

COMPULSORY HOME INSURANCE: A WAY TO DIMINISH NEGATIVE IMPACT OF NATURAL DISASTERS

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The natural catastrophes that affected Romania in the last years generated unprecedented records in what concerns the loss of human lives and significant damages at an economical level. According to the 2002 census concerning buildings, there are about 8.1 million buildings made up of 2.8 rooms (in average) in Romania and 48% of these homes are located in rural areas. In the case of an earthquake, only 12% of these buildings would not encounter any problems, while 65% may be damaged by the seism and approximately 25% are sure not to have the necessary anti-seismic protection, being repeatedly damaged by several strong earthquakes that took place on Romania's territory. In the case of an earthquake like that of 1977, the value of the eventual loss would be around 7.5 up to 17 billion U.S. dollars, i.e. 8% to 18% of the Gross Domestic Product. Such damages could not be supported by the national budget. In these circumstances, building insurance is a more than welcomed and necessary way of reducing the negative effects of natural catastrophes.

Key words: asigurarea obligatorie, valoarea de asigurare, riscuri asigurabile, prima, despăgubirea.

Factors determining compulsory home insurance

Natural disasters that have affected Romania these years have had negative impacts materialised in the loss of human lives and in damages with considerable impact on economy.

According to the Report on the effects of flooding and meteorological phenomena in the year 2005, a peak year in natural disasters in Romania, published in January 2006 by the Ministerial Committee for Emergency Situations, the negative balance can be synthesised as follows:

- 76 human victims;
- 93,976 homes and household annexes;
- 1,063 social and economic objectives damaged or completely destroyed;
- 656,392 hectares of agricultural land.

The infrastructure was also affected considerably:

- 9,860.63 km of county and communal roads;
- 560 km of national roads;
- 2,464.84 km of streets in localities;
- 2644.9 km of forestry roads;
- 9,113 bridges and footbridges;
- 23.8 km of railroads.

A number of 630 hydrotechnical buildings with a protective role against floods were also considerably damaged, as well as water supply, electrical, and phone networks.

The counties the most affected were, in a decreasing order, Vrancea, Buzău, Timiș, Caraș-Severin, Bacău, Teleorman, Mehedinți, Olt, Galați, Botoșani, Dolj, Suceava, and Satu-Mare.

The year 2006 also was marked by floods that resulted in a volume of damage of about 750 million Euros.

While risk incidence was very high, insurance density was very low. The effect was that only very few of the damage could be compensated by insurance companies, the people suffering losses or even the State having to cover their own losses.

According to the census of homes in 2002, there were 8.2 million homes in Romania, with an average of 2.5 rooms per home. About 48% of these homes were in the rural area. As for the anti-seismical resistance vs age of the home, we can say that:

- less than 10% are 20 years old and observe the standards required after the earthquakes in 1977 and 1986;
- 37% are between 20 and 40 years old, being built mainly in accordance with the standards of the period 1963-1970 or after the earthquake in 1977;
- 28% are between 40 and 55 years old and were built in accordance with the standards of the period 1947-1963;
- 25% were, in 2002, over 55 years old and were built before 1947.

As we can see, only 10% of the homes would not suffer from an earthquake, while other 65% of the homes are not enough resistant to earthquakes and about 25% are definitely not resistant to earthquakes since they have been affected by several earthquakes that have occurred on Romanian land.

The volume of losses in case of another earthquake of the same intensity as that in 1977 would result in material losses of 7.5 to 17 billion US\$, i.e. 8-18% of the GDP. Such a volume of damage could not be supported by the State budget.

As for the homes in the rural area, they are built with local materials, most of them being little resistant to the effect of waters, such as adobe, burnt clay, stone, etc. Repeated and intense high floods and associated floods are still the main

feature of Romanian watercourses affecting our homes. Annually, the damage caused by floods reach over 150 million Euros.

It is clear that it is necessary to design a strategy that moves a true protection mechanism against natural disasters that affect in a much more severe measure, as we have, unfortunately, so often seen, homeowners in the rural area.

Therefore, it is imperative to adopt coherent policies concerning natural catastrophic disasters with a view to measures meant to diminish risks and to limit damages and to financing reconstruction costs. Among ways of diminishing risks and transferring the effects generated by these risks there is also home insurance, our topic hereafter.

MATERIAL AND METHOD

Starting from the necessity of protecting the buildings through insurance as shown above, we have observed, annotated and analysed the law of compulsory home insurance to demonstrate the measure in which the stipulations of this regulatory act meet the real needs of protection through insurance.

Another question that we tried to answer is related to the correlation existing, on one hand, between the real value of the buildings to be insured and the maximum quantum of damage that the owners of damaged buildings can get as a result of the insured risk.

The results of our analysis are presented below.

RESULTS AND DISCUSSIONS

Technical elements of compulsory home insurance

One of the solutions identified by Romanian authorities to develop, at least partially, the effects generated by natural disasters is a compulsory home insurance scheme. This idea was debated by the Romanian Parliament ever since 2002, but it did not materialise in a normative act until 2008. Applying this law was to become operational starting with July 1, 2009, but it was postponed to January 1, 2010.

The law concerning the compulsory home insurance was developed on the ground of a project developed together with World Bank experts and it contains several components to be implemented by the Ministry of Administration and Internal Affairs, by the Ministry of Transportations, by the Ministry of Constructions, by the Ministry of Tourism, by the Agency for Mineral Resources, and by the Ministry of Environment and Water Management.

Since by July 1, 2009, the above mentioned normative act was not put into practice, we will only present and discuss the main technical elements of the compulsory home insurance such as they are stipulated by the law.

The insurer in the case of the compulsory home insurance are insurance companies that practice the optional home insurance and that are to be licensed in this respect by the Commission of Surveillance of Insurances on the ground of some criteria concerning their financial assessment and their national coverage. These companies will set the grounds of the REINSURANCE COMPANY

AGAINST DISASTERS which represents, from this point of view, a pool of insurance.

Romanian citizens, home owners, will be the insured. The law concerns *earthquake, flood, and landslide risks*. Homeowners possessing an optional home insurance against disasters will not have to buy another insurance policy after January 2010.

As for the object of the insurance, they have taken into account two categories of buildings:

- reinforced concrete buildings or buildings with outer walls of brick or any other elements resulting from a physical and/or chemical treatment;
- buildings with outer walls made of wood, stone, and other elements not subjected to a physical and/or chemical treatment.

Annexes that are separated from the home cannot be subjected to this home insurance.

The maximum insurance value (the amount insured) is 20,000 Euro for the first category of homes and 10,000 Euro for the second category of homes.

Only the buildings meant to be homes are insured against disasters, not the goods inside the homes.

Homeowners can make an option for a supplementary insurance for a value higher than the maximum insured value. In this case, the difference between the value insured through the policy and the maximum insurance value guaranteed will be subjected to the regime of general, optional insurances.

The *insurance premium* reaches 20 Euro for the first type of buildings and 10 Euro for the second type of buildings, respectively. It is important to mention that the Executive will subsidise insurance premiums for homeowners that benefit from social support under the conditions stipulated by the law.

The risks subscribed in the insurance policy by the new company will be transferred to the reinsurers from the foreign market if they will not be covered by the newly developed pool. At the beginning of the programme, to ensure the payment of the first insurance premium, the Romanian Government will contract a loan. The difference between the reinsurance premium on the foreign market and the total amount loaned will be used to capitalise the developed company.

The amount of the insurance premium will be adjusted to the real price depending on the results of the Integrated Study concerning Risk Management in case of Disasters, which aims at quantifying global exposure to earthquakes, floods, and landslides. The terms and conditions stipulated in the insurance policy will be unique no matter the insurance company.

As for the establishment and assessment of the damages, the same criteria will be taken into account as in the case of optional home insurance.

The compensation to which are entitled the insured affected by one of the risks insured is calculated according to the principle of the first risk. This means that damage can be covered up to the amount of 20,000 Euro and 10,000 Euro, respectively, without taking into account the real value of the home insured.

CONCLUSIONS

Even if the law concerning the compulsory home insurance has not been applied yet, it will surely result in wild, controversial debates between both parties involved in the process.

What we aimed at with the present paper was not to criticise the law, but to present briefly some opinions and questions it arises, at least in the form it had upon publication.

A first problem was noticed by insurers themselves, i.e. public perception of the compulsory nature of this type of insurance. It could result in a refusal of this insurance by the population which could see it as a new type of tax. Without entering any polemic, we would like to stress that the degree of coverage by optional home insurance is 8%, which shows the low interest of the Romanians for property insurance; in such a case, obliging the population to buy such a type of insurance does not seem necessary to us.

A technical problem is related to the insurance premium that was standardised for the two types of home, i.e. 20,000 Euro and 10,000 Euro, depending on the building material. Besides the fact that the premium is much too small in comparison with the real value of the buildings, it is known that differentiating real value is done depending on several variables, such as: nature of the building materials, value of manual labour on the local market, surface built, annexes, utilities, etc. From this point of view, the value of the coverage seems completely insufficient. Increasing the insurance premium up to 50,000 Euro with a differentiation on 5 levels (starting from 10,000 Euro) would better meet the basic object of an insurance – diminishing risks and transferring the effects generated by these risks from the insured to the insurers – companies specialised in the protection against risks. It would equally answer the real needs of protection of a large number of homeowners. It is easy to understand that in these conditions the insurance premium should also be adjusted to the value protected by the insurers.

Another problem is related to the subscribed risks that are different per geographical areas, per categories of homes depending on the degree of resistance to earthquakes, floods, or landslides, depending on the location of the home, in the urban or rural area, etc. Or, the insurance premium that should reflect a risk incidence depending on the factors presented above has been standardised in the above mentioned law at 20 Euro and 10 Euro, respectively. In addition, the insurance premiums should be correlated with the costs of reinsuring on the foreign market, which are not known.

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