

HOUSEHOLDS INSURANCE - HOW TO RELEASE CATASTROPHIC RISKS

Lect. Mădălina Giorgiana Mangra Ph. D
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania
Assoc. Prof. Marieta Stanciu Ph. D
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania
Lect. Natalița Maria Sperdea Ph. D
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania

Abstract: The article refers to the compulsory and voluntary insurances for the protection of households which can be affected by natural or technical disasters, risks that can be covered by these insurances. The failure of state's involvement in supporting the costs led to the reform of insurances, meaning the acquisition, by each owner, of compulsory insurance for one or more households owned by him. The laws were aimed, in turn, at the compulsiveness, and then the non-compulsiveness of households insurance until 2011, when, by the Law 260 republished, it is stipulated the compulsory insurance for natural disasters. The Pool of Insurance against Natural Disasters (PAID) was authorized to conclude compulsory households insurance by issuing the policy of insurance against natural disasters (PAD) which covers risks up to 20,000 euro or 10,000 euro depending on the type of household.

JEL classification: G22, K39.

Key words: compulsory insurance, voluntary insurance, PAID, PAD, CSA and legislation.

INTRODUCTION

The properties and assets of people, their activities, and especially their life can be affected by natural disasters (earthquakes) or technical disaster.

Romania's exposure to risks of natural disasters in conjunction with a low degree of coverage in ensuring determines the compulsory insurance of the households.

The existence of funds established in the state budget does not implicitly mean that the state must fully support the reconstruction of housing following a disaster. For example the 2010 State Budget Law has provided a level of budget reserve fund of 0.2% overall, of which 0.18% to the reserve fund and 0.016% for the intervention fund.

DISPERSION OF RISKS THROUGH INSURANCE

In retrospect, Law no. 136 of 1995 [1] nullified the requirement to ensure housing, so that, in accordance with information from the Insurance Supervisory Commission, in mid-2009, approximately 25% out of 8.3 million homes were ensured voluntarily, which shows that the absence of protection by insurance was forcing the State into covering damage caused by natural disasters.

As the text of Law 260 of 2008 [2] reads housing provided with insurance falls into two categories: type A (building with strength structure of reinforced concrete, metal or wood or with exterior walls made of stone, burnt brick or any materials resulting from heat or chemical treatment) and type B (building with exterior walls of brick or any other material not subject to heat or chemical treatment).

Property insurances are specified in Annex 1 of Law no. 403 of 2004 [3] amending and supplementing Law no. 32 of 2000 concerning insurance companies and insurance supervision.

The insurance companies practice the following classes of insurance:

1. class 8 including damages suffered by owners from: fire, explosion, storm, nuclear energy, land subsidence;
2. class 9 which refers to damage caused by hail, frost, theft.

The penetration of property insurance [4] is low because of the poor purchasing power of insurance products by individuals and their lack of confidence in the usefulness of insurance, to which can be added that insurance for catastrophic risks is not mandatory.

Structure of demand on the insurance market [5] depends on the country's economic development, the income individuals produce and the priority they assign to protection through insurance.

Factors influencing demand for property insurance to legal entities depend on the ability to pay, the frequency, magnitude and destructive power of risks, the belief that the protection through insurance is essential.

To spread risk, Law 260 of 2008 was promulgated based on which the Insurance Pool Against Natural Disasters (PAID) was established as insurance-reinsurance company, built by the association of 13 insurance companies [6] (Astra Insurance, Groupama Romania, Clal Romania, UNIQA Insurance, Generali Insurance, Ardaf, Euroins Romania, Grawe Romania, Credit Europe Insurance, Certasig, Carpathian Asig, City Insurance and ABC Insurance) authorized to sign the compulsory housing insurances, the PAID benefiting of an excess damage type of reinsurance program.

Natural Disaster Insurance Policy (RAP) covers three risks: floods, earthquakes and landslides. Some insurance policies cover all risks, meaning also fire risk beside natural disasters.

The amounts provided are determined based on the buildings' value declared by the insured, but must not exceed the actual value of the property at the time of signing the insurance, which shall represent at least 50% of the construction cost.

Thus, the sum insured is 20,000 euro for housing type A and 10,000 euro for housing type B. It is necessary to provide insurance also for temporary housing (holiday houses or huts, in the mountains or at the sea) the insurance premium being determined by taking into account the building material used to raise the building and not the risk area or household's surface.

In case one of the events provided by PAD happens, the insurance company which sold the insurance policy shall draw up a claim file that is sent to PAID, entitled to pay compensation.

The claim file contains the written notice of the damage by the insured, report of findings of the damage, photographs of the damaged structural elements, damage assessment documents and other documents fixing the amount of compensation, the claim request completed by the insured and the essay prepared by the damage liquidator.

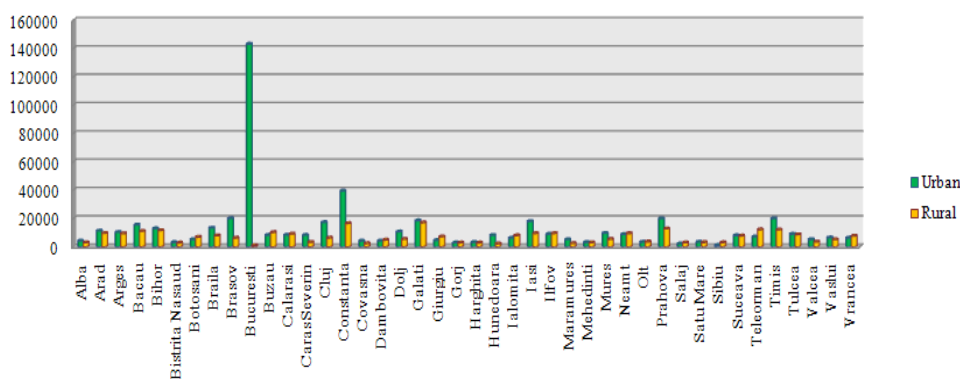
Compensation is paid by PAID based on a summary submitted no later than 5 working days since the date the insurer found and assessed damages.

From the second half of 2010 until the first months of 2011, 459.147 compulsory insurance policies were signed, according to ISC (Insurance Supervisory Commission). According to PAID statistics, 84.55% of all housing policies were concluded for type A housing, for which the insurance rate 20 euro per year and 15.45% for type B housing at a premium of 10 euro per year.

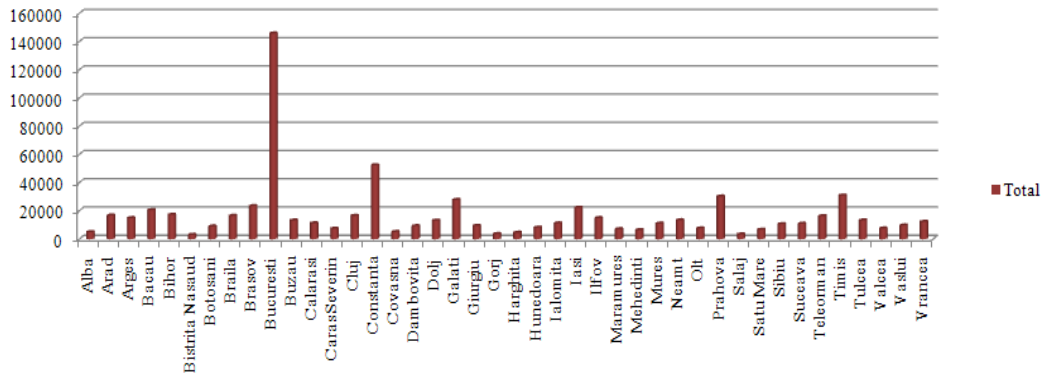
At 14.07.2011, 68% of the policies were concluded in the urban area, 32% in the rural area, and, depending on the type of housing, 70% for urban area and 30% for rural area.

Most of the policies were sold by companies such as Astra, Generali, Groupama and Uniqa. PAID statistics shows us the actual situation of all policies and their distribution on regions and counties in both the urban and rural area, by comparison, according to the following graphics/diagrams:

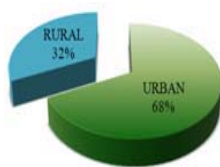
Distribution on Counties



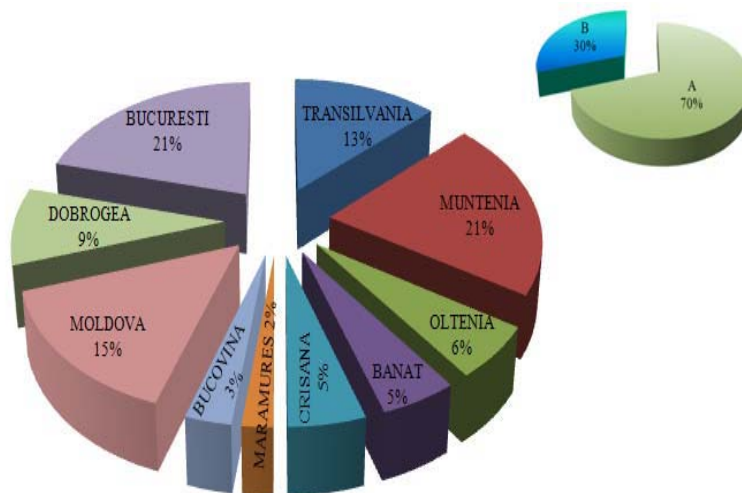
Distribution on Counties - Total



Area



Distribution on Regions Type of Housing



Compulsory insurance [7] represents a mean of protection in case of disaster and not a fee, and PAID covers the payment of compensation consequently to finding and assessing damages. Thus, the compensations, upon submission of claim files (damage by natural disasters: floods and landslides), have amounted to about 26,000 euro by the end of February 2011, as PAID sources confirm.

ISC rules regarding the form and terms contained in the compulsory insurance contract provide that compulsory housing insurance policy does not indemnify:

- damage caused by floods produced during the formation of artificial lakes or artificial change of watercourses;
- damage caused by collapse or landslides, if they have been brought about, facilitated or aggravated by excavation, utility works, prospecting, mining or oil

explorations, on the surface or in depth, regardless of the time elapsed since their completion or abandonment;

- damage caused by the soil compaction, either due to construction weight, or from other causes;
- damage caused by the formation of cracks in the soil under or around the building, because of contraction / expansion caused by freezing and thawing;
- damage to houses built in areas where the authorities have banned it as public acts or other documents provided to the insured;
- damage due to failure by the insured of the legal provisions concerning the approval, construction or operation of housing, after the entry into force of Law 260/2008;
- damage due to collapse of buildings exclusively as a result of construction defects, even if related to producing an insured risk;
- temporary accommodation costs until the house's reconstruction and which was damaged following an hedged risk.

Compulsory insurance only covers damages to housing construction, and not the assets located on the property, which can be ensured through voluntary insurance, which can be signed with another company than the one with which the compulsory housing insurance was made.

Thus, owners who have a compulsory insurance may conclude also a voluntary insurance, if the sum insured by this policy exceeds the amount provided by the compulsory insurance, provided the risks stipulated by the voluntary insurance are different from those of the compulsory insurance, as outlined in the rules published in the Official Gazette by the Insurance Supervisory Commission.

The decree amending and supplementing Law no. 260/2008 on compulsory insurance, issued at the end of 2010, stipulates that persons holding a voluntary insurance that includes coverage for risks also stipulated in the compulsory insurance, are not subject to this law. For example, Astra Pad Plus voluntary insurance, under the current law, can replace the Housing Compulsory Insurance, since the policy covers the following risks: earthquake, floods, landslides, fire, lightning, explosion, falling bodies, atmospheric phenomena, striking the vehicle, the weight of the snow, avalanche, and water pipes.

A person who owns more than one property must conclude PAD for each building separately. Houses with "red dot" can not be insured against natural disasters, which, according to estimates, only in Bucharest, are in number of 113.

Up to 5 August 2011, all house owners, individuals or legal entities, had the obligation to ensure their houses, otherwise supporting fines between 100 and 500 RON.

CONCLUSIONS

Introduction of a compulsory home insurance system is a consequence of the fact that Romania is exposed to natural disasters (the existence of Vrancea seismic active area, the frequency of floods or landslide) which affects not only the lives of people, but their assets and properties as well.

The degree of representation on the general market of the insurances proved not to be high due to people's lack of confidence in the use of insurance for catastrophic risks and the drastic reduction of purchasing power for the products offered by the insurance market.

Due to the economic crisis, the insurance system aims to amend the value of compulsory insurance and of the insurance premium in relation to the size of housing, inflation, issues arising from lack of tax deductions, limited participation of companies on the insurance market, and lack of governmental financial support (guarantee or loan).

The frequent modifications of legislation regarding the compulsiveness or non-compulsiveness of housing insurance has determined the often passive attitude of owners and resulted in the application of coercive methods like the restriction of completing insurance until a fixed date.

State authorities or other entities involved in the management of compulsory insurance (municipalities, associations of owners) must support this program and conclude cooperation agreements with PAID.

Homeowners are required to secure their properties (houses, cabins, vacation homes, etc.) against the three natural hazards by concluding a mandatory PAD policy, issued by PAID, or by a voluntary insurance concluded with specialized companies, which is added to the compulsory one for amounts surpassing its value or for risks that are not subject of the compulsory housing insurance.

REFERENCES

1. Negru, T. Insurances and reinsurances in economy, Oeconomica Series, C. H. Beck Publishing House, Bucharest, 2008, p. 92.
2. Stanciu, M., Vasile, T., Dăniașă, C.I. The Connection between the Financial Market and Insurance Market in the Integration and Globalization Context, Buletin Științific – publicație științifică de informare a Academiei Forțelor Terestre din Sibiu, vol. 15, nr. 2 (30), 2010.
3. Tobă D., Simion, D., Tobă, E. Correlation between consumption-savings behaviour of economic agents, Conference Proceeding by "Nicolae Balcescu" Land Forces Academy Publishing House, 2010.
4. * * * Law no. 136/1995 on the Insurances and Reinsurances in Romania issued in the G. O. no. 303/30 December 1995.
5. * * * Law no. 260/2008 on the compulsory insurance of housing against earthquakes, landslides and floods, issued in the O.G. no. 976/25 October 2004.
6. * * * Law no. 403/2004 on amending and supplementing Law no. 32/2000 regarding the insurance and insurance supervisory societies, issued in the O.G. no. 976/25 October 2004.
7. * * * Collection Financial Week, 2010-2011.