

Press-release  
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## **FCMC desire to facilitate conditions of entry to new MTPL market participants may cause a long-term crisis in the sector**

**Insurers object to changes proposed by the Financial and Capital Market Commission (FCMC) to reduce 40 times a single payment to the compulsory motor third party liability insurance (MTPL) guarantee fund – from today's 200 thousand lats stipulated by legislation to 5 thousand lats.**

**In insurers' opinion such changes in long-term period might endanger MTPL market stability, but the arguments, voiced by the Financial and Capital Market Commission on creation of favorable conditions for entering of new market participants onto MTPL market, are a short-term vision.**

FCMC voiced its proposals on decrease of single payments to the guarantee fund at the last consultative council of the Latvian Motor Insurer's Bureau (LTAB), which took place last week. Many members of the Council negatively assess such proposals. FCMC plans to propose accordant amendments to CM regulations on the guarantee fund.

**Juris Stengrevics, LTAB Director - General:** „The guarantee fund is very significant for MTPL market. Payments to the fund serve as a guarantee of insurer's capacity to secure financial liabilities in a case of insolvency, in this way securing stability of MTPL market and protecting from drastic fluctuations. In our opinion, 200 thousand - lat payment for serious market participants, which wish to launch activities on MTPL market, is not a huge amount. As an example here can be mentioned an insurance agency „Seesam Latvia”, which last year for getting the license paid to the guarantee fund 200 thousand lats.

If there were no such conditions, supposedly, the market would be full of participants desiring to get quick returns, but thereafter in a case of insolvency to bear no responsibility. Should initially new market participants be interested to dump, selling policies at prices lower than average market prices. But soon such companies would encounter financial difficulties. In our opinion, Latvia has already obtained bitter experience in the banking sector induced by desire of some banks to get quick profit through dumping, and yet up to now unable to indemnify bank's clients for all lost investments.

As an example of necessity of such fund here can be mentioned an insurance agency “AK Alianse”, which in August 2002 was acknowledged bankrupt. From 1999 till 2002, when “AK Alianse” had a license to effect MTPL insurance, to its guarantee fund were transferred 112 thousand lats, but insurance indemnification were paid off to the tune of 290 thousand lats. It is necessary to mention that during its activities this company took a comparatively small share of the market. Consequences caused by insolvency of „AK Alianse” are being covered from payments of other insurers made to the guarantee fund.

Nonetheless, since at present reserves in the guarantee fund make up 17 Mio lats, then insurers don't feel the said expenditures. Also neither insurers, nor vehicle owners are impacted by all those payments from the guarantee fund, which under MTPL law are effected by LTAB. On the contrary, should regulations in legislation not anticipate single payment in such amounts to the guarantee fund, then instead of insolvent insurance agency or any other considerable insurance indemnifications would be covered by means of all other insurance agencies being on the MTPL market according to the market division. Such unprovided payment would expressly manifest grounds for raise of policy price.

In Latvia the MTPL market is not large with comparatively small number of vehicles, therefore it is impossible to adopt practice of large countries where the first payment to the guarantee fund is not mandatory, since any moment at the request there might be invested considerable means to the guarantee fund for indemnification for an unexpected big loss, practically without prejudice to the total price of policies. This is connected to the fact that on such markets there work many and very vigorous insurers.

Also the question - what will happen with reserves accumulated at present on the guarantee fund, which insurers have made since foundation of MTPL system? - remains open. Wouldn't in such situation existing insurers, effecting payments during a long-time period, pay for newcomers' business risks and new players on the market risk nothing?

### **Guarantee fund – safety to victims of accidents and MTPL market participants**

Insurance agencies, which wish to obtain rights to carry on compulsory motor third party liability insurance in Latvia, prior to launching business, must effect a single payment to the MTPL guarantee fund. CM Regulations „Foundation of Overland Motor Third Party Liability Compulsory Insurance Guarantee Fund, Accumulation and Administration Procedure” define that from 2005 the amount of the said first payment amounts to 200 thousand lats.

It is necessary to remark that new insurance agencies can get the said single payment back after settlement of liabilities should they wish to terminate business in the MTPL sector.

Additionally to the single payment insurance agencies pay every month for each sold policy. An amount of payments subject to correction in each case under CM Regulations on “Foundation of Overland Motor Third Party Liability Compulsory Insurance Guarantee Fund, Accumulation and Administration Procedure.

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### **From the guarantee fund indemnifications to victims of road accidents are paid off, if RTAc are caused by:**

- Uninsured vehicle;
- Unknown vehicle (solely if people are injured);
- Stolen vehicle;
- A vehicle, which motor third party liability insurer is acknowledged insolvent;
- A vehicle registered in the Republic of Latvia, should it be impossible to elucidate a motor third party liability insurer;
- Etc. in cases stipulated in various international agreements, also should there appear disputes between insurer and Motor Insurer's Bureau on obligation to pay insurance indemnification.