

CMS: Romanian authority withdraws authorisation for City Insurance SA

On 17 September 2021, the Romanian Financial Supervisory Authority (FSA) rejected the short-term financing and redress plan of City Insurance SA, leading to the withdrawal of the insurer's authorisation.

The FSA further found that City Insurance is insolvent and filed for opening of bankruptcy proceedings against the insurer, which holds a 45% market share and is the largest insurer for Romanian mandatory motor third party liability insurance.

Earlier this year in June, the FSA asked City Insurance SA to provide a short-term financing plan designed to address its failings in the level of eligible funds to cover the insurer's Minimum Capital Requirement (MCR). The FSA also requested that City Insurance SA provide an update financial redress plan describing the measures it would take to restore the level of eligible funds to cover the Solvency Capital Requirement (SCR).

At the same time, the FSA appointed the Insureds' Guarantee Fund as a temporary administrator replacing City Insurance SA's management during this period. On 17 September 2021, the FSA found that the insurer had not provided documented evidence regarding the manner it intended to maintain an adequate level of eligible funds to cover SCR and MRC, and resolved that the insurer had failed to increase share capital as required by the regulator.

A potential bankruptcy of City Insurance SA raises a number of complications. As a market leader in the mandatory motor third party liability insurance, the company has over three million active policies. Its bankruptcy comes only six years after the 2015 bankruptcy of Astra, another major Romanian insurer.

Claims for insurance policies underwritten by City Insurance SA may now be filed only with the Insureds' Guarantee Fund. Amid market concerns that the Fund is almost depleted after compensation paid to insureds and beneficiaries of Astra over the past five years, the Romanian government is currently considering changes to the legislation governing the Fund, allowing the Fund to make payments before insolvency proceedings are effectively opened, and to raise the current financial threshold of RON 450,000 per person under the law.

Discussions are currently underway to eliminate this threshold per claimant, but to maintain the threshold per policy or claim. Companies and individuals with claims against City Insurance SA are advised to keep apprised of developments.

For more information on the Romanian insurance industry, contact your CMS client partner or local CMS sector specialist: **Cristina Popescu**.