

ROMANIAN INSURANCE MARKET- BENEFITS AND COSTS AFTER EU ACCESSION

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The Romanian insurance market relaunched itself after 1991, when the state monopoly became obsolete and was eliminated after 40 years. Since then, the Romanian insurance market recorded a constant growth that could be summarized as follows: in 1997 there were 47 insurance companies that cashed in a total volume of premiums of 167.7 million EUR, in 2000, there were 73 insurers that recorded a total volume of 337.79 million EUR and in 2007 there were 42 insurers that succeeded in a total volume of written premiums of 2.15 billion EUR (based on preliminary data of the market). The continuous improvement in terms of total volume of premiums, of insurance density and insurance penetration (as amount of EUR paid, per capita, on average/year) come to support the idea of growing importance of this activity sector.

The accession to EU brought about both benefits and costs for the insurance market. As the market became more sophisticated (the consumers became more informed and demanding), the offer became more stable, the concentration of the market began to reduce itself as a response to the European insurers that entered our market. New products were launched on the national market, supported by similar products offered on the European market; new services occurred for the consumers (risk consultancy, claims adjusting etc.); better transparency was recorded, due to supplementary requirements of the supervisory authority, as the insurance companies offered more information about their financial position for the consumers. Other benefits refer to an improvement of the underwriting conditions and even the contractual relations with the international market (the reinsurers) that resulted in smaller levels of the insurance premiums.

The most part of the costs incurred by this process of the EU accession refer to supplementary legal requirements introduced by the authority for the insurance companies (the capital requirements, the reserves, the safety fund); the introduction of new job positions that have to have a special background (such as actuaries, brokers, risk managers); training costs with several professions (risk managers, claims adjusters, underwriter, actuary).

The paper intends to make an analysis the main benefits and costs of EU accession and, based on similar experiences of national markets, to see whether or not this process will have a positive/ negative influence on the development of Romanian insurance market.

Keywords: underwriting, penetration degree, capital requirement

The process of accession and then later on of integrating in the European Union of any country brings about changes in the way in which the national markets / industries are coping with the principles of free circulation of capital and services.

The Romanian insurance market makes no difference in this regard and January 2007 meant more than just a new year for the insurance industry, considering the new set of regulations that became active with this date and together with it the new opportunities and threats for the Romanian players (insurance companies and intermediaries) and also for the end-user of insurance products.

Just like in the other CEE countries that have joined the EU, shortly after our acceptance in the EU space ,the notification race started. European insurance companies, either important or not, have announced their intention of operating on the Romanian market.

The Romanian market steps up into a “commercial paradox” – the growing interest of foreign players for collecting a relatively low volume of premiums, accompanied by considerable costs and a huge organizational effort. Interesting enough, any European insurer that intends to enter the Romanian market must meet the requirements of the insurance supervisory authority. The paradox arises from the simple fact that the supervisory authority is confronted with notifications from foreign companies, whose activity cannot be controlled by the Commission as stipulated in the local regulation. Thus, the authorization process of the insurers is being avoided, giving an advantage to the European insurance companies.

Romanian insurance market

In 1991, the state monopoly ended. ADAS, former state owned insurance organization, was transformed in three private insurance companies. After 1991, the Romanian insurance market registered a continuous growth, even if smaller in the decade of 90s, in terms of gross premiums subscribed, number of insurance companies, number of insurance intermediaries, insurance density and insurance penetration.

The beginning of “the new era” for the Romanian market represents the year 2000 when the law concerning the supervision of the insurance market was implemented, and the Insurance Supervisory Commission was set up, better improvements have been registered.

The continuous trend of increase of the Romanian market may be summarized in the following table¹:

		2000	2001	2002	2003	2004	2005	2006
GDP	Mil USD	36700	39710	45900	57207	73200	98491	117522
Population	Thousands inhabitants	22431	22400	21698	22272	22356	21734	21584
Number of insurers		70	47	45	40	40	39	41
Volume of subscribed premiums	Mil USD	311	344	500	610	1051	1508	1970
Penetration degree	% GDP	0,85	0,87	1,09	1,06	1,44	1,55	1,65
Insurance density	USD/capita	13,85	15,38	22,95	37,51	47,01	68,4	91,27

Concerning the last three years...

In 2006, the total volume of insurance premiums reached 1.62 billion euro, a nominal increase of 23.68% compared to 2005 when the volume of premiums recorded 1.21 billion euro², being the second year in which the threshold of 1 billion euro was overpassed.

¹ Based on data from Annual Reports issued by Insurance Supervisory Commission

41 insurance companies brought about an average growth of the insurance market of 23.68%, more than in 2005, when the growth was only 17.01%.

In 2006, the insurance density recorded an increased level of 74.63 euro/ inhabitant as compared to 56.10 euro/inhabitant in 2005³. Of course, the biggest density was recorded in Bucharest, where, on average, a persons spends 394.19 euro (as compared to 281,23 euro in 2005)⁴. The average density computed without taking into consideration Bucharest reached a “staggering” level of 39 euro/inhabitant.

The insurance penetration increased also, due to the development of the market and its general growth ratio – it reached 1.67% (percentage in national GDP) as compared to 1.54% in 2005.

The weight of general insurance represented 80.1% in total volume of insurance premiums (after 75.6% in 2005), continuing the trend of the Romanian population being focused less on the life insurance.

In 2007, 42 insurance companies centralized a total volume of gross written premiums of 2.15 billion Euro with a nominal increase of 25.07% compared to the level of 2006⁵. As structure, 79.9% of the total premiums was generated by the general insurance (an increase of 24.73% in the volume of premiums subscribed compared to 2006), whereas the life insurance brought about only 20.1% (a more accentuated increase -related to the increase in the general insurance - of 26.46% compared to 2006).

The insurance penetration for 2007⁶ was of 1.84%, an improvement as compared to the 1.67% registered in 2006. As far as the average insurance premiums paid by a Romanian is concerned, this ratio (the insurance density) recorded a level of 333 lei/inhabitant (compared to 266 lei / inhabitant in 2006).

Analyzing the distribution of subscribed premiums over the Romanian territory, in 2007, 44.76% of the total was generated by Bucharest, followed by Northern-West part (9.74%), South-East (9.08%) and South part (8.62%). The insurance density in Bucharest reached in 2007 the level of 1440 lei (432.3 Euro)/ inhabitant, all the other regions being under the national average, showing the development potential of the regions (between 140 lei/ inhabitant and 255 lei/ inhabitant)⁷.

The main types of general insurance required by the market in 2007 were the motor insurance (including the third party liability) – 72,1% and property insurance (11.3%)⁸.

The paid claims represented 3.35 billion lei, an increased level with 27.71% compared to the previous period, from which 94.6% were paid for general insurance (especially motor insurance) and only 5.4% for life insurance⁹.

What comes in the following years?

The amount of GDP/capita is expected to raise with more than 10% this year (from 5,600 euro/capita in 2007, to 6,200 euro/capita in 2008) after its outstanding over 100% raise between 2004 and 2007¹⁰.

² Insurance Supervisory Commission: Annual Report 2005, June 2006, Bucharest

³ Insurance Supervisory Commission: Annual Report 2006, June 2007, Bucharest

⁴ Rosca Alex: Profil territorial: Romania 2006. XPRIMM insurance & reinsurance. pg.18, Nr.1/2008, Bucharest

⁵ **: Evolutia pietei de asigurari in 2007. Buletin Informativ .pg.6, Nr.1, March 2008, Bucharest

⁶ Based on an estimation of national GDP of 390.3 billion lei in 2007 according to National Institute of Statistics.

⁷ Idem 5.

⁸ Idem 5.

⁹ Hodorog Andreea: CSA: Piata asigurarilor s-ar putea tripla pana in 2017, la 7,5 mld. Euro. Daily Business, March 2008, Bucharest.

The average wages registered in 2007 a real year/year growth of approximately 22%¹¹ and the “hot” labor market lives up to strong expectations for the following years – in short, there is a real potential for Romanians to spend for insurance substantially more than then present 100 euro/capita.

The overall growth rate of the market kept an over 30% pace in the past years and continues to maintain this trend; more than that, life insurance seems to gain momentum, as the growth rate in this field excelled the market average.

Although one can say the motor lines, weighting more than 60% of the non-life market portfolio, should probably have little room for growth, they still register the highest dynamic in the market (over 40% nominal growth) and, considering the current car sales statistics, the time for flat growth curves has not come yet.

Moreover, the volume of gross written premiums is expected to reach 7.5 billion Euro in 2017¹², as compared to the 2.15 billion in 2007, taking into consideration an average growth of 13-15%.

Harmonization of the Romanian legislation

The preparation for the EU accession generated a series of legislative changes in order to harmonize the national legislation with the *acquis communautaire*. But the consequences for the market could be quantified almost a year after - the opportunities generated by the new compulsory professional liability insurance. In the same regard, the introduction of new compulsory insurance products is seen as a positive result of the EU accession.

New regulations were adopted, changing the knowledge which the client had about certain types of insurance (eg. health insurances, household insurance). The health insurance is no longer compulsory for journeys abroad.

Several modification were brought to the fundamental legal provisions on the Romanian market – Law 136/ 1995 concerning the insurance and reinsurance business and Law no. 32/ 2000 regarding the insurance companies and insurance supervision (completed and amended by Law 76/2003, Law 172/ 2004, Law 403/2004, Law 503/2004, Government Ordinance 61/2005 and Law 283/2005 as well as Law 113/2006).

For example, the insurance brokers have completed their tasks with permanent consultancy offered to their clients during the insurance contract; they have to prove their professional formation and specific educational background. Moreover, Law 201/2005 brings about new intermediaries on the Romanian market: subagents, subordinated insurance agent, assistant broker, brokerage mandate.

According to subsequent Norms issued by the Insurance Supervisory Commission, more transparency is required concerning the data that must be offered by the insurance agents to their clients (information that can be found also in the ledger of insurance agents that any insurer must own – a copy being submitted for centralization to the Insurance Supervisory Commission).

Actuaries have been introduced in Law 32/2000 and subsequent Norms regulated the framework in which a person can perform on the Romanian market having this position

¹⁰ Ghetu Daniela: An inviting market to be. Insurance Profile 3/2008, Bucharest

¹¹ According to data released by National Institute of Statistics

¹² Hodorog Andreea: CSA: Piata asigurarilor s-ar putea tripla pana in 2017, la 7,5 mld. Euro. Daily Business, March 2008, Bucharest.

(transparency required again the creation of a national Register of actuaries, which can be consulted on www.csa-isc.ro).

Actually, the process of aligning to specific regulations of the insurance industry (such as the financial informative reports, the solvency calculus and the specific requirements for some types of insurance) may generate problems adapting the post-accession requirements for some of the market players.

The process of implementing provisions concerning the prudential supervision of insurance activity (together with the Solvency II projects) brought about significant changes – some insurers closed business, others merged in order to fulfill the new requirements of capital and solvency ratio.

Together with EU accession, the Romanian insurance industry received technical and financial assistance for increasing the operational capacity and the institutional ability of the Insurance Supervisory Commission. Several PHARE programs (1998; 2002; 2005 and 2006) were implemented on the Romanian market, all of them having as main objective the improvement in the transparency of the insurance activity, the increase in the quality of services provided (by extensive training offered to personnel working in this field).

Effects and costs of EU accession

The EU accession and later on the EU integration represents (will stress) a guarantee for multinational investors and clients in what regards the fulfillment of European principles. Romania is part of a market with larger horizons, offering more opportunities, governed by laws of free competition which are regulated by European principles.

All of these can only lead to growth, stability and professionalism, which translates to increased benefits, and larger portfolios of clients.

It is obvious that the insurance industry had gone through a series of transformations in order to be prepared for the European community, nevertheless the major changes started only after Romania entered EU. The increasing competition in the industry will lead to better insurance brokerage services as well; the companies that will not align themselves to this trend will disappear.

One of the many winners from the tens of companies that have notified the Insurance Supervisory Commission in order to offer their services in Romania are insurance brokers because many European insurance companies will use their services, thus avoiding the significant costs involved in having a territorial network.

The brokers will also gain because of the integration as there will be more opportunities in the general economic field; the risk consultancy will play an important role; estimators are already showing an increase in their activity.

The growing importance of the insurance brokers will be backed up by the growth in the service quality. Thus the brokers will evolve from a distribution channel and intermediary between the insurer and client level to a consultant level that will offer complex risk management services for the clients.

The brokerage market can brag about the fact that the international players were on the local market since the very beginning; still there are a lot of brokers that have not notified the Insurance Supervisory Commission, but intend to enter the market in the following period.

On the long run, as a result of EU accession, impressive post-accession funds will be allocated for different fields. The projects financed this way will certainly have an insurance

component to them, especially if we are talking about investments in agriculture or infrastructure.

Together with EU accession, a better transfer of know-how took place – specialists from EU became involved in insurance companies or worked with the Insurance Supervisory Commission in order to “import” new insurance products from countries with long history and experience.

Moreover, the reinsurance programs improved - being part of the European market brought about advantages in reinsurance terms and conditions; a loosen in the restrictions required by the reinsurers from the Romanian companies and also a reduction of 5-20% in the reinsurance premiums for property insurance (such as the reductions offered by Munich Re or HANNOVER Re).

Last but not least, the significant financial transactions that took place on the Romanian market (ARDAF, BT, RAI and ASIBAN) generated impressive inflows for the insurance market and will have positive effects on the capitalization of the industry on the medium term.

Nevertheless, the EU accession meant also negative effects for the local market.

One of these effects refers to the increased degree of concentration on the market – the first ten Romanian insurance companies seized more than 90% of the market in 2000 whereas in 2006, they succeeded in obtaining more than 97%. Any change in the price or portfolio of one of these ten companies will have a significant impact on the entire market. Moreover, if in 2000 there were 70 insurers, in 2007, this number decrease to 42, after several mergers and acquisitions that took place during the period of 2000-2006 and certain insurers disappeared from the market.

In 2006, the weigh of the foreign capital on the Romanian insurance market was 62% and the local players were a rare sight, at least in the Top 10¹³, this weight is expected to increase even more, based on the large set of acquisitions and mergers.

2007 continued the process of acquisitions and mergers started in 2005, with big European insurance groups taking over local players - eg. the Czech investment group PPF Investments took over shares of RAI and ARDAF; the Austrian group VIENNA Insurance Group enhanced its participation on the Romanian market with ASIROM and AGRAS; EUROHOLD financial group took over ASITRANS company; UNIQUA strengthened its participation in ASTRA, becoming main shareholder; the Greek company Ethniki decided to merge by absorption two Romanian companies GARANTA and NBG Insurance ; Group AMA took over BT Asigurari, OTP Garantia and ASIBAN (the latest two in 2008).

One of the important conditions imposed on the Romanian insurance industry regarding the basic requirements for the solvency criteria referred to the increase of the social capitals of the insurers. As a result of these conditions imposed by the Insurance Supervisory Commission, the social capital was increased by all the existing insurance companies, less 6 companies that were unable to succeeded in this endeavor and thus, their activities were terminated (ABG Insurance S.A.;Mediterranea Assicurazioni S.A. ;Mondial Assurances S.A. ; Nationala Companie de Asigurari si Reasigurari S.A. ;Omniasig Addenda S.A. ;Provitas S.A.)

The Romanian insurers are experiencing larger operational and administrative costs due to the structure of management and also due to functional structures (the organizational chart ‘s

¹³ Ciuncan Alexandru: A rising star on the European map. XPRIMM insurance & reinsurance, pg.46. Nr.1/2008, Bucharest

changes) in which new positions / departments had to be introduced (actuaries, risk managers a.s.o.) claiming supplementary costs with training and higher salary expenses.

As for many other industries, one of the accession's implications will be the growth of premiums, to the "joy" of the final consumers. And according to specialists, the insurance is no exception in this matter. The prices on the European insurance market are a lot bigger than the Romanian average. For example, auto hull insurance should be three times more expensive, if we take into consideration the claims ratio is 60% in Romania, compared to the less than 25% in Western Europe. Another example refers to the increase in the premiums due to the increase in the coverage limits (as in the case of motor third party liability insurance)

A better claims settlement procedure (requested and imposed by growing competition after EU accession) brought about also an increase in the requirements of the end-user of insurance products and also an increase in the overall costs for the Romanian insurers.

For the moment we cannot talk about the EU integration but moreover about EU accession. The difference resides in the following fact: there is a significant gap between the European theory and the Romanian actual situation on the insurance market as there is a significant difference between the European claims ratio and the Romanian premium price level, between the western know-how and the Romanian knowledge.

The market is expected to become more technical, as a result of latest changes in the regulation governing the market on the daily activity. Moreover, the reports that have to be submitted to the Insurance Supervisory Commission and offered to the public will complicate the activity of the insurers.

The Romanians pay less for property insurance, considering that our country is one of the most prone to natural disasters and such an event is bound to severely disturb the household insurance prices.

Conclusions

For the time being, no one can estimate precisely the actual effects of EU accession on the Romanian insurance market. There is no clear estimate of the number of European insurers that will enter our market in the following period and thus no chance of quantifying the consequences that the local companies would have to overcome.

Nevertheless a market with 22 million persons and significant growth potential is bound to attract any insurer interested in developing its markets.

The pressure of the competition caused by the free market access and the entrance of numerous European insurance companies on the Romanian market will definitely determine significant mergers, alliances of the local players but also will improve the price-quality ratio of services offered to the Romanian clients (insureds).

Any improvement process has its own costs – bigger in the beginnings and slowly decreasing – the insurance industry makes no difference : innovation must be developed with high investments for the part of the insurers and brokers; the benefit-cost ratio will evolve to a positive result only a few years later when threshold will be achieved and surpassed.

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