

Standard Summary Project Fiche

1. Basic Information

- 1.1 Desiree Number:** RO-2002/000-586.04.01
- 1.2 Title:** Strengthening Insurance Supervision
- 1.3 Sector:** Free movement of services: insurance supervision
- 1.4 *Twinning component:*** RO02/IB/FI/03 Strengthening operational capacity of Insurance Supervisory Commission; Budget 1.2 MEURO for 18 Months
- 1.5 Location:** ROMANIA

2. Objectives

2.1 Overall objectives

Strengthening the insurance supervision capacity in accordance with the provisions of EU directives and with the best international insurance practices in order to ensure a real protection for the policyholders and to develop a sound and competitive insurance market

2.2 Project purpose

Continuing to strengthen the insurance supervision and the development of the insurance supervision activity performed by the Insurance Supervisory Commission.

2.3 Accession Partnership and NPAA priority

- strengthening of the supervision capacity of the ISC
- adopting and implementing the secondary legislation under the Law no. 32/2000 on insurance undertakings and insurance supervision
- updating the legal and institutional framework of insurance sector through the complete implementation of the insurance EU acquis
- strengthening the supervision capacity of the ISC in accordance with the Action Plan drawing up by the EU experts, under the Phare project RO98009.01.02

2.4 Contribution to National Development Plan

Not applicable

2.5 Cross Border Impact

Not applicable

3. Description

3.1 Background and justification

Establishment and maintenance of a sound insurance system imposes the existence of a basic infrastructure as a legal framework, accounting systems and financial markets. Prudential standards must be met and markets operate competitively, professionally and transparently according to sound principles and practices. Strong regulatory and supervisory arrangements that complement and support the operation of market discipline are indispensable to the stability of the insurance markets.

The Insurance Supervisory Commission (ISC) is the new Romanian insurance supervisory authority. It was established according to the provisions of the *Law no. 32/2000 on insurance undertakings and insurance supervision* and following the Romanian Parliament Decision no. 20/June 27, 2001 regarding the appointment of the five members of the Council: president, vice-president and three members. The Parliament Decision was published in the Romanian Official Journal no. 355/July 2, 2001.

The main **objective** of the new authority is to enforce laws and regulations impartially, honestly and expeditiously in order to protect policy holders or potential policy holders and to establish a sound and competitive insurance market in Romania.

The ISC is an autonomous, administrative and self-financed body, in accordance with the provisions of the Art. 4(2) of Law no. 32/2000. The above mentioned law provides that the organization, operation and internal control of the ISC are run by its Council.

The competencies of the Insurance Supervisory Commission are provided in the Art. 5 of the Law no. 32/2000 and includes the following:

- a) to elaborate or decide upon projects of law concerning the insurance field, or which have implications on this field, and decides upon individual
- b) to supervise the insurers' financial situation, in order to protect insureds' or potential insureds' interests; for this purpose it may require the carry-out of inspections over insurers' or insurance brokers' activity;
- c) to take the necessary steps for the insurance activity to be managed with the observance of specific prudential regulations;
- d) to participate as a member in international associations of insurance supervisory authorities, and represents Romania at international conferences and meetings regarding insurance supervision;
- e) to approve the insurers' significant persons, in accordance with criteria established by norms;
- f) to approve the division or merger of an insurer registered in Romania;
- g) approves the transfer of portfolio;
- h) to request the presentation of documents and information regarding the insurance business, both from insurers and from any other person related to their activity;

- i) to participate in elaborating the chart of accounts, the accounting norms and regulations, after consultation with the professional bodies of insurance operators;
- j) to fulfil any other competencies established by the law.

The organizational structure of the ISC includes the following Departments:

- Department for authorization of insurance undertakings and insurance brokers;
- Department for supervision and control of insurance undertakings and insurance brokers;
- Department for insurance regulations;
- Department for analysis of financial reports and solvency margin;
- IT Department;
- Department for European integration and international relations
- Department for judicial matters
- Functional departments (personnel, financial, internal accountancy etc.).

Currently, the ISC has 68 employees, 47 of them operate at executive departments. The ISC has also an adequate endowment: IT network, access to Internet, e-mail etc.

The main ISC financial resources are the functioning fees paid monthly by insurance companies and insurance brokers and authorisation fees paid by the insurance companies and insurance brokers whenever they are established.

ISC benefited from Phare program RO9809.01.02 "Strengthening insurance supervision in accordance with EU Acquis" and has contracted as Consultant the IKRP Rokas & Partners company in cooperation with Bicon.

The objective of the above mentioned project was to assist the setting up and the development of a professional and autonomous regulatory and supervisory body for the insurance sector.

The activities carried out under this Phare project focused on:

- Institution Building:
 - start up support for organization of ISC
 - create its operational capacity by training its own staff
 - communication support for networking with similar authorities from EU member states and Central and East European Countries
- Investment support (procurement of the IT equipment, communication equipment, furniture etc)
- Support for EU accession The Consultant evaluated the existent insurance legislation in 2000 and he drawn up the tableaux de concordance for all relevant EU legislation
- Drafting the secondary legislation according to the relevant EU legislation.

The former Phare project assisted in fact the start up operations of the new insurance supervisory authority.

The contract was completed on 19 November 2001 and all its objectives were reached. In order to continue the activity started by Phare '98 project to strengthen the institutional capacity, the following actions are foreseen under the Phare 2002 program:

- development of the operational capacity (ISC staff training)
- support for EU accession – taking into account that during mid – 2001, when the tableaux de concordance under Phare '98 was issued, and by the end of 2003, when the new tableaux de concordance will be issued, the ISC adopted and will adopt new legal provisions. Thus it is necessary to execute an evaluation of the insurance legislation in force.

The norms issued by the ISC up to now, based on the norms drafted by the Consultant, are the following:

- Norms no. 1/2001 regarding the value and the payment date of the functioning fee owned by the insurers and the insurance brokers
- Norms no. 2/2001 regarding the information and the documents required for the insurers' authorization and the criteria approving the insurers' significant shareholders and the significant persons
- Norms no. 3/2001 regarding the classes of insurance that may be practiced by the insurance companies
- Norms no. 4/2001 on the information and the documents required for the authorization of the insurance brokers
- Norms no. 5/2001 on the calculation methodology and the bookkeeping of the minimum technical reserves for the general insurance business
- Norms no. 6/2001 regarding the categories of assets admitted to represent technical reserves of the insurers for the general insurance business, the rules of investments spread, and liquidity ratio
- Norms no. 8/2001 applying the law for third party liability motor insurance
- Norms no. 9/2001 regarding the terms of the life assurance fund management, the investments, the assets evaluation and the mathematical reserves calculation
- Norms no. 10/2001 regarding the minimum value of the solvency margin required for the non-life insurance undertakings and its calculation methodology
- Norms no. 11/2001 regarding the minimum value solvency margin required for the life assurance undertakings and its calculation methodology
- Norms no. 12/2001 regarding the insolvency of the insurance undertakings and the special administrator
- Norms no. 13/2001 regarding the format and the content of the financial reports, the life insurance report included, and the information, documents and certificates required for elaborating these reports
- Norms no. 14/2001 regarding the transfer of portfolio
- Norms no. 15/2001 regarding the confidentiality of information
- O2328/2390/2001 – The Accounting Regulations for the insurance domain harmonized with European Directives and International Accounting Standards.

These norms were published in the Romanian Official Journal until the end of January 2002.

Taking into consideration the high importance of new legislation in Romania, there is a strong need to further development the institutional capacity for implementation of the legal framework of the insurance market in Romania.

3.2 Linked activities

The present project is complementary to Phare project RO9809.01.02 "Strengthening insurance supervision in accordance with EU Acquis" through the following objectives were achieved:

- Support for the organization of ISC
- Assistance to create an operational capacity
- Assistance for the preparation by ISC of its first Annual Report
- Investment support (procurement of the IT equipment, communication equipment, furniture etc)
- Communication support for networking with relevant international organizations, with similar supervision bodies in EU countries etc.
- Support for EU accession: prepare the tableaux de concordance for the national legislation with EU directives
- Draft the norms applying the Law no. 32/2000
- Assistance to market players.

3.3 Results

The project to be executed under Phare 2002 is foreseen as a twinning with a selected Member State (MS).

3.3.1 Twinning strengthening operational capacity of Insurance Supervisory Commission

The following results will be achieved by the common work of the Romanian and MS's experts:

3.3.1.1 Assistance to strengthen the operational capacity:

- Relevant international books, publications and reports acquired in order to improve and update the ISC library with the last information regarding the insurance activity in EU, and the relevant EU legislation;
- ISC staff (25 – 30 persons) trained at adequate levels, to understand, apply and implement the best international practice in prudential supervision and EU directives in insurance ;
- Actuarial courses delivered for both ISC staff and for insurance companies staff;
- Participation in international conferences, seminars, courses and other relevant events related to insurance supervision;
- Training materials and manuals for the courses for ISC staff drafted and delivered;
- Methods and means for the evaluation of insurance companies risk established.

3.3.1.2 Support for EU accession

- Tableaux de concordance of the Romanian legal and regulatory framework for the insurance sector with the relevant EU acquis (the proposal for modifying the legislation were submitted by ISC to the Government for approval);
- Romanian insurance legislation improved. Tableaux de concordance issued by the Consultant under Phare 1998 were done based on the Romanian insurance legislation existing in 2001. Until 2003 or 2004, when this Phare program is carrying on, ISC will improve the current legislation in accordance with the relevant EU provisions;

3.3.2 Investment support: Establishment of an information system for data transfer between Insurance Supervisory Commission and insurance companies

- IT equipment needed to develop a network purchased: ISC with the insurance companies will develop a common network in order to improve the data transfer and to increase the supervision quality (IT investments under Phare 1998 were dedicated for ISC endowment in order to be able to perform its activities at high level);
- Adequate software for the purchased network;
- Projector, printers, photocopier: technical specifications defined, and equipment supplied and installed;

3.4 Activities

3.4.1.1 Twinning strengthening operational capacity of Insurance Supervisory Commission

3.4.1.1 Training will focus on the following activities in order to achieve the objectives of the action plan (see annex 0)

- Assistance to strengthen the operational capacity: the development of an internal human resources strategy in order to increase the knowledge of the ISC staff in different fields by:
 - Participation in international conferences, seminars, courses and other relevant events related to insurance supervision;
 - Direct relationships with the relevant international insurance bodies, as well as the EU institutions
 - Methods and means for the evaluation of insurance companies risks in order to carry out a different supervision depending on risk assumed;

The following persons will benefit from the training programs:

- 9 persons from the General Directory for Regulations will be train in the regulation field;

- 3 persons from Directory for Accounting Regulations will be train in the insurance accounting;
- 10 persons from General Directory for Control and Supervision will be train in problems specific for this department;
- 3 – 7 persons from other departments will be train in insurance supervision problems.

3.4.1.2 Support for EU accession:

- Evaluation of the insurance legislation in force in 2003 or 2004;
- Tableaux de concordance;
- Modification and improvement of the Romanian insurance legislation, in order to make it reasoned at the national level and in line with the EU standards

The Pre-Accession Adviser must meet the following requirements:

- 5 years experience in the insurance field – preferably in the regulation and financial analysis;
- Pedagogical skills in order to transfer know how;
- Ability to sustain and present complex themes, including case studies;
- Experience in the field of insurance actuarial techniques and accounting. (for the specific training programs)

Phare Experts will have to train staff in the following fields and support for EU accession:

- Annual financial statements;
- Valuation of assets covering the technical reserves for life and general insurance;
- Preventing financial frauds and money laundering;
- Control and supervision of the insurance activities;
- Approximation of our legislation according to *acquis communautaire* (see annex 0).

3.4.2 Investment support: Establishment of an information system for data transfer between Insurance Supervisory Commission and insurance companies

- Development of an IT network between ISC and the insurance companies (access to internet);
- Software development;
- Projector, printers, photocopier.

3.5 Lessons learned

The ISC need additional assistance in order to train its staff and to support the additional harmonization of the insurance legislation in order to access the acquis.

4. Institutional Framework

Starting with 2 July 2001 the ISC is fully entitled to exercise its attributions and responsibilities according to Law no. 32/2000. In this respect, the insurance market reached a new qualitative stage of its development and a more EU style of regulation and supervision. The Commission is to play a crucial role for the policyholders' protection and the soundness of the Romanian insurance market players.

5. Detailed budget

-MEURO-						
	Phare Support			National Co financing	IFI	TOTAL
	Investment Support (I)	Institution Building (IB)	Total Phare (I+IB)			
Contract 1 (Twinning)		1.2				1.2
Contract 2 (Investment), which: - Hardware (workstations, networking support, mobile projection system); - Software (E-mail server, professional firewall application, Net Software Development, Platform SQL Server) - Services (Internet connection, Romanian legislation database updates, Computer service & repair)	0.3 0.3 0.2			0.4 0.15 0.15 0.1		1.2 0.45 0.45 0.3
Total	0.8	1.2	2.0	0.4		2.4

5.1 Detailed twinning budget (EURO)

COMPONENT	PHARE SUPPORT Institutional Building
“Strengthening operational capacity of the Insurance Supervisory Commission”	
- Long-term assistance and overall twinning project management (PAA)	0.5
- Medium-term assistance	0.3
- Short-term assistance	0.2
- Seminars, workshops and study visits	0.2
TOTAL	1.2

6. Implementation Arrangements

6.1 Implementing Agency

The program Implementation Agency is the Central Finance and Contracting Unit (CFCU) located in the Ministry of Public Finance.

The Implementing Authority is the Insurance Supervisory Commission.

6.2 Twinning

The beneficiary institution of the Twinning contract will be the Insurance Supervisory Commission.

Address: Insurance Supervisory Commission (ISC)
8, Zossima Demarat Street, sector 3, Bucharest, Romania
Telephone: 00 40 1 326.46.77, Fax: 00 40 1 326.46.78;
Email: csa@euroweb.ro

6.3 Non-standards aspects

Twinning arrangements are expected in the field of strengthening the operational capacity of the Insurance Supervisory Commission and these regards mainly the followings: insurance accountancy, including the training of the insurance companies' staff; insurance supervision (on-site and off-site inspections); EU accession support (see Action Plan below).

6.4 Contracts

- Investment Contract = 800,000 EURO
- Twinning Contract = 1,200,000 EURO

7. Implementation Schedule

7.1 Start of tendering/call for proposals

7.1.1 Twinning ToR will be ready on October 2002;

7.1.2. The technical specification for the investment component will be ready in February 2003 and they will be made by the Insurance Supervisory Commission.

7.2 Start of project activity: June 2003

7.3 Project Completion: August 2005

8. Equal Opportunity

The Phare project offers equal chances to women and to men, employees of the Insurance Supervisory Commission.

9. Environment

Not applicable

10. Rates of return

Not applicable

11. Investment criteria

11.1 Catalytic effect Not applicable

11.2 Cofinancing Not applicable

11.3 Additionality Not applicable

11.4 Project readiness and Size Not applicable

11.5 Sustainability Not applicable

11.6 Compliance with state aids provisions Not applicable

11.7 Contribution to National Development Plan Not applicable

12. Conditionality and sequencing

There is no conditionality for this Phare project.

ANNEX LIST

ANNEX 0 – ACTION PLAN (Twining Project)

ANNEX 1 – PHARE LOG FRAME

**ANNEX 2 - DETAILED TIME IMPLEMENTATION CHART FOR PROJECT NUMBER
RO-2002/000-586.04.01- Strengthening Insurance Supervision**

**ANNEX 3 – STRENGTHENING INSURANCE SUPERVISION CUMULATIVE
CONTRACTING AND DISBURSEMENT SCHEDULE**

ANNEX 0

ACTION PLAN (Twining Project)

	Objectives	Activities	Completion Date
1.	ISC staff training at an adequate level to understand, apply and implement the best international practices in prudential supervision and EU directives in insurance.	<ul style="list-style-type: none"> - Analysis and interpretation of the annual financial statements - Analysis of the solvency margin for the general insurance and life assurance - Analysis of the assets evaluation which cover the technical reserves for the life assurance and general insurance - Analysis of the insurance companies investments - Off bookkeeping reports analysis issued periodically by the insurance companies and insurance brokers - Control methods and procedures for insurance companies and insurance brokers supervision - Responsibilities and organization of the Insurance Expert Body - Financial frauds and money laundering - Risk management - Insurers solvency and preventing insolvency 	2003-2004
2	Support for EU accession:	<ul style="list-style-type: none"> - Valuation of the insurance legal framework in force in 2003/2004 - Tableaux de concordance - Proposals for the improvement of the Romanian insurance legislation 	2003-2004

ANNEX 1: LOGICAL FRAMEWORK PLANNING MATRIX

LOGFRAME PLANNING MATRIX FOR Project		Programme name and number	
Strengthening of the Insurance Supervision		Contracting period expires	Disbursement period expires
		Total budget : €2.4 million	Phare budget : €2 million
Overall objective	Objectively Verifiable Indicators	Sources of Verification	
<ul style="list-style-type: none"> Strengthening of the insurance supervision capacity in accordance with the EU Acquis and with the best international practices for a real policyholders' protection and for development of a sound and competitive insurance market 	<ul style="list-style-type: none"> Adequate competences for ISC in order to protect policyholders interests Increase the number of the insurance undertakings and brokers verified annually 	<ul style="list-style-type: none"> ISC statistics ISC annual report Law no. 32/2000 amended 	
Project purpose	Objectively Verifiable Indicators	Sources of Verification	Assumptions
<ul style="list-style-type: none"> Strengthening insurance supervision and the development of the insurance supervision activity performed by the ISC 	<ul style="list-style-type: none"> Adequate competences for ISC in order to protect policyholders interests Increase the number of the insurance undertakings and brokers verified annually 	<ul style="list-style-type: none"> ISC statistics ISC annual report Law no. 32/2000 amended 	Parliament's procedures to pass the law amended
Results	Objectively Verifiable Indicators	Sources of Verification	Assumptions
1.Assistance to strengthen operational capacity: <ul style="list-style-type: none"> relevant international books and publications, reports in order to improve and update the ISC library with the last information regarding the 	<ul style="list-style-type: none"> staff of ISC understanding EU insurance requirements and best international practices 	<ul style="list-style-type: none"> Technical assistance reports Monitoring by Delegation 	<ul style="list-style-type: none"> Support from other relevant donors Output relevant to insurance supervision business

ANNEX 1: LOGICAL FRAMEWORK PLANNING MATRIX

<p>insurance activity in EU, and the relevant EU legislation;</p> <ul style="list-style-type: none"> - trained ISC staff at adequate levels, to understand, apply and implement the best international practice in prudential supervision and EU directives in insurance ; - actuarial courses delivered for the ISC staff and for the insurance companies staff; - participation in international conferences, seminars, courses and other relevant events related to insurance supervision; - training materials and manuals for the courses for ISC staff; - methods and means for the evaluation of insurance companies risk <p>2. . Support for EU accession</p> <ul style="list-style-type: none"> - tableaux de concordance of the Romanian legal and regulatory framework for the insurance sector with the relevant EU acquis; - proposals for the improvement of the Romanian insurance legislation. Tableaux de concordance issued by the Consultant under Phare 1998 were done based on the Romanian insurance legislation existing in 2001. Until 2003 or 2004, when this Phare program is carrying on, ISC will improve the current legislation in accordance with the relevant EU provisions; <p>3. Investment support: Establishment of an information system for data transfer between Insurance Supervisory Commission and insurance companies</p>			
---	--	--	--

ANNEX 1: LOGICAL FRAMEWORK PLANNING MATRIX

<ul style="list-style-type: none"> - IT equipments needed to develop a network: ISC with the insurance companies will develop a common network in order to improve the data transfer and to increase the supervision quality (IT investments under Phare 1998 were dedicated for ISC endowment in order to be able to perform its activities at high level); - adequate software for the said network; - projector, printers, photocopier: technical specifications defined, and equipment supplied and installed 			
Activities	Means		Assumptions
<p>1.Training will focus on the following activities in order to achieve the objectives of the action plan (see annex 0)</p> <p>assistance to strengthen the operational capacity: the development of an internal human resources strategy in order to increase the knowledge of the ISC staff in different fields by:</p> <ul style="list-style-type: none"> - participation in international conferences, seminars, courses and other relevant events related to insurance supervision; - direct relationships with the relevant international insurance bodies, as well as the EU institutions - methods and means for the evaluation of insurance companies risks in order to carry out a different supervision depending on risk assumed; <p>2. Support for EU accession:</p>	<ul style="list-style-type: none"> • Technical assistance contract • Purchase of equipments 		

ANNEX 1: LOGICAL FRAMEWORK PLANNING MATRIX

<ul style="list-style-type: none"> – evaluation of the insurance legislation in force in 2003 or 2004; – tableaux de concordance; – modification and improvement of the Romanian insurance legislation, in order to make it reasoned at the national level and in line with the EU standards <p>3.Investment support: Establishment of an information system for data transfer between Insurance Supervisory Commission and insurance companies</p> <p>1.development of an IT network between ISC and the insurance companies:</p> <ul style="list-style-type: none"> – soft development; – access to internet – in order to assure the link between the Insurance Supervisory Commission and insurance companies. <p>2.projector, printers, photocopier</p>			
--	--	--	--

ANNEX 2: DETAILED TIME IMPLEMENTATION CHART FOR PROJECT NUMBER RO-2002/000-586.04.01

Strengthening Insurance Supervision

	2002						2003												2004												2005											
	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A				
1.Contract twinning				D	D	D	C	C	C	C	I	I	I	I	I	I	I	I	I	I	I	I	I																			
2.Contract investment								D	D	D	D	C	C	C	C	I	I	I	I	I	I	I	I																			

ANNEX 3: CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE

Strengthening Insurance Supervision

DATE:

TWINNING
MEURO

	31/03/02	30/06/02	30/09/02	31/12/02	31/03/03	30/06/03	30/09/03	31/12/03	31/03/04	30/06/04	30/09/04	31/12/04
CONTRACTED					0.3	0.6	0.9	1.2				
DISBURSEMENT						0.2	0.4	0.6	0.8	1.2		

INVESTMENTS SUPPORT
MEURO

	31/03/02	30/06/02	30/09/02	31/12/02	31/03/03	30/06/03	30/09/03	31/12/03	31/03/04	30/06/04	30/09/04	31/12/04
CONTRACTED					0.2	0.4	0.8					
DISBURSEMENT							0.3	0.5	0.8	1.2		