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INTERNATIONAL CONFERENCE of SCIENTIFIC PAPER
AFASES 2011
Brasov, 26-28 May 2011

INSURANCE MARKET EVOLUTION IN ROMANIA IN TERMS OF GLOBAL ECONOMIC CRISIS

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Abstract: *This paper aims to present the evolution of general insurance business in Romania during 2005-2010.*

The insurance market in our country, risk underwriting activity takes place within the insurance companies. They have general insurance underwriting and life insurance activity. There are companies whose activity is mixed. On 31.12.2010 activates on the Romanian market a number of 45 insurers. They have achieved in 2010 a volume of insurance gross premiums in the amount of 1.989 billion euros. With reference to the European currency EURO, we find that the insurance market in Romania has dropped by 5% compared with 2009. If we look at actual developments in national currency and keep inflation rate for 2010 which was 6.09%, then we find that the decrease was actually of 11%. The penetration grade of insurance in GDP has declined, reaching a value of 1.63% for 2010, and the previous year was 1.81%. Insurance products reach the insurance consumer by employees and / or insurance companies agents and through the insurance brokerage representatives.

The insurance brokerage market has been the only one that has achieved in 2010 an increase of gross premiums brokered volulului for insurers. The increase was 5% compared to 2009. These achievements show that the insurance brokerage was able to adapt to the new economic conditions caused from the second year of economic crisis. Business volume of insurance brokers increased in the retail zone, more and more clients appeal to the broker consultancy services to obtain efficient, economical and less costly insurance offers.

KEYWORDS: *insurance companies, gross written premiums, ris, insurance broker.*

1. INTRODUCTION

Natural disaster risks and technical risks of exploitation are more and more frequently throughout the Earth's surface and atmosphere, regardless of geographic areas and stage of economic development. They negatively affects people's lives and their economic activity. Knowing the circumstances under which various phenomena occur, associated with natural disasters they allow

people to take reasonable steps to avoid such phenomena, to prevent them, limit their destructive action [4Văcărel, Bercea, 2007, page19] or find alternative sources of funding, to cover economic losses that could not be avoided. Risk transfer instruments are diversified. One source of funding which is utilized worldwide is the insurance policy [5 Zelinschi, 2009, page 460].

Conclusion of insurance policies is done through the insurance companies by underwriting the risk. The classification of

risks that are underwritten through insurance generated a split into two policies main insurance policies classes: life insurance and general insurance. Regarding our paper, we will deal in further with the evolution of general insurance underwriting policies in the past five years.

2. THE EVOLUTION OF UNDERWRITING GENERAL INSURANCE POLICIES IN THE INSURANCE MARKET IN ROMANIA DURING 2006-2010

In this article we intend to analyze the development of indicators of the Romanian insurance market. In the classifications for risks and insurance premiums reporting, the Insurance Supervisory Commission established by the classification rules of insurance policies, the framing into 18 classes of general insurance. These contain: accident and sickness insurance; health insurance; land transport, rail, air and water insurance; in separate classes; insurance of goods in transit, fire and natural disasters insurance, other damages to the property insurance, liability insurance for motor vehicles, air and sea transportation, general liability insurance, credit insurance, guarantee insurance, financial loss insurance, legal expenses insurance, tourist assistance insurance [6 Primary legislation in insurance, page 89]. To analyze the evolution of Romanian insurance market we have chosen subscription period between the years 2006 and 2010.

In Table 1 we have presented the evolution of Romanian insurance market in terms of gross premiums underwritten by insurance companies which are performing general insurance. Regarding the fact that catastrophic risks in recent years have occurred with increasing severity we believe it is important to show their share in total subscriptions of Romanian insurance market. In the synthetic information provided by the Insurance Supervisory Commission, underwriting of catastrophic risks insurance are reported by the insurance companies in the insurance class 8, which are called "Fire and natural disasters". The synthesis of

information and reports submitted by insurance companies to the Insurance Supervisory Commission, during the period 2006-2010 shows that they have a share ranging between 11.3% and 14.5% of all subscriptions registered for general insurance policies.

During the economic growth period in 2006-2008, the value of general insurance underwriting has increased significantly. Insurance premiums written were 23.4% higher in 2008 than in 2007. In the same, the total insurance premiums of fire and natural disasters had increased by over 31%.

From the data analysis presented in the table below, we can see that in the period 2008-2009, although there were early signs of economic crisis, the insurance value of subscriptions continued to increase but the percentage increase is less significant. Insurance written premiums were 2.45% higher in 2009 than in 2008. For the same period of time, the total insurance premiums of fire and natural disasters had increased by 9.34%. Evolution of the value of claims paid by insurers for Class 8 - Fire and natural disasters in 2009 compared to 2008 registered a high growth. This increase in claims ratio is due to the large floods produced in this period in several river basins in Romania. The increase of insurance claims ratio for these policies was 87.4%.

Year of 2010 is the year in which are felt more and strongly the effects of economic crisis in the insurance market. Lending activity of banks decreases, lowering the number of insurance policies for both general insurance (buildings and property purchased with bank loans) and for life insurance which in most cases contracts are insurance contracts mortgage accessories. The same thing happens with the reduced leasing activity to produce reductions in insurance underwriting both classes of vehicles and other property acquired in leasing, insured for fire and catastrophic risks. Value in life insurance underwriting fell. Insurance written premiums were 7.5% lower in 2010 than in 2009. For the same period, the total insurance premiums of fire and natural disasters, had a 3.9% increase. If the value of insurance premiums for fire and natural



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calamities we subtract the value of the PAD type underwriting insurance policies to cover catastrophic risks, we can conclude that there

would be no increase in subscriptions registered by insurance companies in 2010 compared to the previous year.

Table 1

Dynamics of main indicators of underwriting policies that cover catastrophic risks on insurance market in Romania during 2006-2010

Indicator / Year	2006	2007	2008	2009	2010*
Total gross written premiums – thousands lei	4.591.003	5.726.752	7.068.173	7.241.584	6.698.510
Of which of 8 th class - thousands lei	534.071	648.324	849.670	934.738	971.200
Weight of Total Subscriptions for 8 th class	11,63%	11,30%	12,02 %	12,91%	14,50%
Gross premiums "PAD" - thousands					35.863

Source: Authors' processing of the CSA's annual reports for the period 2006-2009. For 2010, there were reports of insurers used by CSA and Media 31/12/2010 XPRIMM, unaudited data from 28/02/2011

* To 2010, estimates based on reports by insurers 31.12.2010 CSA and Media XPRIMM,

3 THE ACTORS OF THE ROMANIAN INSURANCE MARKET

The subscription analysis of risks in insurance is both directly by the insurers and with the help of insurance intermediates. According to legislation the insurance intermediates are: the insurance broker, the insurance agent, the insurance subagent and the subordinate insurance agent. Insurance agents generally work for one insurance company and represent the insurers interests. Brokers intermediate products for different insurance companies and represent the clients' interests who needs to be offered a complete protection with as lower costs as possible. Insurance brokers compare different companies' products and recommend to the clients the most suitable offer for their needs[1.Badea, 2008, pag 57-58] It is important to underline the role that the broker can have in educating the population with regard to the protection of heritage through insurance. As we can see from the information

in the previous chapter, the population reacts better to the sanctions that a bill can produce and less to the daily increes in natural catastrophies all over the world. The role of the insurance broker is that of a consultant for the client when it comes to insuring homes and personal belongings not only when it comes to the risks, limites and alues stated through a bill.

Below we presented the evolution of the number of insurers and insurance brokers when it comes to catastrophical risk subscriptions. From the total number of insurance companies – reinsurance companies some are specialized only on general insurance, whereas others only on life insurance and others have a composite activitie. Form the total number of insurance brokers authorized by the Insurance Supervisory Commission, a procentage of 90% intermediate general insurance and life insurance.

Table 2
Evolution of the number of insurers and insurance brokers in the market Romania during 2006-2010

Year	2006	2007	2008	2009	2010
Number of authorized insurance companies	41	42	44	46	44
Number of authorized insurance companies that subscribe catastrophic risks	28	33	37	31	32
Number of insurance companies	0	0	0	0	13

issuing the insurance policy type PAD					
Number of authorized insurance brokers and active	313	348	403	482	565

Source: Authors' processing of the CSA's annual reports for the period 2006-2009. For 2010, there were reports of insurance brokers used to 31.12.2010, by the CSA and Media XPRIMM.

* To 2010, estimates based on reports by insurers 31.12.2010 CSA and Media XPRIMM

Table 3
Dynamics of main indicators of brokers who intermediates general insurance policies during 2006-2010

Indicator / Year	2006	2007	2008	2009	2010*
Total gross premiums brokered – thousand lei	1.105.340	1.568530	2.704.593	3.211.369	2.056.704
From insurance to 8 th Class - thousand	142.610	111.350	149.960	138.088	201.807
Proportion of 8 th Class in the total insurance brokerage brokers	12,90%	7,1 %	5,5 %	4,3%	9,8 %

Source: Authors' processing of the CSA's annual reports for the period 2006-2009. For 2010, there were reports of insurance brokers used to 31.12.2010, by the CSA and Media XPRIMM.

* To 2010, estimates based on reports by insurers 31.12.2010 CSA and Media XPRIMM, .

From the data analyzed in the above table, we can note that in the analyzed period although the volume of insurance premiums intermediate by insurance brokers has grown in 2009, the insurance policies related to the class of insurance in witch catastrophically risks are subscribed has decreased year by year. These intermediates have oriented their attention to insurance classes such as that of automobiles and liability. In 2010, with the application of law no. 260/2008 with regard to the mandatory insurance of homes, the percentage of these subscriptions has began to grow.

We consider that it is of interest to also analyze the importance that of geographical zones in Romania have in the total of brute insurance premiums subscribed to the overall

insurance during the 5 years of analyzing the insurance market. During the analysis we can observe that the area of Romania's capital is first the subscription of insurance premiums having ,in average, values representing almost half the total of the brute insurance premiums subscribed nationwide. The area of Romania's capital is followed during the whole analysis by the North-west of Romania where the subscriptions of insurance premiums do not pas 10 percent from the total overall insurance subscriptions nationwide (table 4).

In what concerns the subscription of mandatory insurance policies for homes we analyzed the volume of subscription in geographical areas. (table 5).

So we considered that the subscription of the tree types of catastrophes through PAD



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insurance policies does not belong to the general trend of subscribing risks in general insurance. We can remark significant deviations, so we can note:

- The north-western zone of Romania had in 2010, 9,12% total brute subscribed primes of the whole national subscriptions and 8,6% PAD policies
- The north- eastern zone of Romania had in 2010, 7,36% total brute subscribed primes of the whole national subscriptions and 12,61% PAD policies
- the south-eastern zone of Romania had in 2010, 8,07% total brute subscribed primes of the whole national subscriptions and 19,14% PAD policies
- the southern zone of Romania had in 2010, 8,90% total brute subscribed primes of the

whole national subscriptions and 14,58% PAD policies

- South-Western zone of Romania had in 2010, 4.30% total brute subscribed primes of the whole national subscriptions and 6.17% PAD policies
- the western zone of Romania had in 2010 6.46% total brute subscribed primes of the national total and 10,17% PAD policies
- central Romania had in 2010, 8,47% total brute subscribed primes of the whole national subscriptions and 11,60% PAD policies
- the municipality of Bucharest had in 2010, 46,38% total brute subscribed primes in general insurance of the whole national subscriptions and 26,30% PAD policies

Table 4

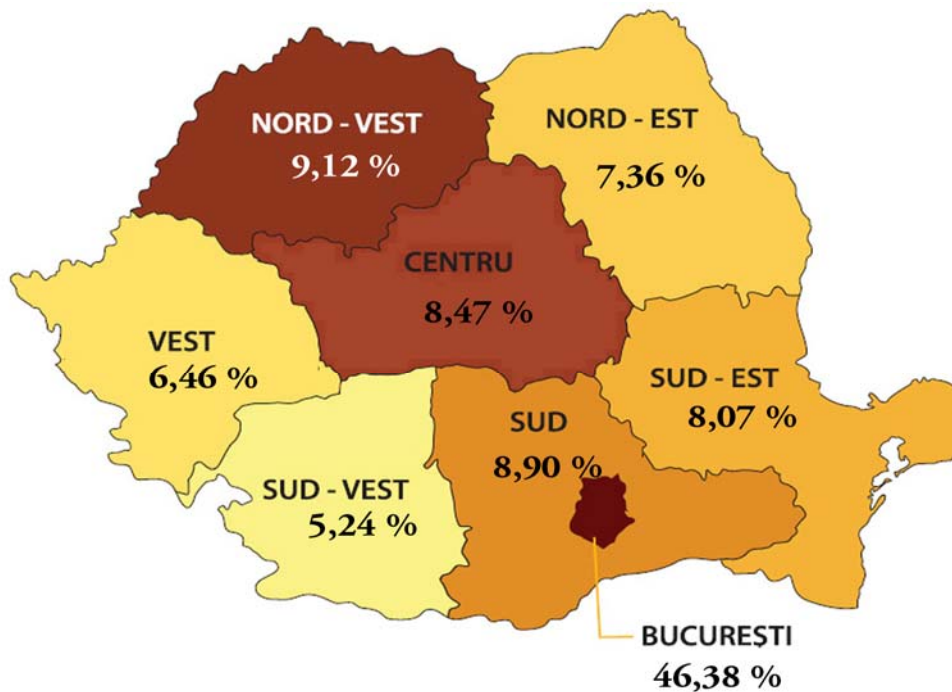
Distribution of general insurance gross written premiums in the geographical areas in Romania during 2006-2010

Year / geographical area	2006	2007	2008	2009	2010*	% PAD policies
North - West	9,02	9,60	8,52	8,86	9,12	8,60
North - Est	6,84	7,12	6,24	6,65	7,36	12,61
South - East	7,81	8,29	7,45	7,44	8,07	19,14
South	8,26	8,47	7,66	8,01	8,90	14,58
South - West	4,74	4,93	4,25	4,54	5,24	6,17
West	6,15	6,69	5,76	5,72	6,46	10,17
Center	8,20	8,64	8,04	7,87	8,47	11,60
Bucharest	48,98	46,26	52,08	50,91	46,38	26,30

Source: Authors' processing of the ISC's annual reports 2006-2009,

* To 2010, estimates based on reports by insurers 31.12.2010 CSA and Media XPRIMM, .

Distribution of general insurance gross written premiums



4. CONCLUSIONS

The data analyzed in Chapters precedentel us to conclude that in 2010 they felt more and preganant economic crisis in the insurance companies and insurance brokers. In 2010 to offer diversified general insurance policy with a new product PAD. If MTPL is mandatory for vehicle owners, insurance policy becomes the second pad required insurance product. This time the PAD insurance is mandatory for owners of buildings used for housing. Found that although it is a compulsory insurance policy has not generated significant volumes in insurance premiums to the insurance market indicators change very much. Companies in the insurance brokering, like other industries, is a great deal of work that was conducted in electronic commerce. Obligation to issue in early 2010, insurance policies against civil liability to electronic trained insurance brokers to issue policies PAD type the same conditions. If in the future will be considered valid electronic document for more insurance policies, this will reduce the costs of issuing and management for both insurers and brokers asigurare. Economia resources in times of crisis will be significant. Access and electronic underwriting insurance policies will lead to changes in the areas of

insurance density geografice. Cresterea gross value of any class of insurance premiums will create new financial resources and risk hedging.

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