

Mandatory Home Insurance In The Romanian "Centru" Region of Development

Dănulețiu Dan-Constantin

Dănulețiu Adina-Elena

"1st December 1918" University of Alba Iulia

dan.danuletiu@uab.ro

adina.danuletiu@uab.ro

Abstract

The paper analyzes the evolution of the mandatory home insurance market on the Romanian "Centru" region of development at aggregate level and on the counties level, both for rural and urban areas. The analysis discovers similarities and differences in the behavior of the persons from the area of study and bring new evidences for the factors that affect the mandatory home insurance market.

Key words: mandatory home insurance, Centre region

J.E.L. classification: G22

1. Introduction

Instituted by the law 260/2008, the mandatory insurance for disasters (PAD) entered into force effectively in July 2010, after issuing the first policy, but because of the changes of the law, we could say that this type of policy became effectively mandatory just in 2013. The regulation of this policy suffered a number of changes (Dănulețiu and Dănulețiu, 2016, p. 86-88), that affected the evolution of the policy during time.

As long as the necessity of the mandatory home insurance is evident (Orheian, 2013, p. 177-180), we try to analyse, based on the public data available on the website of the Insurance Pool Against Disasters (PAID), the evolution of the mandatory home insurance policy in the "Centru" Development Region at the county level and also distinctive for urban and rural areas in order to highlight the similarities and differences between the units of analysis.

2. Theoretical background

Different quantitative aspects regarding mandatory home insurance in Romania were made (Dănulețiu and Dănulețiu, 2016, p. 88-92; Ianc and Lapadusi, 2014, p. 181-184), and some remarks about the factors affecting the population behavior regarding mandatory home insurance in Romania, or Transylvania could be found (Ciumaș and Coca, 2015, p. 69-78; Hochrainer-Stigler et. al., 2016, p. 259; Gavriletea, 2017, p. 770-775).

More recent data about the perception and the preferences of the Romanian consumers on the mandatory and/or facultative home insurances come from a study made for the Romanian Insurers' National Union by the Romanian Institute for Assessment and Strategy (Romanian Institute for Assessment and Strategy, 2018). According to this, about four of five persons know about the mandatory character of the home insurance for natural disasters, but only about one of five persons has a home insurance for natural disasters. According to the same study, about 2 third of the persons consider that a better information could determine them to have a mandatory home insurance for natural disasters, and about 70% of the people surveyed consider that it is the duty of local and central public authorities to inform the citizens about the binding character of such insurance.

Considering the necessity of information of population regarding mandatory and facultative home insurance, the Association for Promoting Insurance, in partnership with some professional organizations in insurance area and some insurers, develop since 2013 a campaign titled „October – month of the home insurance”. Reached at the VI-th edition, the campaign highlighted that in the first half of 2018 the number of the natural disasters covered by this kind of policy registered a rise. As regards the floods, the interventions for floods in the first half of 2018 (2208 interventions) are higher than in the entire 2017 (1768 interventions) and just in the first 6 months of 2018 were affected by floods 795 homes in the entire country. Landslices are one of the most important natural disaster and, according to the same source of data, in the first half of 2018 were affected by this 82 homes, comparing with 3 homes in the entire 2017. On the other hand, Romania is one of the european countries most exposed to earthquakes, just in the first half of 2018 being registered 146 such events, generally minor ones. But the effects of a major earthquake could be very serious, as was the situation in 1977 when about 32.900 homes suffered important damages (MediaXPrimm, 2018).

3. Methodology

The analysis developed in the paper use the following indicators:

- ✓ the number of insurance contracts (No. of contr), as an indicator for the dimension of the analyzed market;
- ✓ the relative change of these (%Δ Ncontr), to highlight the dynamics of the market;

$$\text{The formula for the relative change is } \% \Delta \text{ Ncontr} = \frac{\text{Ncontr}(i) - \text{Ncontr}(i-1)}{\text{Ncontr}(i-1)} \times 100$$

- ✓ the rate of homes covered by mandatory insurance (C_degr), calculated as a rate between the number of contracts and the number of homes in the unit.

4. Findings

Data about the number of PAD contracts and the dynamics of them during 2013-2017 in the counties of the „Centru” Development Region are reflected in table no.1.

Table no.1 Number of the PAD contracts and the dynamic of PAD contracts for the counties from Romanian „Centru” Development Region

County	Indicator \ Year	2013	2014	2015	2016	2017
Alba	No. of contr.	7304	16412	18880	23475	22738
	%Δ Ncontr	-	124,70	15,04	24,34	-3,14
	- No. of contr.urban	4525	11291	13240	16606	16066
	%Δ Ncontr_u	-	149,52	17,26	25,42	-3,25
	- No. of contr.rural	2779	5121	5640	6869	6672
	%Δ Ncontr_r	-	84,27	10,13	21,79	-2,87
Mureș	No. of contr.	11721	29754	35757	45895	44335
	%Δ Ncontr	-	153,85	20,18	28,35	-3,40
	- No. of contr.urban	7693	19423	23286	30795	29674
	%Δ Ncontr_u	-	152,48	19,89	32,25	-3,64
	- No. of contr.rural	4028	10331	12471	15100	14661
	%Δ Ncontr_r	-	156,48	20,71	21,08	-2,91
Sibiu	No. of contr.	14450	33324	37391	41444	41967
	%Δ Ncontr	-	130,62	12,20	10,84	1,26
	- No. of contr.urban	11240	25995	29686	33139	33539
	%Δ Ncontr_u	-	131,27	14,20	11,63	1,21

	- No. of contr.rural	3210	7329	7705	8305	8428
	%Δ Ncontr_r	-	128,32	5,13	7,79	1,48
Braşov	No. of contr.	23229	58510	60167	64983	72523
	%Δ Ncontr	-	151,88	2,83	8,00	11,60
	- No. of contr.urban	18755	48678	50203	55015	62399
	%Δ Ncontr_u	-	159,55	3,13	9,59	13,42
	- No. of contr.rural	4474	9832	9964	9968	10124
	%Δ Ncontr_r	-	119,76	1,34	0,04	1,57
Covasna	No. of contr.	6074	15751	17026	18618	18819
	%Δ Ncontr	-	159,32	8,09	9,35	1,08
	- No. of contr.urban	4074	10499	11460	12549	12769
	%Δ Ncontr_u	-	157,71	9,15	9,50	1,75
	- No. of contr.rural	2000	5252	5566	6069	6050
	%Δ Ncontr_r	-	162,6	5,98	9,04	-0,31
Harghita	No. of contr.	5227	14119	15804	18473	17714
	%Δ Ncontr	-	170,12	11,93	16,89	-4,11
	- No. of contr.urban	3120	8366	9240	10595	10401
	%Δ Ncontr_u	-	168,14	10,45	14,66	-1,83
	- No. of contr.rural	2107	5753	6564	7878	7313
	%Δ Ncontr_r	-	173,04	14,10	20,02	-7,17
„Centru” region	No. of contr.	68005	167870	185025	212888	218096
	%Δ Ncontr	-	146,85	10,22	15,06	2,45
	- No. of contr.urban	49407	124252	137115	158699	164848
	%Δ Ncontr_u	-	151,49	10,35	15,74	3,87
	- No. of contr.rural	18598	43618	47910	54189	53248
	%Δ Ncontr_r	-	134,53	9,84	13,11	-1,74
Country	No. of contr.	736318	1491329	1590954	1703047	1693006
	%Δ Ncontr	-	102,54	6,68	7,05	-0,59
	- No. of contr.urban	518368	1119988	1183670	1278988	1279913
	%Δ Ncontr_u	-	116,06	5,69	8,05	0,07
	- No. of contr.rural	217950	371341	407284	424059	413093
	%Δ Ncontr_r	-	70,38	9,68	4,12	-2,59

Source: authors' processing after data collected from PAID statistics, online <https://www.paidromania.ro/en/monthlystatistics> (insurance data), acceded on 12th of october 2018

Analyzing the evolution of the number of PAD contracts during 2013-2017, we could observe that generally the same trends are for these at the country level and on the Centre Region or counties from this region. It have to be observed that the number of PAD contracts registered a significant rise in 2014 comparing with 2013 (more than double), the most important explanation of such evolution being, in our opinion, change of the law made in 2013 that forced the insurers to include in the facultative homes insurance a deductible of 20000 euro or 10000 euro (for A or, respectively, B type of homes) and redirected the consumers to buy mandatory homes insurance to be covered for the effects of the natural disasters. By changing of law, the home damage from natural disasters lesser than 20000 euros, or 10000 euros - according the case, were covered just through PAD policy. In the next period, the evolution was slightly ascendant, with a more

important increase in the 2016, that is also generated in our opinion by the change of the law, that required the insurers not to sell facultative policies for homes when for the home there is not a mandatory policy in force.

Analysing the dynamics of the number of contracts on the Centre Region county level, as aggregate or separately for urban and rural areas, we could see some differences between the counties. Regarding 2014, when the number of the contracts for mandatory insurance policy for natural disasters increased with 146.85% comparing 2013 at the region level or 102,54% at the country level, at the county level the situation is more diverse, the increase registered being between 124,70% in Alba county and 170,12% in Harghita county, the rest of the counties being situated between 150%-160%, with the exemption of Sibiu county, where the increase is just 130,62%. For the years 2015 and 2016, the dynamics follow the same trend, but the differences between counties tend to remain significant (between 2,83% in 2015 or 8,00% in 2016 in Braşov county and 20,18% in 2015 or 28.35% in 2016 in Mureş county). As a pattern, the dynamics in 2016 was higher than in 2015, and the explanation is also, in our opinion, the changes that affected the law that imposed insurers the possibility to sell facultative policies for homes just when the homes are insured through a mandatory policy. Situation in 2017 tend to be more diverse, as long as 3 counties (Alba, Mureş, Harghita) registered less PAD contracts than in the previous year and the other 3 counties (Braşov, Covasna, Sibiu) registered more PAD contracts then in 2016. It worth to be noted than in 2017 the extreme counties from 2015 and 2016 are in different situation: Braşov county, that registered the smaller rate of increase of the number of PAD contracts in 2015 and 2016, continues its ascendant tendency and become the county with the most important rate of increase of the number of contracts, as long as Mureş county, from the highest rate of increase in 2015 and 2016, registered a negative evolution of the number of contracts.

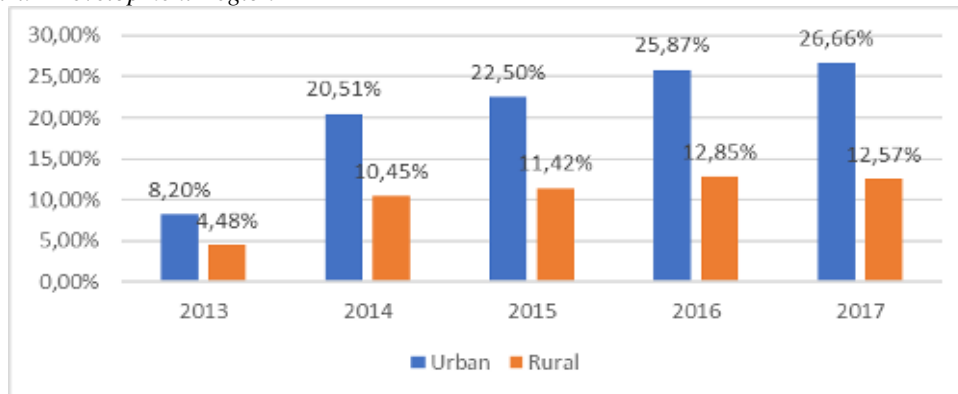
Analyzing the dynamics of the number of contracts separately for rural and urban areas, at the regional level, it could be observed that the dynamics of the number of contracts is relatively the same in 2015 and 2016, but there are significant differences in 2014 and 2017 (the year when the dynamics was positive for urban areas, but negative for rural ones). At the county level, the differences between rural and urban areas are, for some counties and years, even more diverse. Generally, the dynamics is more accentuated in urban areas, the exception being for 2014-2017 period Harghita county, where the dynamics (positive or negative) is higher in the rural area. Also, for 2017 the reduction of the number of contracts (in percentage terms) in Alba and Mureş counties is smaller in rural areas, as for the Harghita county is higher. Also, Covasna county is the only county that register a divergent dynamics of the number of contracts – the rural area registered a negative variation, but the urban one registered a positive variation.

This analysis have to be completed by questioning the evolution of the number of contracts reported to the number of homes (the coverage degree).

At regional level, this indicator evolution is represented in figure no. 1.

As can be seen, the indicator is increasing all the years in the urban area, with a tendency of flattening, and in the rural area the last year registered even a small decrease. The value registered for this indicator is quite different in the urban and in the rural areas, being almost double in 2013-2016 and more than this value in 2017 for the urban area compared with the value for the rural one.

Figure no. 1. The rate of homes covered by mandatory insurance for urban and rural areas in Romanian „Centru” Development Region



Source: authors' processing after data collected from PAID statistics, online <https://www.paidromania.ro/en/monthlystatistics> (insurance data); and for homes number data from National Institute of Statistics website/Tempo online data, acceded on 12th of october 2018

Evolution of indicator detailed for counties and type of area is highlighted by table no. 2.

Table no. 2 The rate of homes covered by mandatory insurance, detailed on county level from Romanian Centre development region

		2013	2014	2015	2016	2017
Alba	C_degr	4,82%	10,80%	12,39%	15,37%	14,83%
	-urban	5,23%	12,98%	15,16%	18,94%	18,23%
	-rural	4,29%	7,88%	8,67%	10,55%	10,23%
Mureş	C_degr	5,11%	12,95%	15,51%	19,85%	19,10%
	-urban	6,42%	16,16%	19,31%	25,48%	24,45%
	-rural	3,69%	9,42%	11,34%	13,68%	13,24%
Sibiu	C_degr	8,37%	19,14%	21,20%	23,15%	23,07%
	-urban	9,51%	21,90%	24,75%	27,23%	27,12%
	-rural	5,90%	13,23%	13,66%	14,49%	14,46%
Braşov	C_degr	9,69%	24,19%	24,72%	26,50%	29,28%
	-urban	9,51%	21,90%	24,75%	27,23%	27,12%
	-rural	7,28%	15,93%	16,06%	15,98%	16,11%
Covasna	C_degr	6,74%	17,43%	18,81%	20,53%	20,73%
	-urban	9,33%	24,01%	26,16%	28,57%	29,04%
	-rural	4,30%	11,26%	11,92%	12,98%	12,92%
Harghita	C_degr	3,87%	10,43%	11,65%	13,59%	13,01%
	-urban	5,57%	14,90%	16,42%	18,80%	18,42%
	-rural	2,66%	7,26%	8,27%	9,90%	9,18%
Centre region	C_degr	6,68%	16,40%	17,98%	20,57%	20,93%
	-urban	8,20%	20,51%	22,50%	25,87%	26,66%
	-rural	4,48%	10,45%	11,42%	12,85%	12,57%
Country	C_degr	9,24%	11,26%	11,63%	12,50%	12,88%
	-urban	9,53%	11,09%	11,58%	12,41%	12,88%
	-rural	8,53%	11,75%	11,76%	12,78%	12,89%

Source: authors' processing after data collected from PAID statistics, online <https://www.paidromania.ro/en/monthlystatistics> (insurance data); and for homes number data from National Institute of Statistics website/Tempo online data, acceded on 12th of october 2018

Analyzing this indicator at the county level, it could be noticed that 3 counties (Alba, Mureş, Harghita) are below the regional indicator all the period 2013-2017 and Covasna is slightly below in 2016 and 2017. On the other hand, Sibiu and Braşov coverage degree is higher then the value of the region for all the period. As regards the indicator analyzed for the two areas (urban and rural), the relationships between the regional indicators and counties' indicators remain quite the same, with some very small differences: for the year 2013 the indicator for Covasna (rural) is slightly

smaller than the regional one, and for 2016 and 2017 the indicator for Mureş (rural) is higher than the regional one, despite the fact that the global indicator register opposite relationships.

5. Conclusions

As the tendency in the evolution of the rate of homes covered by mandatory insurance for urban and rural areas in the same county is quite the same, our opinion is that, generally, persons from urban areas and persons from rural areas act in the same way for small areas like counties, but as data show, there are sometimes quite significant differences between counties. This difference between counties could be the effect of the economic factors (like the level of income), but also of the cultural or sociological factors and need be validated through a future study. On the other hand, the causes of the differences between the same county urban and rural values for the rate of homes covered by mandatory insurance, most of them reflected also by Gavriletea (2017, p. 770-775), could be the effect of less information in the rural areas, of the lower level of income in the rural areas, but also of a more difficult access of population to contracting such policies because there are few representatives of the insurers or brokers in some rural areas and also most of these representatives are not very interested in selling mandatory homes insurances because of the low commission cashed. Also, the passive way of acting of the local public administration that have the right to verify the existence of the PAD policy and to institute penalties for those obeying the law could be a cause for the low level of penetration of the mandatory home insurance.

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