

DYNAMICS OF OMTPL LIBERALIZATION PERSPECTIVE ON INTERNATIONAL EXPERIENCE

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Dr. Goetz Kuras, Partner
Oliver Wyman
goetz.kuras@oliverwyman.com

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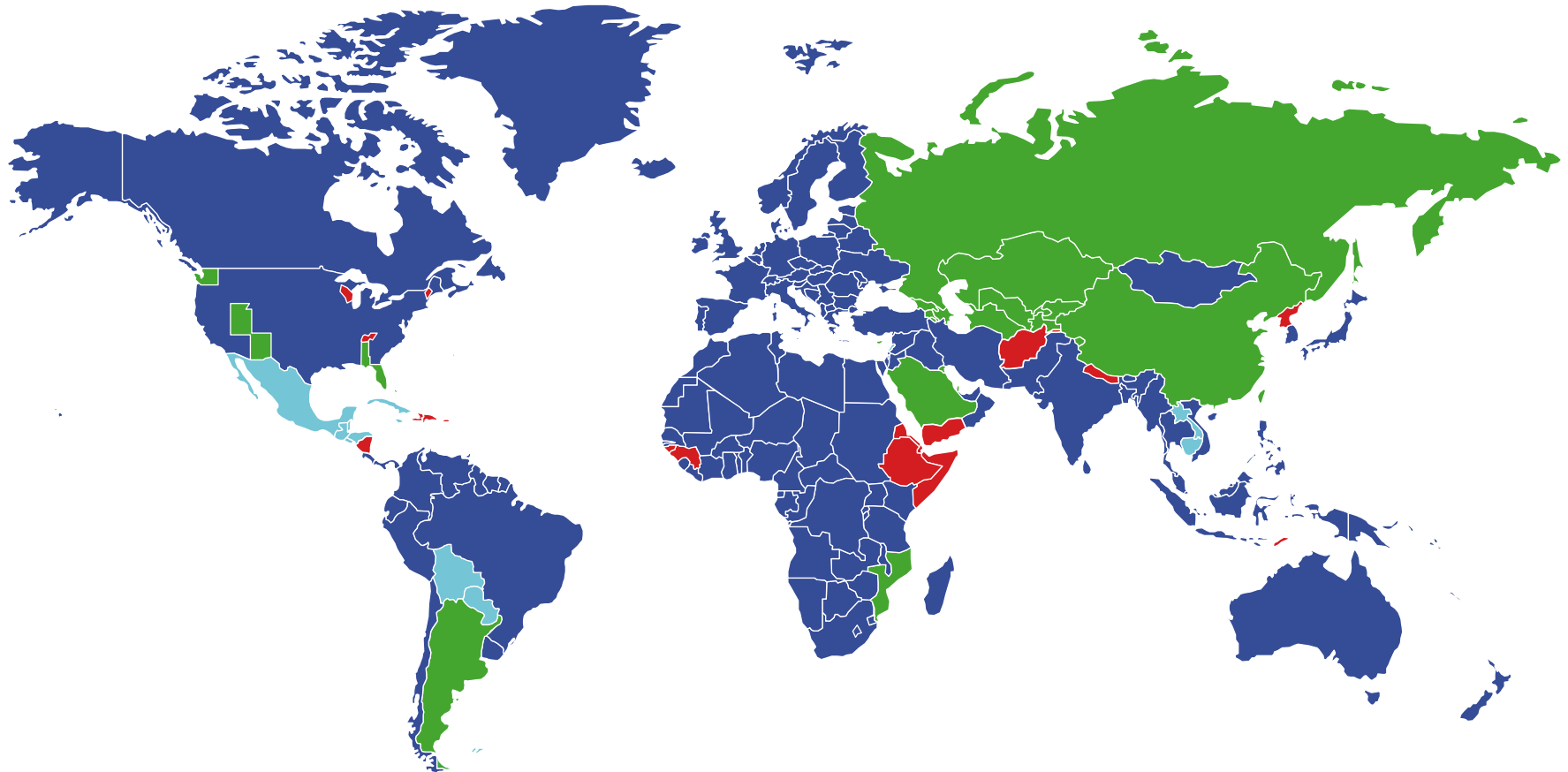
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Agenda

1. OMTPL – Brief Global Overview
2. Market Liberalisation Dynamics
3. Key Learnings

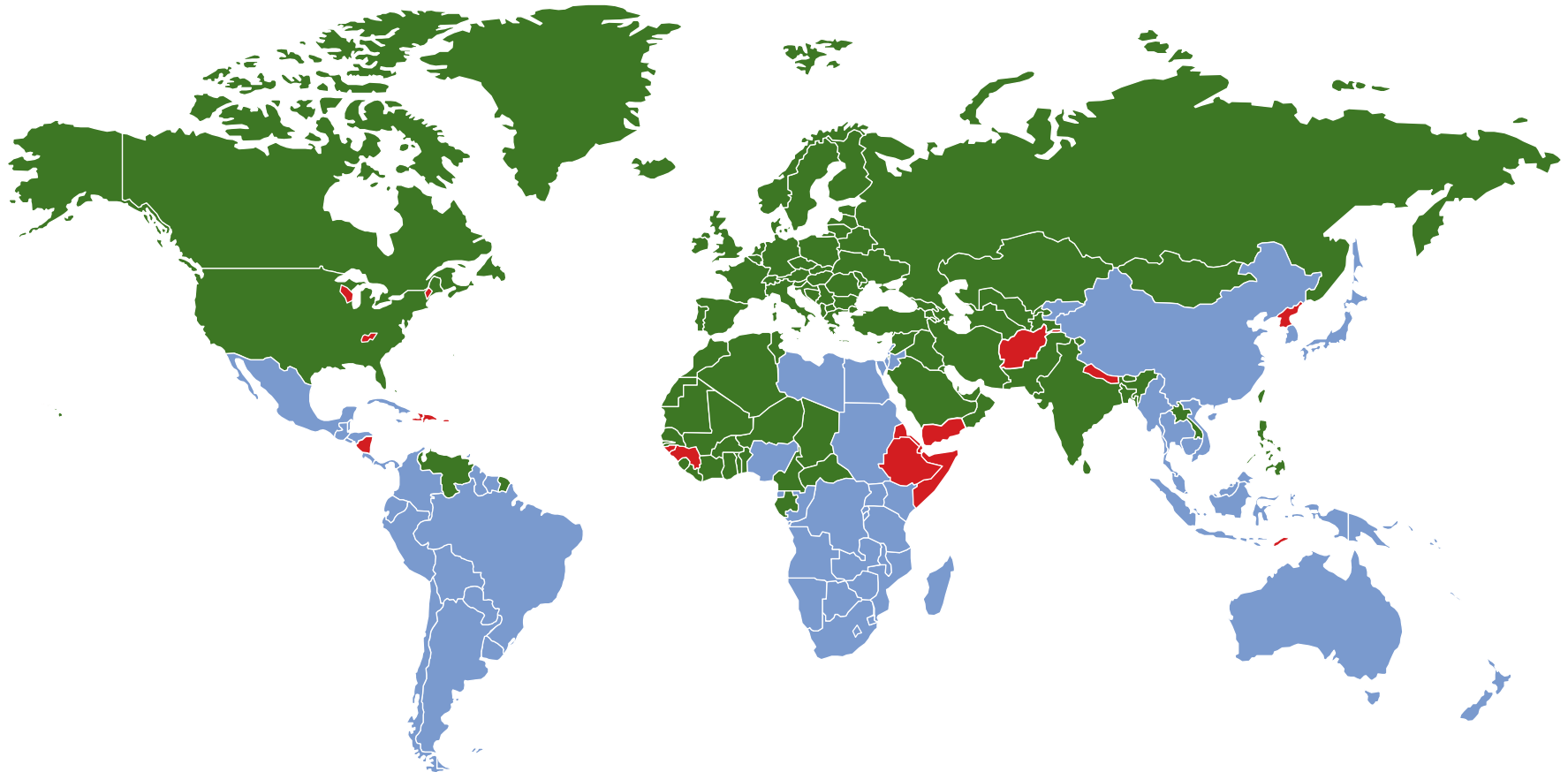
1 | OMTPL – Brief Global Overview

Today MTPL insurance is mandatory in almost all countries



- [Compulsory before 2002]
- [Compulsory after 2002]
- [Compulsory for specific vehicles or areas only]
- [Not yet compulsory]

Bodily injury coverage is at the core of the socioeconomic objective that underlies OMTPL – not all cover material damage



■ [Compulsory for bodily injury and material damages]

■ [Compulsory for bodily injury only]

■ [Not yet compulsory]

Driven by EU Insurance Regulation, OMTPL liberalization has rolled out quickly across the EU – but national differences remain

Coverage/Pricing	Countries	
Completely liberalized	Austria	Germany
	Denmark	Italy
	Cyprus	Luxemburg
	Estonia	Netherlands
	France	UK
Submission to and approval of regulator required	Bulgaria	Slovenia
	Finland	Spain
	Malta	Croatia
	Poland	Serbia
	Norway	Ukraine
Constraining standards set by Insurance law	Belgium	Lithuania
	Czech Republic	Portugal
	Greece	Slovak Republic
	Hungary	Romania
	Latvia	Sweden

2 | Market Liberalisation Dynamics

There are strong arguments supporting OMTPL Liberalization

Political influence leads almost always to uneconomic tariffs

- OMTPL is seen as a tax and Governments are reluctant to “increase tax”
- Tariff increases typically undergo a politically charged negotiation process
 - Happen typically too late
 - Ignore the fact that cost increase faster than inflation
 - Ignore impact of socio-economic maturation (more cars, more accidents)
- Tariff setting institutions typically lack economic insight
 - Technically not equipped to set tariffs fairly
 - Insufficiently interested in ensuring segment remains profitable
- Regulation I typically based on crude pricing indicators
 - Often restricted to very few risk indicators (age, car horse-power)

The results is almost always a distorted the market

- Adverse impact on profitability (e.g. some insurers existing OMTPL) and on quality of services (e.g. slow claims settling)

OMTPL liberalization can have significant impact on competitive dynamics – on the entire insurance industry

Large migration of customers possible

- Typically one year contracts

Size becomes a competitive advantage

- Large customer data allow for deeper risk analysis and risk adequate pricing
- More risk indicators can be used

OMTPL dynamics can affect the entire insurance industry

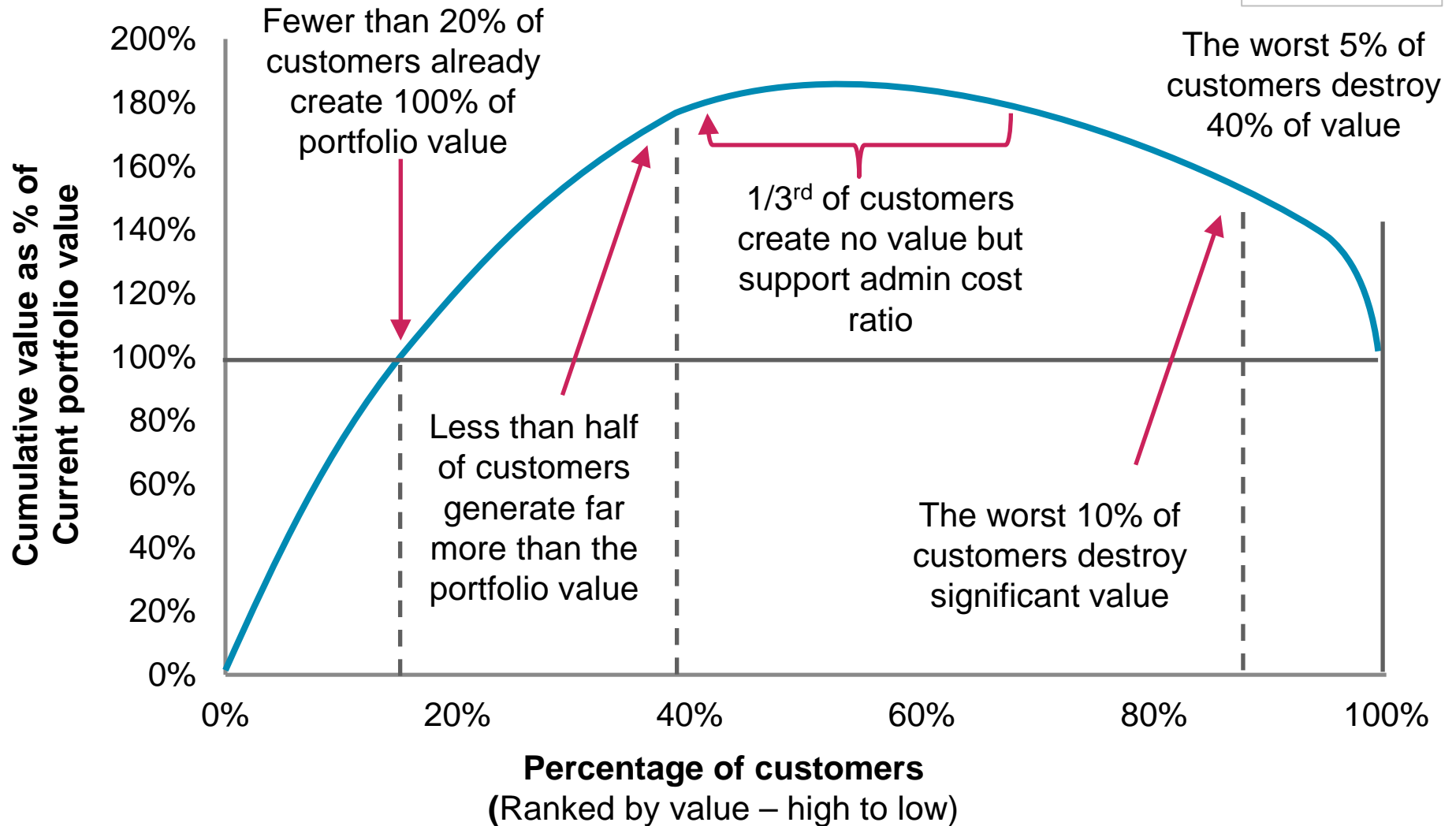
- OMTPL is a significant non-life segment
 - About 1/3 of EU non-life premium
 - Between 70–80% in the Balkans
- OMTPL is a critical entry point for cross sale of other products

Fight for market share may lead to irrational pricing

- Subsidies by other lines
- Temptation to engage in cash-flow underwriting

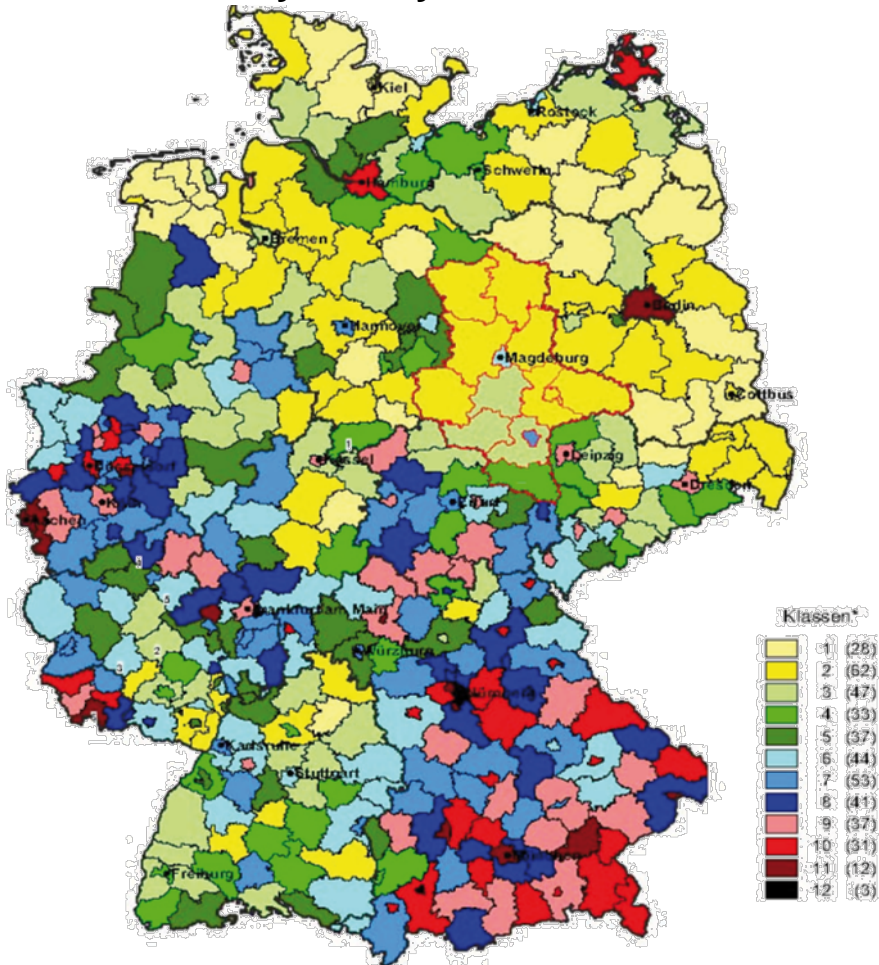
Allowing for full use of all risk relevant information leads to a restructuring of the target OMPTL portfolio

Illustrative



Germany is a good example for more sophisticated risk rating

Regional statistics for passenger Motor Third Party liability



Price/rating criteria:

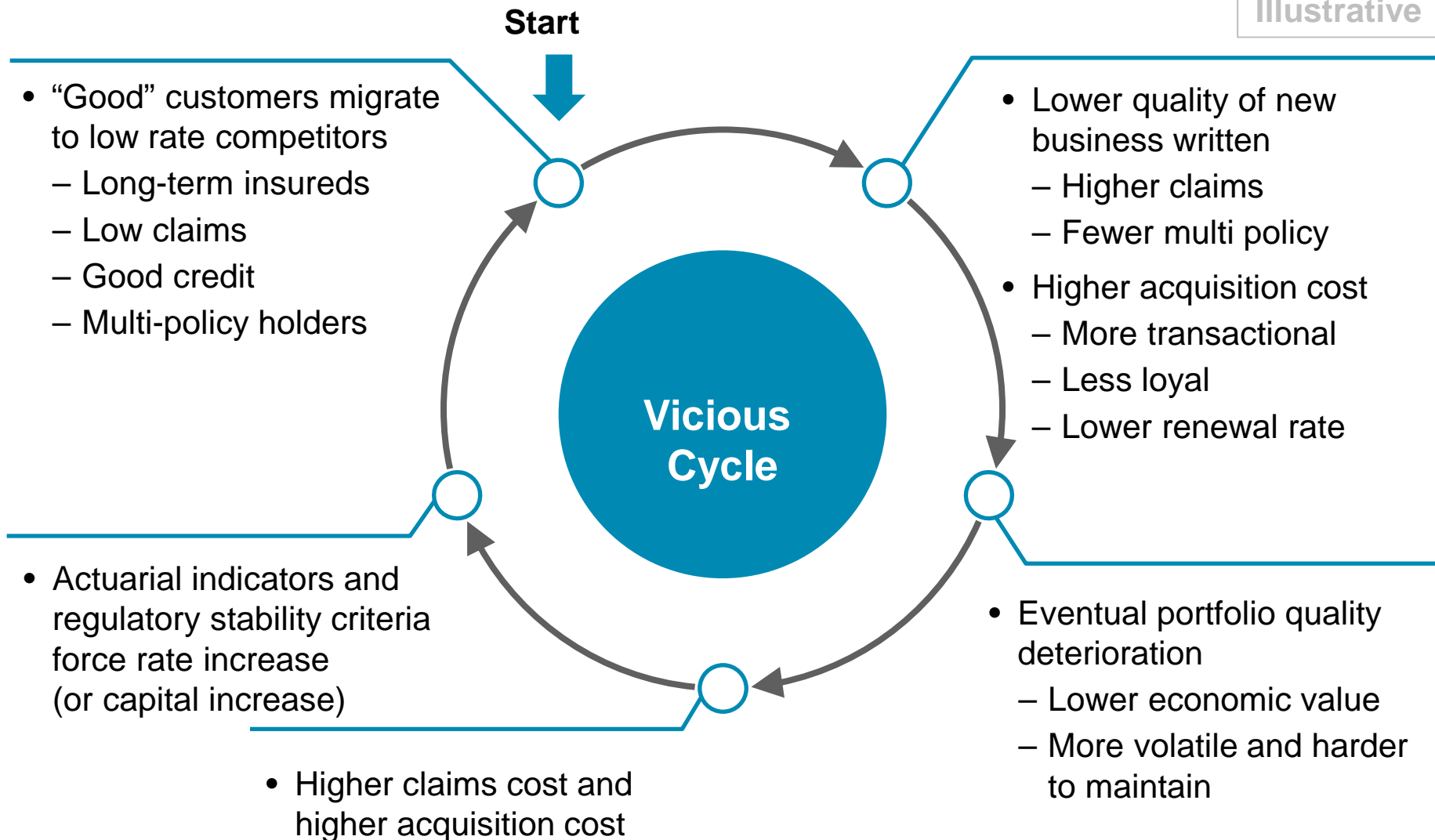
1. Coverage
2. Mileage
3. SF-Class
4. Type of class
5. Region
6. Year of registration
7. Acquisition year
8. Age
9. Method of payment
10. The youngest driver
11. User
12. Status of a driver
13. Tariff group
14. Protection letter
15. Real estate ownership
15. Car holder/owner
16. Parking slot
17. Industry
18. Company
19. The oldest driver
20. Usage
21. Real estate building insurance
22. Profession
23. Payment
24. The oldest child
25. Fuel
26. The youngest child
27. Financing
28. Pre-damages
29. Purpose of journeys

The map allows

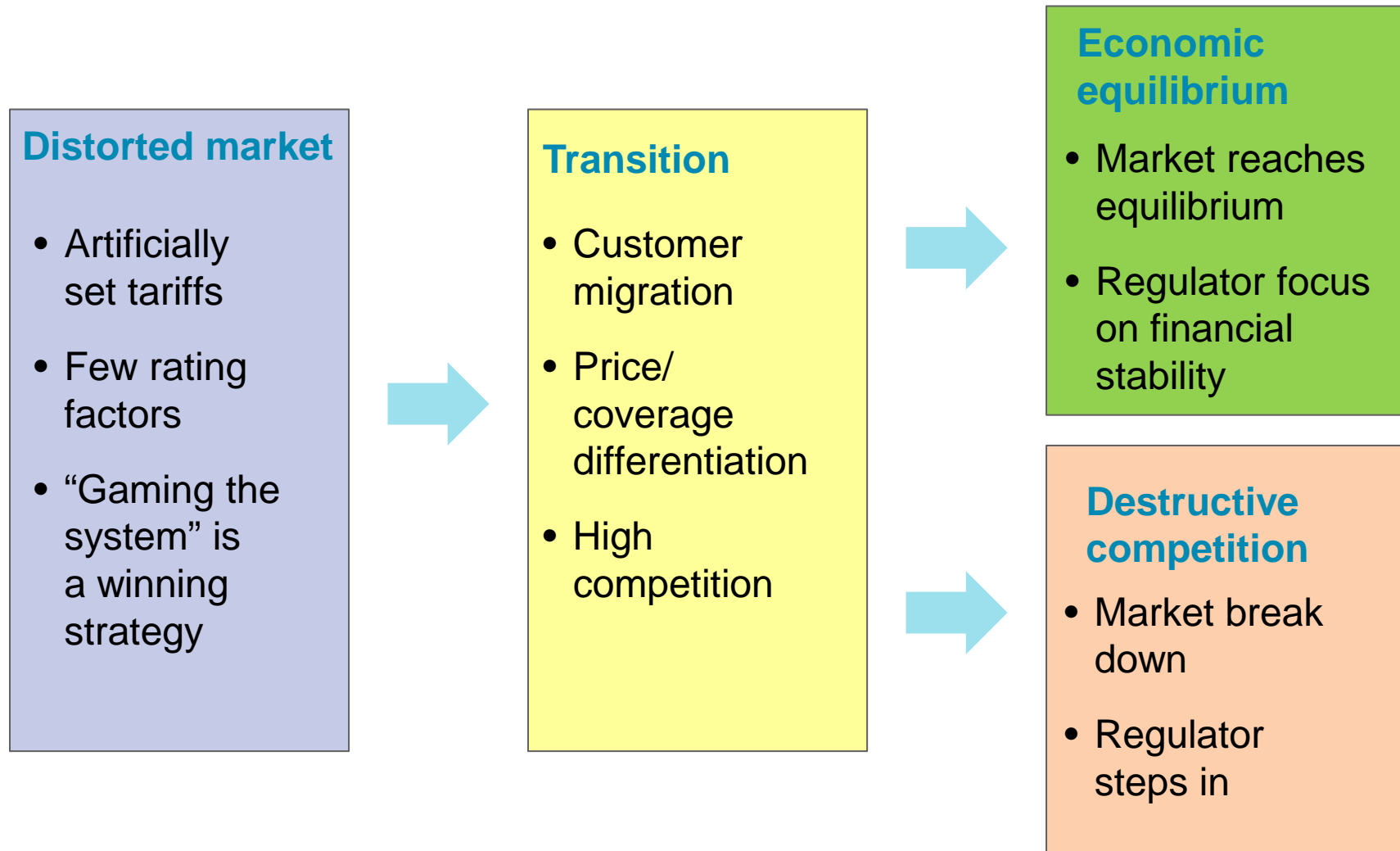
- On the basis of collected data broken down by region, an index of motor third party liability insurance is calculated for each registration district.
- Then, according to the claims index level, these registration districts are subdivided into twelve classes (the twelve different colours on the map) established by statistical means.
- The darker the colour, the higher the claims index and thus the higher the price

Small insurers are often caught in a vicious circle

Illustrative



Liberalization can fail in execution, particularly when it starts with a heavily distorted market



Italy and South Africa are examples for spectacular failures

Case study: Italy

Situation

- After liberalization OMTPL prices increased strongly
- 39 insurers found guilty of collusion and violation of anti-trust regulation

Regulator action

- Tougher anti-trust regulation and fines
- Tariff freeze introduced
- Action challenged by Insurance Association in EU court
- EU court ruled in favor of Insurance Association

Case study: South Africa

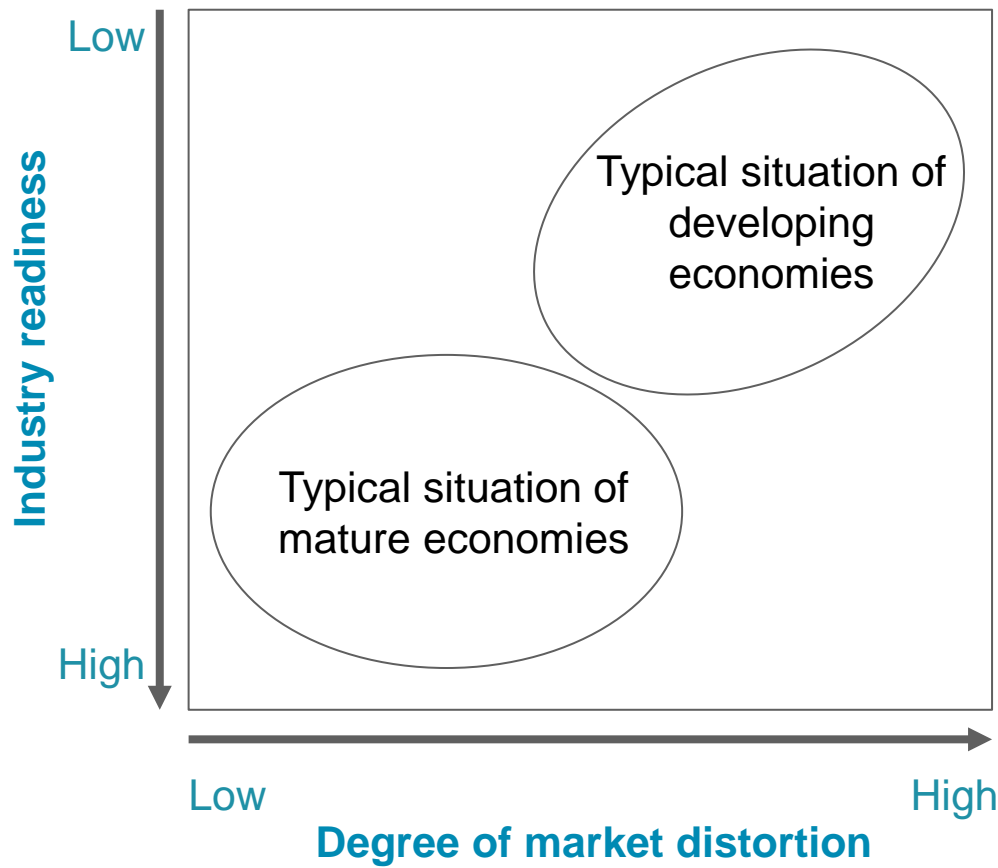
Situation

- Claims management transferred from central system to insurers in 1970–80
- Insurers started “gaming the system”
 - Paying claims without due assessment
 - Maximized profits but claims cost for overall system exploded

Regulator action

- Radical transformation of the system
- Exclusion of the insurance industry
- Funding MTPL from a levy on petrol
- Moved MTPL off the political agenda as levy is small compared to petrol price

When designing the roadmap for liberalisation, one should take stock of the current position

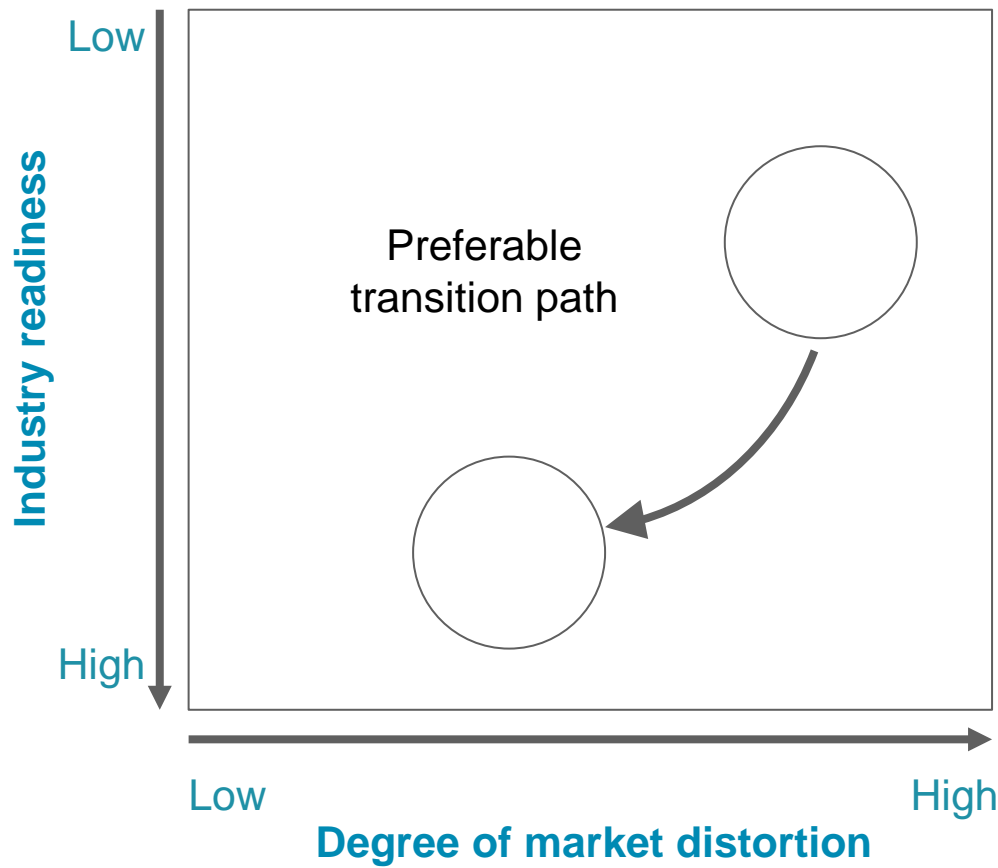


Industry readiness comprises

- **Competitive behavior**
 - Size and stability of insurers
 - Technical capabilities and underwriting discipline
 - Professionalism of management
- **Maturity of market infrastructure**
 - Strong industry Association with degree of self-governance, “internal discipline” and “dispute resolution authority”
 - Regulator supervision and disciplinary capabilities
 - Guarantee Fund (contingency)
 - OMTPL Database (claims info)
- **Legal structure**
 - Role of courts, litigation practice
 - Consumer protection

3 | Key Learnings

There are a number of lessons to be learned for charting the roadmap for OMTPL liberalization



Preparation

Improve industry readiness

- Competitive behavior
 - Enforce risk adequate reserving
- Maturity of infrastructure
 - Guarantee fund
 - OMTPL database
 - Self-governance
- Legal structure

Reduce market distortion

- Introduce tariff corridor

Stakeholder involvement

- Consultative approach
- Flexibility on timeline/path
- Not wavering on objective

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