

Session I: The Current Status of RCIP

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PAID: From Theory to Practice

Eugene N. Gurenko, Ph.D., CPCU, ARe
Lead Insurance Specialist



World Bank Group

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Agenda



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- ① **World Bank current perspective on PAID**
- ② **Disaster insurance law and draft amendments**
- ③ **Remaining building blocks**
- ④ **Conclusions**



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The World Bank current perspective on PAID

- Since May 2009, the CSA and the insurance market have made major progress in moving the program closer to its eventual implementation. The key milestones include:
 - Preparation and submission to the government of key amendments to the Insurance Law
 - Creation of the PAID working group consisting of industry representatives
 - Establishment of PAID as a new legal entity
 - Election of PAID President and Vice-president
- Remaining Bank concerns include:
 - Amendments to the Law are yet to be approved
 - Inadequate pricing of risk in the first year of PAID operations
 - No mention of deductible
 - Considerable government fiscal exposure to potential losses (about €2 billion in the first year from a 1-in-200 year event assuming implementation of proposed pricing and no deductible, and 100% penetration).
 - No program business plan
 - Limited industry participation in the program
 - No clearly identifiable government financial support (either a financial guarantee or a loan for reinsurance premium)



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Proposed amendments to Law No. 260/2008: main changes

- In World Bank's view, the amendments to the Law introduced to the government by CSA in substance address most essential of insurers' concerns, namely:
 - The compulsory insured amount and the related compulsory premium may be amended annually by an order of the President of ISC after this law comes into force. The criteria which shall be used for adjustment are to be set out in the same order and shall refer, *inter alia*, to the size of the dwelling, replacement costs and inflation rate.
 - Dwellings in buildings surveyed by certified technical experts and assigned by in the technical expert report in the first class of seismic risk, will not be included in insurance for that kind of risk until the acceptance at the end of the buildings' retrofitting works.
 - The payment of claims shall be made directly by PAID based on a summary sent by the insurer undertaking the establishment and assessment of the damage.
 - Insurance companies shareholders of PAID and insurers authorized to conclude PAD may not be required in any case to support from their own funds any differences between the compensation due and funds available to PAID.



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Industry amendments that have NOT been incorporated

- the definition of the compulsory sum insured under the PAD policy should be established per event and in aggregate amount, and it cannot be exceeded in total, regardless of the number and total amount of losses occurred while the PAD is in force.
- Removal of any reference to premium rates
- A reference to the size of agents' commission
- A reference to the regulation of PAID solvency
- A reference to PAID covering “claims establishing and settling expenses”, not just “establishing”

Remaining building blocks to be put in place



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Training of agents and loss adjusters

Distribution agreements with insurers

Cooperation agreements with LGs

Public education campaigns

Placement of reinsurance

MoF guarantee and RE premium loan

Insurance license

Completion of capitalization

Installation of IT systems

Recruitment of key staff

Sound business plan

Amendments to Law No. 260

Law No. 260/2008

PAID Creation





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Conclusions

- The introduction of amendments to the Law No. 280 by CSA based on industry's recommendations and the incorporation of PAID by member insurance companies are important milestones on the way to a fully fledged insurance scheme.
- More work however lays ahead to make the scheme fully operational
- The World Bank stands ready to assist the government and the insurance market with further development and operation of the scheme.