

INSURANCE BROKERAGE IN ROMANIA

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The paper highlights the importance of brokerage on insurance market and shows the evolution of this kind of activity in Romania. A few aspects concerning brokerage activity are taken into consideration, stressing on Romania’s EU accession impact on brokerage as well as on the essential issues allowing a quantitative analysis of insurance brokerage in Romania. The paper lets the reader see a couple of opportunities as well as a couple of constraints brought by Romania’s EU accession to the Romanian brokerage market and the elements momentary braking the development of this activity to its full potential. It also suggests possibilities to support the growth of insurance brokerage.

Keywords: insurance intermediary, insurance broker, insurance agent

Distribution of insurance is handled in a number of ways. The most common is through the use of insurance intermediaries. Insurance intermediaries facilitate the placement and purchase of insurance, and provide services to insurance companies and consumers that complement the insurance placement process. We should emphasize on the intermediary not being and not having to become a party in the insurance contract (2).

Traditionally, insurance intermediaries have been categorized as either insurance agents or insurance brokers. The distinction between the two categories relates to the manner in which they function in the market. Insurance agents are, in general, licensed to conduct business on behalf of insurance companies. Agents represent the insurer in the insurance process and usually operate under the terms of an agency agreement with the insurer. The insurance broker is a specialized intermediary whose main activity consists in offering services based on a reasonable standard of experience and professional abilities. Brokers assist clients in the choice of their insurance by presenting them alternatives in terms of insurers and products. Acting as "agent" for the buyer, brokers usually work with multiple companies to place coverage for their clients. The broker offers advice and he normally signs the insurance contract as the insured’s agent, but he usually gets a part of the fee to by the insurance company (1). A broker acting on consolidating insurance markets is more often asked to inform and protect the client during the process of insurance contracts negotiation. Brokers act for the insured’s interests by actually placing the risks to an insurer.

As far as the presence of insurance intermediation companies in Romania is concerned, the regulations concerning Romanian insurance market was initially extremely vague and insurance intermediation was provided according to Law no. 47/1991 by entrepreneurs – individuals or companies – whose legal status rather blurred. The endorsement of Insurance and Reinsurance Activity Surveillance Office (OSAAR) authorized the setting up of intermediation agencies and it didn’t settle any barriers to the main activity of the companies. According to Law no. 47/1991 the companies acting as intermediation agencies were allowed to get involved in other activities beside insurances. This feature only made the intermediation activity more difficult to be surveyed by that time and it made some of the important objectives of the insurance field almost impossible to be fulfilled. The above mentioned objectives refer to: the difference between brokers and insurance mediators, share holders’ structure, information concerning the mediators’ experience within the field of insurances, registering the intermediation activities to the book accounts, the OSAAR’s gathering of financial papers, intermediation activities analyses and control and so on. Later on, insurance intermediation has been better and clearer regulated by Law No 32/ 2000 and, as consequence, the brokers interested in continuing their activity had to request and get a license from Insurance Surveillance Commission (CSA) according to the law.

A few changes have been made to the law during Romania’s EU accession process and now it stipulates that the insurance intermediation activities are those preliminary activities necessary in order to sign the

insurance-reinsurance contracts and in order to provide assistance in drawing up and managing contracts, especially when damages are involved. When the above-mentioned activities are carried out by an insurer/re-insurer or by one of their employees acting under the insurer's / re-insurer's responsibility, one should not consider them intermediation activities.

Law No 32 /2000 stipulates that insurance agents and brokers are insurance intermediaries. A legal entity may act as an insurance and/or reinsurance broker if Insurance Surveillance Commission (CSA) authorizes it. In order to be authorized by the Insurance Surveillance Commission, the petitioner will bring to the CSA the papers proving it will act under certain conditions:

- it is a legal entity whose name necessarily includes one of the expressions "insurance broker", "insurance/reinsurance broker" or "reinsurance broker";
- it has a paid up registered share capital with a value exceeding a certain limit settled on by CSA regulations;
- it signed a third party liability contract valid through the whole European Community territory and the states within the European Economic Space;
- it only activates as an insurance and/or reinsurance broker;
- it hasn't previously been the subject of bankruptcy nor of a bankruptcy and/or legal reorganization by the date of authorization request;
- shareholders, main shareholders and stakeholders have a clean criminal record as far as patrimony related crimes or crimes defined by financial and fiscal law are concerned;
- its executive manager complies with the requests of the CSA standards concerning education and work experience;
- its name is not putting public opinion on the wrong track.
- An insurance/reinsurance broker is limited by the following restrictions:
- it can't be a main shareholder or stakeholder of an insurer/re-insurer;
- it can't be a shareholder or manager of an insurance and/or reinsurance broker;
- it can't activate by means of insurance agents.

Insurance/reinsurance brokers may collect insurance premium, pay for the damages using the currency stipulated by the insurance/reinsurance contract and issue the insurance/reinsurance papers in the name of their insurer/reinsurer.

Authorized insurance/reinsurance intermediaries may carry out intermediation activities in Romania or in any member state, under the condition of previously informing the CSA.

Emergency Governmental Decision no. 210/2005 altering the law no. 32/2000 has articulated and defined the brokerage assistants and the brokerage mandate. Meanwhile a couple of arrangements have been made in order to stimulate a better intermediation activity. Some of these arrangements referred to:

- requiring an integrated education and training system;
- laying down the compulsoriness of providing a minimal information set to the clients;
- setting up special bank accounts for insurance premiums or damages and protecting these sums against creditors;
- stating the broker's insolvency when the broker does not bring the insurance premiums to the insurer within 30 days later than the date settled by contract terms and the possibility that CSA initiate the procedure of bankruptcy and legal reorganization;
- accomplishing professional training standards of the broker's employees;
- the existence of a Journal of brokerage assistants;
- arrangements made in order to avoid the existence of more brokerage mandates issued by the same client for the same objective;
- the procedure of requesting mutual understanding or of brokerage mandate reversion at client's initiative.

Another opportunity for developing brokerage businesses has occurred due to Emergency Governmental Decision no. 87/2006 which granted the right of insurance / reinsurance brokers to intermediate facultative pensions, according to the specific law in force.

The National Union of Consultancy and Insurance Intermediation Companies in Romania (UNISCAR) was set up by a group of 12 consultancy and insurance intermediation companies as a non-profit organization in September 2000 and this was another essential element for the development of Romanian insurance brokerage. The main purpose of the Union was to support its members to get the public recognition of the insurance consultants' and mediators' activity.

The objectives of the Union refer to:

- a) working together with insurance companies and the authority surveying insurance activity to prepare technical and legal basis within the insurance field;
- b) drawing up the working standard, deontological norms and trying to reach a higher level of quality for the services provided by its members;
- c) supporting its members in the education and training their employees;
- d) supporting the legitimate interests of its members against third parties, including state institutions and mass-media;
- e) developing national and international connections with similar organizations and organisms.

Broker's Ethical Code has been drawn up by UNISCAR in 2001, stating the professional standards and the principles any broker member of the Union has to comply with in his interaction with clients, insurers and other mediators. Another document drawn up by the Union was the Cooperation Protocol between UNISCAR and the National Union of Insurance Reinsurance Companies. The Protocol defines the minimal principles based on which brokers and insurers affiliated to these professional associations will cooperate and it aims to a better collaboration between the two professional categories on the insurance market for clients' benefit. Supporting professional training of insurance intermediaries is another concern of UNISCAR

As far as the importance of insurance brokerage at EU level is concerned, the European Directive concerning insurance intermediation, which came into force on 15 January 2005, highlights this. The fundamental objectives of this directive refer to enabling insurance intermediaries to operate freely throughout the European Union and to enhance the consumer protection. It set up principle of single license based upon notification, but general good requirements and extra information requirements in host country remain applicable.

A quantitative evaluation of Romanian insurance brokerage market is considered below. Thus, the insurance brokers' number evolution between 2001 and 2007 is shown in table no. 1.

Table no.1.
Insurance brokers' number in Romania between 2001 and 2007

Year	2001	2002	2003	2004	2005	2006	2007
Number of brokers	87	150	204	266	317	344	397
UNISCAR's members	18	23	24	28	41	47	73

Source: 2002-2006 Insurance Surveillance Commission's reports; Media Xprimm 2008

A significant decrease in the broker's number due to Law 32/2000 application has to be noticed. When Law 32/2000 came into force there were 817 active so-called brokers, but after the law being put into force, the number of brokers has severely reduced to 87. As their presence on the market was important, the brokers' number increased during 2001 and 2007, meaning a four times growth compared to the first year after the law enforcement. UNISCAR has now 73 members, meaning less than 20% of the total number of active brokers on the market, but they concentrate almost 67% of the incomes registered on the

brokerage market in 2007. In the perspective of the share of intermediated insurance premiums, the situation is quite similar as UNISCAR brokers registering premiums intermediation evaluated at more than 66% of insurance brokerage.

As an effect of Romania's EU accession, a significant number of brokers from European Economic Area (EEA) made public their intention to activate on Romanian market, based on the freedom of establishment right or on the freedom to provide services on the unique license principle. A brief presentation of these brokers according to their origin country and number is made in the table no. 2.

Table no.2

Number of brokers from European Economic Area intending to activate in Romania

No.	Country of origin	Freedom of providing services principle	Freedom of establishment principle
1	Austria	4	
2	Belgia	11	
3	Bulgaria	2	
4	Cipru	1	
5	Danemarca	1	
6	Franta	32	
7	Germania	43	
8	Gibraltar	1	
9	Grecia	3	1
10	Irlanda	8	
11	Italia	6	
12	Liechtenstein	5	
13	Lituania	1	
14	Luxemburg	5	
15	Malta	1	
16	Marea Britanie	378	
17	Olanda	10	
18	Polonia	3	
19	Republica Ceha	6	
20	Slovacia	3	
21	Spania	2	
22	Suedia	4	
23	Ungaria	7	1
Total		537	2

Source: author's calculus based on the data from www.csa-isc.ro

There's an important number of intermediaries from European Economic Area (EES) interested in providing their intermediation services on the Romanian brokerage market, most of them being British (378 brokers out of 537), German (43 brokers) or French (32 brokers).

Romania's EU accession brought a number of opportunities for Romanian brokers, such as: settling a healthy business climate leading to a wider insurance cover, a wider market to activate on, the possibility to accentuate the brokers' role as a consequence of EU brokers' representation, simultaneously with offer diversification. As far as brokers are concerned they are expected not to request, negotiate and sign insurance contracts only, but also to provide other services such as risk evaluation, risk management, control and damage management.

On the other hand, a market concentration trend is expected as well as the emergence of specialized brokers, as an effect of market segmentation. An accentuated competition on the market due to EEA competitors is also expected.

The importance of brokerage on commercial insurance market is highlighted by the paid insurance premiums and the brokers' insurance market share in table no 3.

Table no 3
Brokers' insurance market share
from the perspective of intermediated gross insurance premiums

Year	Gross insurance premiums intermediated (lei)	Nominal growth (%)	Real growth (%)	Gross insurance premiums intermediated (mil. euro)	Nominal growth (%)	Share of direct insurances
2002	172433300	-	-	49,38	-	10,3
2003	288713301	67,43	46,74	70,22	42,20	10,8
2004	665660448	130,56	110,94	167,8	138,96	19,1
2005	855389230	28,50	18,32	232,63	38,64	19,4
2006	1233580000	44,21	37,51	350	50,45	21,5
2007*	2100000000	70,24	59,75	640	82,86	29

* estimated values

Source: author's calculus based on the data from 2002-2006 Insurance Surveillance Commission's reports; Media Xprimm 2008

An analysis of the data in table 3 points to the significant growth of Romanian brokerage, showing that the number of insurance brokers has permanently increased. The same conclusion originates in the growth of values of insurance premium paid up due to brokers comparing to the values of insurance premium paid up due to insurers from 10.3% in 2002 to about 29% in 2007.

Brokers' involvement on private pensions market has been even more significant, as shown by table 4

Table no. 4
Private pensions intermediated by brokers

No.	Specification	Clients' number / percent
1	Clients due to brokers/ mediators	1.265.657
2	Clients validated after four months of direct selling	3.991.032
3	Brokers' and mediators' share	31,7%

Source: www.csspp.ro

One of three insured persons having bought a private pension has signed his / her contract due to an insurance broker, as shown above.

There are also some problems that curb the development of the brokerage activity in Romania. Thus, in Insurance Surveillance Commission (CSA) point of view, the main problems derive from a poor

communication between the Commission and certain brokers, especially when registering changes of headquarters or point of sales to Trade Registry with no CSA notification and endorsement is involved. Other problems are related to a delayed presentation of their financial papers to CSA or to lack of contracts concerning professional third party liability.

Some insurers are also complaining of poor quality intermediation services especially for those services for which they granted special mandates according to Law 32/2000 (article 35) such as: collecting insurance premiums, paying for the damages in insurers' name, using the currency stipulated by the insurance / reinsurance contract, according to the legal regulations in force, and issuing insurance or reinsurance papers in the insurer's or re-insurer's name.

On the other hand, most of the brokers' complaints concern the insurers' hostile attitude determined by their former bad experience with other intermediaries as well as forcing the modification of their existing collaboration contracts and bringing the contracts to even terms for all brokers, under the threat of ceasing the contract if the new contractual terms are not agreed. Other complaints refer to: not validating the brokerage mandate when regularizing damages to be paid based on an insurance contract that have not been intermediated by a broker, insurers breaking their paying damages terms, and a poor professional training of the insurers' representatives in branches, distorted, delayed and even discontinued communication between brokers' and insurers' decision makers. There's also a long period of time between the moment a new insurance product is brought gets to the insurer's portfolio and the moment it is introduced to the broker.

We consider that by solving the above-mentioned problems, the Romanian brokerage market may double within the next three years as in brokers' perspectives.

References:

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