

## **Amendments to regulations on Guarantee fund have been adopted out of turn established in legislation**

**Amendments adopted today by the Cabinet of Ministers to regulations that anticipate to reduce a single payment to MTPL Guarantee fund from the previous 200 thousand lats to 5 thousand lats, in the opinion of the Latvian Motor Insurer's Bureau (LTAB) might in long-term imperil stability of the market.**

**Besides, the amendments to the regulations have been adopted at once without considering thereof at the session of the Committee of the Cabinet of Ministers. Such procedure is allowed in cases should an issue be of state significance and requiring for immediate alterations in legislation. On the contrary, from the point of view of LTAB reduction of MTPL Guarantee fund payment is not a state priority.**

Insurers object against changes proposed by LR Ministry of Finance to reduce 40 times a single payment to MTPL Guarantee fund – from the present 200 thousand lats as prescribed by law to 5 thousand lats.

In opinion of insurers such changes in long-term might imperil stability of MTPL sector, creating a favorable *ground* for speculative participants of the market, which would desire to get within a short-term good yield and later to make the company insolvent.

**Juris Stengrevics, LTAB Director - General:** *„We have already voiced our opinion that such changes in the guarantee fund in such a small country as Latvia might in a longer term have adverse affect.*

*Firstly, we think that 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. Today's new regulations are nothing but unfair conduct towards exactly this company, which launched its business last year.*

*Secondly, with alterations in legislation on the market, supposedly, there will appear participants, which desire to gain quick yield, but thereafter, in a case of insolvency, to bear no responsibility at all. Latvian state has already experienced such precedents. If, initially, really competition on the market will be facilitated, since various serious and less serious companies will launch business, which in order to sweep the market will use price – dampening method. But this will be only in the beginning. Sooner or later amid strong competition any of the said companies would encounter financial difficulties.*

*Besides, reduction of the payment to the guarantee fund might serve as a deliberate target for fraudulent activities. For instance, to get good yield in the beginning selling policies, and later with the payment of first indemnification to file for bankruptcy. As an example here can be mentioned Norway, where in the result of similar conditions on the market under permission of local market surveying institution there appeared a company, which dealt for and behalf of a foreign insurance agency, but thereafter it appeared that a proxy of such foreign agency hadn't been obtained, there was obtained quick yield and the company disappeared, but the Norwegian Guarantee Fund had to assume all liabilities.*

*Thirdly, 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 there were transferred 112 thousand lats, but insurance indemnifications 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 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, not 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.

Information furnished by:

Juris Stengrevics,

Latvian Motor Insurer's Bureau (LTAB)

Director - General

Information prepared by:

Inese Ozoliņa

LTAB Public Relations Consultant

T: 7358923, 9336923