# CURRENT CHANGES ON INSURANCE MARKET

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**Abstract:** The offer of insurance products is about the requirements and needs of the consumer who must always have information regarding: the type of insurance risk covered and the excluded risks, the sum insured, the payment of premiums and their duration. The accurate information of customer requires, from the commencement of contract and throughout its duration, that he or she is aware of the obligations throughout the contractual period. Most of the Romanians are turning their attention to one of the insurance companies found in the top 10 in 2016, supervised by F.S.A. (Financial Supervision Authority), preferring to have a policy of mandatory household and goods insurance, auto liability or life insurance, but are also interested in travel health insurance when going abroad, private health insurance or private pension insurance. Romanians' reluctance regarding the conclusion of an insurance comes from their distrust in insurance companies (see the situations of companies like Astra Insurance, Carpatica Insurance etc.), their personal financial situation and the fear that they will not receive protection if the risk is covered but the insured sum is insufficient.

**JEL classification: G22, G23, G28**

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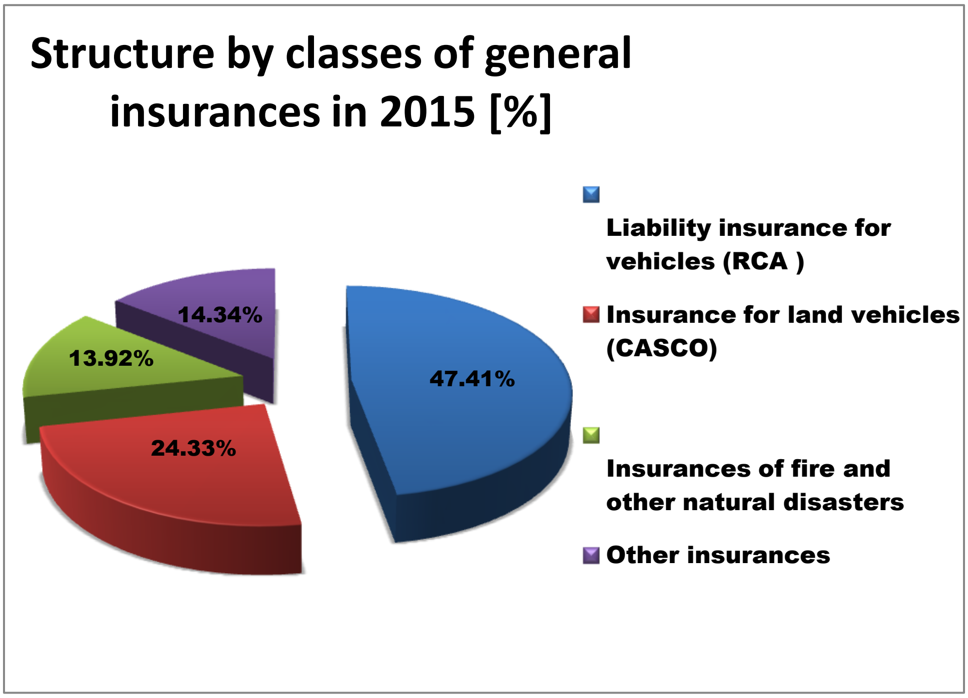
## 1. INTRODUCTION

Insurance market evolution is based on the degree of penetration of insurances in the Gross Domestic Product and the insurances density arising from the ratio of gross written premiums and total number of inhabitants.

If the European insurance market is dominated by the life insurance segment, according to Insurance Europe data, the Romanian insurance market is dominated by general and motor vehicle insurances. In the first half of 2016, general insurances recorded an advance of 11% compared to the same period of 2015 and motor vehicle insurance class A3 (insurance of land vehicles other than railway) and class A10 (motor liability insurance) accounted for the same period, 75% of the total gross written premiums afferent to general insurances. [1]

## 2. CURRENT CHANGES

Romania is a market based on mandatory insurances. Thus, in terms of general insurances, the gross written premiums increased by 7.5% in 2015 compared to 2014. If we refer to it using percentage in the total amount% can be observed the following hierarchy according to the annual report of ASF: third party liability insurance for vehicles - RCA: 47.41%; land vehicle insurances - CASCO: 24.33%; insurances against fire and other natural disasters: 13.92%, other insurances: 14.34% (see fig. no.1).




Source: Drăgan, A. (2016, April 18-24). Proceeds of insurers increased in 2015, but it is not reflect in the economy. *Capital Magazine*, p. 21.

**Figure no. 1. Structure by classes of general insurances in 2015**

Facultative insurances dropped significantly, only 1.78 million voluntary housing insurances being recorded.

Insurance companies with the highest volume of gross written premiums in the first half of 2016, which are in Top 10, according to ASF, were: ASIROM VIENNA INSURANCE GROUP SA, ALLIANZ - TIRIAC INSURANCE SA, EUROINS ROMANIA INSURANCE AND REINSURANCE SA, NN LIFE INSURANCE SA, CITY INSURANCE SA, ROMANIA GENERAL INSURANCE AND REINSURANCE SA, UNIQA INSURANCE SA (see Table no.1). [2]

On the general insurance segment, the major share of gross written premiums is held bythree classes: $A_{10}$ (civil liability for the use of land vehicles), A3 (land vehicles, excluding railway rolling stock) and $A_8$ (fire and natural disasters for goods other than the classes $A_3$-$A_7$).

**Table no. 1. The companies with the largest volume of gross written premiums and their share in total market in the first half of 2016.**

| Nr. | Company | Total gross written premiums (GI and VI) - lei | Share in total market |
|---|---|---|---|
| 1. | ASIROM VIENNA INSURANCE GRUP S.A. | 660.885.029 | 14,16% |
| 2. | ALLIANZ-ŢIRIAC ASIGURĂRI S.A. | 594.729.112 | 12,75% |
| 3. | OMNIASIG VIG | 455.491.306 | 9,76% |
| 4. | CARPATICA ASIG S.A. | 451.766.097 | 9,68% |
| 5. | GROUPAMA ASIGURĂRI S.A. | 440.142.823 | 9,43% |
| **Total (1-5)** | | **2.603.014.367** | 55,79% |
| 6. | EUROINS ROMANIA ASIGURARE REASIGURARE S.A. | 399.930.566 | 8,57% |
| 7. | NN ASIGURĂRI DE VIAŢĂ S.A. | 319.773.047 | 6,85% |
| 8. | CITY INSURANCE S.A. | 312.595.468 | 6,70% |
| 9. | GENERALI ROMÂNIA ASIGURARE REASIGURARE S.A | 272.919.839 | 5,85% |
| 10. | UNIQA ASIGURĂRI S.A. | 211.135.816 | 4,53% |
| **Total (1-10)** | | **4.119.369.103** | 88,29% |
| | Other companies | 546.287.786 | 11,71% |
| **TOTAL** | | **4.665.656.889** | 100% |

*Source: Financial Supervisory Authority*

In the first half of 2016, the share of these three classes was 89% of total gross premiums written by insurance companies in the general insurance segment, and the total volume of gross written premiums for general insurance was 3.88 billion lei, in increase compared to the same period of last year.

Significant changes have occurred on the market for motor vehicle liability insurance - RCA in the first half of 2016 as a result of the insolvency or financial difficulties of some insurance companies. Bankruptcy of companies such as Delta, Addendum, Auroasig, Metropol, AS Group, Croma, Adas, followed by the largest bankruptcy in the insurance industry - ASTRA, led to redistribution of the insurance market among the following companies: ASIROM VIG, CARPATICA ASIG, EUROINS ROMÂNIA, CITY INSURANCE, ALLIANZ-ȚIRIAC ASIGURĂRI, standing out ASIROM with 26% of the motor vehicle liability insurance – RCA.

Despite the transformations that have occurred in 2016, it was also felt a growing interest of new companies to enter this market segment such as: Grawe Romania, which intended to enter the MTPL (RCA) market in early 2016 according to ASF and ERGO Group, well-known in Europe, has acquired the shares of Credit Europe Insurance-Reinsurance Company S.A.

In the first 6 months of 2016 the total volume of gross written premiums on the MTPL segment was 2.09 billion lei, 33.22% more than in the same period of 2015.

Carpatica ASIG was in financial recovery for the past two years. But in the second half of 2016, ASF found losses and withdrew its operation licensein late July, but the 1.310.852 insurance contracts, of which 936 089 are MTPL insurance policies, remain in effect until the expiration date.

**Table no. 2. Insurance companies ranked according to gross written premiums for MTPL in the first semester of 2016**

| Nr. | Company | MTPL gross written premiums - lei | Percentage (%) |
|---|---|---|---|
| 1. | ASIROM VIENNA INSURANCE GRUP S.A. | 465.004.789 | 22,30% |
| 2. | CARPATICA ASIG S.A. | 424.054.342 | 20,33% |
| 3. | EUROINS ROMANIA ASIGURARE REASIGURARE S.A. | 383.754.320 | 18,40% |
| 4. | CITY INSURANCE S.A. | 245.833.336 | 11,79% |
| 5. | ALLIANZ-ŢIRIAC ASIGURĂRI S.A. | 162.819.060 | 7,81% |
| **Total (1-5)** | | **1.681.465.847** | **80,63%** |
| 6. | OMNIASIG VIG | 131.050.613 | 6,28% |
| 7. | GROUPAMA ASIGURĂRI S.A. | 122.626.941 | 5,88% |
| 8. | UNIQA ASIGURĂRI S.A. | 93.373.658 | 4,48% |
| 9. | GENERALI ROMÂNIA ASIGURARE REASIGURARE S.A | 56.984.478 | 2,73% |
| **TOTAL** | | **2.085.501.537** | **100%** |

*Source: Financial Supervisory Authority*

Changes were also observed in the consumers' choices due to increases in MTPL (RCA) policies' prices and the impossibility of capping them as requested, for example, by hauliers, who complained about the formulations present in the Government Emergency Ordinance [3] which stated that "for a period of 6 months following the deadline stipulated by the Competition Law (no. 21/1996 - republished, art. 4 para .3), ASF will calculate a reference price, for guidance, on a quarterly basis, relying on a statistically determined average claim for each vehicle category and taking into account the actual payments of damages made by RCA insurers active on the market and relative to the statistical frequency of events divided on category of vehicles".

In the Draft amendment to MTPL (RCA) law, sent to Parliament by ASF, are proposed some corrections to its rules:

- "Possibility of MTPL policy (RCA) payment in installments;
- Direct Compensation (repair of car by using your own RCA);
- Redemption of premiums;
- Drivers charged with speeding tickets should pay a more expensive RCA;
- Introduction of a contract together with the issuance of insurance policy (a novelty in the Romanian legislation, in the contract being established the general and special conditions of MTPL policy (RCA) and the insurance's coverage, the manner and terms of payment, the additional risks and other

secondary terms and conditions but without restricting the rights of third persons injured);

- Automatic extension of the contract, without notification;
- Delay penalties at half value applied to insurers;
- The increase of compensation payment deadline to 15 days;
- Maximum compensation for material damage will increase from 1 million Euros to 1.220.000 Euros, while the limit for moral damages or personal injury will rise to 6.07 million Euros".

The changes proposed by ASF are advantageous for insurance companies since MTPL insurers will use for the calculation of premium tariff some risk criteria that are different from those established by ASF regulations and will be able to extend the payment of damages to 30 days. About the final price, insurers will use for calculating the premium tariff: charging indexes, growth or correction coefficients and various instruments to adjust the tariffs established by the ASF (it has set a maximum tariff of 7,500 lei for trucks over 16 tons, reference prices of about 5,000 lei for bus and 2,500 lei for taxi) so that insurers can charge tariffs based on commercial strategies and administrative expenses. [4]

The clients of insurance companies sent to ASF almost 16.000 petitions denouncing MTPL policies and non-payment or partial payment of damages or delays in payments on behalf of insurance companies.

Because of petitions, a European type structure was created within ASF, namely the SAL-FIN Commission meant for the amicable settlement of disputes; it is made up of ASF specialists who are entitled to carry out checks on the companies denounced and to penalize them by imposing as solutions either an amicable settlement or a legal one.

Financial Supervisory Authority, as an autonomous specialized administrative authority, with legal personality, and at the same time independent and self-financed, contributes to the consolidation of an integrated framework of operation and supervision of markets, participants and operations carried out on these markets and to ensuring the effective functioning of the private pension system and protection of participants and beneficiaries' interests. [5]

SAL-FIN Commission has identified in the insurance contracts some potentially abusive clauses in the case of life and health policies, the mandatory ones, noting that there are situations when the insurer refused to pay damages because the policyholder, at the time of policy acquisition, did not declare to suffer from certain diseases, some of them with death risk.

Commission experts have identified problems in housing insurance as well. If we consider that insurance is the way in which the insured wishes to transfer risk (theft, fire, flood, etc.) to an insurance company, we must consider that in the decision of insurer to take over the risk, the insurance company puts the condition to preserve the insured's property in standard parameters. The insurance company can show its refusal to conclude an insurance contract if certain elements are not found on the positioning of building: populated area, area with low density, temporarily sojourned perimeter, evidence imposing additional systems to protect a building. This is correlated with the finding by insurer that if an event occurs and there is suspicion of fraud on behalf of the insured, this would relieve the insurer of liability and would result in the termination of insurance contract.

Health insurance involves paying monthly cash contribution from the activities performed either in the state's institutions or in the private sector or based on income from pensions as required by the Fiscal Code. The insured has access to medical services, at subsidized drugs or medical devices reimbursed from the fund of the National Health Insurance.

Government Emergency Ordinance (EO no. 5/2016, published on March 14th in the Official Gazette of Romania) has introduced new regulations in the Law on Health Reform (Law no. 95/2006, republished in the Official Gazette no. 652 from 28 august 2015 as amended by Ordinance no. 5/2016). [6]

These regulations refer to those receiving health insurance without paying the contribution: children up to the age of 18, young people aged 18-26 years (students, high school graduates, apprentices and students from the child protection system who are unemployed, persons persecuted by political regimes, disabled persons with no income from employment or pension, pregnant and confined women without an income).

Policyholders benefit from health insurance card which can be used at national level, certifying the status of insured (uninsured) person, an instrument used for validating medical services, medicines and medical devices. Externally, the insured can benefit from the European card valid for 1 year from date of issue, in order to access medical services on the territory of EU member states.

One of the mechanisms of social protection is the public pension system. But the acceleration of the phenomenon of illness of local population and the inability to ensure the sustainability of public pension schemes implicitly leads to relieve pressure on the budget of state social insurance by introducing in 2007 alongside the public pension (Pillar I) two new pension schemes, one compulsory (Pillar II) and one optional (Pillar III) under the management of private companies. The assets of private pension funds are supporting the capital market development, development of investment projects in private-state partnership, private pension administrators helping indirectly the state through investments in government securities.

It is important to point out that participation in a private pension fund does not eliminate public pension, is a complement to it. Also, a person under 35, employed for the first time, is randomly assigned by the National Public Pensions House to a pension fund privately managed unless he opts for a private pension fund, which are authorized by the Private Pensions System Supervisory Commission, while employees aged 35-45 years can choose to join such a fund.

Currently, each employee pays a social security contribution (SSC) associated to the public pension system, contribution equivalent to 10.5% of the gross salary of each taxpayer. The contribution to a private pension fund does not create additional financial obligations for participants, but it represents a part of the individual contribution owed to the public pension system, the share transferred being 4% (2013) at the moment aiming to reach 6% in 2016.

The total value of net assets recorded in the first half of the year by the private pension funds was 27.58 billion lei (6.10 billion euros), the annual growth rate being 27.22%. At the end of first half of 2016, 6.68 million participants were registered in privately managed pension system, with 4.21% more than the same period in 2015. The average contribution of participants in 2016 was 124.09 lei, with an annual increase of 16.53%.

Regulations stipulated in the system of compulsory private pensions (Pillar II) state that a person can only adhere to one private pension fund; when the contributor dies, the value accumulated in the account from contributions or investments made by the fund manager goes to the legal heirs.

On an upward trend are voluntary pensions (Pillar III). The participants in this pension fund are interested in net assets, in how they can benefit from monies if the contributor has reached 60 years, receives a disability pension or dies before obtaining a voluntary pension. In the case of first or second degree disability, the amount accumulated is paid by single payment is made and, in terms of second degree disability, it can be placed in the life insurance products.

The fact that private pensions are a way of ensuring a decent living when the state pension is insufficient, leads the participants in private pension pillars to follow the managers tips on the safety of investments.

Private pensions market is an alternative to the public pension system. But to a private pension fund is assigned a certain level of risk depending on how the pension fund's assets are invested in various financial instruments: accounts in lei or freely convertible currency from banks authorized to operate in Romania, the European Union or European Economic Area; government securities, bonds, securities traded on regulated markets in Romania, the Member States of the European Union or the European Economic Area. A certain percentage of the fund's assets can be invested in securities issued by third countries (USA, Canada, Japan) and other countries that were rated investment grade, but also into commodities and derivatives such as crude oil, cotton, coffee , wheat, copper, aluminum, zinc, precious metals, which are traded on regulated and specialized stock exchanges in the European Union and USA.

## 3. CONCLUSIONS

Changes in the structure and strategies of insurance companies led either to the repositioning of companies in the top or bankruptcy due to financial difficulties or insolvencies.

From a strategic perspective, the insurance companies have chosen as a means of access to performance the effective communcication with customers, diversification of distribution channels for products and services with real added value for customers, allurement of a large number of possible insured by make offerings addressed to their fundamental needs so to gain their confidence.

The transformations in the field of strategy and risk management were caused by both technological development and economic environment with effects on customer behavior.

The insurance market has been growing in 2015 and it is likely that the trend will perpetuate in 2016 provided that the insurance companies adapt to customer requirements on products of financial protection (total volume of premiums or benefits paid) so that by identifying opportunities to modify the business potential and reduce or eliminate threats.

The new laws and regulations, careful supervision and control exercised by the Financial Supervisory Authority and reassessment and reconsideration of customer relationships will help monitor the insurance market where there were produced some turbulence due to the short-term strategies of some companies, pursuit of immediate gain, conflictual situations involving certain companies, insolvency or bankruptcy.

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