

CMS România: Romania passes draft law to cap MTPL insurance premiums

The Romanian Senate is now considering a Draft Law, which – if passed – would cap insurance premiums at which insurers can underwrite mandatory motor-vehicle third party liability insurance (MTPL) at a ‘reference tariff’ to be set (according to various factors) by the Romanian Financial Supervisory Authority (FSA).

The initiative comes after Romanian authorities withdrew insurance authorisation of Romania’s largest MTPL insurer (City Insurance SA), which resulted in a substantial increase in premiums for MTPL insurance across the domestic insurance market. Recent market trends show that many insurers no longer wish to underwrite MTPL insurance (especially for certain categories of vehicles, particularly international transport vehicles) or charge high premiums to insure the risk. This has dramatically increased the number of ‘high risk insureds’, which have appealed to the Romanian Bureau of Motor Insurers (BAAR) for mandatory allocation to insurers licensed to underwrite MTPL insurance.

Legislators supporting the Draft Law claim that the recent withdrawal of authorisation from City Insurance created an opportunity for MTPL insurers to “elicit financial gains which are not sustainable for citizens which are bound by law to conclude mandatory insurance”, a situation requiring law makers to step in and create protective measures.

The Draft Law seeks to discourage MTPL insurers from increasing premiums by increasing the level of fines to be applied to insurers in the event of breaches from RON 50,000 (EUR 10,000) to RON 500,000 (EUR 100,000). Notably, only eight out of 28 Romanian insurers are currently authorised to underwrite MTPL insurance, even though the number of vehicles registered in Romania has seen a constant year-on-year increase.

Despite claims that profits on MTPL insurance are substantial (i.e., 50%), the reality of the market is far different claim representatives of insurers and the insurers’ trade association.

If adopted, the Draft Law threatens to send Romania into yet another infringement procedure. In 2018, the European Commission initiated an infringement procedure against Romania for similar reasons, which led to the amendments of MTPL legislation by the Romanian authorities.

It is unclear whether Romanian legislators will push through with this initiative, which has triggered immediate objections from the market and which, on the face of it, appears to conflict with EU law.

For more information on the above, contact your CMS client partner or local CMS expert: **Cristina Popescu**.