



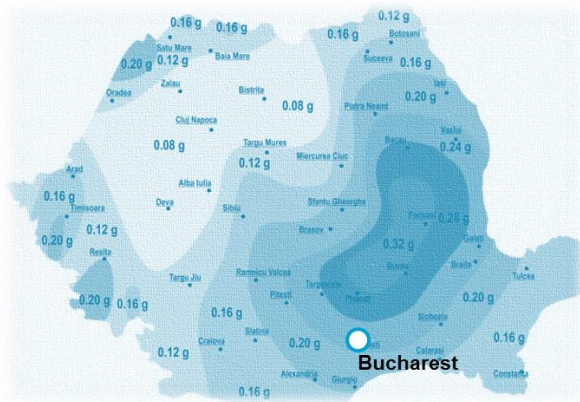
Housing insurance in Romania

The fine balance between improving affordability and risk management education

Daniela GHETU, Editorial Director XPRIMM

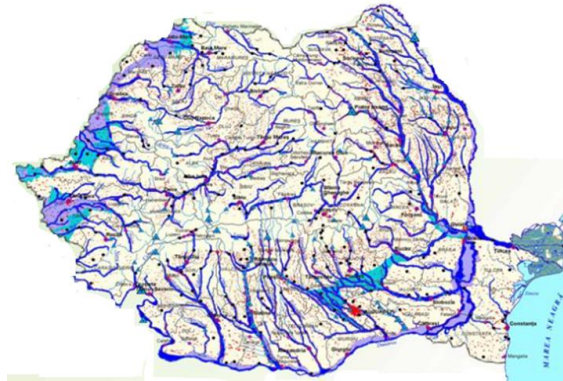
NatCat risks in Romania

Earthquakes



Vrancea – main seismogenic zone, responsible for over 90% of all earthquakes in Romania, releasing over 95% of the seismic energy

Floods



Approx. 30% of the national territory exposed to the floods risk

Landslides



About 800,000 ha and 50,000 household exposed to landslides

NatCat risks in Romania – The '77 earthquake

- 7.2 Richter scale; 56 seconds
- 1,570 deaths (of which, 1,391 deaths in Bucharest)
- 11,300 injured - many of them trapped under the rubble
- 32,897 collapsed or demolished dwellings
- more than 35,000 families left homeless
- 763 industrial plants affected
- Bucharest - 32 blocks of flats and large buildings collapsed, of which 3 new buildings
- the city of Zimnicea was reported in ruins (over 80% destroyed)
- the earthquake caused material losses and victims also in Bulgaria and Rep. of Moldova

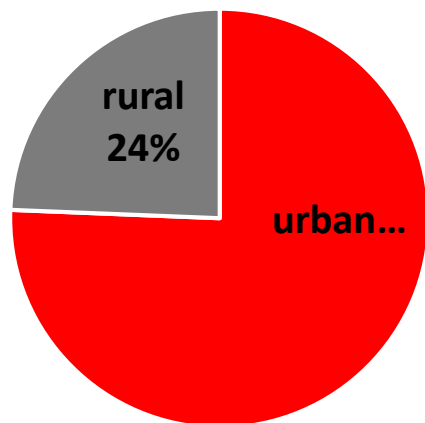
Total Losses - USD 2.05 billion (~1% of GDP)

➤ 70% in Bucharest

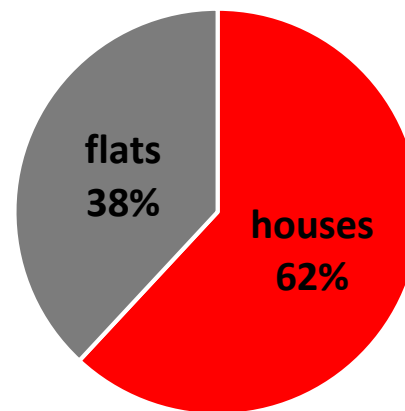
Romanian housing stock

Census	1996	2006/ 1996	2006	2016/ 2006	2016
Population (mil.)	22,96	-2%	22,59	-2%	22,24
No. of dwellings (mil.)	7,81	5%	8,23	8%	8,93

Dwellings by location



Dwellings by category



Romanian housing stock

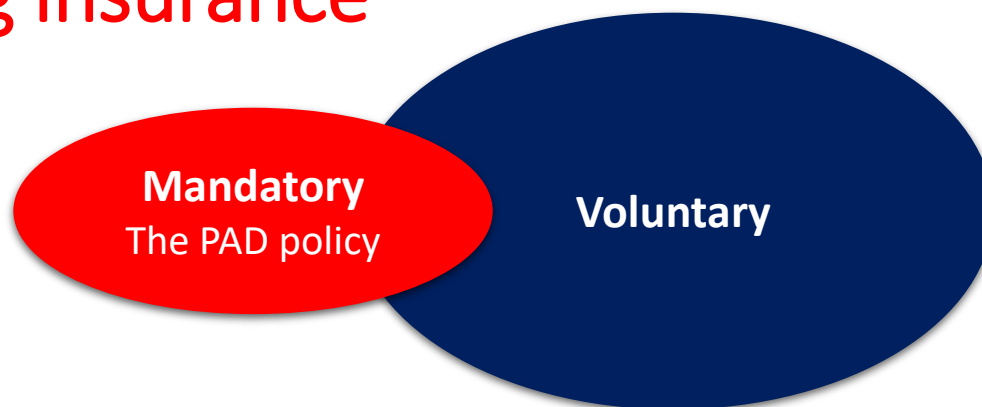
Bucharest	Seismic risk class					Emergency status
	Rsl Public danger	Rsl	RsII	RsIII	RsIV	
Buildings	190	184	302	75	6	1626
Apartments	5363	1276	11070	1781	86	5258

- Rsl - >92%, built before 1940, when there were no seismic construction standards
>50% in buildings with 5-8 stories
- No similar inventory at country level
- Better anti-seismic construction standards than before 1977
- Actual standards – seismic calculations for a Mean recurrence interval of 225 years (probability of exceeding the 20% value of the acceleration in 50 years).

An earthquake similar to the '77 one may cause:

- economic losses up to 1.5% of the Romanian GDP
- **residential damage of about 6 billion EUR**

Romanian property insurance market – housing insurance



MANDATORY

- ✓ Law nr. 260/2008 on compulsory home insurance against earthquakes, landslides and floods
- ✓ **PAID** – The Insurance Pool against Natural Disasters established in November 2009 – first policy issued in 2010

VOLUNTARY

- ✓ Regular fire insurance policies, with selected NatCat perils coverage included
- ✓ Voluntary policies may be bought ONLY if there is a PAD policy issued for the same property

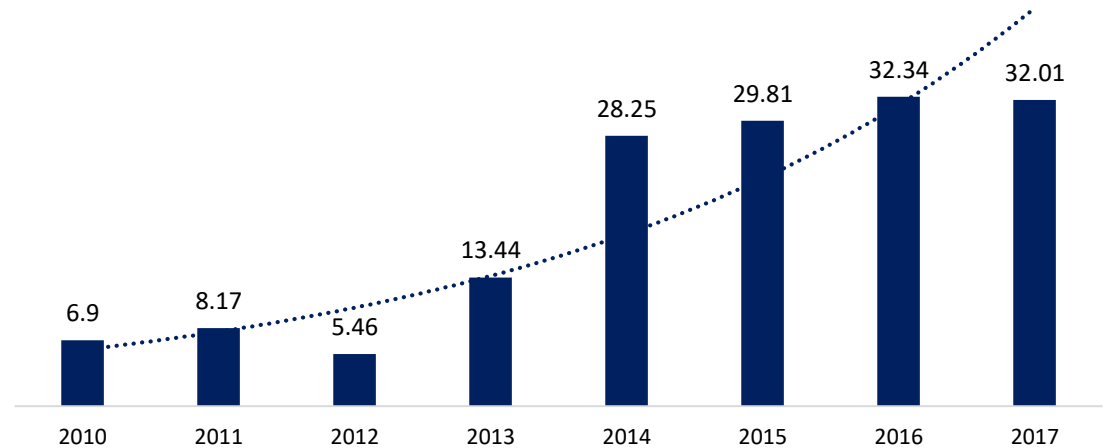
About PAID

- PRAC (the Romanian program for catastrophe insurance) was a project financed by the World Bank and its result was a new law in the Romanian legislation (no. 260/2008).
- Shareholders: insurance companies, max. participation 15% of the share capital
- PAID is the only pre-event established pool.
- Current penetration rate is approx. 19%.
- According to law, PAID covers three specific risks within Romania, being: Earthquake, Flood and Landslide
- Two types of policy are offered by PAID, being 'type A' and 'type B'.
 - Type A: policy limit of EUR 20,000 per dwelling /premium EUR 20
 - Type B: policy limit of EUR 10,000 per dwelling /premium EUR 10
- Currently more than 90% of the policies in the portfolio are Type A policies.
- The coverage is on first loss basis and there is no deductible.

2017 in the mandatory insurance

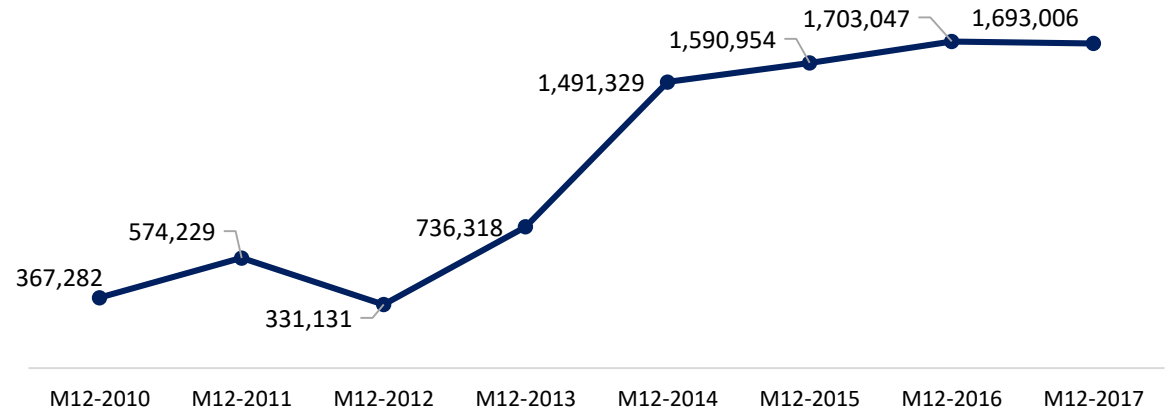
■ GWP(EUR)

450% increase in our business since inception



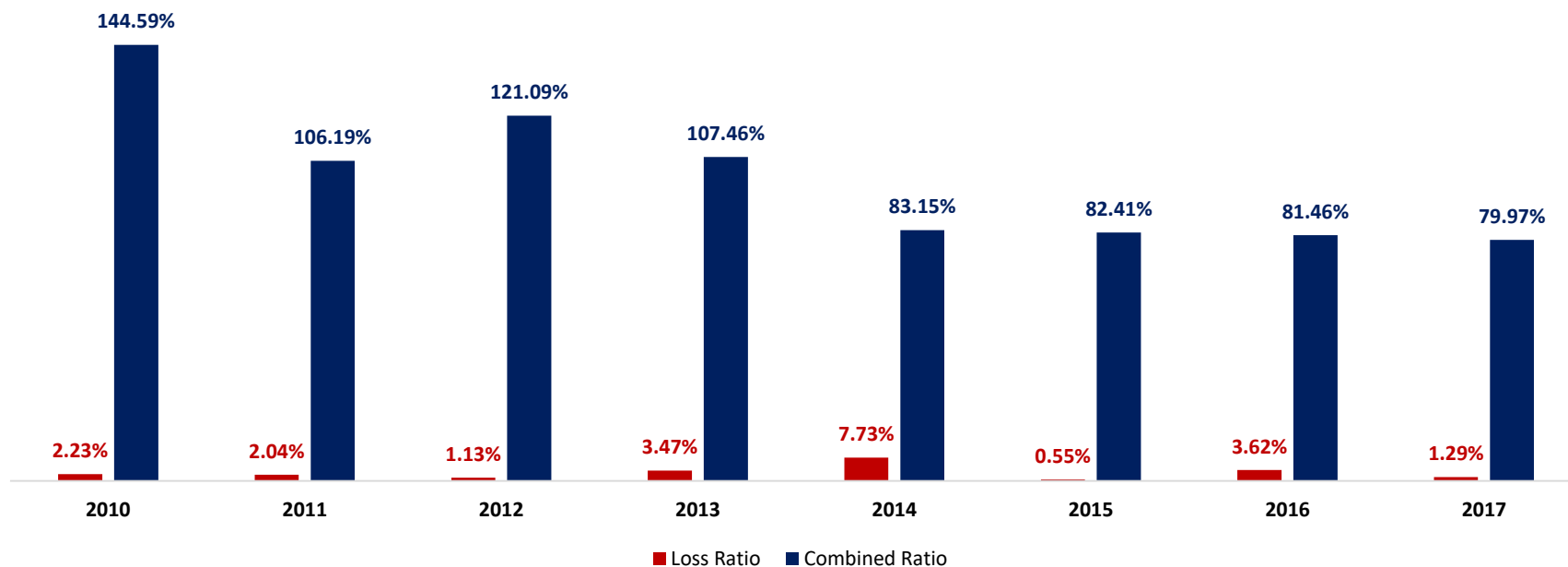
■ Portfolio development

Yet ... only about 1 in 5 dwellings are covered



Capital strengthening

Combined ratio



Combined ratio decreased by 65% since 2010

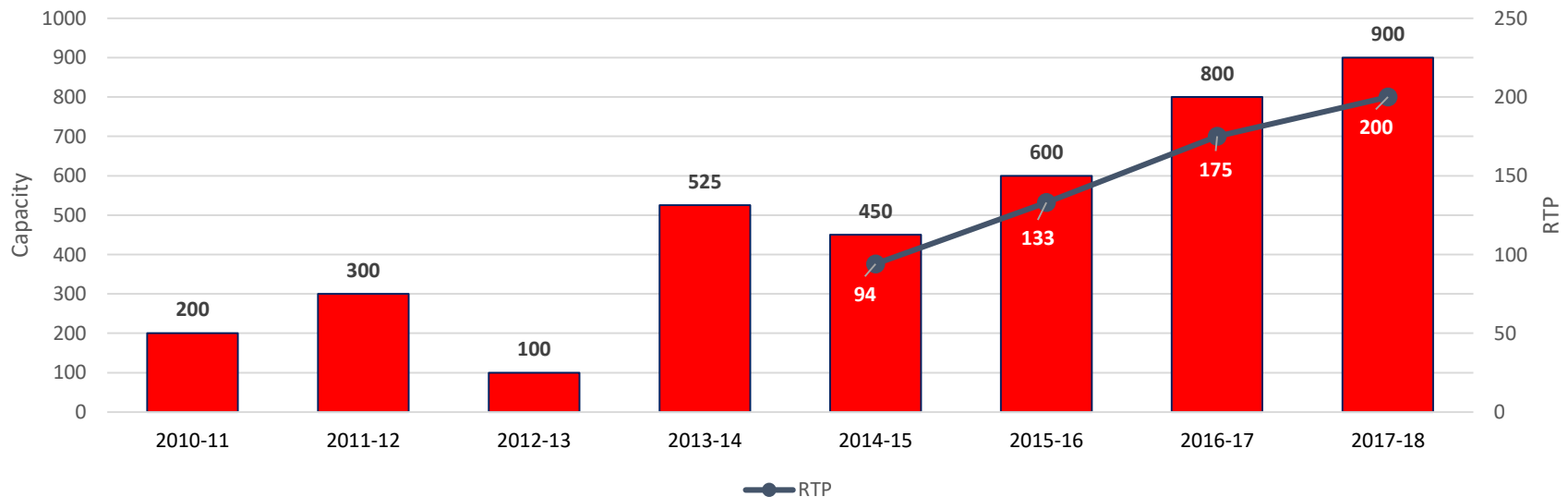
Very low and constant level of loss ratio over the years, average of 2,76%

2017 Solvency Ratio: 205%

Reinsurance programme

- The largest single territory buyer of reinsurance in CEE
- 71% higher protection than the level required by SII

Reinsurance capacity (mil. EUR) vs RTP*



*estimated figures calculated based on the most exposed month of the year

Progress

- Data quality optimization
 - Geocoding at address / street level reached 71.91%
 - Significant improvement in the percentage of portfolio with known construction type, year of construction and number of floors
 - Overall over 98% of the portfolio has the highest level of modelling data quality
- Consolidation of its capital position
 - non-distribution of dividends and lack of major CAT events
- Communication strategy to raise awareness of PAD as an indispensable way of protection

MAIN CHALLENGE: people's low "appetite" for insurance

A matter of perception - sociological study

- The mandatory policy is perceived as a TAX
 - PAID is perceived as a public institution
- Law enforcement depends on the elected administrative authorities (town halls) - in contradiction with their populist approach
- Trust in the insurance industry, as a whole, is very low
- Information provided – insufficient and not “decrypted” in common language
- The mandatory/facultative system is hard to explain -> false expectations and disappointment
- The package of risks covered by PAD is considered as NOT RELEVANT in many counties
- PAD sales are very low incentivized

Changes to be expected soon in the Law

Thank you!