THE ROLE AND THE NECESSITY OF A MANDATORY HOME INSURANCE

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Abstract:
Home insurance became mandatory since 2008 and have been introduced as a social measure, given the low level of insurance premiums and sums insured. The role of a home insurance is to provide protection, financial support of personal goods.

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1. Introduction

The premises for development of insurance are objective and subjective terms.

In subjective terms we can say that man or entities need to feel the necessity of insurance, be so interested to cover those risks causing damage. Developing the need for insurance is influenced by the cultural level and standard of living. Another condition is related to the financial possibilities of payment the insurance premiums. This is one of the main reasons that insurance are developed in advanced economically countries.

Objectives conditions for development of insurance are caused by certain principles and rules among which can be show: principle of mutuality (shared risk coverage) as a principle known as "one for all and all for one"- to participate in establishment the insurance fund; insured event to be random and its achievement does not depend on insured will; to exist for insurance a large number of persons (individuals or legal entities) be equally threatened by that risk covered by the insurance; the possibility of occurrence of the risks to be on random, but not excessively rare because in such cases there is no insurable interest; the risks must occur in an large area and not only in certain places; insured events must take place in the future, the past is known and can no longer be the object of insurance.

2. Mandatory home insurance

Mandatory housing policies are issued by a new insurance company called PAID, company that was established in November 2009, started their operation in February 2010, and the first compulsory insurance policy was issued on July 15, 2010. PAID is to drive 13 private insurance companies. Only the latter and their authorized representatives have the right to sell the required policies. PAID shareholders are: ASTRA Insurance, GROUPAMA, ABC Insurance, ARDAF, CARPATICA Insurance, CERTASIG,
CITY Insurance, CREDIT Europe Insurance, EUROINS Romania, GENERALI, GRAWE ROMANIA, UNIQA Insurance, PLATINUM.

Insurance premiums are 10 or 20 euros (depending on the type of housing) matching amounts secured 10,000, respectively 20,000 euros. These policies cover a minimum of risk, regardless of the area where the home is located and the risks they expose earthquakes, floods, landslides. Owners who have a voluntary housing policy are no longer required to complete and compulsory. A voluntary insurance covers most cases, the risks of earthquakes, floods and landslides, and more. Individuals who do not provide housing owned, according to Law no. 260/2008, it shall, in case of natural disasters one defined by law, by any compensation from the state or local budget for damages to housing.

No compensation will be granted under the compulsory insurance policy if:
1. Insured / Contractor has not fulfilled its obligations under the contract
2. In statements contractor/beneficiary or his representatives, which led to the insurance contract or that are made during the claim or any other occasion, it is found that not told the truth, fraudulent issues, exaggerations or omissions leading to induction mislead the insurer, or PAID
3. Beneficiary not present sufficient evidence to justify his right to payment of compensation
4. Damages were favored or aggravated negligence for the damage that has increased intentionally by the insured/beneficiary or people who live with the insured/beneficiary to the home insured, the representatives persons of the insured/beneficiary authorized to represent the client to obtain compensation.

According to Law 260/2008, failure to comply with individuals or legal entities of obligation to ensure housing, as provided by law is a contravention and is punishable by a fine of from 100 to 500 RON. The insurance premium is charged in RON to paid to the insurer issuing the policy (so that actually sells) by the contractor/insured, the exchange rate of the day of payment in cash or by transfer to the account of the insurer. The insurance premium is paid in full and in advance at least 24 hours before the start of mandatory insurance policy is valid:

- a) 20 euros for housing construction type A
- b) 10 euros for housing construction type B

Housing types for which compulsory insurance are:
- TYPE A - construction of reinforced concrete structure, metal or wood or stone exterior walls, burnt brick or of any other material resulting from heat treatment and / or chemical
- TYPE B - construction with exterior walls of unburnt brick or any other material not subject to heat treatment and / or chemical (e.g. adobe house).

The insured persons are obligated to take any reasonable measure necessary to prevent or limit the damage caused by natural disasters before and after the event. The homes that are built illegal or without the conformity of the materials used, cannot be assured. The insured that makes modifications to the building without the proper authorization, which affects the structural integrity of the home, will not be compensating.

![Chart 1: Total policies available in Romania in January 2013](source: www.paidromania.ro)

On 01.01.2012 issued 534,237 policies were required, and their number gradually decreased, the lowest value being recorded 8/28/2012 namely 200,996. Gradually began to increase the number
of required housing policy so that, on 30.11.2012 issued 280,158 policies were required.

From the chart above we can see that the highest level of a mandatory home insurance was reached on 31.01.2013 meaning 336.616 policies. At 15 January 2013 there were 330.056 policies issued and they continue to grow, so that in 21 January 2013 were 331.097 policies, and by the date of 26 January they were 330.914 policies.

3. Aligning decisions in insurance at the European level

4. Insurance companies are among the largest institutional investors, together with pension funds and investment funds. Following the rebound in capital markets that began in 2009 as a result of the exceptional measures put in place under the European Economic Recovery Plan to restore confidence in the banking system and support demand — and despite significant volatility in 2010 — European insurers’ total investment portfolio (estimated at market value) is expected to continue its recovery.

5. The top three investors among the European insurance markets are France, the UK and Germany, accounting for 62% of the total portfolio. In 2010 they accounted for 23%, 21% and 18% of the market respectively. With a market share of 7%, Italian insurers are the fourth largest investors. The investment holdings of life insurers account for more than 80% of the total. Looking at the emerging markets of eastern and central Europe, Poland ranks first but its market share is less than 0.5%. Insurers’ investment portfolios suffered considerably in 2008, mainly due to the fall in stock markets that started in the last quarter of 2007 as well as to the rise in sovereign yields. Nevertheless, insurance companies weathered that financial crisis well and investment portfolios recovered to 2007 levels in 2010.

Romania is a country where most people own their homes, as opposite to the West where the rent is commonly used. Many westerns frequently use rent or mortgage and become owners after their forties, so they are obligated by the banks to have home insurance. Most home buyers borrow money in the form of a mortgage, and the mortgage lender always requires that the buyer purchase homeowners insurance as a condition of the loan, in order to protect the bank if the home were to be destroyed. Anyone with an insurable interest in the property should be listed on the policy.

In Romania the increasing number of insured properties is caused by the outgrowing mortgages. In this context, Romania as a market could gain normality, forcibly rising but with good intention the number of insured houses. The Romanian National Institute of Statistics tells us that over eight million houses are private properties. Romania is one of the most exposed to natural disaster state in Europe, especially earthquakes and landslides, which often causes material damages and human loses with great economical and social costs. In this context, “The risk reduction in case of natural disasters and readiness for emergency situations project” represents a helping hand from the Romanian Government in diminution of the ecologically vulnerabilities, social and economical costs of a possible natural disasters. A natural disaster is the consequence of the combination of a natural hazard (a physical event e.g. volcanic eruption, earthquake, and landslide) and human activities. Human vulnerability, caused by the lack of appropriate emergency management, leads to financial, structural, and human losses. Disasters occur when hazards meet vulnerability.

Commission as the immobiliary market fluctuate and if the reinsurance company agrees. The terms and conditions of the mandatory home insurance will be the same for all the insurance company.

The policy insures the damages produce by natural disaster to homes. The licensed insurance companies will pay damages to the ensured only to refer or replace the damaged home without exceeding the ensured value. The amends are paid even when, in case of imminent danger of flood or land slide, the home was demolished or relocated. Also, in case of earthquake, floods or land slide the use of the home is no longer possible, and is necessary to demolish or relocate.

The insured are obligated to provide the documents that prove the right to ownership to the insurance company. The mandatory home insurance premiums will be fiscally deductible.

Basically, this new system brings us back to 1995, the last year when this type of insurance has been mandatory. But in those times, the owners didn’t insured their homes because, the premiums were embedded in local taxes. After the removal of that, the degree of insured decreased from 90% to 6, 2% from the total number of homes in urban area, ands only 1, 8% from the homes in the rural area.

In other states, another solution, more efficient, was found. In California for example, those who want to insure their homes against the earthquakes, can call private insurance pool, and the compensation receive only those who
contracted this type of insurance. In Florida, insurance against hurricanes and storms exists.

Now, only a small percentage of homes in Romania are insured, taking in consideration that 85% of population own their houses.

In Western Europe, only 45 to 65% of population owns their homes, but the vast majority of landlords insure their buildings. An enforced type of insurance has no chance to survive in those conditions.

The value of the prime is set in concordance with the building material from which the home is made of. All the citizens, owner of their homes will have to insure their house against floods, landslides and earthquakes. Those who want more complex types of insurance, like fire dangers, will have to by optional insurances. The bill is designated for all the owners of their home. The premium is supported by the owners.

4. Conclusions

At European level, there are 7 countries that apply the law on mandatory home insurance: Denmark, Netherlands, France, Belgium, Switzerland, Norway and Spain.

According to an INSOMAR opinion in January 2009, the share that have home insurance last year grew from 12% to 19,8%. The majority of them lives in urban area and is younger than 50 years. The Insurance Supervisory Commission’s agent added that the coverage degree of home insurance amongst the other types of insurances is at a very low level. The social capital of the new entity, called insurance pool, will be at least 8 millions RON and its activity shall be monitored by The Insurance Supervisory Commission.

In these new conditions, the owners of those types of buildings will be compensating with the money from those who built their homes strongly. In other words, this system may be views as a form of social solidarity imposed by the government.

Over 60% of opinion taken agrees that the Mandatory Home Insurance is appropriate. The percentage in 2009 was 58%. Over 12% from the partakers have life insurance against 8% in 2009 and 65.6% of them feel that is suitable. Also, over 59% from the participants believe that a private retirement found is a viable alternative to state social security system. The same question achieved 56% in 2009, at the previous opinion poll.

The revenues from the insurance market from Europe, excided 790 Billion Euros last year. Romania was classified as the 25th country with 890 million Euros, according the Comité Européen des Assurances (CEA).

Insurance brokers will come to account for 35% in policies sold on the Romanian insurance market in the next three years. The insurance brokers share of the market is put at 20-25% of a market worth 1.6 billion euros in 2008 and the increase to 35% is likely to bring domestic brokers over 16 million euros more in fee revenues.

An important role on the insurance market can be played by the insurance brokers and could reach a weight of 35% in the next three years given the considerable increase witnessed by brokers as part of the overall market in Poland.

Legal regulations in the past have allowed a strong competition between mandatory and voluntary policies, because an insured met requirements imposed by the law by concluding a voluntary policy covering those three risks. Meanwhile, on the market appeared voluntary insurance products with a similar price policies PAD, with a greater number of insured risks.

After two years and half of activity PAID issued 1.2 million policies PAD and paid damages amounting to 574,357 RON, given that no significant events occurred, according to the company. Nobody can deny that PAID has been and is a vehicle for voluntary insurance market growth in 2011 registering a penetration rate of 58% of home insurance (voluntary and mandatory).

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