ROMANIAN INSURANCE MARKET- ROAD TO RECOVERY AFTER FINANCIAL CRISIS

GHEORGHE MATEI, ANA PREDA *

ABSTRACT: *The paper aims to present the Romanian insurance market size and her place in the international insurance trade, comparing our market with markets of different countries from the major regions of the world, using different indicators for sizing and comparison. Then will be presented some solutions for insurers to overcome after the financial crisis and recovery their activity.*

KEY WORDS: *insurance market; premium; insurance density and penetration; crisis effects.*

JEL CLASSIFICATION: *G01; G14; G22.*

1. ITRODUCTION

The most international insurance and reinsurance transactions are made in several markets, concentrated in the major financial centers of the world. The insurance trade is low compared to international transactions in other fields. The share of foreign insurers differs from country to country, in recent years they have increased due to liberalization of the markets of different countries, and especially due to the acquisitions and the insurers mergers on different markets. The strongest increase of the insurance activity took place in the last thirty years and this trend is based on the following factors (Ciurel, 2011): the unprecedented growth of industrialized countries after the Second World War, the changes in the structure of insurance markets in many parts of the world, improving the business climate that prevented international companies to operate as direct insurers on international markets, globalization of financial services, and insurance services, in particular leading to a strong concentration of international trade in these services.

* *Prof., Ph.D., University of Craiova, Romania*
Ph.D. Candidate, University of Craiova, Romania, ana_preda79@yahoo.com

Today, one of the most important features that characterize the development of global insurance is currently the world insurance market globalization, presented by a gradual liquidation of economic and legal barriers that separate the insurance markets of some states. Another feature of the international insurance market is the existence of a large number of insurance companies operating in various organizational and legal forms, with a large capital and big assets, with a wide range of operations and insurance products offered, a developed legislation in insurance and a viable state surveillance system, the existence of various associations and unions of insurers, a developed system of intermediaries, consulting firms.

Insurance market activity may contribute to economic growth not only by itself but also through the complementarity with the banking sector and capital market (Cristea, 2010). Among the factors (Negru, 2010) that could negatively influence the insurance market can be included: negative currency depreciation in the assets and liabilities of insurance companies, increasing inflation, stock market liquidity situation, some credit institutions where the insurance companies have made investments.

2. HOW IMPORTANT IS OUR INSURANCE MARKET IN THE GLOBAL INSURANCE TRADE?

The current global financial crisis is the worst the world has seen since the Great Depression during 1929-33. The severe worldwide recession - which in most countries began to show up in 2008 - was triggered by the housing bubble in the USA (Jungmann & Sagemann, 2011).

The worldwide crisis has left its mark on the international insurance market differently from one region to another, from one country to another. The developed countries were less affected than emerging economies. Financial instability is a very important issue for developing countries and currency mismatch is one of many causes of financial crises. However, currency mismatch is most likely to be linked to other fundamental causes of financial crisis, such as excessive corporate leverage, overheating and fiscal deficits, rather than the cause of crisis itself (Lomborg, 2004).

Before the financial crisis in Romania, the economic context was totally different from now. The economy recorded growth rates, financial markets, including insurance, were booming, but now as any other country in the world, have to deal with financial crisis effects. The capital market in developing countries is extremely small, so a large outflow of capital will inevitably trigger a financial crisis, and international capital flows will be intrinsically unstable (Lomborg, 2004). Referring to the most important regions of the world, Europe is the largest insurance market in the world followed by America, Asia, Oceania and Africa.

For seeing how much means our market in global market, we analyzed three indicators: premium volume, insurance density and insurance penetration. In figure no. 1. we presented the worldwide situation under financial crisis influence, through the first indicator taken into consideration - gross written premium. Most affected by financial crisis was the year of 2009, the premium volume decreased in this year with

4.77% comparatively with the previous year. The trends changed in 2010 when it is notice an increase with 4.25% of gross premium volume from total insurance activity. In figures 2, 3, 4, we presented the top ten countries through the first indicator taken into consideration, and the place of our insurance market in this context. In this ranking by gross premium written from total insurance business, the firsts 5 ranks are identically in the period analyzed, and also it is point the rank of Romania situated on 49 rank by gross premium written and those ratio represent only 0,06% from world insurance business.

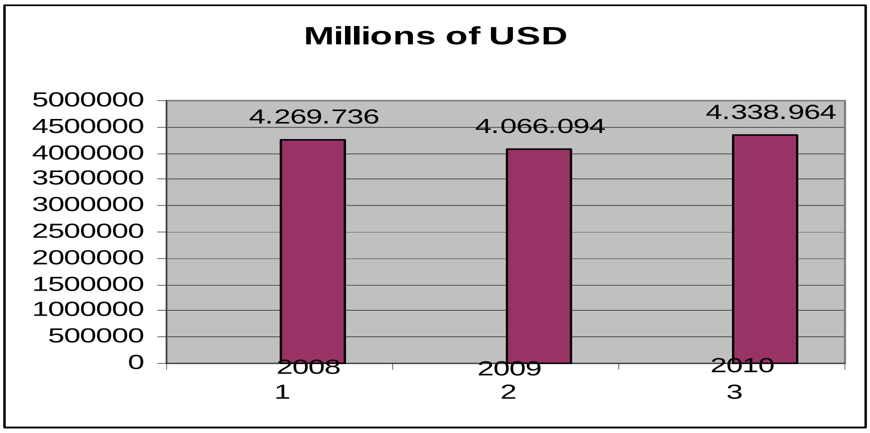


Figure 1. Total gross written premium

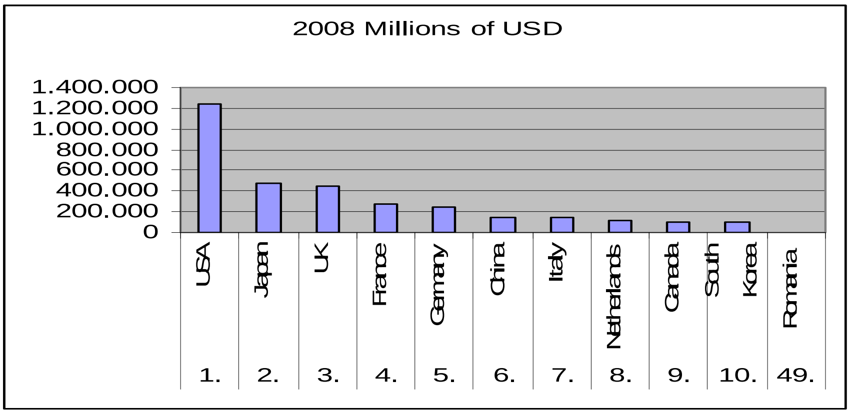


Figure 2. Top 10 countries by gross premium written in 2008

The second indicator analyzed is insurance density. The year of 2009 is a year in which it recorded a decrease of insurance density in all regions of the world, a worldwide an inhabitant pays for purchasing in case of total business insurance an average of 595,1 US dollars. During 2010, insurance density worldwide increased by 5,13% compared with the previous year (figure 5). In figure 6, 7, 8, we presented the top ten countries through the second indicator taken into consideration. The results show that the most countries from top 10 are from Europe, only USA is present in that top 10 countries worldwide by insurance density in 2008 and 2009, and also Japan was a new entry in 2009 with an increasing trend in 2010. Romania is on 59 ranks in this top in 2008 and on 65 ranks in 2010. For example an inhabitant of the first country in the top pays, an average, for purchasing an insurance policy 3666,8$, and we pay 24$, but growing throughout the analyzed period.

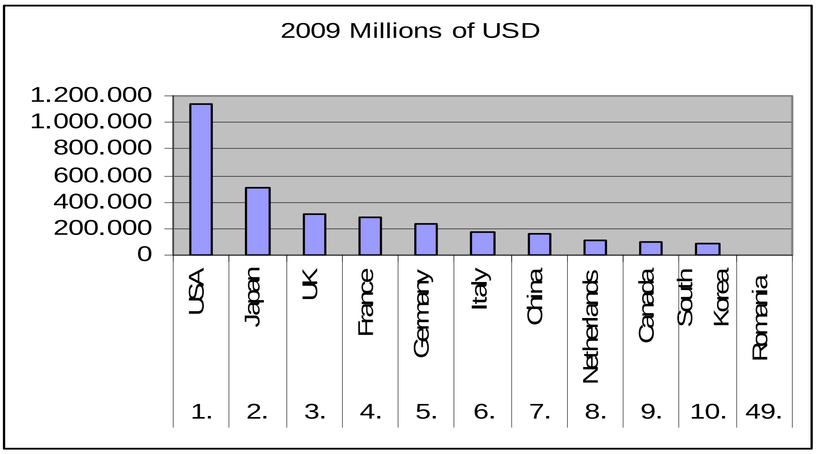
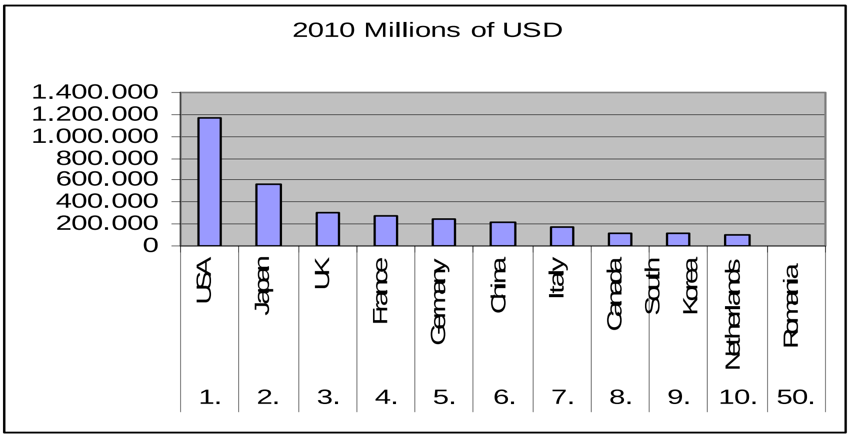


Figure 3. Top 10 countries by gross premium written in 2009



Source: Swiss Re (2009, 2010, 2011)

Figure 4. Top 10 countries by gross premium written in 2010

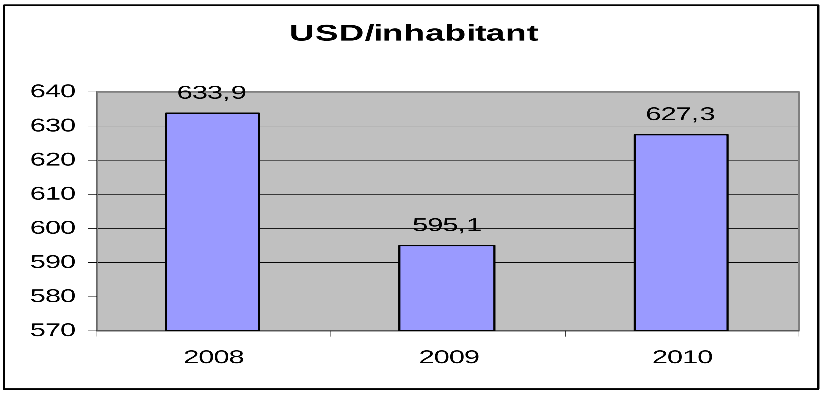


Figure 5. World Insurance density

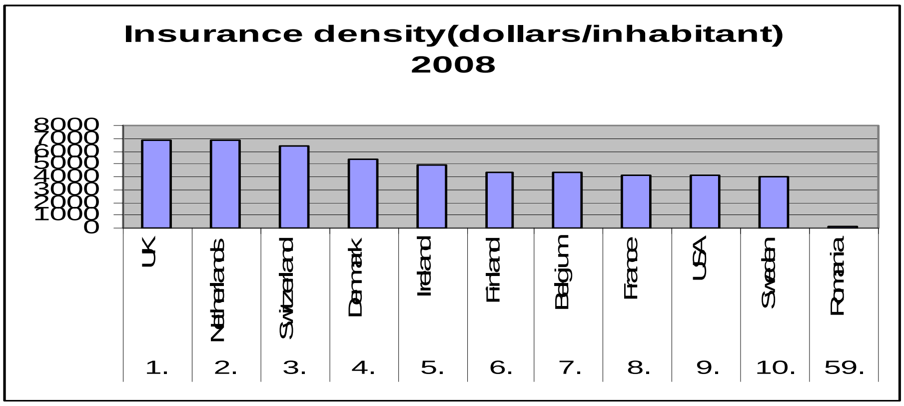


Figure 6. Top 10 countries by insurance density in 2008

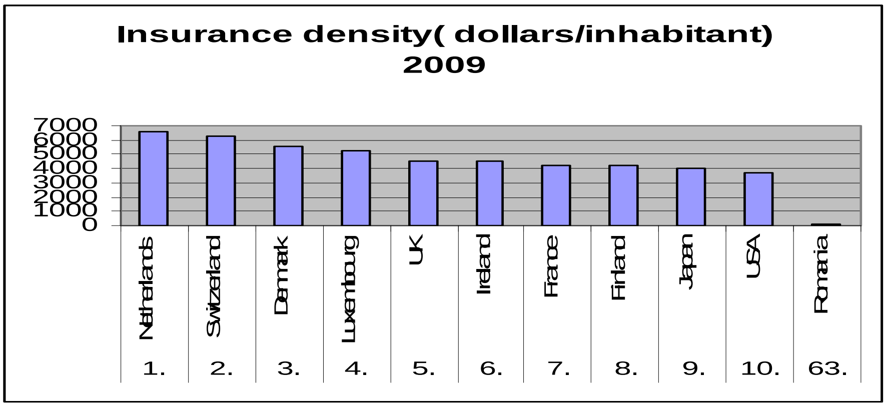
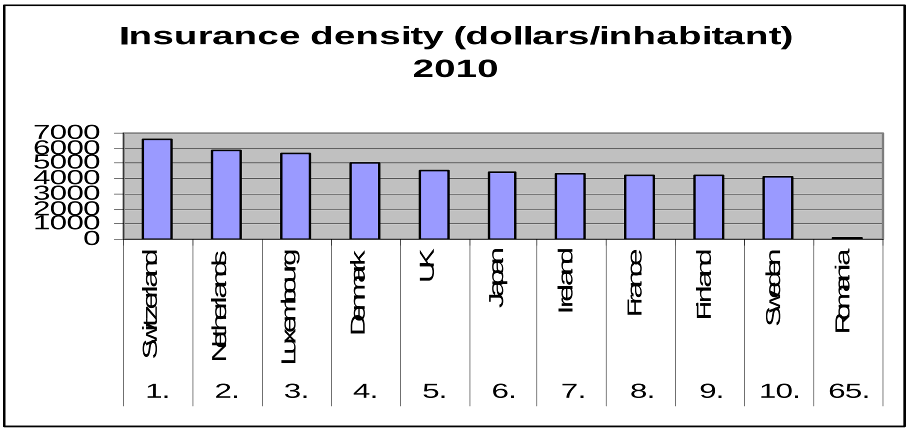


Figure 7. Top 10 countries by insurance density in 2009



Source: Swiss Re (2009, 2010, 2011)

Figure 8. Top 10 countries by insurance density in 2010

The analysts say that such a global crisis did not exist before, and the measures to overcome the effects and prevent in future, is a difficult process that requires international cooperation between governments and supervisory authorities. Worldwide, currently, the data collected shows that there are large differences in insurance coverage, ranging from country to country, thousands of people are under-insured and they need financial protection provided by these products.

The third indicator used to show how small is our insurance market, is insuranse penetration rate. According with these informations (figure 9, 10, 11, 12) is notice that the highest insurance penetration is found in Taiwan, increasing from one year to another about 11.9% in 2010 comparative with the level from 2008. On second place are United Kingdom in the year 2008, Netherlands in 2009, and South Africa in 2010. In our country's insurance penetration is very low compared to other countries from top, in continuous decline over the last year analyzed.

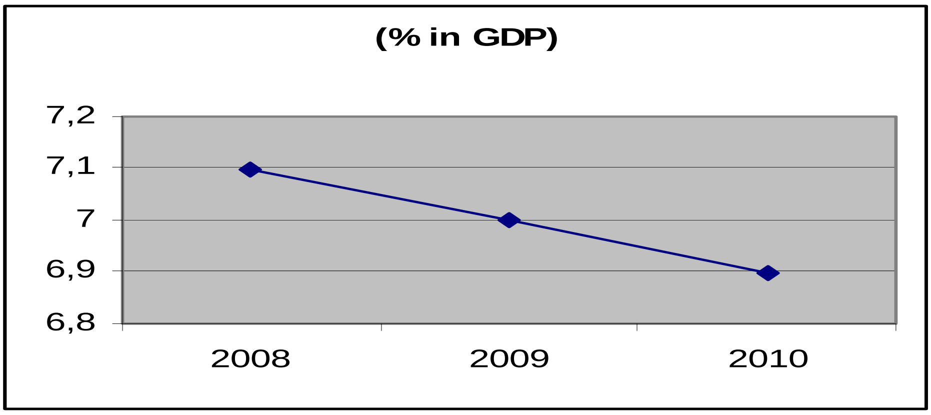


Figure 9. World insurance penetration

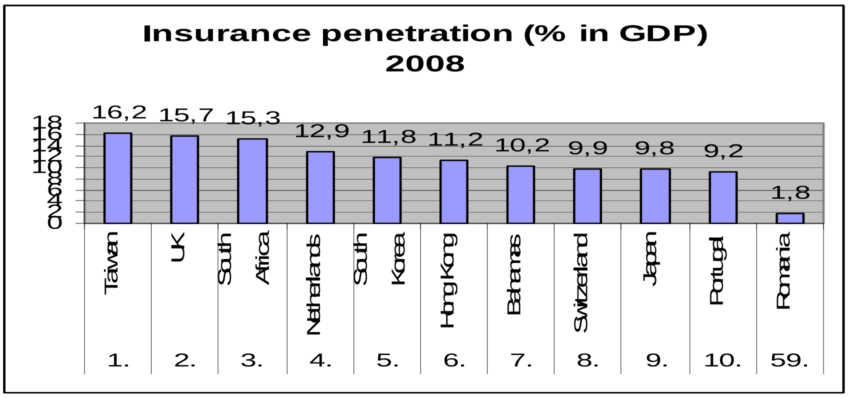


Figure 10. Top 10 countries by insurance penetration in 2008

Looking back, most insurance markets have returned to pre-crisis level indicators analyzed. This favorable trend is valid for insurers from developed countries and the developing ones. However, there are many risks that the insurance industry must always be aware of them, but the biggest is the possibility of new turbulence in financial markets.

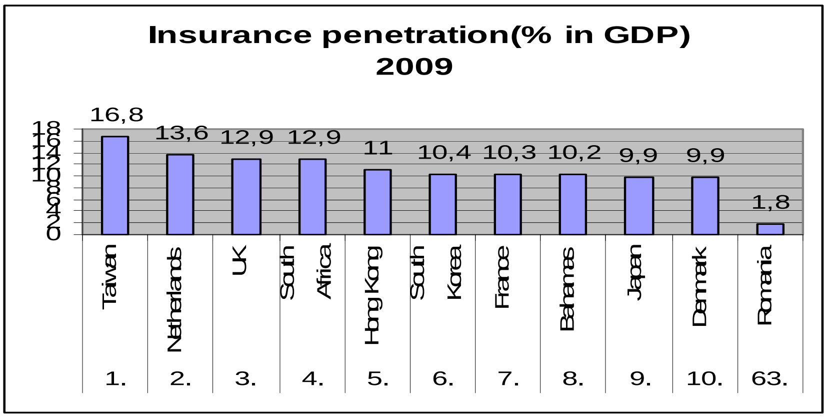
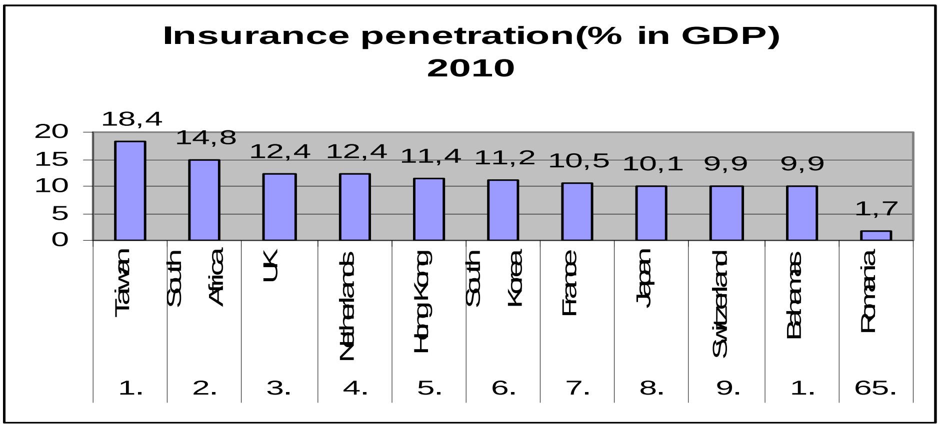


Figure 11. Top 10 countries by insurance penetration in 2009

In conclusion, the Romanian insurance market is still very under-insured, with a small volume of premiums and very low insurance density and penetration, compared to other insurance markets and this will not change in the coming years. Many insurers have faced for the first time with a crisis situation. All economic models used to predicting the economic shocks did not work. Unlike other insurance markets from developed countries, the Romanian market still depends to a large proportion of motor insurance. But should be considered the income average of the population of Romania, because the level and structure of income in developed countries are very different, in the near future we will not be able to get to their income level, so we can compare on equal footing with them.



Source: Swiss Re (2009, 2010, 2011)

Figure 12. Top 10 countries by insurance penetration in 2010

3. SOLUTIONS FOR THE INSURERS OPERATING ON THE ROMANIAN INSURANCE MARKET

The most important feature of the Romanian insurance market is the foreign contribution to share capital, the foreign investors have made large capital infusions to strengthen the financial capacity of the insurance companies, today our insurance system is based over 90% on foreign capital. This means that our insurance market is perceived as a good opportunity for business development.

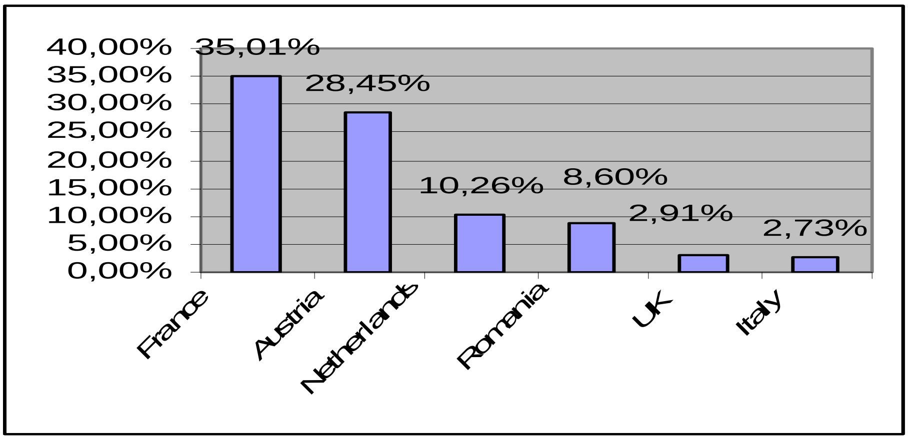


Figure 13. The foreign investors countries

Table 1. The foreign contribution to share capital

Year	Share of foreign capital (%)
2008	87,93%
2009	88,65%
2010	90,40%
2011	91,22%

Source: Insurance Supervisory Comission from Romania, Annual Reports: 2009, 2010,2011

Life insurance represent, in developed countries, over 70% of the total insurance market and in our country they represent less than 20%. Insurance industry in Romania is connected directly to the evolution of the main economic sectors, and is dependent on consumption, which declined in recent years. Insurance market recorded a decrease of gross written premiums volume, compared to the years before the crisis, when there were increases between 25% - 30% (figure 14).

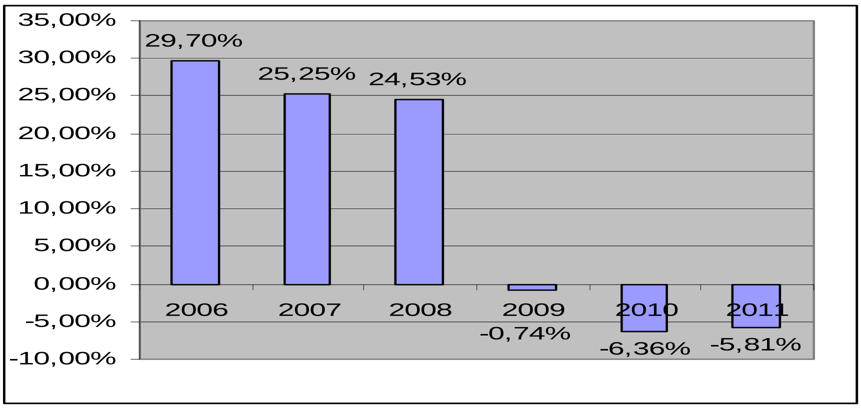
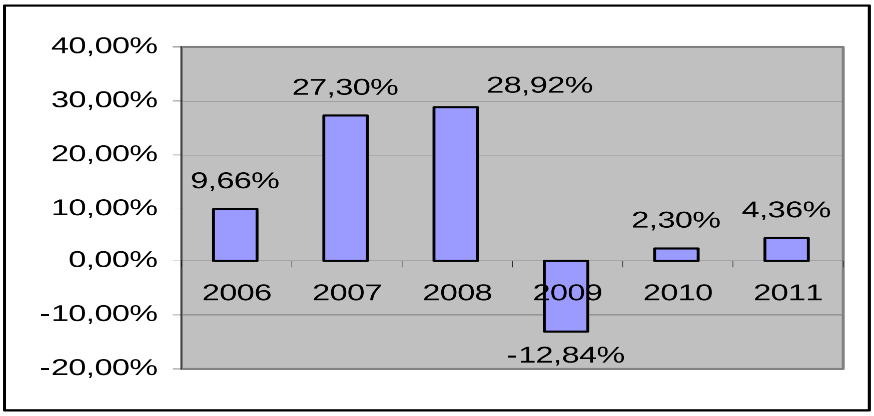


Figure 14. Increase in nominal terms of gross written premiums volume compared with the previous year (%)

Life insurance sector has easy recovered in 2010 and 2011, however, low share of life insurance in total gross premiums has made that the positive progress in this segment to be insignificant to the evolution of gross written premiums. Life insurance registered an increase not because the financial instability has been remedied and that would have raised the living standards of Romanian people, but maybe because life insurance was seen from many people as a form of long-term savings. Returns obtained through investment programs unit - linked also contributed to this development. Insurance penetration and insurance density are other indicators that registered increases before the financial crisis and then decreases as a consequence of crisis effects (figure 16, 17).



Source: Insurance Supervisory Comission from Romania, Annual Report: 2011

Figure 15. Increase in nominal terms of written premiums volume in life insurance compared with the previous year (%)

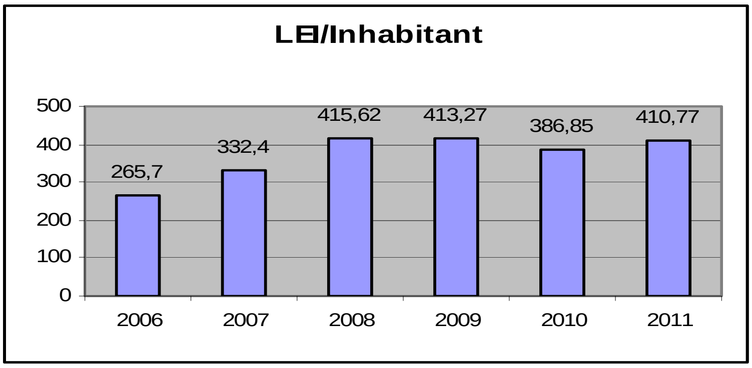
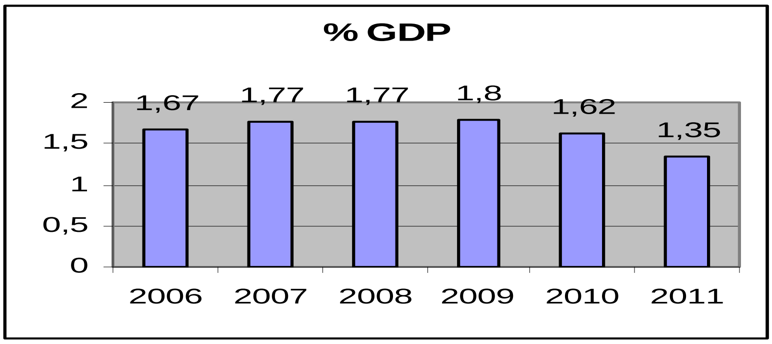


Figure 16. Insurance density in Romania before and after crisis



Source: Insurance Supervisory Comission from Romania, Annual Reports: 2010, 2011

Figure 17. Insurance penetration in Romania before and after crisis

Romanian insurance market has seen crisis effects, not very different from other countries, but of course, weighted with market size. The companies are faced today with challenges arising from increased frequency of risk taken. Another problem that the insurance market in Romania will have to deal is to find the point of balance between the real costs of risks assumed and the prices of products sold to the consumers, because they have an important influence on the quality of services. Most of times the price of a policy is determined without a strategic vision, to increase the market share, which will negatively affect the profitability but especially their ability to pay its obligations to policyholders.

We believe that in the near future should be taken several measures to support the insurance business, increase market confidence in the insurance system, promoting greater transparency and, most importantly, the introduction or increased deductibility for certain types of insurance that come to help customers (life insurance, health, private pensions), more focus on financial education of the population and most importantly, increasing professionalism of those who work in the insurance field. The insurance industry should focus more on increasing the quality of products and services, which has depreciated considerably in the last two years, which would lead to the conservation portfolio of clients and will contribute to restoring confidence in the insurance market, also we should develop other lines than auto insurance. The deficit by qualified specialists in this field, is another issue that should be considered in near future. Next we propose some solutions for insurers:

- financial stability and regaining consumer confidence remain the most important objectives;
- permanently maintain solvency legal limits;
- avoid taking risks beyond established and maintain sufficient liquidity;
- maintaining the existing customer portfolio;
- increased communication with customers;
- products development by introducing differences between them;
- protect market position by exploring niche areas for life insurance;
- standardization of training of those who sell insurance;
- insurers preparing for the implementation of Solvency II Directive;
- a greater attention to risk management.

Insurance industry, in the coming years, will be influenced by some non-economic factors: the aging population, which does not necessarily mean a better life as a result of the relationship between needs and available resources to cover them, reducing the birth rate, rising unemployment.

4. CONCLUSIONS

Romanian insurance market is still very much underinsured, with a small volume of premiums and very low insurance penetration and this will not change in the following years. The low degree of insurance penetration of less than 2%, compared to 8% average at European level can lead us to the conclusion that there is an uncovered potential and we believe it will still stay so in the following years. The development of our insurance market, especially life insurance market, would contribute to economic development through a higher volume of investments by more efficient allocation of capital, encouraging the long-term savings, and faster development of financial markets. Looking further ahead we believe we will not get at level of other European countries even the next 10 years, the main reasons were and remain: lack of fiscal incentives, lack of financial resources, lack of tradition on life insurance, economic crisis, low population incomes and uncertainty about financial security, insurance losses from the investment component and even, low confidence in this area.

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