POLICY BRIEF

DEVELOPMENT AND DIVERSIFICATION OF THE INSURANCE MARKET IN THE REPUBLIC OF MOLDOVA in the context of negotiating creation of the Deep and Comprehensive Free Trade Area between the Republic of Moldova and the European Union

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The subject matter

The present document relates to the insurance sector of the Republic of Moldova from the regulatory, economic and institutional perspective in the context of the negotiation of the creation of DCFTA and the Association Agreement between the Republic of Moldova and the European Union.

Description of the sector

The insurance sector of the Republic of Moldova is regulated by the Law on insurance. Pursuant to the legislative regulation a series of new requirements have been set for insurance enterprises, including increased statutory capital, consolidated supervision norms, supplementary empowerments for the national supervision authority, separate regulations for general and life insurance activities, improved protection regulatory framework for consumers, including when in contact with insurance mediators.
Pursuant to the statistical data, presently the local market registers 24 insurance companies, out of which 22 companies or 92% are specialised on non-life insurance (accidents, goods, vehicles etc.) and only 2 companies with licenses to undertake simultaneous/combined activities of non-life and life insurance. The non-life insurance companies practice all forms of insurance. The unit-linked policies are not popular, thus the life insurance services are of a classical nature, which imply participation at investments.
There are no companies which practice exclusively life insurance. This is due to a series of factors, especially the low interest of the population for life insurance, influenced on one hand, by the reduced income of the population, as these services require permanent and long term availability of financial resources above the average life standard in the country, and on the other, high capital requirements for insurance companies which have an exclusive life insurance practice.

Description of the problem

Within the ambit of the improved relations between the Republic of Moldova and the European Union, progressively developed after the conclusion of the formal documents which established the cooperation areas – the Partnership and Cooperation Agreement, a priority for the Republic of Moldova is to initiate and effectively participate in the process of negotiation of the new Association Agreement and the creation of the DCFTA, as well as to efficiently implement them.

The insurance sector is currently partially compliant with the EU regulations, institutional capacities and economic performance. The integration of the insurance services market of the Republic of Moldova into the internal market of the EU represents one of the elements of the upcoming Agreements and needs adjustment to ensure compliance.

The differences between the sectors are identified at the level of diversification of the insurance market, limited participation of the insurance enterprises in the life sector and reinsurance, limited competences of the insurance mediators, low attractiveness and performance of the sector to attract foreign investments. The regulatory framework contains less onerous provisions towards the insurance companies when forming the statutory capital, technical provisions, solvency margins, the consumer protection by means of a guarantee fund in case of insolvency and winding-up of insurance enterprises is non-functional, the risks coverage are inferior in some cases to the ones established in the EU. There is an insufficient capacity at the institutional level to ensure the implementation of the requirements related to the monitoring and control of the insurance market and cooperation with the monitoring authorities from the EU Member States.

<u>The timelines and alternatives of intervention</u>

Based on the experience of the new EU member states a period of 6-8 years to implement the Association Agreement and the DCFTA is envisaged. The successful implementation of these two Agreements shall generate the initiation of the EU membership negotiations. A progressive implementation of the commitments along with the forecast of the effects on the insurance market participants as well as for potential entrants, including from the EU is therefore necessary.

The existent EU regulatory acts in the insurance sector need to be considered as priority when transposing EU standards into the insurance sector. The timely initiation of these activities shall prepare the local insurance companies to withstand the future requirements which shall come from the EU, shall ensure an increased immunity against the external competition and shall permit diversification of the national insurance market. The following actions are considered:

Implementation of the regulatory framework on technical provisions, solvency margins, guarantee funds, administrative and monitoring capacities, with a transitional period of three years, including by means of approval of the necessary framework and involvement of the National Commission on Financial Market in the additional control activities;

Parallel implementation of the regulations of EU Directives adopted prior to Solvency II Directive for enterprises which do not fall within the ambit of the latter and Solvency II Directive for enterprises which, due to their annual gross income, fall within its ambit

Or,

Implementation of Solvency II Directive with its application for enterprises which have the required gross annual income and the other enterprises, with the exclusion for the latter of certain provisions pertinent for the insurance companies with high gross annual income.

Establishment of minimal requirements for guarantee funds with are 2 million EURO and 3 million EURO accordingly for insurance companies during a 5-7 year period, with gradual increases of 300,000 – 400,000 EURO per year. The guarantee funds of the insurance companies are an important element to protect consumers, especially those who access life insurance services. The national winding-up procedures for insurance companies are to be adjusted accordingly to the new regulations related to the guarantee funds currently absent.

Gradual increase of the minimal claims for damages in case of accidents involving vehicles, ships and aircraft from the national to the EU requirements in a period of at least 10 years. The gradual increased of the minimal claims for damages in the motor vehicle sector shall insure increased protection for the beneficiaries in the Republic of Moldova, ensuring the possibility to fully cover damages in a larger number of cases of damages generated by motor vehicle accidents. Gradual increases of the minimal claims for these types of mandatory insurance shall eliminate the raise of prices for the consumers of such mandatory insurance services and for other related services which are dependent on the insurance component, such as the air and naval transport of passengers and goods. This subject is linked with other sector cooperation which shall be negotiated, such as the transport policy and the adherence to the Single European Sky. The immediate implementation of the minimal claims for damages could generate considerable increase of prices, which could have negative social effects. In this respect, the transition period is absolutely mandatory to avoid negative social consequences.

The insurance of the state of origin control, single licensing, freedom to provide services either through primary or secondary establishment, implemented either at the final stages of the association agreement, or afterwards, if the Republic of Moldova shall embark into membership Agreement negotiations to ensure final entry on the EU common market. This requirement is closely linked with the procedures of third country equivalence provided for in the Solvency II Directive and is an important step in the transition from the national market to the EU market. There a supplementary institutional costs to successfully implement the principle of the state of origin control, especially for the National Commission on Financial Markets.

Perspective negotiation positions with the European Commission

Pursuant to these commitments the Government could ask the access to the EU insurance market by national companies with all the privileges which the EU member states companies hold, including regulations on the technical provisions, solvency margins, guarantee funds and other EU requirements for local enterprises which shall comply with them, either individually or in cooperation with the EU insurance companies.

At the institutional level support to strengthen the capacities of the national control authorities and gradually implement the commitments in the two Agreements could be envisaged.

The main effects of the implementation of the commitments

The main beneficiaries of the insurance sector reform shall be the consumers. Subject to the Government's negotiation of sufficient implementation timeframes for EU insurance regulations, especially the Solvency II Directive, the civil liability Directive for damages produced by vehicles and the mediation Directive, the consumers shall obtain more transparency of the processes within the insurance companies, including the administration of funds coming from premiums, the insurance services shall be become more diversified, due to the entrance of new companies on the Moldovan market, the most efficient and effective companies and mediators shall survive as a result of the inevitable process of increase of solvency requirements and administration of technical provisions. A group of consumers may however suffer from these transformations, especially the clients of companies which shall not survive the process of consolidation of the insurance market. It is absolutely necessary to provide for ways to transfer these clients to the surviving companies, especially the clients of life insurance services.

The main losers of the restructuring and adjustment process to the requirements of the New Agreement and the DCFTA shall be the inefficient companies, which are excessively dependant on mandatory insurance services, especially the mandatory and non-mandatory motor vehicle insurance services.

A group of winners of the successful implementation of the Association Agreement and the DCFTA, as seen in this report, are the insurance companies from the EU, which shall have free access to the a market with similar regulations, their comparative advantage being in essence their experience on the EU market in various services and the availability of capital. The economic indicators speak of an essential underdevelopment of the insurance market, especially in the life insurance area. In this respect, the insurance companies from the EU shall have a favorable climate, composed of similar regulations, underdeveloped market and an increasing interest of the consumer for insurance services due to the capital available from the implementation of the other components of the Association Agreement and the DCFTA.

The costs of the implementation of the agreements under negotiation shall be the following:

a) Institutional costs mainly related to the functioning of the National Commission for Financial Markets
b) Costs of legislative adjustment when developing and implementing national legislation in compliance with EU Directives, including the Solvency II Directive
c) Costs to implement new business processed by insurance companies, including the business management, risk and funds management, payment of damages etc.

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