Is the Insurance Market in Romania Prepared for the Impact with the European Union One? International Level Comparisons

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12 October 2006

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Summary

International statistics regarding the main index registered on the insurance market and in the structure reveals the activity level of insurance on the profile markets and their absorption capacity. Taking into account these results and international comparisons, in Romania, in 2006, which represents the preparatory year for the impact with European insurance market, the consolidation process of insurance industry has been continued, by the capitalization growth of insurance companies, fusions, changes in the shareholding structure and portfolios transfer. At the same time, by the implementation of new legal stipulation, one can notice a growth of the preparation level and professional improvement of the employees from the insurance domain, with positive effects on performed services quality and on the information given to consumers of insurance products.

1. Moderate growth of the world insurance industry

The world insurance market has presented fluctuant evolutions from one period to another. Thus, years ago, the American market produced more than half of the total of insurances premiums all over the world, whereas, now, this market is equal to the European one. Moreover, in the life insurance domain, the American market is outrun by the European one. We can notice a polarisation of world market insurance around the three big world's regions - America, Europe and Asia - which generates, each of them, almost one third of the premiums total volume received at a world level, as it is presented in the table below.

World share market according to gross premiums on insurance total and in structure, during 2005

Table no. 1.

Area	% Insurance total	% Life insurance
America, out of which:	**37.37**	**29.12**
North America	35.66	27.94
Central and South America	1.71	1.18
Europe, from which:	**37.60**	**38.98**
Western Europe	36.23	38.45
Eastern and Central Europe	1.37	0.53
Asia, from which:	**22.18**	**29.04**
Japan	13.91	19.05
South-East Asia	7.79	9.77
Middle East	0.48	0.22
Africa	**1.17**	**1.41**
Oceania	**1.69**	**1.45**
World total	**100**	**100**

OECD	90.81	90.51
G7	74.64	74.13
EU 15	34.35	36.74
EU 25	35.03	37.21
Industrialized countries	87.53	87.01

Source: Briefing from Sigma magazine, No 5/2006, Swiss Re, page 29

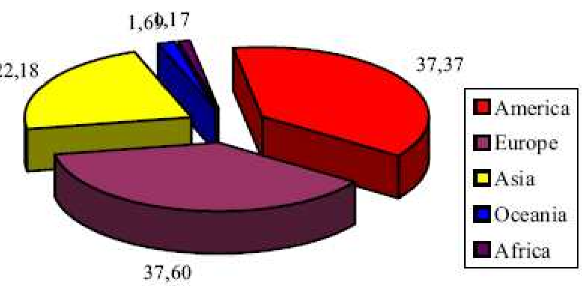

Figure no. 1. The world assignment of gross premiums in 2005

So, at the end of 2005, the insurance market was dominated by some economically developed areas, such as:

- North America with a market share of 37.37% from the total of world insurance market;
- Western Europe, with 37.60%;
- Japan with 13.91% market share,

holding together 88.88% from the world insurance market.

These areas, together with Oceania, represent **world industrialized countries and they hold together 90.57%** from the world market share.

The **G7 Group -** USA, Canada, Great Britain, Germany, Italy, France and Japan -, which represents the 7 world's great economical powers, makes almost **74.64%** of gross premiums insurance volume.

As a structure, the insurances are assigned on the two insurance categories: life insurance and non-life insurance, as it is shown in the table and the figure 2.

World insurance structure, 2005

Table no. 2.

Zone	Life insurance (%)	Non-life insurance (%)
America, from which:	**45**	**55**
North America	45	55
Central and South America	40	60
Europe, from which:	**60**	**40**
West Europe	61	39
Central and East Europe	22	78

Asia, from which:	**75**	**25**
Japan	79	21
South-East Asia	72	28
Middle Orient	27	73
Africa	**69**	**31**
Oceania	**49**	**51**
World total	**58**	**42**
OECD	57	43
G7	57	43
EU 15	62	38
EU 25	61	39
Industrialized countries	57	43

Source: Briefing from Sigma magazine, No 5/2006, Swiss Re, page 29

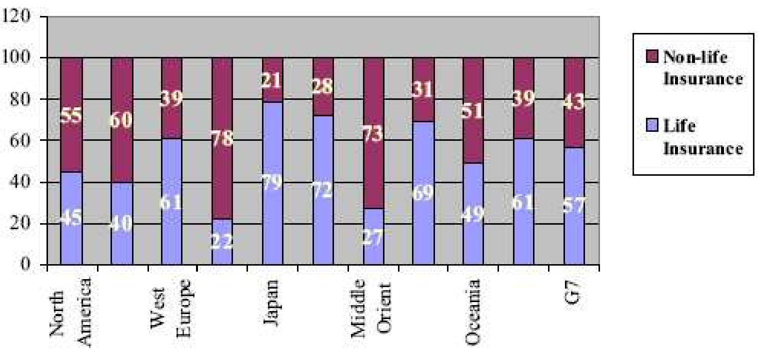

Figure no. 2. World structure insurance, 2005

One can notice a higher percentage of life insurances than the non-life ones, except certain areas, like Central and Eastern Europe and Middle East, where life insurances hold around 22-28% from the total of received bonus. The area with the biggest internal contribution of life insurances is Japan, with 79%, followed by South-East Asia, with a 72% percentage of life insurances on internal market. The European Union countries have a percentage of life insurances of 61% average, being on the 4th place, from this point of view, after Japan, South-East Asia and Africa.

For the economy of each country, one would like life insurance percentage to be bigger than the non-life insurance one, because these take part at the loan offer on the financial market by the reserves fruition that are made up as being invested in banking stores, slip thesaurus, stock, obligations, giving of loans to the secures in the account of insured sums for the life insurance and under other investment forms. The placement of these reserves is made according to fruition possibilities, according to legal provisions regarding the liquidity level which have to be insured and the investments proportions in different types of actives.

The main indexes which characterizes the world insurance market, 2005

Table no. 3.

Zone	Insurance density[1] (USD/inhabitant)		Insurance penetration[2] (%)	
	Insurance total	Life insurance	Insurance total	Life insurance
America, from which:	**1,452.8**	**652,3**	**7,95**	**3,57**
North America	3,735.1	1.686,3	8,97	4,05
Central and South America	105,7	42,0	2,35	0,93
Europe, from which:	**1.513,8**	**911,8**	**7,78**	**4,69**
West Europe	2.482,8	1.533,4	8,44	5,21
Central and East Europe	141,8	31,8	2,66	0,60
Asia, from which:	**197,9**	**149,6**	**6,83**	**5,16**
Japan	3.746,7	2.956,3	10,54	8,32
South-East Asia	77,9	56,6	4,87	3,54
Middle Orient	55,1	14,8	1,45	0,39
Africa	**44,2**	**30,7**	**4,8**	**3,33**
Oceania	**1.789,3**	**885,0**	**6,38**	**3,16**
World total	**518,5**	**299,5**	**7,52**	**4,34**
OECD	2.606,5	1.500,3	8,68	5,00
G7	3.512,0	2.018,9	9,30	5,35
EU 15	2.878,9	1.792,6	8,64	5,38
EU 25	2.459,5	1.519,9	8,37	5,17
Industrialized countries	3.286,8	1.887,0	8,96	5,15

Source: Briefing from Sigma magazine, No 5/2006, Swiss Re, pages 29-32

[1]The insurance density shows the level of gross premiums received per inhabitant during a year
[2]The insurance penetration presents the percentage of received premiums in the GDP

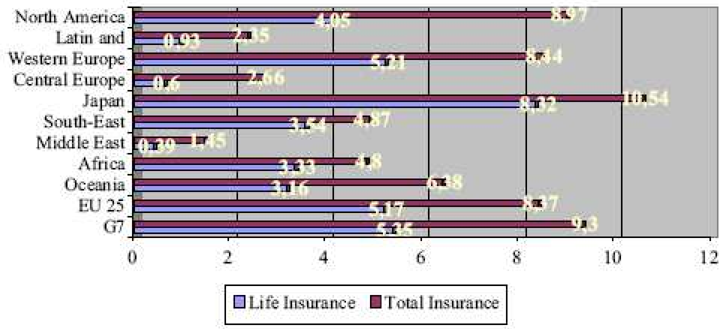

Figure no. 3. The insurance penetration in the world main areas, 2005 (%)

As for the insurance participation at the achievement of the Gross Domestic Product (figure no.3) we can notice that this is quite important in Japan, with over 10% of GDP, whereas in areas like North America, West Europe, European Union and G7 countries, this is about 8%. The less significant insurance participation to the GDP is in Latin America - 2.35%, Central and East Europe- about 3% and Middle East with insurance of 1.45% of GDP. At world level, the percentage of bonus received from the insurance in GDP is of 7.5%.

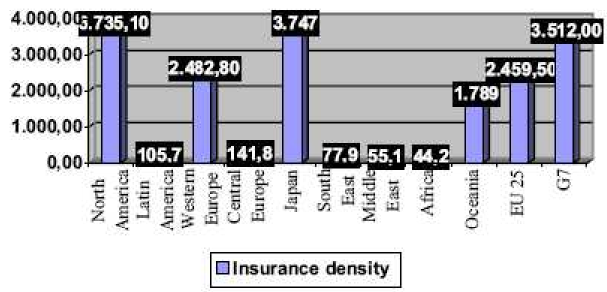

Figure no. 4. The insurance density in the world main areas, 2005 (USD/inhabitant)

During 2005, at world level, an inhabitant paid for the insurance about 519 USD. The biggest sums for insurance were paid by the inhabitants of Japan - about 3,750 USD/inhabitant, from North America- 3,735 USD/inhabitant and from the countries of G7- about 3,500 USD/inhabitant. In the European Union, the average of the gross premiums paid by an inhabitant at the 2005 level was of 2,460 USD/inhabitant.

The European insurance market registers fast and consolidation changes, especially as a succession of plans and strategies elaborated by the European Union, which pursued the insurance transactions expansion. The differences between the organizational cults and the national ones have been an obstacle for the setting up of the necessary financial mechanisms. The best results were obtained on the life insurance market which promoted the activity efficiency by reducing the costs.

So, the regional globalisation makes Europe a little bit stronger, reduces the relative percentage of America, but it strengthens in a special way, the Japanese pole. The insurances, at the world level, own about 8% from the world GDP, but the differences from a country to another are significant.

The insurance international market is dominated by famous companies from the industrialized countries. The insurers developed an important activity on this market, during the last year, such as: American International Group – AIG; Allianz Group; Lloyd's Group; Generali Group; Aviva Group.

The biggest insurer in the world, **American International Group – AIG-** started its new policy of investment in Japan. **The American International Group AIG** received from Standard&Poor's agency, in 2003, the credit rating "A++" (superior or extremely powerful), with a "constant" view.

A very special importance on the world insurance market has the **Allianz Group**. The Allianz Group continued to develop both in the Asia-Pacific region and in Central and East Europe (CEE). The insurance markets from these regions developed significantly and we can notice an increase of the population incomes and of the interest for insurances and for the private pension products. The Allianz Group imposed as being the biggest foreign insurer from CEE. Moreover, in countries like Hungary, Bulgaria, Slovakia and Romania, Allianz is the leader. The adhesion to the European Union brought new opportunities especially in countries like Slovakia and Hungary, where the insurance sector will register annual increases of about 10% till 2008.

The second insurance company from Europe, **AXA SA**, registered a profit decline as the loss from the financial investments increased and as a result of the dollar/euro exchange rate. The results are not very good, but the company hastened the restructuring process which also aimed at costs reduction.

The actors of the insurance international market confronted with many issues. The most disputed one is that of **private or supplementary annuities**.

Among the European countries, **Switzerland** is a detached leader regarding the sums given by the people for life insurance and private annuity products, with an average of over 3,000 euros. In **England**, a citizen pays, annually, an average of over 2,000 euro for this kind of financial services, while the inhabitants of Germany pay 776 euro for the life and private annuity insurance, about 4 times less than in Switzerland.

The life insurance sector in **Spain** registered an impressive increase, determined especially by the new private annuity products which gained more and more space. Nevertheless, in Spain there is still a deficit from the point of view of the penetration on the market of the private annuity products, in comparison with other European countries. In Spain only 20% of the inhabitants have private annuity insurance, less than the European average.

Nevertheless, in the private annuities and life insurance domain like in other insurance domains, USA, Japan and Great Britain represent the most important markets.

2. Romania's insurance in the international statistics. Measures taken in order to harmonise with the European Union stipulations.

The legislative background of insurance market is generally in accordance with European Communion Briefing, the stipulations that give Romania the status as State Member being applied starting with the adhesion at the European Union date. Inevitably, the endorsement of these settlements will lead to the work frame improvement, to the Romanian insurance market consolidation and to its transformation in a professional market, obviously regulated, which can administrate, in an efficient way and according to some competences, the insured person's money.

The international statistics regarding the main index registered as total insurance market and in the structure, on the life and non-life insurance, underlines the activity level of specific insurance market and their absorption capacity. In table no.4 there are presented the results obtained in the life insurance domain in Romania as compared to the first ten countries from Europe and from the European Union.

The insurance market in Romania as compared to the results registered by the European countries, in 2005

Table no. 4.

Country	Gross premiums volume (mil. USD)	Life insurance share on total insurance market	Insurance density (USD/inh.)	Insurance penetration (%)
Great Britain	300.241	66,5	4.599	12,45
France	222.220	69,3	3.568,5	10,21
Germany	197.251	65,9	2.310,5	6,79
Italy	139.194	45,7	2.263,9	7,59
Netherlands	61.073	52,3	3.739,7	9,79
Spain	60.275	55,4	1.454,5	5,36
Switzerland	46.393	66,9	3.985,6	11,15
Belgium	41.077	42,3	5.558,4	11,19
Ireland	29.811	67,1	4.177	8,56
Sweden	15.790	68,1	3.092,1	7,82
Romania	**1.510**	**21**	**69,5**	**1,53**
EU 25	1.200.030	61	2.459,5	8,37
Europe	1.287.920	60	1.513,8	7,78
World level	3.425.714	59,7	1513,8	7,52

Source: Swiss Re, Sigma no. 5/2006, briefing page 31-37.

Despite the fact that the actual level of gross bonus received is bigger in some countries than in others, the indexes which characterize the insurance market, meaning the insurance density and the insurance penetration do not render the same situation. So, as for the gross premiums volume, the first three places are occupied by Great Britain, France and Germany, whereas according to the insurance penetration in GDP, the first three places are taken by Great Britain with 12.45%, Switzerland and Belgium with over 11% of GDP. If we take into account the insurance density, the hierarchy is occupied by Switzerland, Great Britain and Ireland with 5,558; 4,599 and 4,177 USD/inhabitant. Romania registers quite low index levels which characterize the life insurance market , in the sense that it is on the last but one place in Europe, before Serbia and Montenegro- taking into account the density degree- and Lithuania, taking into account the penetration degree.

The increased trend of life insurance has also continued in 2006, in the first three quarters being registered a real increase of 19.3% in national currency and of 28.5% in European currency, in comparison with the results obtained in the similar period of the previous year.

An aspect debated by the Supervision Insurance Commission and imposed by the European integration **was the separation of the insurance companies' activity into companies which make only life insurances and companies which make only general insurances.** The solution taken was to allow to the composite insurance companies authorized till 31.12.2005 to keep making both insurance categories, respectively general insurances and life insurances, but with their **complete management separation**. This decision has been made taking into consideration the fact that the European Briefing let the Members decide upon the separation variant - judicial or just management separation- and also upon the supplementary arguments given by the market representatives for maintaining this kind of solution for Romania.

The separation requirements of the two activities at the management level refer to:

- *The leadership separation*- regarding the maintaining of a cautious one for each of these two activities developed by the insurers with composite activity;
- *The organization and the leading of a book keeping separately for the two activities*- all the incomes (especially the received bonus, the payments from the re-insurers and the ones from the assets investments) and all the expenses (especially the damage payment, and the supplementary sums for the technical reserves) must be accounted according to their origin;
- *The allocation of common operational expenses on each category of activity according to an assessment key;*
- *The separate estimation of available solvability margin* for each of the two activities;
- *The different distinction of the assets taken in the account of each of the two margins of solvability* for the life insurance, respectively for the general insurance activity;
- *The assets available for one of the two activities can be used for the other activity, only in special cases* and only with the preliminary approval of the supervision authority.

The separation of the insurance companies management will allow a better protection of the insurers' interests, the risk reduction for that the assets which cover the obligations due to life insurances (usually exigible on a long term) could be transferred to the general insurance activity (in which case the obligations are mainly on short term), the qualification of the top management and of the executive staff on each category of insurance, etc.

In the conditions of a common, unique market at a European level, the existence of a solid and efficient system of prudential supervision of the insurance domain is extremely important. In this sense, the European Commission's intention is heading to the elaboration of a new **solvency** model – Solvency II- which takes into account the risks which the insurer has to take, the assets management correlated with the passives and last but not least, the reinsurance.

From 2007, the insurance companies, the loan institutions, the companies of financial investments (CFI) and the investments management ones (SAI) are going to be extra supervised.

In the insurances companies case, this extra supervision supposes that, beside CSA, the insurers who belong to financial groups should be extra supervised by National Bank of Romania, too. This represents a transposition in the national legislation of a European briefing, which is already applied in the state members.

For 2006, the gross premiums written in the first three quarters, proper for both insurance categories, represent 96% of the registered volume during the whole year of 2005. In the case of the general insurance, this percentage is of 102% and in the case of life insurance category of 78%.

According to CSA estimations, for the next period of time, the insurance market in Romania will reach, in 2006, the level of 1.5 billion euros. At the same time, **it will also grow their insurance penetration in GDP, till over 1.7%.** Also, without any doubt, the Romanian mentalities will gradually align to the European ones, fact which will lead to an increase of the insurance need awareness.

The very high potential of the insurance market draws the interest of an increasing number of investors, the competition in this domain being expected to intensify especially after Romania's adhesion to the European Union- the State Member status supposing the observance of the freedom principle to perform services, and also the settlement right. It will also be noticed an increase of the insurance interlopers role, especially the one of the insurance brokers, fact which is in the interest of the insured people, taking into account that this interlopers category acts on behalf of the insured people. Despite this, it is supposed that on medium term, the concentration degree will stay up, in the sense that the major percentage in the total of subscribed insurances will still be owned by few societies.

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