

THE ROMANIAN INSURANCE MARKET AND THE POTENTIAL EFFECTS OF THE CRISIS UPON IT

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The global financial and economic crisis is felt in almost all the companies that operate on the European financial and insurance markets. The European insurance and re-insurance industry would register a significant decrease of the investments and a reduction of certain insurance lines' weight within the portfolio. For the 2009 year, the previous years' increase of the insurance market would be drastically slowed down, the profile industry needing to be characterized by simplicity of the insurance products and a greater transparency. The purpose of this paper is to analyze the strategic facts and the future hypothesis for the crisis' effects upon the Romanian insurance market.

Key-words: life insurance market, non-life insurances, financial-economic crisis

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It is a well-acknowledged fact that the economic sector which is mostly affected by the present financial and economic crisis, and facing serious problems, besides the banking sector, is the insurance market sector. In Romania the contributions to the insurance companies are not guaranteed in case of financial problems as it happens with deposits (through the fund of guaranteed deposits of the banking system). The Romanian insurance companies are mainly owned by the major heavily involved insurers of the worldwide global financial markets that presently find themselves in acute crisis period. Even if their Romanian subsidiaries still work well, in case of occurring problems at the parent company, its subsidiaries will be affected automatically. Unlike for the banking system, in the field of insurance, the liquidation of an insurance policy is a more complex and ponderous process than the liquidation of a bank account. Considering these circumstances, many people waive their insurance contracts and further withdraw money with the rigor losses and place them into a bank deposit, which, at least theoretically, is a safer option than pitching them within an insurance contract.

The Life Insurance Market and the Crisis' Impact

The 2007 growth pace of gross subscribed premiums for life insurances is greater than the growth trend of non-life insurances which is due to the entry of new foreign capital on the life insurance market, the diversification of insurance products related to the demand of the sector, the authorization for companies to engage in the voluntary pension funds (which positively affected the life insurance activity), and the use of modern distribution channels.

Table 1. The evolution of gross subscribed premiums for life insurances

Year	Gross subscribed premiums for life insurances (million lei)	Increase compared to the previous year (%)
2003	619,93	-
2004	746,02	20,34
2005	1.037,99	39,14
2006	1.138,28	9,66
2007	1.449,03	27,30
2008 ⁹⁶	1.750,94	20,83

Source: Authors' processing

During the last six-year period, according to table 1, we may notice that that gross subscribed premiums for life and non-life insurances had an increasing tendency, of about 25% on average from one year to another, except for 2008 where it may already be noticed a decreasing tendency due to the effect of the financial-economic crisis. This effect started to be felt within the last quarter of the year, and it'll be validated by the upcoming annual report of the Insurance Supervising Commission (ISC).

Table 2. Dynamics of gross subscribed premiums for non-life insurance

Year	Gross subscribed premiums for life insurances (million lei)	Increase compared to the previous year (%)
2003	2.053,88	-
2004	2.730,51	32,94
2005	3.379,17	23,76
2006	4.591,00	35,86
2007	5.726,75	24,73
2008	7.099,14	23,96

Source: Authors' processing

A slightly decreasing trend of the non-life insurance market may be observed from table 2, and it's confirmed by the evolution of the total subscribed premiums from table 3. The market will probably continue to grow in 2009 as well, but at a slower pace than the previous years.

Table 3. Dynamics of gross subscribed premiums for life and non-life insurances

Year	Gross subscribed premiums for life insurances (million lei)	Increase compared to the previous year (%)
2003	2.673,81	-
2004	3.476,54	30,02
2005	4.417,16	27,07
2006	5.729,28	29,70
2007	7.175,78	25,25
2008	8.850,08	23,33

⁹⁶ Preliminary results for the 2008 year, published by Insurance Profile, March 2009, year VII – issue 1/2009 (22).

Source: Authors' processing

Still, the life insurance market in Romania is underdeveloped, so this area needs a solid law package, but also a series of tax incentives. The Romanian insurance market is not up to the real needs of the economy, because there are no incentives to encourage the development of this area. However, it is strongly recommended for operators on the insurance market to implement effective support strategies, especially under crisis conditions.

The biggest potential danger occurs in the case of the life insurance segment, since many contracts have already reached maturity. Pensions' market is safe from, because the second pillar of mandatory retirement is ensured by the state and the voluntary pension values are too small. The psychological impact of the crisis was felt starting with October and November 2008, as a total of 14.577 life policies were surrendered, that represents 0.2% of the total issued valid life policies up to September 2008. The surrender values paid by the insurance companies last October sum up to the amount of 26.6 million lei, that is with 80% more than the average for the first nine months of 2008 and with 56% more compared to the similar period in 2007. On the long term, this emotional decision of insured individuals that have decided to surrender their unit-linked policies while in crisis and low yields, might prove to be more expensive than by the contracted maturity time.

The crisis is affecting the profit margins of insurers and hits the life insurance sector, which could only be supported by the state by introducing the *deductibility of premiums*. In Romania, the premiums paid for life insurances are not deductible from taxes, compared with other countries that have benefited from such deductibilities for several years. Although life insurances have existed on the Romanian market for over ten years, so far insurance companies have not managed to obtain tax deductibility of premiums. In contrast, contributions to voluntary private pensions, launched a year and a half ago, have since the very start been deductible from the employee's income tax, and from the employer's profit tax. Starting next year, the deductible sum would double, to reach 400 euros for the employee and the same amount for the employer. Although life insurance is a similarly strong saving instrument to voluntary private pensions, it is still not deductible. The Ministry of Finance, the institution that could change this situation, says the Romanian fiscal system does not allow the introduction of such incentives.

The life insurance market depends upon a large extent of the *credit policies*, as long as the mortgage loans come with the requirement for clients to subscribe life insurances, but insurers also must find new strategies to support business in these circumstances. The Romanian bank credit market has been blocked since last October, and it continues to be blocked for individuals for the first semester of 2009. Still, the un-blocking of credits for legal entities, to be realized in the near future, would confer assurances for the rectifying of the economy.

For the current crisis, whose effects will be felt upon the entire level of the insurance market, the concerns for people's financial safety and the saving and investment tendencies might shadow the life insurances without the full understanding of the benefits of these products. During a financial crisis, the risks related to the individual's life conditions do not decrease, but on the contrary, it is compulsory required to get an increased financial effort for the same degree of incidence. The main purpose of an insurance policy is to cover a risk, therefore the life insurances preserve their usefulness, and more, it's even increased. The life insurance policy is signed on the long term (between 10 and 30 years, maybe more), therefore, its benefits are quantifiable on the long term as well. It is even more important under crisis period for people to sign life insurance policies in order to shelter them and their loved ones.

The Crisis' Impact upon Non-life Insurances

By analysing the losses' frequency evolution for the last period, a constantly increasing trend of it may be noticed. A 50-60% losses' frequency in the *automobile insurance portfolio* of the Romanian insurance market is mainly caused by the insufficient infrastructure, the great number

of cars and the road indiscipline. Despite this, for the current year it's possible to have a reduction in the weight of automobile insurances' subscription, mainly due to the substantial reduction of sales for new automobiles. Moreover, the decrease of automobile insurances may also be caused by the decrease of the number of cars bought through leasing or credit. So the insurers should probably focus upon renewals and fidelities for the existing customers, in order not to register great losses upon this segment.

We studied the evolution of the Romanian insurance market for the cars' segment, and we observe a continuous growth pace of it – the cumulated percentages it represented are as follows: 67.4% of the non-life insurances in 2006, 71.6% in 2007 and 76.3% for the first nine months of 2008. Still, the predictions for 2009 consider only a 70% weight within the non-life insurances.

Altogether, the cars' insurance market registered a 14% increase within the first nine months of 2008, and it's expected to increase with 10% in 2009, taking into account the actual conditions of the economy. *The depreciation of the national currency* also affects the business of the insurance companies because the prices of spare parts and the costs of damages are calculated in euros. Actually all the costs that contribute to damages are more or less related to the euro currency. Despite this, the Romanian insurance market has been dominated by automobile insurances and it'll most likely continue the same trend. It'll still be the most prevalent insurance form mainly because of the cars' vulnerability.

The law on *compulsory house insurance* was recently postponed from entering towards the half of this year. Officials of the ISC have declared that the norms for the compulsory house insurances are being worked upon. The next step would be to consult the insurers for making up The Insurance Pole against Disasters. The compulsory insurance will help people in case of calamities, but this must be supplemented by optional insurances. So, besides the effects of the worldwide financial crisis, the numerous Romanian laws' modifications for the non-life insurance domain (The Compulsory House Insurance Law, the friendly agreements, the electronic issuance of Motor Third Part Liability Insurance policies, etc.) will adjust the evolution of the market.

Conclusions/ critical points

Regarding the evolution of future sales of the insurance market and particularly for the life insurance segment, in the context of current economic turmoil, there are some different opinions:

-there are supporters of an extreme assumption that anticipates a spectacular evolution if not a boom of sales in this industry, from the population's increasing need for safety. It's considered that this period is adequate for investments of this type, and people will continue to buy such products. Despite the potential regress of the profile industry, *four new profile companies* applied for authorization from ISC (BRD Asigurări de Viață, Credit Europe Life Asigurări, Ergo Asigurări de Viață și Uniqa Asigurări de Viață), and currently are waiting to start operating in the life insurance domain.

-at the other extreme there are the supporters of the idea that the evolution of sales within the industry will drop drastically, because of the customers' lack of trust in insurance products, mistrust manifested by the recent major surrenders of policies.

Our opinion is that the insurance policies' sales will maintain a growing trend in 2009, but a lower one compared to the previous growth paces. The insurers' orientation towards the corporate potential clients will no longer be an advantage for the following period because their budgets are under strong restraints. For a sustainable growth, the actors of the insurance market will have to generate new business through creating products that are adapted to the actual needs, still focusing upon the existing portfolio, mainly on traditional life-insurance products, and not unit-linked ones. The insurance companies should focus to maintaining their existing customers and would only be able to attract new ones by adopting a more flexible policy in fixing the

premiums, the relationship with customers and by creating products that adapt to the real needs of their clients.

Another management strategy for minimising the crisis' impact upon the insurance domain could be to maintain a transparent relationship with the client in order for him to have the clear financial picture of the effort made and of the safety benefit gained during the insurance covered period. For the financial crisis' management of insurers, the profit and staff management are crucial, as well as the transition from extensive growth to optimal management.

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