CHANGES OF CAPITAL IN INSURANCE COMPANIES ACCORDING TO THE RULES OF THE EUROPEAN UNION*

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Abstract:
Romania's accession to the European Union has important implications in the insurance industry, in particular by imposing a minimum share capital for companies in this area, because the capital is a balancing factor for the economic activity. In 2009 the share capital subscribed by the 45 insurance companies was 3,970,678,526 lei, it increased by approximately 180% compared to 2006 (1.406.287.079 lei subscribed by the 41 authorized insurance companies), and French investors hold a participation rate of 31.73%.

Key words: *share capital, changes of capital, insurance companies*

JEL classification: *M41, G22*

1. Introduction

Romania's achievement of membership in the European Union, on 1 January 2007, included the adoption of Community rules in all fields, including the insurance market. Thus, the Insurance Supervisory Commission (ISC) has begun harmonizing national legislation with EU directives, ensuring compatibility with the specific local markets and serving national interests.

In most EU countries, the share capital must correspond with the activity of a company and its development scale.

Any establishment of an entity can not be made without an initial financial contribution, however small, of the private entrepreneurs or partners, enabling the start of the entity's initial contribution and because of it, the investment and operating costs can be realized and it represents the guarantee that will allow accessing, if necessary, a possible loan[1].

2. Capital. Particularities from the insurance field

Capital is a sustainable source of financing and with s stable nature of the entities, representing the equivalent value of long-term resources invested in assets by owners or third parties. Capital assets that are destined for obtaining goods, services and works are not designed to meet individual needs. Because they have a higher settlement within one year, these funding sources have been assigned the status of permanent capital, taking the form of equity, provisions for risks and expenses and long-term debt[2].

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[1] Colasse, B., *Gestion financiere de l'entreprise – problematique,concepts et methodes*, 2e edition, Presses Universitaires de France

[2] Dorel Mateş, *Contabilitatea financiară a entităţilor economice*, Editura Mirton, Timişoara, 2006

The establishment of insurance companies has some peculiarity about the authorization procedure. Insurers' authorization includes two phases:

- prior authorization by the Insurance Supervisory Commission in order to register the company as insurer at the Trade Register Office;
- authorization stage of operation as an insurer.

The licensing activity by the Insurance Supervisory Commission shall be conducted under the Insurance Law 32/2000 on insurance and insurance supervision, with subsequent amendments and regulations issued under it.

According to Law 32/2000[3] the insurance companies can not be registered with the Trade Register without the prior consent of the Insurance Supervisory Commission, subject to the minimum capital requirement, a topic which we will address in this paper.

The authorization of establishment issued by the Insurance Supervisory Commission does not guarantee obtaining a work permit to carry out an insurance activity, but only indicates the permission given to its shareholders to proceed with the company registration documents and establishing the legal provisions.

The share capital is a permanent source of funding available to an economic entity by contributions in cash or in kind by its shareholders or members. Increasing this source of funding can be made through the incorporation of other elements of equity in the capital structure by converting environmental liabilities and long-term shares and by merger with other companies. This latter method is used, in particular, by companies that have financial difficulties of debt maturity.

Corporate fund is the value equivalent issued by a company in the form of shares for insurance companies[4] and it is also called nominal capital because it contains the nominal value of all the issued shares.

Share capital is subscribed and can be paid or unpaid, but specific for insurance companies is the fact that share capital[5] must be fully paid in cash at a bank approved by the National Bank of Romania.

In the Romanian legislation there are minimum capital thresholds specific to certain objects of activity, different from those of commercial companies, such as those for banks, insurance-reinsurance companies and other financial institutions.

According to Order no. 16/2009[6] amounts for participation in the share capital of the insurer should not come from loans, except the amounts made available to a subsidiary by the parent company from its own sources and paid up share capital, representing an amount at least equal with the security fund, and must be deposited in an authorized bank account in Romania.

In order to meet specific conditions imposed by European Union security provisions of European directives and their implementation, the Insurance Supervisory Commission has taken a series of measures to protect the rights of policyholders and promoting financial stability of the insurance sector. This was done through the implementation of harmonized legislation with the European provisions, among which is also the 3105 Order for implementing the Rules regarding the updating the minimum limit of the paid up share capital of insurers. By this Order, the Insurance Supervisory Commission has set a timetable for the capital increase in steps so that, on 30 June 2006, it will reach the minimum values set by the Directive for the safety fund.

Starting with July 1, 2006 the minimum capital of insurance companies under the order no. 3105 from December 16, 2005 issued by the CSA to be worth 10 million lei for general insurance business, except compulsory insurance, 15 million lei for

[3] Legea 32/2000 privind societăţiile de asigurare şi supravegherea asigurărilor, art. 11, pct. 2
[4] Angelescu, Coralia; Ciucur, Dumitru; Marin, Dinu - *Dictionar de economie*, Editura Economica, 2001
[5] Legea 32/2000 privind societăţiile de asigurare şi supravegherea asigurărilor, art. 16
[6] Ordin nr. 16/2009 pentru punerea in aplicare a Normelor privind autorizarea asiguratorilor (Publicat in Monitorul Oficial, Partea I nr. 569 din 14/08/2009), art. 4, lit. g) şi art. 3 alin. (4)

general insurance business and 15 million lei for life insurance business, 12 million lei for compulsory house insurance against earthquakes, landslides or floods[7].

Registered capital of PAID[8] must be deposited in a bank account authorized in Romania and can not be lower than the RON equivalent of 12 million EUR at the exchange rate announced by the National Bank of Romania on the date of its subscription or deposit[9].

Minimum paid up capital is periodically updated by rules of the Insurance Supervisory Commission, which shall be fully paid up in cash only, and insurers can invest in share capital or fructify movable and immovable property, such as stocks, bonds, other equity, bank deposits, own or lease buildings for public use.

Applying accounting policies in order to build share capital must take account of legislative provisions relating to company formation, status and company contract, and for accounting, the issue of underwriting equity and depositing the contribution in cash or in kind presents interest.

3. Analysis of share capital on the Romanian insurance market

The insurance market is determined not only by the need and desire to protect customers, but also by the ability of insurers to predict or identify certain specific requirements. "The Romanian insurance and reinsurance market has undergone an interesting evolution following the contradictory developments that it and the economy as a whole have sustained."[10]

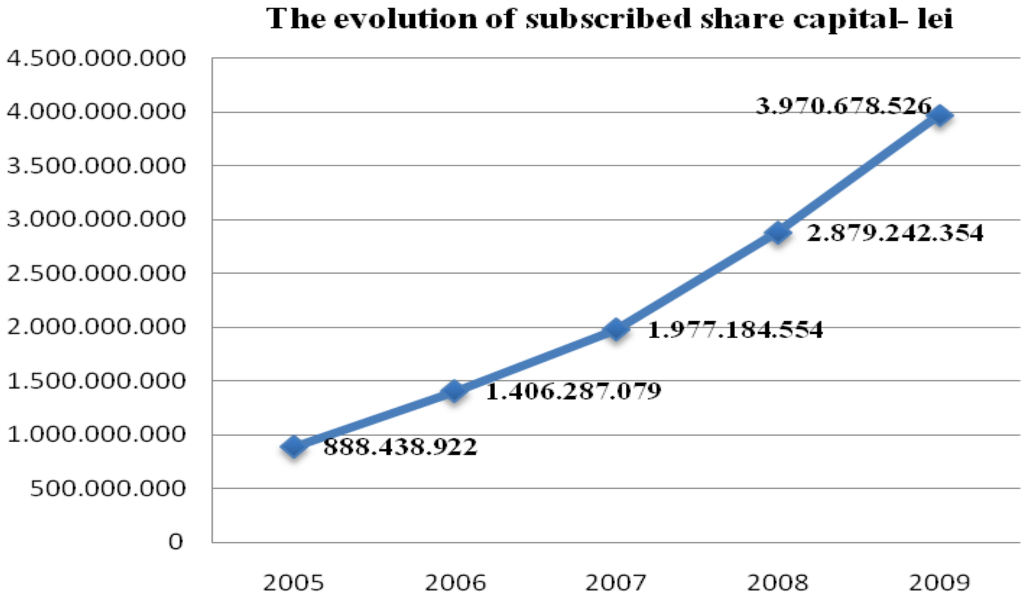

Figure no. 1. The evolution of subscribed share capital
Source: Insurance Supervisory Commission reports 2005-2009

From the Insurance Supervisory Commission reports we see that the number of insurance companies has increased continuously from year to year (42 company in 2007, 43 in 2008 and 45 in 2009), except 2006, when the Order providing share capital

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[7] According to Order no. 20/2009, amending the Rules of the Pool of Insurance against Natural Disasters

[8] Pool of Insurance against Natural Disasters, is an insurance-reinsurance association formed by insurance companies authorized to sign the mandatory insurance for houses, in accordance with Law no. 260/2008 regarding the mandatory home insurance against earthquakes, landslides or floods

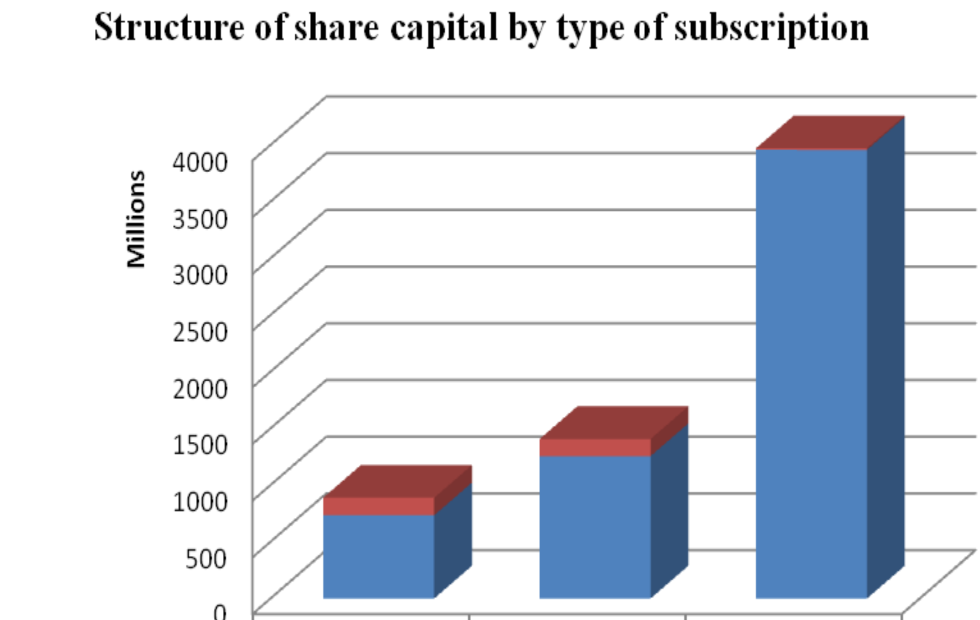
[9] Rule 1 September 2009 on the Pool of Insurance against Natural Disasters, article 3, section 1

[10] Pîrvu Daniela, Rădulescu Magdalena – „*Evoluţii financiare pe piaţa asigurărilor de viaţă în România*", Annales Universitatis Apulensis Series Oeconomica, volumul 2, Nr. 8 /2006

to all insurance companies was implemented and the number of authorized companies decreased from 43 to 41 company in 2005.

In figure 1 it can be seen that in 2009 the share capital subscribed by the 45 insurance companies was increased to 3.970.678.526 lei in 2008 by approximately 38% (2.879.242.354 lei subscribed by the 43 authorized companies insurance). Also in Figure 1 it can be seen that the most dramatic increase occurred in 2006 (by 58% compared to 2005) the conditions imposed by the rules issued by the Insurance Supervisory Commission regarding the minimum share capital that the insurance companies must have, according to the approved scope of business.

An analysis of capital increases has been achieved for the whole period (2005-2009) for the following reasons: to support the growth of insurance and compliance with laws issued by the Insurance Supervisory Commission and following the merger between insurance entities or portfolio acquisitions.



	2005	2006	2009
contribution in kind	154588372	150514093	13460062
cash contribution	733850550	1255772986	3957218464

Figure no. 2 Structure of share capital by type of subscription

Source: Insurance Supervisory Commission reports 2005-2009

In accordance with Law 32/2000, as amended and supplemented, the insurance companies must pay capital formation entirely in cash, so looking at capital structure (see Figure 2) we can see that the share of cash in total subscribed capital is very high, from 82.6% in 2005 and 88.65% in 2009.

According to the Insurance Supervisory Commission's reports in 2009, significant shares in the aggregate value of share capital of insurers are owned by investors from the following countries: France, with a share of 31.73%, Austria, holds 24.39%, Netherlands with a share of 15.03% and the UK has a rate of 4.17%.

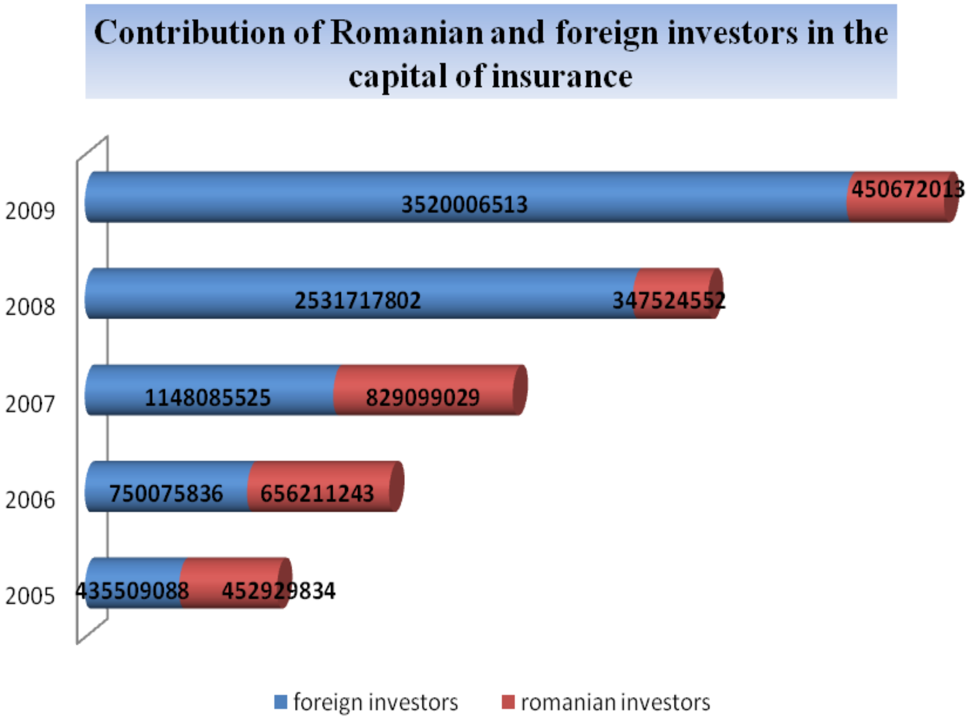


Figure no. 3 Contribution of Romanian and foreign investors in the capital of insurance

Source: Insurance Supervisory Commission reports 2005-2009

From Figure 3 it can be seen that the contribution of foreign investors in the share capital of insurance companies has also increased from year to year, where in 2005 was 435.509.088 lei and represented 49% of total capital, in 2006 increased to 750.075.836 lei, accounting for 53% of total subscribed share capital, and in 2009 its share reached 89%.

Conclusions:

The strict regulation of insurance activity, their control and surveillance, imposing strict conditions for the establishment and functioning allow placement on the insurance market only of companies capable of sustaining the insurance market by viable monetary means.

Strengthening the share capital of an insurance company has a beneficial effect on the value of shares traded on the market, having beneficial effects on the economy.

The entry on the Romanian market of large insurance companies with foreign capital investment strengthens the belief in placing clients on the insurance market.

The adaptation of Romanian legislation to EU requirements will positively contribute to the harmonization of EU legislation in member states where the insurance market works in conditions of maximum efficiency.

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