

## MARKET TRENDS IN LIFE INSURANCE IN 2015 ROMANIA

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### Abstract

*In 2015 even the largest life insurer in Europe failed to impose on the market in Romania, despite major investments made. Axis bold plans were far from being achieved when announcing that local operations sold by Astra Insurance. They entered the local market in 2010 with the clear objective to become a leader in the medium and left after just three years, leaving behind a company with a market share of about 2%. The departure of the French, who managed to impose in dozens of other states, can be interpreted as a signal meant to remind us of a market problems atypical, deformed, dependent and, more recently, ground of premature redemptions made by customers scared crisis.*

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Everyone needs protection, whether we consider the natural or legal persons. During a lifetime accumulating a number of goods, values, acquired it with sorrow, that can disappear in an instant by a fire, an earthquake, a theft or any other reason. Resulting financial loss can not be compensated in some other way than through insurance. Loans for buying a home, providing additional income for retirement period can be achieved also by insurance. Life As It comes also from an absolute need

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of each offering financial protection of family dependents or those close to the death of the insured person, along with other benefits that insurers can offer - savings, pensions, investments and more.

As legal entities, insurance needs are similar to those of individuals, but I suppose a size naturally higher. Along with property insurance, loss of profit, credits, they manifest as a result of legal entity liability which has for its employees (pension, health, accident).

Awareness and manifestation of the need for protection of man, as the decision to buy insurance as an individual and voluntary approach, are largely determined by objective factors - economic, financial readiness to use some of the revenue for this) social, familial, educational - and subjective factors - previous experiences, knowledge advantages offered by insurance protection.

The variety and diversity of insurance products depend on the maturity of the market sector, customers. There are markets where insurance companies offer 80 products and even more for life insurance; providing customers with protective benefits in a wide variety. They take into account the possible needs and desires of our customers, but also the ability of insurers to predict or identify some specific needs.

At the same time, all these benefits depend not only on individual private insurers but also the existence of a healthy insurance market, strict regulation that does not allow the operation of non-professional companies whose failures affect customers' trust and wholly overall market performance.

Insurance:

- Participates in increasing gross domestic product;
- Provides employment to a large number of people, which achieves a higher labor productivity than the economy;
- Participating in the offer equity loan financial market financial resources they make available to banks, businesses or public authorities;
- By which those insured indemnity or compensation received by the injured person contributes to the restoration of property damaged or destroyed by the risks insured and, thereby, accelerate the resumption of production.

The capital market placements, insurance companies contribute to the development of credit and financing economic projects, making an important contribution to the achievement of extended reproduction.

Financial resources attracted in the economic cycle through insurance companies they are recycled and be oriented towards increasing productive capital of the Company (directly or by means of money) or cover the budget deficit in the central government or local government. In both cases, the flows of financial resources, which range from insurance companies to various beneficiaries, not increase money supply in circulation (phenomenon that under certain conditions as generating inflation), but only redistribute, avoiding the call to show money to finance the budget deficit.

The insurance market is a market segment with a twofold purpose: on the one hand protect the general interest of removing material damage due to the risks posed and, on the other hand carrying on economic principles of special economic activities, social events, provision of work of insurance. Obvious, like any other market and insurance market is characterized by two types of market application and demand.

Since 1991, in Romania insurance companies, insurance and reinsurance companies and reinsurance companies operating insurance but are negotiating brokerage firms and insurance and reinsurance contracts or provides other services for companies mentioned above. These companies may state capital, private or mixed, and foreign legal entities in Romania that will be the insurance companies with foreign capital can not do this, but in combination with natural or legal persons of Roman origin. They can only establish representative offices in our country.

Homogeneity of products. Insurance market sold many types of products or services, is insurance against more risks. Competition in the insurance market is between companies with the same profile that sell the same type of product, is out insurance against the same risk. Since 1991, under the law, are ten categories of insurance that insurance companies can practice in our country: life, people, other than life, automotive, marine and transport, aviation, fire and other damage to property, liability, credit and suretyship, financial loss risks associated farm.

Market transparency. Natural and legal persons unfamiliar with insurance issues do not realize the advantages of an insurance contract. Thus they must address a security consultant in order to take the best decision in order to conclude an insurance contract.

Atomization market. For a market to be atomized, it must meet a large number of bidders and applicants because they do not take place between the influences that have impact the functioning of the market.

Freedom of input-output and bidders on the market. The market is the place where anyone can come wishes to sell or buy something and remain there as long as it has an interest in a fact. In this case the market is constantly changing and is supervised by a specialized body functioning under the Ministry of Finance. This body is called the Insurance Supervisory Commission established in 2000 which took office Office Supervision of insurance and reinsurance. This body was later transformed into the FSA. Financial Supervisory Authority (FSA) contribute to strengthening the integrated framework of operation and supervision of non-bank financial markets, participants and operations in these markets and aims to:

- stability, competitiveness and proper functioning of financial instruments markets, promote confidence in these markets and investments in financial instruments and to ensure protection of operators and investors against unfair, abusive and fraudulent;
- promote stability of the insurance and defend the rights holders;
- ensuring the effective functioning of the private pension system and protecting the interests of participants and beneficiaries.

ASF is the competent authority at national level for implementation and monitoring compliance with applicable laws issued direct to the European Union in the fields covered by this legislation, as well as for transposition into national law and implementation of those provisions issued by the EU Council, Parliament EU, European Commission and other European authorities.

ASF is the only national authority for the representation of national interests in the International Organization of Securities Commissions - IOSCO, the European Securities and Markets Authority - ESMA, European Supervisory Authority for Insurance and Occupational Pensions Authority - EIOPA and the International Association of Insurance Supervisors - IAIS, the member international law to those authorities, under applicable international law. "As far based Establishment Ordinance no.94 / 2013 amending and supplementing Government Emergency Ordinance no.93 / 2012 on the establishment, organization and functioning of the ASF, and to amend Law no.136 / 1995 on insurance and reinsurance.

Regarding the structure of the insurance sector in Romania since 2006 continued to change, mainly due to the expiration of the two terms of social capital adequacy of insurance to the new requirements set by the Insurance Supervisory Commission legislation issued. Thus for inadequate capital in 2006 were withdrawn licenses for the operation of six insurance companies (one of which was later reauthorized by fulfilling the requirements), and other four companies were withdrawn authorizations of work of life insurance.

Amid strengthening existing market and potential policyholders in 2006 were inflows were recorded and insurers we are also authorized to operate three companies, two in life insurance and one in the field of insurance. Therefore, on 31.12.2006 were authorized to conduct insurance business in accordance with the legal provisions in force, 41 insurance companies. Of these, in 2006, 40 companies have conducted business, of which 21 insurance companies conducted insurance business only 8 companies carried only life insurance business and 11 companies carried out composite, practicing both insurance.

In the context of continuing economic growth and expectations regarding the benefits of Romania's accession to the European Union, the insurance market in Romania and in 2006 recorded a significant growth rate of gross written premiums. The gross premiums written in 2006 reached the level of about 1.7 billion euro, which made by comparing their GDP to reach a level of 1.67% compared to 1.54% in the previous year .

Given that, from 1 January 2007 Romania became a member state of the European Union, the application of single market principles on the free movement of services and establishment has led to increased competition in the insurance field. Increased competition was felt in the medium term, for which the period immediately following the major challenges for insurers arising from the typical structure of the Romanian market were the dominant auto insurance.

Trends for 2015 in insurance market

#### 1. Market concentration brokerage and the insurance

The tendency of concentration of the insurance market is supported by the fact that , at EU level , it implements programs to better market regulation , such as the directive on insurance intermediaries ( IMD) and Solvency II regulatory regime and supervision aimed at companies insurance . IMD impose stricter rules for market players

brokerage and Solvency II involves implementing new solvency and capital standards , affecting especially the companies last places of the ranking .

#### 2. Technology transform the insurance market

If until recently the insurance brokers were those who have successfully adapted to new technologies , developing in this regard , and insurers have begun to invest in systems that we streamline operations , focusing especially on distribution channels but the management and damage files . Furthermore, the data collected can be recovered and analyzed to better predictability of damage . Such progress can be registered by the required profitability of this market.

#### 3. Investments

The insurance market is closely related to the investments . Experts estimate that the new year will bring increases in foreign investment and public and greater access to grants. This means recovery of certain segments, such as construction and real estate website , which will lead to the start or the materialization of projects and therefore a positive impact on the insurance market .

#### 4. Regulation market

Increasing loss ratio on certain lines , such as RCA , have led to tighter regulation of the insurance market and will mean continuing process which seeks recovery of this market.

#### 5. Adaptation of international insurance products

With the development of companies grow and their need for more sophisticated insurance products. Thus, international insurance products, markets mature, begin to be taken and locally adapted to the requirements of companies in Romania, as was the case of a new product CMR for carriers, created by MARSH MARSH Romania with Belgium. "Often, as in other markets, consumers are pushing developing products to meet their needs as well," explained Cristian FUGACIU, CEO, MARSH Romania.

#### 6. Agricultural insurance

Agricultural insurance is on an uptrend, especially given that agriculture in Romania is heavily dependent on weather and hail, freezing temperatures, rain or drought can strongly affect the sector. We see positive signals regarding crop insurance and the small farmers who are beginning to understand the role they can have an insurance product.

#### 7. Benefits for employees

Health insurance were and still remain in the top benefits of company employees to meet their expectations, because of labor market competitiveness in certain segments and practices of large employers, and to increase efficiency through employee

satisfaction. All under the umbrella of benefits, voluntary private pensions begin to be appreciated by employees, in view of the increasing need for saving

#### 8. Price

In recent years, the price has become increasingly important in deciding insurance and it seems that this trend will continue. But this means mostly a product that is not enough coating and does not correspond to the real risks that may hit the company. "Even if a lower price can be attractive, a broker, as a consultant, clients always explain the significance of value - price and guide them in choosing the product that corresponds indeed their business needs," added Cristian FUGACIU.

#### 9. Political risk

The intensification of geopolitical tensions, separatist movements and lower oil prices worsen the political risk and lead to its positioning among the risks closely followed by most companies. In the region, Moldova, Ukraine and Serbia are considered high political risk. Political risk is joined terrorist attacks that increase business potential as a company to be affected.

#### 10. The risk of cyber

In light of cyber attacks that have occurred lately, including in Romania, and given the risk of cyber is considered a risk with a high probability of occurring, especially in the context in which increasingly more aspects of life are dependent on the internet, observers and the country as a first step, a growing interest in understanding this risk.

Now the structure of the insurance market in Romania is not stable. Compared to other markets in Central and Eastern Europe, Romania has a low concentration of insurance.

The insurance market in Romania (gross written premiums) reached in the first quarter of 2014, a level of 2,05 billion, a decrease of 3.43% compared to the same period last year, according to data reported by the Surveillance Financial. The value of gross premiums written (PBS) in January-March 2014, representing 1.26% of Gross Domestic Product (GDP) estimated by the INS for the first quarter of this year.

With the liberalization of services increased competition and the level of professionalism that directly affect both insurance companies and customers, transposition of European directives into Romanian legislation causing higher standards for agencies and companies increased transparency to customers because they know what they are buying .

The increased number of Romanian insurance market. Private pensions have a beneficial impact on insurance and has increased the volume of their work and pensions market has greatly expanded after insurance companies were involved in this activity.

Romanians generally are not used to secure life, but in the future will change this mentality. One of the factors that will determine to purchase life insurance will be pressure on the social system caused by labor outflow. Thus the Romanians would be more responsible in terms of planning financial. They will also learn to no longer rely on moral and material support of families and take care of them alone.

Another factor that might cause the Romanian to buy life insurance will be changing the mentality of parents and willingness to invest in their children's future. Insurance companies will strive to educate the market by advertising campaigns for educational and repositioning financial products addressed the need for protection. Thus insurers will guide and low-income customers and try to sell products not only by their own agents but also by banks and insurance brokers.

In conclusion experts are unanimous in thinking characterize most Romanians smothered as one type, namely "My fate is in the hands of God" .This is valid in terms of financial protection. Typical attitudes towards life insurance, as well as results from a study by LIGHTHOUSE research Company are as follows: "Now I have other priorities", "still", "may be an idea" and "It's for me ... but who pays ".On the first attitude, LIGHTHOUSE company claims that this consists of young people aged between 25 and 35 who believes that" death is an event unlikely at this age ".Category" I do not "includes people aged between 45 and 55 years for the idea of such insurance seems to be synonymous with acceptance the death .The third category consists of people aged between 35 and 45 years with a financial education over average and a comfortable income, basically holding an insurance policy investment. The last component of the four attitudes include people aged between 30 and 55 years, operating in this case with dangerous conditions, but the task of contracting insurance is rather seen as belonging to the employer.

Currently Romanian insurance market each spent an average of just 12.5 Euros for life insurance from a total of 56.5 euro allocated to this segment generally.

The population seems rather inclined to prioritize security of goods in its possession. In the absence of fiscal incentives, life segment with a 23.1% market share remains at

a low level, although the range of products to companies in the field is extremely varied.

But there Romanian who value life more and invest more from year to year in health and life insurance. Romanians maintain a balance between revenue and expenditure, given that about half of them manages their home budget.

Also bank insurance is the future in financial insurance. The sector changed bank insurance. Bank insurance this concept is the process of selling insurance products through banks' retail territorial networks. In the future banks will merge with insurance companies to sell financial products

In the European Union, bank insurance developed in three stages. In the first stage, the banc assurance sold commodities, designed for bank customers, the bank directly related to products or production. In saving simple second stage, have developed more complex products guarantees. In savings associated with the third phase appeared and auto insurance, housing, liability and pension plans.

Bank assurance the advantages for both the bank and the insurance companies.

For bank they are:

The company will attract more customers and more diverse

Product prices are lower

Getting extra income from commissions

Diversification profits.

For the insurance company they are:

Access to new markets

Expanding the potential customer base

Expanding distribution network.

Prospects of development of the life insurance industry in the short and medium in Europe are quite bleak. The basis is the global financial crisis that persists in the

period under review This caused loss of customer confidence in financial institutions and thus affected the insurance industry, especially those of life. În Conference "Word Views for Life Insurance in Eastern Europe" CIS and Asia organized by Russian Polis in Warsaw, stated "The trends we have for life insurance in the next period are really negative. More exactly we can expect slowdown across industries and disappearance many market players "(Olga Ruf-Fiedler, a specialist in life insurance).

Were affected even large financial groups increases seemed unbeatable and powerful, and actual and potential customers began to choose banking products in exchange of insurance.

The financial crisis has weakened the trust of customers especially unit-linked products due to losses by insurance companies on investment. Companies products are subject to new challenges in the coming period, because besides regaining consumer confidence will have to find new products corresponding to the requirements of the market much higher.

Analyzing world market, we can see that young markets of Eastern Europe, Russia and CIS have been and will be less affected by the financial crisis than developed industries in Western Europe.

The decrease in the life insurance market has been and will be determined by the following factors:

- Decrease in financial markets were affected clients. Principals businesses whose income fell, leading to redundant employees or reducing wages of them .Income individuals were affected because of this, they increasingly allocating less by insurance;
- Significant reduction in insurance credits. Banks not easily grant loans and life insurance were sold along with bank loans;
- Lock the mortgage loan;
- Investment. The randament market downturn is much smaller asset volatility is high and low investment performance;
- Financial problems at holdings. More insurance companies with significant market positions, are part of international groups who face problems;

- Increase in quotations because insurance. This and reinsurance companies were affected by lower capital market and increased premiums reinsurance. For insurance companies increase their premiums higher costs and lead products automatically increase insurance premiums clients. But the current situation any increase in insurance premiums is prohibited, with customers low. Thus income, higher reinsurance premiums directly affect the profits of the insurance company;

- Restriction corporate. More market companies provide their employees have given life insurance for loyalty and motivation;

- Increasing the number of termination.

In 2015 even the largest life insurer in Europe failed to impose on the market in Romania, despite major investments made. Axis bold plans were far from being achieved when announcing that local operations sold by Astra Insurance. They entered the local market in 2010 with the clear objective to become a leader in the medium and left after just three years, leaving behind a company with a market share of about 2%. The departure of the French, who managed to impose in dozens of other states, can be interpreted as a signal meant to remind us of a market problems atypical, deformed, dependent and, more recently, ground of premature redemptions made by customers scared crisis .

In Romania, three companies account for almost 65% of the life insurance market, and one of them, BCR Life Insurance, is almost exclusively dependent relationship with the bank whose name it bears. Local market leader ING Life Insurance, which is now called NNN, and whose future is quite uncertain, given the parent group plans to give up control of the insurance business by launching an initial public offering. On top was placed 3rd in Metropolitan Life, while the remaining 35% of the market is struggling not less than 15 companies. With few exceptions, such as cement, no sector where so few companies control so large slice of the market. It is a first indicator that customizes Romania, but not in a positive way. This focus shows how little is competitive life insurance market. When the numbers speak, managers complain

Representative of what is happening lately on the life insurance market in Romania is the evolution of policies with investment elements, so-called unit-linked policies.

Once considered an innovative product with great future, this type of policy has disappeared practically the last two years. According consulted Capital, the premature redemptions in this segment rose after the first six months of the year, about 90% of

gross written premiums. In other words, the amounts withdrawn before completion of contract customers reached 90% of revenue from premiums. From this point of view, the situation is not pink or overall. The data Capital, everything after the first six months, the amounts paid or to be paid by insurance companies to customers amounted to over 150 million lei, or about 35% of gross premiums subscribed. The value is double the levels recorded in 2009 and 2010, for example.

Worse is that prepayments increased, while the number and value of contracts decreases. After the first nine months of the year, the most important companies in the market portfolio had valid contracts under 2.1 million, with nearly 500,000 more than in 2011, according to the National Association of Insurance and Reinsurance (UNSAR). At market level, gross premiums subscribed after the first nine months was 1.23 billion lei, which is the lowest level in the last 5 years. As a natural consequence, the share of the total life insurance market returned 20%. Credit dies health reform delay

The first average, the ratio of gross premiums written and the number of valid contracts is also declining and are at a level that placed Romania on the last place in Europe in this regard. The contract involves an average annual premium of 297 lei, if UNSAR members. The amount is down about 40 lei compared to 2012 and more than 80 lei compared to 2008. The market is already clear that the only reason some life insurance companies remained in Romania was announced health reform . This became evident during the tests made by Boc, when two of the companies that have left Romania immediately after the failure of the reform were extremely vocal and involved: Eureka and Axa Insurance. For life insurance companies, the liberalization of the system would mean millions of new customers.

Another "delay" effect directly in the pocket's credit enhancement insurance companies. BCR Insurance Companies (24% of the market), or Ergo Insurance Insurance BRD live exclusively in dealing with banks, most of their sales consisting of compulsory insurance for loans. Here, then, that no better prospects than the figures do not show this, especially since the introduction of deductions for insurance is still on.

As in previous reporting periods, the hierarchy of life insurers indicated segment comprises the top three companies specializing in this segment. The first place was occupied by ING Life Insurance (37.39% market share), while the next two positions were located far away Metropolitan Life and BCR Life VIG, the market shares achieved by them the latter being 16.10% and 8.76%.

## Partnerships with brokers and banks

"In 2015, AEGON will continue to develop partnerships with brokers, extending their number and presence nationwide. The partnership with Banca Transilvania will remain important for us and a bank eventually advance to second place in the banking industry can only make us enjoy. The company's expertise is in the area of banc assurance, we continue to focus on expanding partnerships with other banks, "said Sinziana MAIOREANU.

Aegon Romania registered last year gross written premiums of about 50 million, up 50% over 2013.

"Our portfolio includes over 40,000 policies, of which three quarters are traditional insurance. The increase last year was supported by three directions: new policy sales through its own network and BT, taking EUREKO portfolio, and launching partnerships with over 30 brokers to distribute the product AEGON BackUp, a product similar risk of human Hull. Also, the number of damages received in 2014 was over 4 times higher than last year due to growth accelerated development that I just recorded it in last year, "explained Sinziana MAIOREANU.

## Solutions:

- Reorient traditional life insurance sales;
- Decrease the products offered insurance premiums;
- As regards banc assurance collaborations can switch from credit-life products at guaranteed savings products;
- Increasing the involvement CSA (Insurance Supervisory Commission) .Comisia will have to make further efforts to counter the crisis and to strengthen the trust of customers in the insurance industry;
- The inclusion in the legislation deductibility insurance. More EU countries have risen insurance segment due to the fact that they have become deductible;
- Development of retail;

- Change the attitude that the customer should understand that security role does not change during the crisis, on the contrary, financial security becomes more important in the future.

## TOP 10 LIFE INSURANCE 2015

Nr. crt.	Societate	PBS AV (lei)	Cota de piață (%)
1	NN ASIGURARI DE VIATA SA (FOSTA ING ASIGURARI DE VIATA S.A.)	460.855.149	34,98
2	BCR ASIGURARI DE VIATA VIENNA INSURANCE GROUP S.A.	186.002.939	14,12
<b>TOTAL (1-2)</b>		<b>646.858.088</b>	<b>49,10</b>
3	METROPOLITAN LIFE ASIGURARI S.A.	171.791.839	13,04
4	ASIROM VIENNA INSURANCE GROUP S.A.	75.187.930	5,71
5	ALLIANZ - TIRIAC ASIGURARI S.A.	74.947.849	5,69
6	BRD ASIGURARI DE VIATA S.A.	67.108.162	5,09
7	GENERALI ROMANIA	53.502.714	4,06
8	EUROLIFE ERB ASIGURARI DE VIATA S.A. (FOSTA EFG EUROLIFE ASIGURARI DE VIATA S.A)	40.550.135	3,08
9	GROUPAMA ASIGURARI S.A.	35.058.058	2,66
10	UNIQA ASIGURARI DE VIATA SA	33.808.130	2,57
<b>TOTAL (1-10)</b>		<b>1.198.812.905</b>	<b>91,01</b>
Alte societăți		118.486.744	8,99
<b>TOTAL</b>		<b>1.317.299.649</b>	<b>100,00</b>

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