

MTPL INSURANCE
Structure
and
from statutory to liberalized MTPL tariffs

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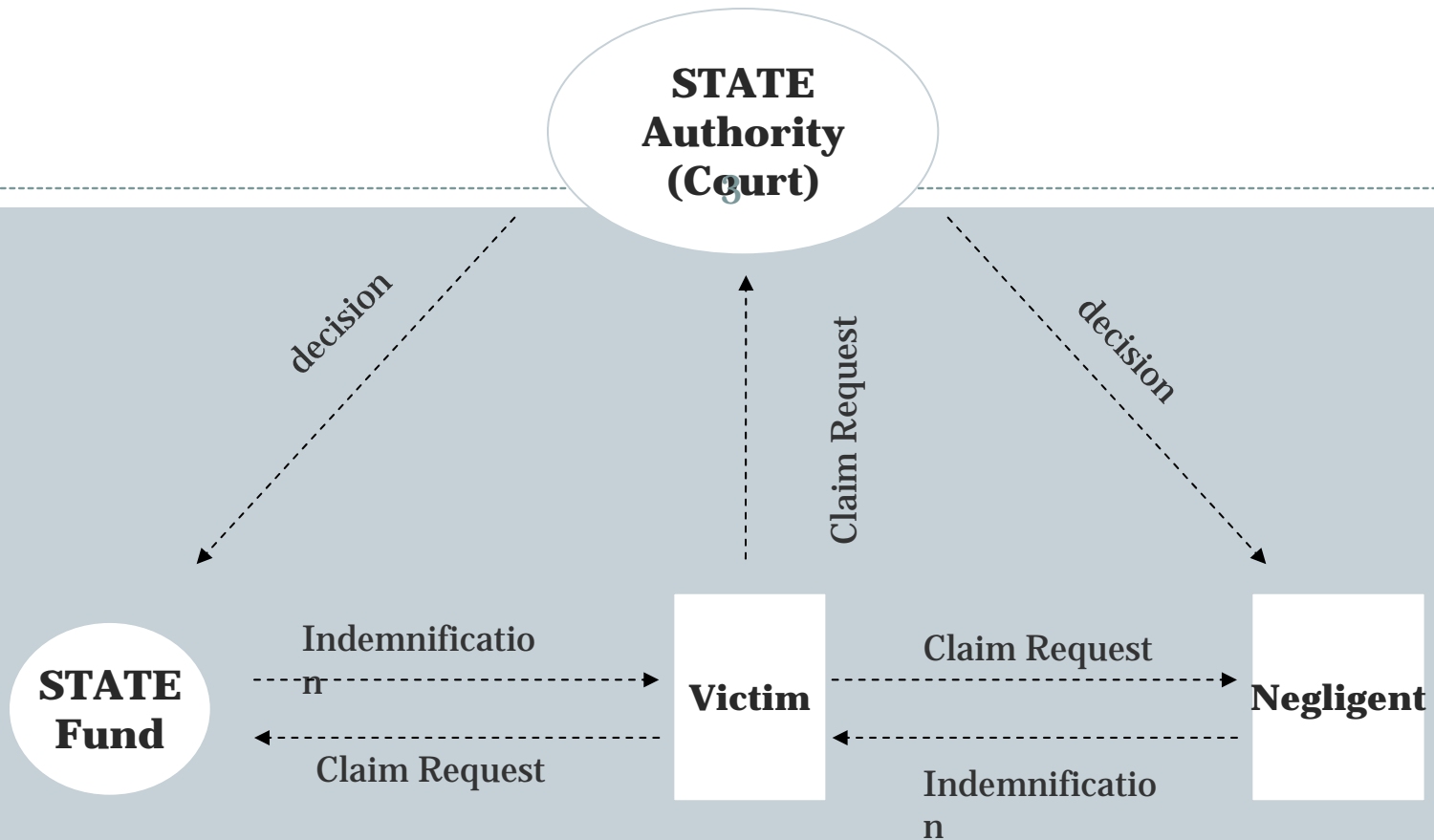
MTPL insurance

Why is important

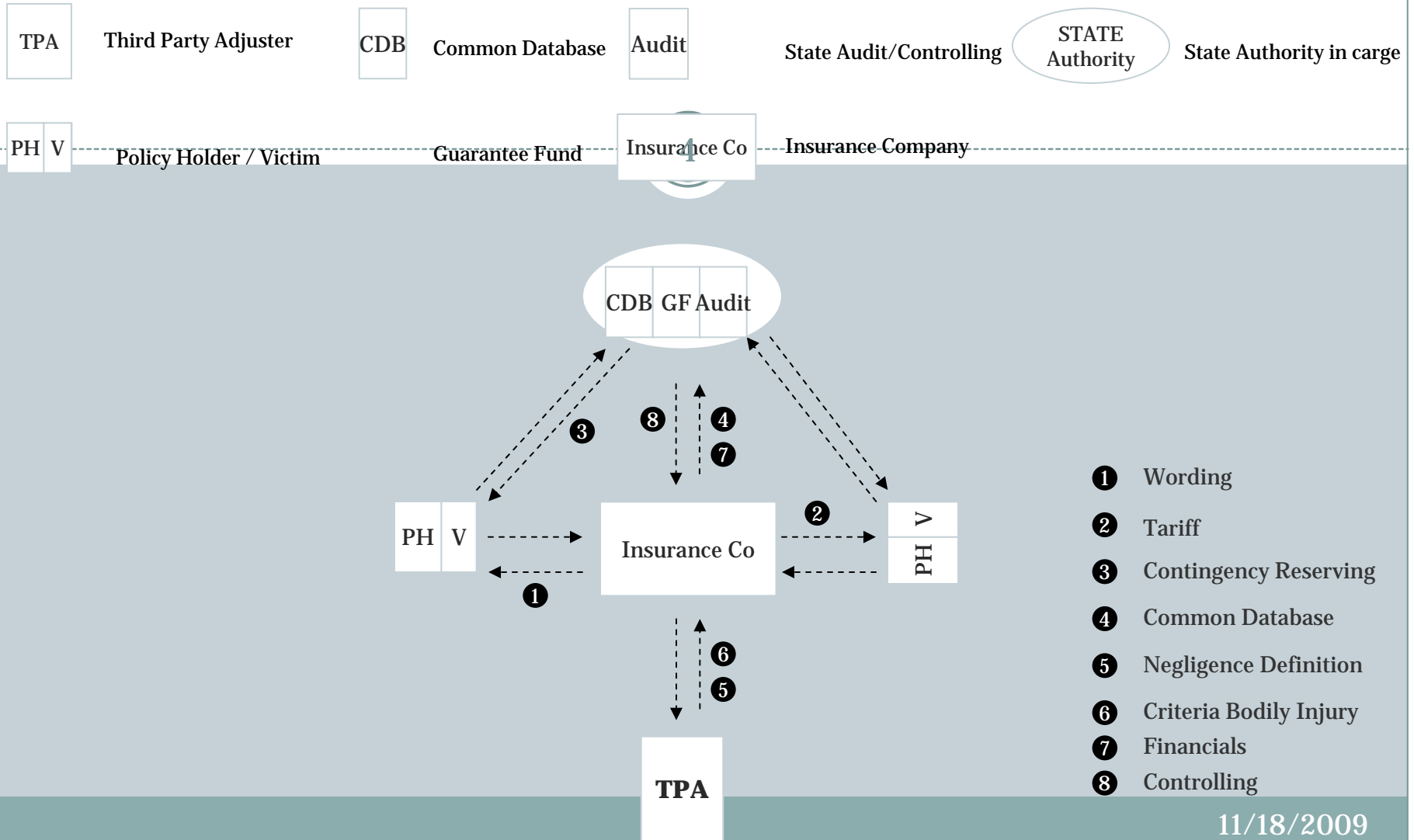
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- **MTPL insurance is a fundamental public good with potentially significant positive externalities.**
- **Ratio of motor to non-life premiums**
 - ✦ **Balkans (59 -80 per cent)**
 - ✦ **Middle east (31-72 per cent)**
 - ✦ **Central Asia (11-60 per cent)**
 - ✦ **Africa (31-70 per cent)**

Without Insurance Companies?



MTPL Insurance System with Private Insurance Sector



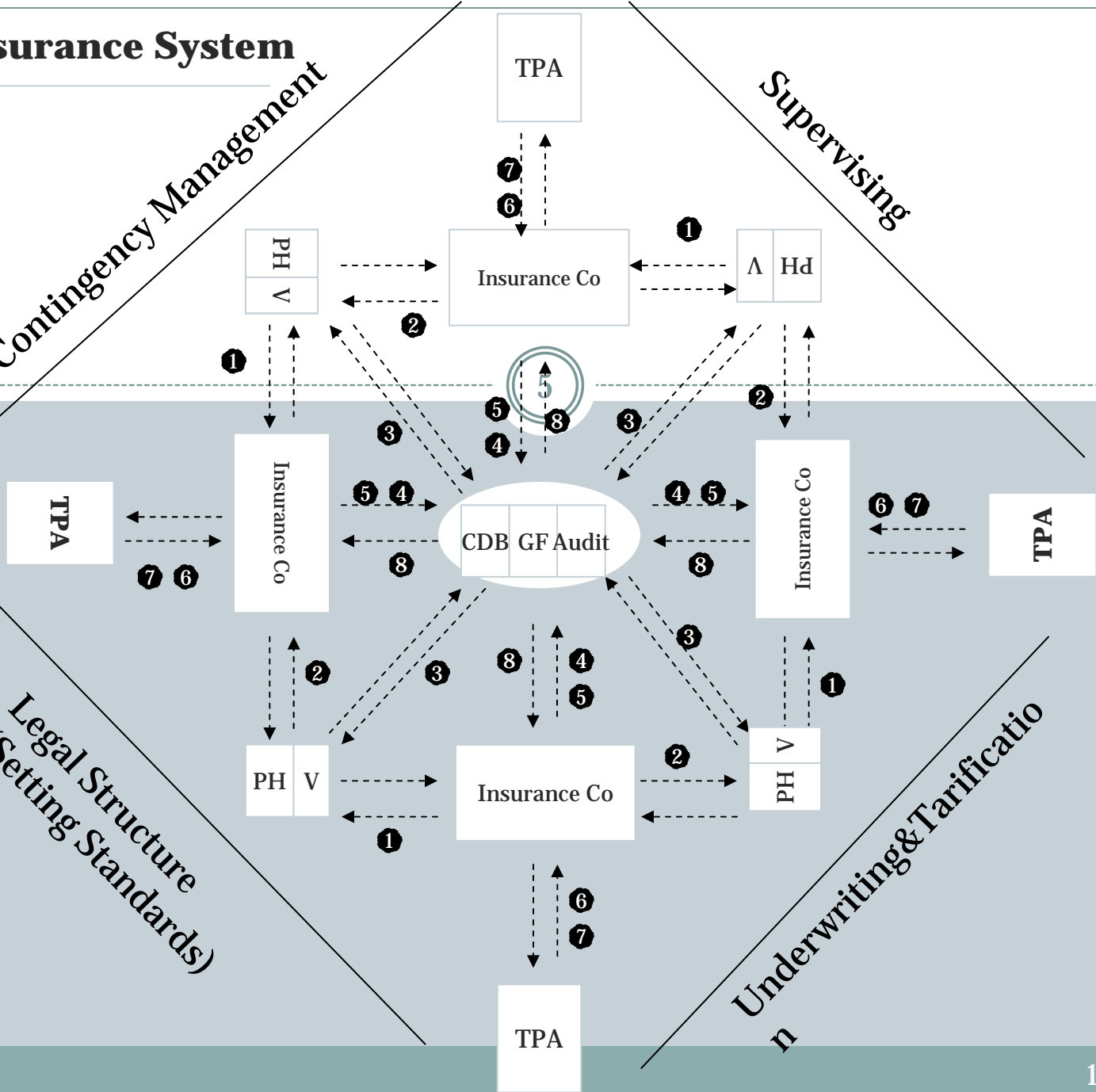
MTPL Insurance System

Contingency Management

Supervising

Legal Structure
(Setting Standards)

Underwriting & Tarificatio
n



Pillars of MTPL Insurance System

**Legal Structure
(Standards)**

**Underwriting
& Tarification**

Supervising

**Contingency
Management**

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Law

- General Issues
- Chapters How the system works
- Rights & responsibilities
- Chapters on Functionary Bodies
- Other

regulations

1. General Conditions
2. Guide Tariff
3. Contingency Reserving
4. Database
5. Negligence definition
6. Criteria Bodily Injury
7. Reserving in Financials
8. Controlling
9. Other if needed

Tariff

**Common
Database**

**Prem Reserving
Claim Reserving
in Financials**

Controlling

**Contingency
Reserving**

Implementation Process

	First Step	Second Step	Third Step
① Wording	Much state involvement in the beginning		
② Tariff	Much state involvement in the beginning		
③ Contingency Reserving	Much state involvement in the beginning		
④ Common Database	Much state involvement in the beginning		
⑤ Negligence Definition	Much state involvement in the beginning		
⑥ Criteria Bodily Injury	Much state involvement in the beginning		
⑦ Financials	Regulated by the state all the time		
⑧ Controlling	Regulated by the state all the time		
	Both State regulation and operation	State regulation / Market Operation	Market is free Only minimum standards set by the state / Rest is done by the market

The main features of MTPL which makes it looking different from the other kinds of branches

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- **The fundamental principle;**

- The insurers are sell coverage willingly, they must receive a premium that is sufficient to fund their expected claims costs and administrative expenses and earn sufficient profit to compensate for the cost of obtaining the capital necessary to fund the solvency margin. This is particularly relevant in Motor business; WHY
 - ✦ A) risks can be very volatile
 - ✦ B) the cost of the meeting claims is constantly under pressure from inflation
 - ✦ C) The policies are normally issued on a one-year renewable basis (means that an insurer can lose good business or gain bad business very quickly if its rates become out of line with the rest of the market and if tariffs do not reflect the real cost of claims that the risks will entail.

THE INSURERS SHOULD KEEP PREMIUM RATES UNDER CONSTANT REVIEW AND BE PREPARED TO AMEND THEM AS NECESSARY

Why liberalization

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The history of insurance pricing in industrial countries indicates that liberalization is the only way to induce companies to lower the cost of insurance, although prices may rise initially in the years immediately following liberalization.

USA; with almost universal price controls being introduced after the Great Depression and a gradual liberalization of this regime being implemented on a state-by-state basis since the 1980s.

EUROPE MTPL in EU has been deregulated recently. The EU directive regarding the “Freedom to provide services and right of establishment” (1988, 1990, 1992) affirms the principle of freedom to set tariffs in EU. The countries have pursued liberalization at different times and in different ways

France; 1986

Spain; August 1984

UK; The tariff have not been subject to any type of control for several decades -1968

Germany; 1994 (tariffs were approved on the basis of the previous year’s technical result of marginal companies, with the objective of avoiding their exit from market)

Italy;

Why liberalization

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In many **developing countries**, the statutory prices on insurance have distorted the market

a) lowering both the profitability and quality of services provided to policyholders

b) The statutory prices are usually below the pure premium

a) They are not updated regularly

b) they do not take into account inflation

c) it is technically very difficult for the government to set a fair price for MTPL

fair price

of

d) emerging countries usually experience an increasing rate of accidents

THERE IS A CLEAR CORELATION BETWEEN LOW STATUTORY PREMIUMS AND SLOW CLAIMS SETTLEMENT PROCESS. In return the slow settlement process weakens the credibility of the entire insurance sector, producing a low penetration of noncompulsory products such as life insurance

The Road Map for a Free Tariff Regime in the Developing Country

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- The transition period (how long?)
- The steps should be taken by insurers during the transition period
 - Underwriting
 - Rating support
 - Policy term and conditions
 - Corporate Governance
 - Tariff advisory Committee
 - Schedule for Implementation
- Tariff is a groving process.
- More information creates more prudent results.
- Following the collection of new data we will be able to add new variables to the tariff

Claims management and underestimation of claims inflation

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- **Projecting future results**
 - Insurance companies must predict future levels of claims inflation (very difficult?)
 - Cooperation between the regulatory body and the Association should lead to the establishment of a reliable claims data base (help insurers and supervisors to confirm the right price for products)
 - MTPL tariffs should be based on objective statistical data rather than political pressure

Before moving to liberalization of MTPL market

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- Set up necessary conditions for the protection of policyholders as well as the solvency of insurance companies
- In the process of deregulation priority should be given to pricing (slides;.....)
- One possible area could lead to problems; erroneous pricing compounded by incorrect assessment of the effects of a rate change (such as loadings and discounts)

AT THE END; insurers and policyholders both benefit from reduced claims expenditure; insurers earn higher margins, and policyholders come to enjoy lower premiums thanks to the ensuing price competition

- **On the condition that the right road map is followed**

Conclusion

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- **THERE IS NO SIMPLE SOLUTION**
- **EVERY COUNTRY IS UNIQUE, AND EACH NEEDS TO FIND ITS OWN OPTIMAL ANSWER**
- **ACCORDING TO THE BEST PRACTISE; COMPETITION OF ONE KIND OR ANOTHER HAS BROUGHT ABOUT REFORMS FOR THE WIDER BENEFIT OF THE COMMUNITY.**
- **SOME STATE-RUN SYSTEM HAVE OPERATED WITH STRIKING LEVELS OF SUCCESS, BUT, ON THE WHOLE, THEY ARE IN THE MINORITY**