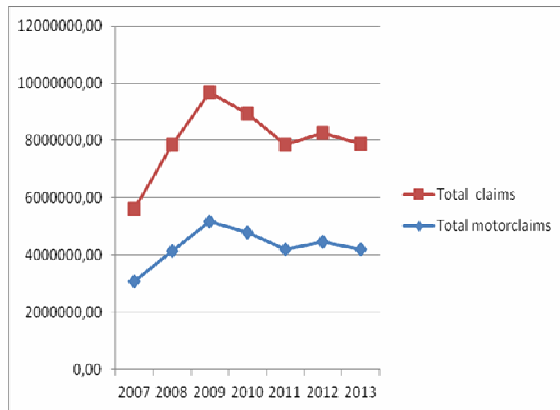
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3. LIFE INSURANCES

As it was observed from the Romanian insurance market's evolution in the analyzed period, life insurance is not a strong point for the Romanian financial market. Throughout 2007-2013 this element did not exceed 10% of the total market.

Regarding the life insurance claims rate it is known to be low. This fact allows to the life insurance companies to capitalize more and more in time. The ransom of life insurance policies before the term is penalized with substantial reduction from the insurance allowance.

Most life insurance payments and redemption redraw, where made before the term, during 2007 – 2013 had a minimum ranged between 11.76% in 2008 and a maximum value of 16.63%, in , 2012. Their evolution, in figures is presented in Table 3.

4. CONCLUSIONS

In other EU countries insurers are using outsourcing services for claims regulation like independent evaluators. In Romania the insurer has the monopoly and entirely decision for damages made on MTPL insurance policies. On voluntary insurance policies over 90% of car damage are

regulated by the insurer's own staff. Insurance companies with low turnover successfully use outsourcing for claims liquidation.

For insurance policies whose insured assets are vehicle the damages had very high values throughout the analyzed period. It has affected the profitability of the insurance market. First measure that requires for auto insurance profitability is increasing the tariffs. Currently in Romania there are 11 insurance companies that are licensed to practice MTPL insurance.

Insurance brokers sell MTPL policies through specialized rates comparators sites. From the analysis of several insurance offers for the same types of vehicles we found to exist very different rates. In some cases the MTPL insurance rates are double for the same compensation limit. This does not happen and Motor Hull type insurance policies. This fact shows that some insurance companies are using unsustainable tariff rates. They do this to increase sales and market share at the expense of the entire insurance market profitability

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Table 1

Evolution of compensation limits for property damage, bodily injury and death for MTPL policies in Romania during 2007-2013

Indicator / Year	2007	2008	2009	2010	2011	2012	2013
Compensation limits for material damage (Euro)	100.000	150.000	300.000	500.000	750.000	1.000.000	1.000.000
Compensation limits for injury and death (Euro)	350.000	750.000	1.500.000	2.500.000	3.000.000	5.000.000	5.000.000

Source: Authors data procession, information provided by the ISC annual reports from 2007-2012.

Table 2

Evolution of general insurance underwritten premiums and insurance compensations for car insurance for the Romanian insurance market in the period between 2007 and 2013

Year	2007	2008	2009	2010	2011	2012	2013
Non Life Insurance premiums (thousand lei)	5.726.752	7.068.174	7.241.584	6.639.733	6.083.943	6.454.395	6.637.648
Total claims	3.090.977	4.143.706	5.178.480	4.797.561	4.194.673	4.453.718	4.198.252
Total motor claims	2.527.046	3.713.643	4.487.086	4.136.792	3.643.275	3.809.847	3.687.000
Motor Hull Claims	1.688.726	2.455.510	2.893.841	2.506.558	1.986.086	1.947.134	1.762.000
MTPL Claims	838.319	1.258.133	1.593.245	1.630.275	1.657.186	1.862.712	1.925.000

Source: Authors data procession, information provided by the ISC annual reports from 2007-2012. For 2013 we used information provided by FSA press releases on insurance market evolution to 31.12.2013.



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Table 3

Evolution of life insurance premiums and insurance claims for life insurance on the insurance market in Romania in the period 2007 – 2013

Year	2007	2008	2009	2010	2011	2012	2013
Life Insurance premiums (thousand lei)	1.449.037	1.868.113	1.628.162	1.665.669	1.738.367	1.802.519	1.653.555
Total Claims and redemptions (thousand lei)	187.698	219.856	248.023	271.923	288.397	299.855	242.932

Source: Authors' processes of information provided by the ISC annual reports from 2007-2012. For 2013 we used information provided by FSA press releases on insurance market evolution to 31.12.2013.

Table 4

Evolution of insurers and brokers who regulates auto damage in Romania in 2007-2013

Year	2007	2008	2009	2010	2011	2012	2013
Insurance companies that underwrite car insurance	35	32	31	30	31	30	31
Insurance brokers that do claims regulations	16	15	21	16	19	16	23

Source: Authors' data procession, information provided by the ISC annual reports from 2007-2012. For 2013 we used information provided by FSA press releases on insurance market evolution to 31.12.2013.