

CRISIS EFFECTS UPON THE INSURANCE INDUSTRY

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Abstract:

The crisis was felt most on the financial sector of the economy and the insurance industry, as an integral part, has been negatively affected. The insurance industry in Romania is dependent on consumption, being directly related to the evolution of the main economic sectors.

The evolution of the car industry greatly influences the insurance industry, because, in 2009, the insurance related to this area had a 77% share of the general insurance. The main threats to the life insurance market are increasing unemployment and economic instability; as a result, developments of the life insurance market have a slightly downward trend compared to previous years when there were increases between 25% - 30%.

Key words: *insurance industry, general insurance, life insurance, insurance activity indicators*

JEL classification: *G22*

1. Introduction

Insurance is a system of economic and social relations, a necessary objective process of economic and social development that arose from actions of objective economic laws which consists of jointly creation, by individuals and legal persons threatened by certain risks, of a fund that compensates damages and meets other likely and unpredictable financial and economic requirements.¹

Any person living in a society is affected by risk in one way or another and the risk can be defined as something uncertain that can happen, but if it would it will bring a loss. In a world in constant motion, it is hard to predict what may be in the future more or less distant, insurance come and offers us confidence that, if losses happen it can help us to recover damages, even partially.

Insurance is a reduction factor of economic uncertainty and a means of resuming the temporarily interrupted activity. When a person is insured, it is aware of a certain risk and tries to protect himself from negative consequences. The risk does not disappear, but its effects move from the insured to the insurer. Thus the future for the insured acquires a certain certainty, a stabilization of the financial risk, insurance premium becomes a production cost or an expense in the family budget. Insurance does not reduce the number of risks, but people are better prepared to face them. The existence of insurance makes it possible to repair buildings, machinery, replacement of certain goods in a timely procurement of materials related to performance and repair execution and not to the lack financial resources.

The economic and social importance of insurance is manifested in several directions. Damage coverage allows reconstruction of destroyed property and continuity of the production process and contributes to maintaining the integrity of national wealth. Insuring goods, vehicles, and credits is of great importance in terms of economic,

¹ Bistriceanu, D., Bercea, Gh., Bercea, Fl., Macovei, E., "*Lexicon de protectie sociala, asigurari si reasigurari*", Editura Karat, 1998

financial and especially money. In this way, a currency savings is performed by making savings in foreign exchange receipts for insurance services.

“The insurance market requires meeting the insurance application, whose carriers are individuals and legal persons who wish to enter into various types of insurance, with insurance offer, whose representatives are specialized organizations authorized to work in this field and able to carry out under financial terms such an activity.”²

2. Analysis of insurance market in ROMANIA

The effects of the global economic crisis began to be felt in the Romanian economy since the third quarter of 2008, so that the insurance industry in Romania has registered a significant drop in 2009, because it is connected directly to the evolution of main economic sectors and is dependent on consumption.

To highlight the financial situation of insurance companies on the Romanian market, we analyze the main indicators of the insurance business, the gross premiums, the insurance penetration rate in GDP, insurance density etc., for the 2007-2009 period, according to reports of the Commission Insurance Supervision, these reports are based on the data submitted by insurance companies through balance sheets and profit and loss statement.

“The *penetration rate* of insurance in the economy is a synthetic indicator which shows the contribution of the insurance sector to the GDP and is calculated as the ratio between the amount of direct gross premiums and gross domestic product.”³ Another indicator specific to the insurance industry is insurance density, determined by comparing the volume of gross premiums to population, thus expressing the average premium per capita.

Table no. 1

Evolution of GDP, gross written premiums, the insurance penetration rate and insurance density

Indicators	2007	2008	2009
GDP (lei)	416.006.800.000	503.958.700.000	491.273.700.000
Insurance penetration rate in GDP	1.77	1.77	1.80
Insurance density (lei per capita)	332.40	415.62	413.27
Number of employees in the insurance field	18.252	17.573	20.512

Source: Reports issued by the CSA

By analyzing the **penetration rate of insurance (contribution to GDP creation)** we note that in 2008 this indicator stood at the same level as at end of 2007, and in 2009 this indicator was 1.80%, a slight increase (0,03%) as compared to 2008 and 2007, and the **insurance density** in 2008 was 415.62 lei per capita, up by 83.17 lei per capita compared to 2007 and in 2009 recorded a insignificant decrease compared to the year 2008 with 2.35 lei per capita, but is about 25% higher than in 2007 (332.4 lei per capita).

Despite the difficult economic climate, insurance companies continued to invest in *human capital* and according to reports issued by the CSA in 2009, there were a total of

² Dănuțiu Dan, Dănuțiu Adina – „Elemente de analiză a pieței asigurărilor din România”, Annales Universitatis Apulensis Series Oeconomica, volumul 3, Nr. 8 /2006

³ Dănuțiu Dan, Dănuțiu Adina – „Elemente de analiză a pieței asigurărilor din România”, Annales Universitatis Apulensis Series Oeconomica, volumul 3, Nr. 8 /2006

20.512 persons employed under contract of employment, increasing by 2939 people compared to 2008 (17.573 persons) and in 2007 the number of people was 18.252, so we conclude that the crisis has affected employees in the insurance sector, only in 2008, but in 2009 their number increased.

Table no. 2

Class structure of gross written premiums of general and life insurance

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<i>Insurance Class</i>	2007	2008	2009
class I. Accident and illness (including occupational and professional disease)	66.163.121	62.500.806	62.929.358
class II. Health Insurance	23.728.045	28.209.304	24.859.868
class III. Land transport insurance, other than railway class IV. Rail transport insurance	2.619.859.216	3.557.030.729	3.330.988.688
class IV. Aircraft insurance	3.856.595	4.538.389	5.566.689
class V. Accident and illness (including occupational and professional disease)	14.100.541	21.154.900	21.262.074
class VI. Insurance marine transport (sea, river, lake, waterway)	30.622.078	22.979.546	30.160.705
class VII. Insurance of goods in transit. Including transported goods, baggage and any other property	40.112.546	43.984.162	40.898.248
class VIII. Fire and other natural disasters insurance	648.324.805	849.670.047	934.738.928
class IX. Insurance for damage to property	193.590.384	208.152.038	163.733.629
class X. Motor third party liability insurance (compulsory third party insurance and green card)	1.500.332.334	1.843.828.800	2.252.065.897
class XI. Civil liability insurance for air transport facilities	18.083.544	26.985.725	24.200.074
class XII. Liability insurance for maritime, lake and river transport	3.036.931	5.346.335	10.593.396
class XIII. General liability insurance	107.422.904	128.735.720	135.785.975
class XIV. Credit insurance	395.487.654	190.619.187	115.619.772
class XV. Insurance guarantees	5.177.876	12.641.946	29.973.022
class XVI Financial loss insurance	10.234.355	13.439.453	15.666.826
class XVII Legal protection insurance	11.887	4.988	6.591
class XVIII Insurance assistance to persons in distress	46.607.967	48.351.445	42.534.582
<i>Total gross premiums of general insurance</i>	5.726.752.784	7.068.173.520	7.241.584.322
<i>Insurance Class</i>	2007	2008	2009
class I. Life insurance, annuities and supplemental life insurance	928.664.474	1.314.922.890	1.030.051.349
class II. Marriage Insurance. Childbirth insurance -	1.614.934	1.830.779	1.790.341

class III Life insurance and annuities linked to investment funds	487.809.626	521.783.950	565.774.631
class IV Permanent health insurance	13.889.035	295.973	318.293
class B1. Accident and sickness insurance	12.540.058	22.473.624	25.825.944
class B2. Health Insurance	4.518.787	6.805.769	4.402.078
Total life insurance gross premiums	1.449.036.915	1.868.112.985	1.628.162.635
Total gross premiums	7.175.789.699	8.936.286.505	8.869.746.957

Source: Reports issued by the CSA 2007-2009

Analyzing the data in Table no. 2 we can see that in 2007 total gross written premiums in the insurance market in Romania has exceeded 7 billion lei and in 2009 the gross written premiums was approximately 9 billion lei. Of the total gross written premiums relating to insurance contracts concluded in 2007 the gross premiums related to insurance contracts amounted to 5.72 billion lei (78,81% of total), while life insurance premiums generated premiums amounting to 1,45 million lei (20.19% of total). Also, we note in table no. 2 that in 2008 gross written premium income of insurers has been increasing by 17.15% compared to 2007 and in 2009 due to strong economic depreciation and the declining demand for life insurance has been, a decrease of the share of gross written premium volume for life insurance by 2,5% compared with 2008 (from 20,90% in 2008 to 18,36% in 2009) in favor of gross written premiums for life insurance, which registered a increase of 2,5% from a share of total gross premiums underwritten by insurers of 79,10% in 2008 to 81,64% in 2009.

Class structure of gross written premiums of general insurance(mil. lei)

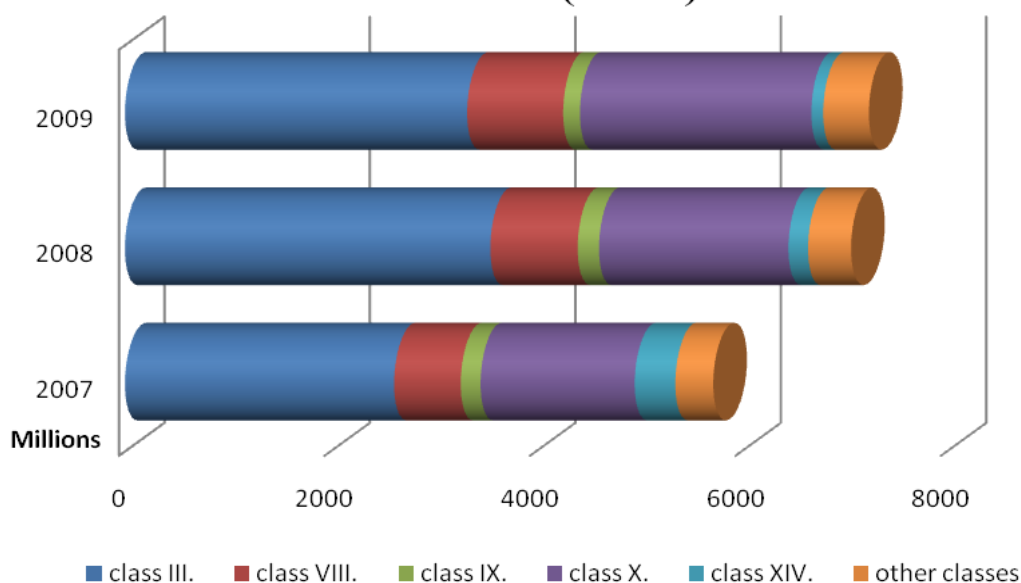


Figure no. 1 Class structure of gross written premiums of general insurance

Source: Reports issued by the CSA 2007-2009

Since the economic crisis started a major blow received by the Romanian insurance market has been a decrease in vehicle sales, which led to a decrease in the volume of gross premiums related to **class III Land transport insurance, other than railway class IV. Rail transport insurance** - as well as **class X Motor third party liability insurance (compulsory third party insurance and green card)**. In 2009,

those classes of insurance reached 46% in class III and 31% from insurance class X of the total insurance premiums for general insurance. A 5% decrease in premiums for insurance in Class III compared to 2008 when their share was 50,32% is due to car park aging, which brings more cars in the state of being legally uninsurable (meaning those older than 8-10 years).

Also, we see a tendency of voluntary renouncement to voluntary insurance, from part of the owners, for vehicles with an age of 5-6 years, instead insurance premiums related to insurance from class X increased in 2007 by 5 percent (from 26,20 in 2007 to 31,10 in 2009).

In table no. 2 as well as in figure no. 1 we can see that, in general, each year the amounts received for each class of insurance has increased very slightly, maintained or decreased slightly, with one exception related to *class XIV. Credit insurance*, which in times of crisis should increase.

Credit insurance covers the risk of failure to receive claims, namely the risk that a debtor can not or will not be willing to pay. Such insurance contracts cover the provider or lender against losses caused by insolvency or a client's inability to pay.

Of the total gross written premiums of insurance related to insurance contracts concluded in 2007, gross premiums related to credit had a share of about 7% (395.487.654 lei), while in 2009 they had a weight of only 1,60%, amounting to 115.619.772 lei.

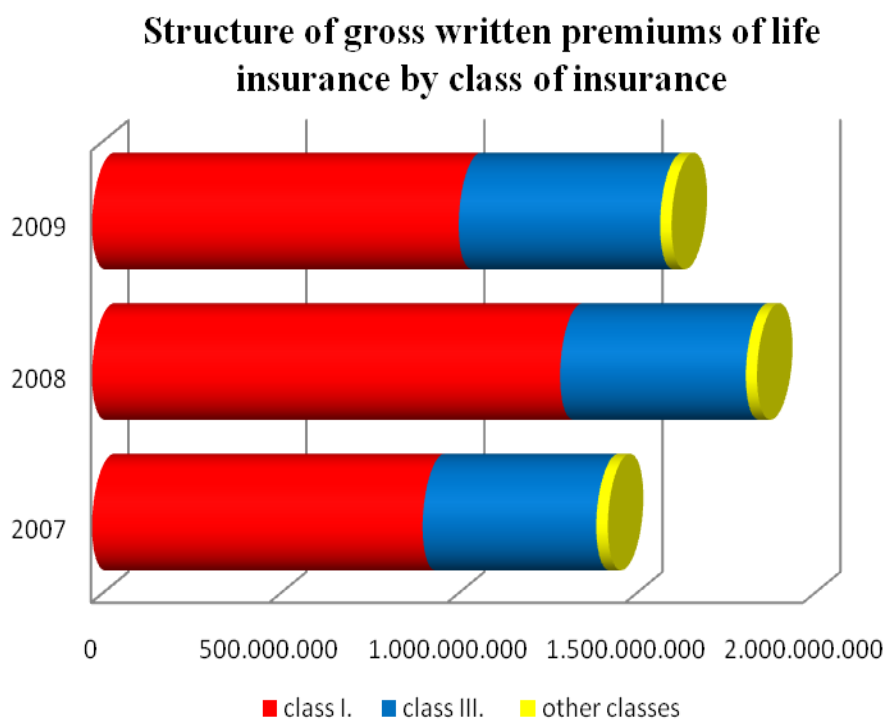


Figure no. 2 Structure of gross written premiums of life insurance by class of insurance
Source: Reports issued by the CSA 2007-2009

Of the total gross written premiums of life insurance related to insurance contracts concluded during the entire period analyzed (2007-2009) **class I Life insurance, annuities and supplemental life insurance**, has the highest weight, which has a weight of 64% in 2007, 70,4% in 2008 and in 2009 it drops to around 63,26%.

The second class of insurance with a significant share of total gross premiums of life insurance are those of the insurance **class III Life insurance and annuities linked to investment funds** which showed a significant increase in 2009 compared to 2008, this increase is about 7 percent.

These changes in the gross written premiums of life insurance were due to policyholders guidelines to life insurance related to investment funds (unit-linked), it was a good time to invest, because they can buy assets at the lowest price in the last ten years.

CONCLUSIONS

At present, insurance has become an important sector of the national economy. The percentage of insurance penetration rate in GDP can reach up to 15% and is generally much higher as the country reached a higher level of economic development, for example, the average of this indicator in the EU-15 in year 2003 was 10,18%, while in Romania it is 1,80%, this figure shows that there is a large untapped potential in the insurance market.

Effects of the global crisis also manifested in the insurance industry, as follows:

- the decrease in the production of motor vehicles proportionally influenced the conclusion of automobile insurance policies concluded by insurers on the insurance market.

- refusal of credit by banks to both individuals and companies has led to lower sales of life insurance policies and calamities for the goods as collateral to debtors.

- rising unemployment has led to lower purchasing power and reduced sales for life insurance policies for homes.

- the lack of financial availability led to lower investments on the insurance market and lower financial performance of insurers and non-insurers.

- analyzing the key indicators of insurance we conclude that 2009 brings the highest penetration rate in the insurance market, which means that insurance have made a greater contribution to overall economic growth in the number of employees and the insurance density correlated with the value of gross written premiums in the insurance market.

In crisis conditions insurers must seek the most effective ways to optimize costs and to use systems adapted to new market needs.

The economic crisis has affected the insurance industry, but in a smaller extent, compared with the rest of the economy, the insurance market registered reductions to premiums earned, but not so large, being offset by lower car insurance, because insurance related to this field in 2009 had a 77% share of general insurance.

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