

# THE EVOLUTION OF INSURANCE MARKET IN 2006

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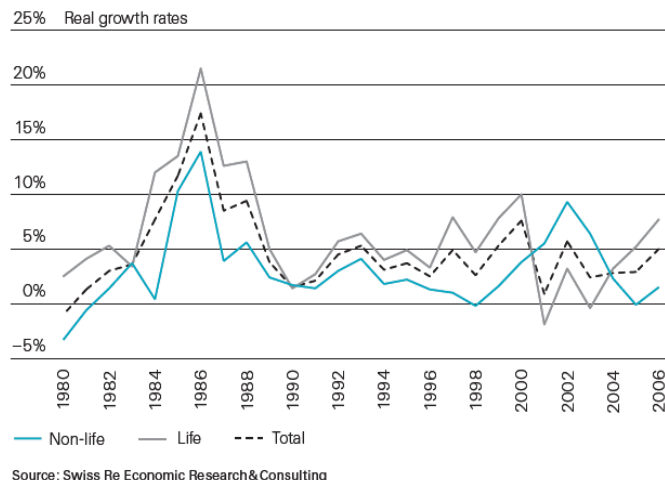
*Abstract: Insurance and reinsurance act is a catalyst for economic growth. A dynamic insurance sector is at the heart of a strong economy. Which explains why the regulatory gaze is increasingly focused on our industry. Worldwide insurance premiums amounted to USD 3 723bn in 2006. This was split into USD 2 209bn in life and USD 1 514bn in non-life insurance. Total premium volume grew by 5%, in real terms, with life premiums increasing by 7.7% and non-life premiums by 1.5%. Profitability improved in both life and non-life insurance in 2006 compared to 2005. The macroeconomic environment during 2006 was characterised by solid economic growth and, in most geographical areas, moderate inflation, rising but still low interest rates and booming stock markets.*

*Key words: insurance, life insurance, Non-life insurance*

The insurance manifests itself as one of the economy and business areas and is used as a possibility of compensating the damages incurred in case of occurrence of the insured case for all the production stages, thus providing for the growers' economic freedom and reducing their dependence on the influence of negative factors. The insurance is a factor of reducing the economic uncertainty and a means of resuming production after a temporary interruption or in the case of goods loss. The analysis of the insurance market highlighted the necessity of applying measures of improving the insurers' activity. Currently, one of the most efficient means of perfecting the insurance activity is the implementation of the marketing methods into the insurer's practice. Such concrete measures can be: the improvement of the company's image, the improvement of the service quality, granting additional services to the insurance holders, (including the insurance agreements into the general insurance policies, depending on the commercial operations), stimulating the conclusion of insurance contracts (including advertisements), adapting the insurance products to the market requirements.

In the developed countries the insurance has an important place in the national economy. The income of the insurance organizations coming from their activity contributes to the gross national product increase. Mention must be mad of the fact that in the developed countries of the Western Europe, USA and Japan the insurance rate in the volume of the GDP is 12-15%.

In 2006, total world premium volume grew by 5% in real terms, up from 2.9% a year before. Both life and non-life markets grew in real terms, although at 7.7% and 1.5%, respectively, the pace of development was somewhat divergent. Figure 1 shows the performance of the markets over the longer term.



**Real growth rates**

In 2006, global premium income amounted to USD 3 723 billion. Life business made up 59% (or USD 2 209bn), up slightly from its 58% share in 2005. The upgrade of Hong Kong, Singapore, Taiwan and South Korea added 5 points to the industrialised countries' share of business, bringing it up to 92%. Growth both in Western, Central and Eastern European life insurance helped Europe gain 1% of market share, while America and Asia lost 0.5% and 0.7%, respectively, on the back of comparatively lower growth in the US life sector and slipping premiums in Japan. However, the South and East Asia region alone gained 0.5%, and Latin America and the Caribbean 0.2%.

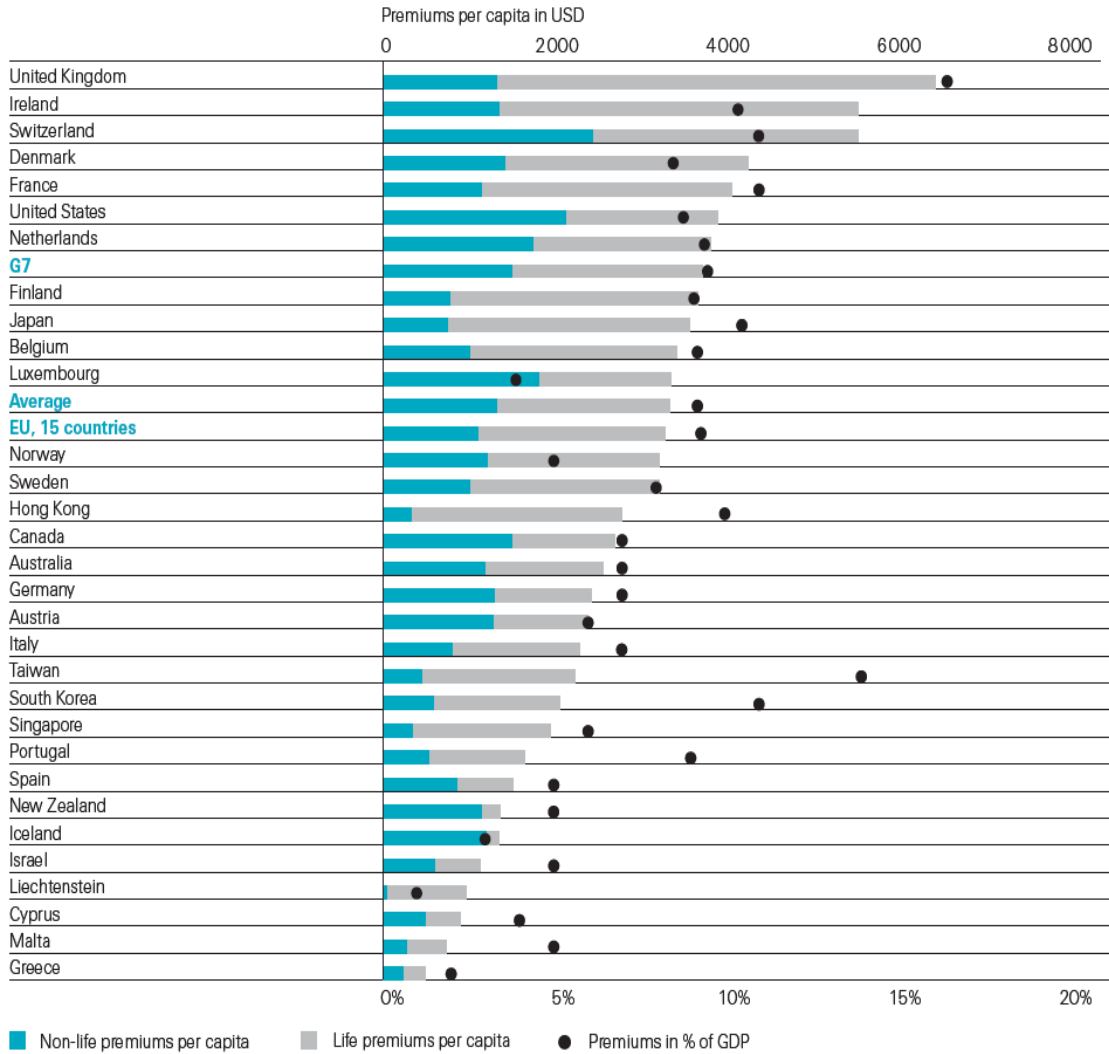
The industrialised countries, which generate 92% of world premiums, saw growth of 4% in real terms, to USD 3 390bn. This is more than 2005's 2.6% and above the 10-year average of 3.4%. Life premium growth drove overall premium level increases in the industrialised world.

In 2006, life insurance premiums in industrialised countries grew by 6.6%, up from 5.1% in 2005 and almost twice the long-term 3.8% growth rate. However, divergent performance was observed from country to country. While positive developments in the largest markets contributed significantly to overall growth, Japan actually saw premiums decline by 2%. Regulatory and fiscal changes drove increases in some industrial countries. The strongest growth was observed in the UK, up 30%, where changes in the pension regulations allowed increased contributions to funds. In contrast, life premiums in Belgium decreased by 21% as a result of the introduction of a new 1.1% tax on individual policies.

Non-life insurance premiums in industrialised countries rose slightly by 0.6% in 2006, having declined by 0.8% in 2005. However, 2006's performance lagged behind the 2.7% 10-year average. After substantial price rises in recent years, good profits have boosted insurance capacity, which in turn has heated up price competition, leading to lower prices and subsequently lower premium growth. Favourable economic conditions resulted in the strongest growth of 8.2% being posted by South Korea, which has only recently joined the category of industrialised countries.

The strongest decline was observed in the Netherlands, down 3.2%, where price competition in the largest lines of business, and in particular in the accident and health business following healthcare reforms, pushed the market down. On a per capita basis, an average of USD 3 362 was spent on insurance in industrialised countries in 2006 (see Figure 11); split into USD 2 026 in life and USD 1 336 in non-life insurance. Insurance penetration, measured as a percentage of GDP, remained unchanged at 9.2%. Life penetration averaged 5.5% and non-life business 3.7%.

**Insurance density and penetration in the industrialised countries in 2006.**



Source: Swiss Re Economic Research&Consulting

In the context of sustainable economic growth and of the expectations regarding the benefits of Romania’s integration into the European Union, the insurance market in Romania showed significant growth of gross written premiums in 2006. Thus, the volume of written premiums reached approximately 1.7 billion euros in 2006, which accounted for an insurance penetration ratio 1.67% compared with 1.54 in the previous year, calculated as a percentage of the Gross Domestic Product, also on the increase. Most written premiums were accounted for by non-life insurance premiums (approximately 80%), especially by auto insurance, which shows that at least in the medium-term life insurance premiums are highly unlikely to account for an increased percentage of total premiums.

The forecasts for 2007 show that gross written premiums for the two categories of insurance business shall increase to approximately 8 billion lei (more than 2.4 billion euros), of which approximately 6.7 billion lei (2 billion euros) shall be accounted for by non-life insurance.

Credit insurance, guarantee insurance, property insurance as well as motor vehicle insurance and travel insurance are forecasted to account for a significant percentage of this amount.

With respect to life insurance, gross written premiums are expected to amount to more than 1.3 billion lei (400 million euros), accounting for 10% real growth compared with 2005, mainly as a result of the development of health insurance.

An insurance penetration ratio higher than 2% was estimated by comparing the estimated volume of gross written premiums for the two categories of insurance business to the estimated GDP for 2007 (390.3 billion lei, according to the Main macroeconomic indicator projections for 2007-2013 calculated by the National Commission of Prognosis in the spring of 2007).

**References:**

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2. [www.google.com](http://www.google.com)