EUROPE AND ROMANIA- AN INSURANCE OVERVIEW

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Abstract

Insurance industry has known an important growth during the last ten years, growth that has been sustained by the international investments, financial growth and the development of new insurance products that were required for special security needs in personal or business area. During the crises, the insurance sector has been also affected with major volume subscribing premiums due to the lack of liquidity although people should have been more risk averse than usually are. The purpose of this paper is to analyze the evolution of the insurance market in the last years and new trends of the market in Europe and Romania having into consideration the multiple factors that can trigger the need for insurance. The quality of live, the revenue and socio-cultural factors can influence the consumer behavior, on the other hand the financial framework it is analyzed in order to observe the fluctuation of insurances' indicators. Moreover, describing the insurance European environment and Romanian one can create a framework in which we can understand better the circumstances in which the insurance consumer makes decisions.

Keywords: insurance, indicators, decisions, environment, statistics

JEL Classification: A10

Introduction

Insurance operations performed on a contractual basis, takes place in a framework called insurance market. On the insurance market meet market demand coming from insurance and individuals insured, eager to enter various types of insurance with the insurance offer, supported by specialized organizations authorized to work in this field and financially and legally capable, to conduct such activity. Insurance claim is embodied in insurance contracts after the confrontation with the offer. Insurance market size is expressed using several indicators such as annual value of insurance premiums, the amount of the sums insured period, the number of contracts concluded during the reporting period, the number of active policies and the total commitments to insurance companies a time. Offer insurance is offered by private insurance companies state-owned or mixed, mutual insurance organizations and tontines.

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On the insurance market in Romania are sold several products and services such as insurance policies against various risks. Insurance cannot be mutually replaced. For example, product "automobile insurance against the risk of failure" cannot be replaced with the product "insurance civil liability "or" life ". Competition in the insurance market is between insurance companies with the same profile that "s ell" the same type of product. After 1991, the law in our country enables 10 categories of insurance that insurance companies can practice: life, people, other than life, vehicles, marine and transportation, aviation, fire and other damage of the property, liability, loan guarantees, and insurance financier loss. The main targets in Romania are auto insurance, housing and medical insurance.

At the basis of this restricted segment lies the peoples' lack of training in this respect since insurance business has experienced strong growth since 1990 and the contagion of insurance which ultimately lead to the creation of demand for insurance by triggering mechanisms aimed at creating a real need or less real consumer awareness and knowledge. Recommendation or reputation of a particular insurance product influences also the demand of insurance.

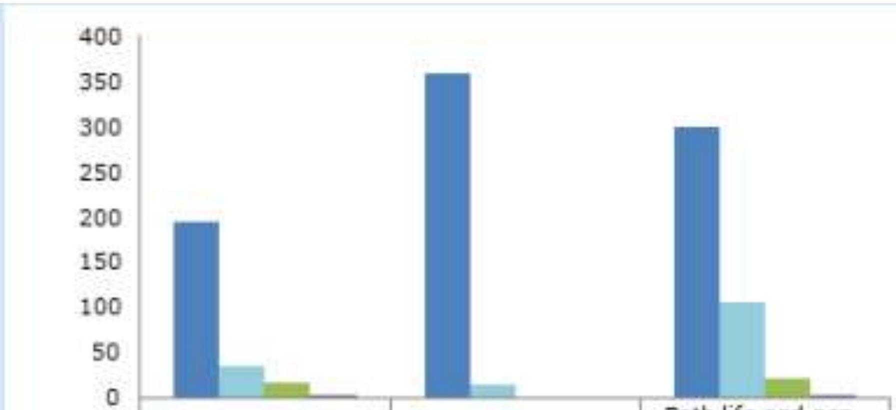
Regarding atomization market in Romania we cannot talk about a strong atomization because few insurance companies dominate the market. That makes the consumer conscience to confidence in that society with a high reputation which makes its power manipulation to be significant. This problem raises the question whether there is competition or not on the market? In terms of product homogeneity, competition exists between insurance companies offering the same types of products, while only a few companies in the insurance market can influence a sensitive market having a significant market share and benefiting from the confidence of those who buy insurance.

In which concerns the quality of products this is an area in which Romanian insurers has developed new strategies like selling insurance through bancassurance systems, paying attention to consumers' needs, developing new insurance products like business interruption insurance that was introduced for the first time by Platinum in 2011 and trying to encourage the financial education through internet informational databases. A new tendency in increasing the quality of insurance is selling through internet and banc assurance. Our insurers operates in a country where 48.7% of people over 15 years use internet, therefore, it was expected that online insurance sales platforms to grow lately at an accelerated pace. Also, insurance companies in Romania have increasingly better care of showing how the company's website and even develop other portals role of presentation and sale of products. International trends in the insurance market. The quality in Romanian markets is enhanced by concentrating on leadership and establishing the purpose of organization and creating the environment for developing good selling agents who is implicated in the accomplishments of purposes. Nevertheless, consumer focusing and an approach based on process leads to a bigger level of awareness both from the insurance society and also the consumer. A factual approach in taking the decision is necessary in satisfying the consumer needs. These principals will lay at the foundation of every quality standard.

1. New trends in Europe

The sector has continued to adjust to the new Solvency II (SII) regime, which entered into force in January 2016. The Solvency II Directive introduced significant changes and specific requirements related (among others) to different reporting formats, the best estimate of technical reserves, more stringent capital adequacy requirements, specific measurement and presentation requirements. In 2016, the first year of the application of Solvency II, the reporting of insurance and reinsurance undertakings to National Supervisory Authorities (NSAs) is limited. In particular, according to the Solvency II reporting the impact of the LTG (long term guarantees) measures on the financial position have been reported to NSAs for the first time in 2017. Therefore, also the information available to EIOPA about the impact of these measures on undertakings is limited. While the 2016 stress test already provided some information on the impact of LTG measures, its full potential will only be reached during the course of 2017.

The Solvency II Directive (Art.77(f)) requires EIOPA on an annual basis until 2020 to report to the European Parliament, the Council and the Commission about the impact of the application of the so called long term guarantees (LTG) measures. The findings will form the basis for the review of the Solvency II Directive in this respect. In December 2016 EIOPA published the first Annual Report on LTG measures in particular on their use and impact on the financial position of insurers in terms both of solvency capital requirement ratio and technical reserves. Insurance companies covered in the LTG report and using at least one of the measures amount to 69% of the technical provisions (901 insurance undertakings) of the EEA insurance and reinsurance market, representing together 24 different countries.



	Life	Non-life	Both life and non-life
VA	195	359	298
TTP	34	14	106
MA	16	0	22
TRFR	1	0	4

Figure no. 1 Number of undertakings using the LTG measures,
Source: EIOPA LTG Report

This Financial Stability Report presents EIOPA's risk analysis and assessment of the European insurance industry. With the implementation of the Solvency II regime in January 2016 substantial improvements as regards the risks' quantification and the reporting standards were introduced. Despite the regime implying a major change in the way insurance companies have to set up their balance sheet and calculate their solvency capital requirements, the initial transition has been rather smooth resulting in a relatively stable profitability and solvency position.

Special features of the European insurance landscape are the wide variety of corporate structures and the size of the companies. The feedback received from the interest groups indicated that the introduction of Solvency II changed this. Small and specialist insurers continued to provide significant capacity for niche covers in the future, for medical practitioner’s liability policies for example. Opinions tend to vary on whether Solvency II had an effect on consolidation in the insurance sector. Some expect the rising capital requirements to increase the probability of consolidation in the market. However, this could result in more pressure on prices in the insurance market and also lead to the valuable expertise of the specialist insurers and the wide range of products being lost. The introduction of Solvency II involved huge changes for insurance groups. Social impact The feedback received from the interest groups indicates that the social impact of Solvency II depended on the extent to which the capital requirements for each individual insurance product increased and obliged insurers to adjust prices. Higher prices as a result of higher capital requirements could have caused a fall in demand for insurance protection, which could in turn have an adverse effect on society, including in areas where insurance cover is mandatory. In which concerns the economic impact it is important to emphaze the importance of the insurance sector for the financing of the real economy. Not only do insurers provide protection against the occurrence of certain events, but they also play a significant role as large investors. Insurance companies proved to be an establishing factor in the financial crisis and this had encouraged the interest groups to resolutely pursue the EU goal of achieving intelligent, sustainable and integrated growth in Europe. If Solvency II limits the attractiveness of certain capital instruments, insurers may reduce their investments in the financial markets, which would adversely affect the ability of banks to raise capital to cover lending to private individuals and firms. Solvency II brought about major changes in European supervisory law. What is beyond doubt is that the introduction of Solvency II was costly. This not necessarily means that insurance premiums had or will have to be adjusted. On the contrary, serious thought should be given to adapting certain products to current market circumstances. Reinsurers will be expected to bring products onto the market that enable insurers to reduce their capital requirements.

To make an idea about the development of the European insurance market infrastructure, we can study the below table where are illustrated the main indicators of development from 2012 to 2016 and their tendencies.

Table no. 1 Indicators of the development of European insurance market from 2012 to 2016

Indicator	2012	2013	2014	2015	2016	Tendecies 2014/2012	Tendecies 2016/2014
Life insurance premium volume, bln of USD	881,00	933.72	1002.56	872.00	858.6	↑	↓
Non-life insurance premium volume, bln of USD	659,68	686.41	692.53	597.00	611.4	↑	↓
Total premium volume, bln of USD	1540,68	1620.13	1695.09	1469.00	1470.0	↑	↓
Insurance density: premiums per capita in USD	1724.4	1833.5	1902.0	1634.4	1620.0	↑	↓
Insurance penetration, %	6.73	6,82	6,83	6,89	6,73	↑	↓
Total premium volume as a share in the world GDP, %	2.17	2,19	2,19	2,00	1,95	↑	↓

Source: The development of European insurance market infrastructure, Antonina Sholoiko Department of Insurance, Banking and Risk-Management Taras Shevchenko National University of Kyiv

The development of European insurance market is also under the influence of activity of elements of insurance market infrastructure such as Actuarial Association of Europe (AAE), Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), European Financial Management Association (EFMA), European Insurance and Occupational Pensions Authority (EIOPA). Various abovementioned elements of European insurance market infrastructure were established in XX–XXI centuries to develop and support different aspects of insurance market: legislation, protection interests, education, research. It is difficult without collaboration with elements of the world insurance market infrastructure

2. Effects of Romania's accession to the European Union on the insurance market

The Romanian insurance market re-launched in 1991, when the state monopoly became unstable and was eliminated after 40 years. Joining the EU has brought both costs and benefits to the insurance market. As the market became more sophisticated (consumers became more informed and demanding), supply became more stable and market concentration began to diminish as a response to European insurers entering our market.

New products were launched on the national market, based on similar products offered by the European market. Most of the costs incurred by this EU accession process relate to the additional legal requirements introduced by the Authority for insurance companies (capital requirements, reserves, fund, etc.); the introduction of new jobs, which must have a special fund (such as actuaries, brokers, risk managers, etc.); training costs for certain professions (risk managers, underwriting, actuaries, etc.). The increasing importance of insurance brokers was supported by an increase in the quality of services.

Thus, brokers have evolved from an intermediary distribution channel between the insurer and the client level, at the level of a consultant, providing complex customer risk management services. Prices on the European insurance market were much higher than the Romanian average. For example, maritime insurance should have been three times more expensive if we consider that the damage rate was 60% in Romania, compared with less than 25% in Western Europe. Another example is the increase in premiums due to the increase in coverage limits. A better risk coverage procedure (required and enforced by increased competition after EU accession) also brought an increase in final consumer demand for insurance products and also an increase in total costs for insurers in Romania. The difference is the following: there is a significant discrepancy between the European theory and the real situation on the Romanian insurance market, as there is a significant difference between the European damage rate and the level of the insurance premiums in Romania, between the Western know-how and the Romanian knowledge. It was expected that the market would become more technical as a result of changes to the regulation, but Romanians are still paying less for the insurance of goods, given that our country is one of the most prone to natural disasters and because of such an event is expected to seriously disturbe household insurance prices.

Forecasts are encouraging for the insurance industry, in the context of declining investment prospects of the population through traditional banking or securities institutions; so a solution could be focusing on life insurance and mutual funds. Given the perspective of possibility to triple the volume of gross premiums earned, the insurers' concern is oriented towards the search for new possibilities of placement, in maximum efficiency conditions, of the resources collected from the clients. In practice, however, we can say at this point that the degree of development of the capital market is below the expectations of the demand, plus the interest rates offered by the banking companies do not rise to the level of the creditors' wishes, often the level of interest do not even cover the value of inflation.

3. Insurance market in Romania

At 31 December 2016, 31 insurance companies were active in the insurance market, out of which 17 practiced only non-life insurance ("AG"), 7 practiced only life insurance ("AV") and 7 had composite activity. The insurance market in Romania registered in 2016 a total of the gross written premiums, cumulated for insurance companies and branches, of 10.05 billion lei, increasing by 10% compared to the previous year. The non-life insurance segment grew by 11% in 2016 compared to 2015 and the life insurance segment grew by 6.7%. The value of gross premiums written by insurance companies and branches, on Romanian territory only, was 9.93 billion lei, up 12% year-on-year (ROL 8.86 billion). Gross written premiums in other states recorded a 54% drop in 2016 (ROL 0.1 billion) compared with 2015 (ROL 0.27 billion).

Unlike the European insurance market dominated by the life insurance segment (about 61% according to Insurance Europe data for 2014), in Romania it represented only about 18% of the gross written premiums, the market being dominated by general insurance, respectively auto. In the first quarter of 2017, the Romanian insurance market maintained its growth trend, which was recorded in the last six months of this year.

The insurance companies authorized and regulated by the Financial Supervisory Authority (ASF) recorded in the first half of 2017 a total of 5,04 billion lei of gross written premiums (PBS), up 8% compared to the same period of the previous year. In the non-life segment (AG), insurers subscribed gross premiums in the amount of ROL 3.97 billion, up 2% over the same period of the previous year. At the same time, the life insurance segment (AV) recorded a 36% advance compared to the first six months of 2016, with insurance companies registering a PBS of 1.07 billion lei. The highest increase compared to the same during the previous year, health insurance was registered by about 70%. The insurers accumulated 2016 gross written premiums in the amount of 9,387,339 thousand lei, rising by 10% compared to 2015:

- the gross premiums written (PBS) for non-life insurance (AG) amounted to MDL 7,717,502 thousand, up 11% compared to the previous year;
- the gross written premiums related to life insurance (AV) are in the amount of ROL 1,669,837 thousand, up by 6% compared to the same period of the previous year.

Figure no. 2 Evolution of volume of gross written premiums in the period 2012 – 2016

Regarding the geographical distribution of underwritings, it is noted that both general insurance and life insurance contracts are the most cumulative value contracts in Bucharest and Ilfov district, followed by a significant distance between the Northwest and Center area.

Figure no. 3 Distribution of PBS for general insurance in the 8 development regions of Romania

Source: www.csa.ro

The Romanian insurance market is characterized by a high degree of concentration. In 2016, 87% of the total gross written premiums were made by 10 insurance companies of the 31 companies performing insurance / reinsurance activity on 31 December 2016, similar to previous years.

The general insurance segment recorded a 11% increase in 2016 compared to 2015, and the life insurance segment posted an advance of 6.7%. The highest increase compared to the previous year was recorded by health insurance by about 70%.

Clasa	PBS AG (lei)					Pondere 2016	Modificare procentuală 2016/2015 (%)
	T4 2012	T4 2013	T4 2014	T4 2015	T4 2016		
A10	2.137.043.377	2.461.675.830	2.800.428.974	3.288.863.039	4.144.148.099	53,70%	26,01%
A3	1.916.682.149	1.796.496.249	1.684.128.251	1.687.601.059	1.756.071.493	22,75%	4,06%
A8	1.081.228.539	1.021.907.073	954.401.654	965.963.860	946.402.736	12,26%	-2,03%
Alte clase	1.319.441.753	1.208.071.301	1.009.597.639	1.014.988.676	870.879.664	11,28%	-14,20%
TOTAL	**6.454.395.818**	**6.488.150.453**	**6.448.556.518**	**6.957.416.634**	**7.717.501.992**	**100,00%**	**10,92%**

Figure no. 4 Structure by general insurance classes
Source: www.csa.ro

Dynamics show that over the past four years, the share of gross written premiums for A10 has risen steadily from one year to the next, while other major non-life insurance classes either declined or slowed down. the share of these three classes being 89% of the total gross written premiums for non-life insurance business: A10 - Civil liability for the use of land vehicles, A3 - Land vehicles, excluding railway rolling stock, with gross premiums written of 1,756,071,493 representing 23% of the total non-life insurance underwritings, A8 - Fire and natural calamities with a gross written premium of 946,402,736 lei, representing 12% of the total non-life insurance.

The Romanian insurance market continued its sustained growth trend in 2016, recording a gross written premium (PBS) of 10.05 billion lei, 10% more than in the previous year, when there was an increase with 9% of PBS compared to 2014, according to data published by the Financial Supervisory Authority. Thus, last year, the insurance sector surpassed the historical maximum of 8.94 billion lei achieved in 2008, as several companies have emerged from the market: ASTRA Insurances, CARPATICA Asig, FORTE Insurances and LIG Insurance.

The Romanian insurance market recorded in the first quarter of 2017 a total of gross written premiums, cumulated for insurance companies and branches, of 2.73 billion lei, up 8% compared to the same period of the previous year. During this time, CITY Insurance became the market leader (with 14.01% market share), ahead of ALLIANZ-TIRIAC Insurance. In the next places the insurers include EUROINS, OMNIASIG VIG, ASIROM VIG, GROUPAMA, NN Life Insurance, GENERALI, BCR Life Insurance and UNIQA Insurances, according to the report published by ASF - Financial Supervision Authority.

Conclusions

In Europe Compared to the previous year, no significant changes in the business model and strategy of insurance undertakings or in their overall risk profile have been observed. Elements of strategies continue to be - amongst others – the development of new products with no long-term engagement and low(er) guaranteed rates that are often no longer "fixed for life", and the application of cost cutting plans that allow a positive technical result to regain profitability. Many companies have also e.g. put (a part of) their business into run-off, whilst others have switched their internal structure from a subsidiary to a branch. Others also focused on capital strengthening exercises. Profitability results provide a quantified estimation of the insurance sector's vulnerability to the low interest rate environment and to a pronounced reassessment of risk premium. The industry registered an almost unchanged profitability level. Yields in Europe, although improving slightly in the recent quarter, remain near historical lows and risks concerning the low profitability of financial entities pose key concerns to the financial system. Low yields have more seriously affected the profitability of life insurers, especially in some countries where there is a large stock of contracts with high guarantees. The Return on Equity (ROE) for the median company is 9.1% in 2016, against 9.7% in 2015 and 11% in 2014 As the low interest rate environment is ongoing, these good results should gradually dampen further in the future.

The Romanian market is still underdeveloped, with a small amount of premiums and a very low penetration rate of insurance, compared to European markets, and this will not change in the coming years. The low penetration rate of insurance of less than 2%, compared to 8%, the European average can lead us to the conclusion that there is an undiscovered potential in this market, and this tendency may persist in the coming years.

This applies, also, in which concerns the insurance density, which still does not reach 100 EURO / inhabitant, compared to the European average of 2000 EURO, but also the average income of the Romanian population should be taken into account as the level and the structure of income and expenditure in the EU and Romania are very different, and in the near future we cannot reach the level of income in developed countries in Europe so that we can compare them. The major differences between Romania and the European Union also arise in the value of the premiums collected at the level of the two classes of insurance (life and non-life). If at EU level, life insurance holds 60% of the total premiums received, in Romania they do not exceed 20% of the gross written premiums. The collapse of the investment market and the slowdown in economic growth have limited the ability of insurers to generate revenue.

In order to broaden the scope of options for placing insurers' availability, it is necessary that all interested participants - professional associations of insurers, intermediaries, authorities, adopt initiatives to resolve the impasse. Efforts should be directed towards pressuring authorities to study and allow alternative placement alternatives under minimal risk conditions. Expanding and diversifying the categories of investment instruments to which insurers may have access must also address new areas, such as real estate investment.

The insurance market in Romania ended the year 2015 with a total net loss of 267.6 million lei due to the bankruptcy of the largest insurer at that time, Astra Insurances. In 2016 things have changed. Economic growth, a more lax fiscal regime, and lower interest rates for banks have allowed higher profits for insurers. Year 2016 was the best year in the last ten, with business indicators above the pre-crisis level. Thus, the recovery of the business environment, the increase in the number of employees in the economy and the value of their benefits were reflected both in the evolution of sales life insurance and health insurance, as well as voluntary pensions. At the same time, the continued decrease in local and international interest rates supported the Romanians' appetite for saving through such financial instruments, but the Romanian market is beginning to get a positive dynamics, but the fluctuations registered at the level of this market in recent years has shown us that things can take a surprise turn at any time. On the other hand, the insurance market in Europe is more stable, financial education and the average income of the population still play a decisive role.

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