

DRAFT

**RULE**

**on the calculation method by the Financial Supervisory Board of the reference fees for the compulsory insurance against civil liability for prejudices caused to third persons through vehicle and tram accidents**

*Based on the provisions of art. 2 para. (1) letter b), art. 3 para. (1) letter b) and of art. 6 para. (2) of the Government Emergency Ordinance no. 93/2012 on the establishment, organization and functioning of the Financial Supervisory Authority, approved as amended and supplemented by Law no. 113/2013, as further amended and supplemented,*

*for the application of the provisions of art. 18, para. (2) of the Government Emergency Ordinance no. 54/2016 on the compulsory insurance against civil liability for prejudices caused to third persons through vehicle and tram accidents,*

*following the deliberations of the board of the financial supervisory authority from the meeting held on .....,*

*the Financial Supervisory Authority issues this rule:*

**Art. 1 – General Provisions**

(1) This rule regulated the methodology applied by the Financial Supervisory Authority, hereinafter referred to as ASF, for the calculation method of the reference fees for the compulsory insurance against civil liability for prejudices caused to third persons through vehicle and tram accidents, hereinafter referred to RCA, according to the provisions of art. 18, para. (2) of the Emergency Ordinance no. 54/2016 on the compulsory insurance against civil liability for prejudices caused to third persons through vehicle and tram accidents, hereinafter referred to as OUG no. 54/2016.

(2) For the implementation of this rule, insurers authorized to practice RCA shall submit to ASF the data requested by it.

**Art. 2 – Categories of vehicles**

A.S.F. shall calculate the RCA reference fees, respecting the methodology provided by this law, for the following categories of vehicles:

- a) passenger vehicles, off-road vehicles and mixed vehicles with maximum mass authorized smaller than 3.5 tons and maximum 9 seats;
- b) vehicles for the transport of persons with more than 9 seats;
- c) motorcycles, mopeds and ATVs with or without side car;
- d) road tractor;
- e) vehicles for the transfer of goods;
- f) trailers and semitrailers;
- g) other vehicles, such as vehicles with special regime, equipment, electrical vehicles etc.

### **Art. 3 – Risk criteria considered in the structure of reference fees**

(1) The structure of the fee is built by the segmentation of similar risks, taking into consideration the following risk criteria:

- a) Type of insurer, respectively natural or legal person;
- b) The technical characteristics of the vehicle, respectively the cylindrical capacity or power, maximum mass authorized, number of seats;
- c) Other factors considered relevant, so that the homogeneity, credibility and statistical significance principles are respected.

(2) ASF shall calculate the reference fees for each category of vehicles provided at art. 2 and taking into consideration the risk criteria provided at para. (1), for periods of one year, for the limits of compensation provided by the legislation in force, in such way in which the compliance of the obligations that arise from the conclusion of RCA insurance contract is ensured.

### **Art. 4 – General principles**

(1) In order to determine a fee for the insurance of an uncertain event, estimations of the probabilities associated with the occurrence and/or severity of an event shall be made, estimations that are based on the history of incurred events and on the projections of tendencies.

(2) In order to determine the reference fee, separately shall be determined:

a) the historical frequency of the damages, representing the report between the number of damaged and exposure to risk, respectively the insurance duration of the policy, expressed in years, cumulated for the portfolio of policies that have at least one day of risk coverage in the reference period;

b) the historical average damage, representing the cost of the damages reported to the number of damages, where the cost of the damages includes the damages paid in the reference period cumulated with the damage reserves, authorized for all damages and endorsed in the reference period, but not yet paid at the end of the reference period;

c) the impact of the tendencies in the historical average damage and the historical frequency of damages, in order to determine the expected frequency and the expected average admage for the period of covering the fee;

d) the impact of the incurred, but not reported damages;

e) safety charge that ensures the coverage of expenses with damages with a relevant statistical probability;

#### **Art. 5 – Data used in the calculation of reference fees**

(1) In order to determine the RCA reference fees, data aggregated at the RCA market level shall be used, such as:

a) data on the exposure to risk and damages incurred in the reference period and authorized until the end of it, either these are damages paid or in the reserve of authorized damages, constituted at the end of the reference period, on categories of vehicles and risk criteria, such as defined at art. 2 and art. 3, para. (1), in order to determine the historical frequency of damages, historical average damage and the impact of the incurred, but not reported damages, as well as for the establishment of tendencies;

b) data on the structure of the historical portfolio on bonus/malus classes, in order to quantify the adjustment of the fee resulted at the fee category for the B0 bonus/malus class, as it is defined according to the legal provisions in force.

(2) The reference period for the historical data used for determining the reference fee shall consists of the history associated to the last 5 calendar years, previous to the one in which the calculation is made.

(3) For determining the reference fee, the management and procurement expenses, including RCA fees and other expenses will be expressed as a percentage equal with 25% of the gross premium.

#### **Art. 6 – Stages of the determination of the reference fees**

For the determination of the RCA reference fees, ASF shall take the following stages:

a) Collection of data from insurers and their verifications;

b) Individual primary analysis for each insurer;

c) Aggregation of the data supplied by the insurers;

d) Primary analysis at market level

e) Building of a risk model;

f) Estimation of the risk premium;

g) Calculation of the reference fees

h) Impact analysis.

### **Art. 7 – Estimation of the risk premium**

- (1) In case of vehicles, the risk premium shall be modeled using generalized linear models, hereinafter referred to GLM, for the frequency of damages and average damage, by creating segments depending on the risk criteria;
- (2) In case of the other categories of vehicles, other than those provided at para. (1), the risk premium shall be estimated by univariate analysis, as a product between the frequency of the damages and the average damage associated for each category, taking into account the established risk criteria.

### **Art. 8 – Entry into force**

This rule shall be published in the Official Journal of Romania, Part I, and shall enter into force on the date of its publishing.

**ANEXA no. 1**

#### **Determination of the reference fees**

The reference fee shall be calculated using the following formula:

$$Reference\ fee = \frac{PR * (1 + IBNR) * (1 + f)^t * (1 + i)^t}{(1 - bm) * (1 - ch)}$$

#### **In which,**

PR – risk premium that ensures the coverage of the expenses with damages with a relevant probability from a statistical point of view;

IBNR – charge factor associated to the damage reserve incurred, but not reported;

f – annual rate for amendment of the frequency of damages, **respectively** the trend of the frequency of the damages;

i – annual rate for the amendment of the damage inflation, **respectively** the trend of the severity of damages

t – difference in years between the average date of occurrence of damages in the period in which the fee was applied and the average date of occurrence of damages in the analysis period;

bm – charge associated to the bonus/malus system;

ch – variable expenses of the insurer, express as a percentage equal with 25% of the gross premium;

President of the Financial Supervisory Authority,

Mișu Negrițoiu