THE UNIT-LINKED INSURANCE- A FORM OF LONG TERM ECONOMIZING IN THE CONTEXT OF GLOBAL CRISIS

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Abstract: Today, when nothing can be imagined without the insurance system, as any house, car, or credit or new life automatically involves an insurance policy, on grounds of modern thinking naturally based on the sense of prevention, education, perspective thinking and even on instinct. Taking into account the crisis we are going through, the question arises whether a unit-linked insurance policy is a good investment. If we pursue pure, immediate profitability, we can choose another investment, as the primary function of insurance is not of investment, but of protection. Unit linked is a new product that preserves its modern character on the level of global insurance, offering protection by insurance and, at the same time, the possibility to invest, thus being considered a form of economizing in times of crisis.

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1. INTRODUCTION

Referring to life insurance, these provide us a financial indemnity, its associated risk is a risk of a particular person (insured), and, emotionally speaking, the loss suffered in such a situation will be very difficult, almost impossible to assess for the family, but financial loss can be diminish or eliminated by adhering to a life insurance product.

Insurance is characterized by dynamism, is moved by diversity of the insurance types, and also by the insurers inventiveness to provide protection through launching of new types of insurance, to make these insurance products much more attractive for the insured, especially in times of financial crisis we are in, which involves a permanent study on this field.

The aim of this paper is the result of our desire to highlight the true values of this type of life insurance, unit-linked insurance, aware of life insurance could represent a key driver of economic growth. A country's economic power is reflected in the banking system and insurance, economic stability and people prosperity are found in countries where insurance are present in there economic life. Romanian's mentality should changing, the people must to understand the need to complete more than a life insurance, by choosing a unit-linked insurance, which provides not only protection through insurance component, but also an investment opportunity. It is possible that, just the current economic environment, low wages or job losses being the main factors leading to many of us to understand how important is saving through life insurance.

However, for insured, „insurance just represents dollars out of pocket with no benefit. This is an unfortunate attitude. Insurance plays a broad role in the worldwide economy, helping to assure that millions of transactions and other activities, economic and non-economic, can proceed"(Zevnik ,R ,2004:3).

According to Bart Astor life insurance is a unique product, the decision to insure a life insurance policy is not an easy decision; is quite simple to estimate a vehicle value, or a property value, but how you realize the value of your life? Most people think that they need life insurance if they have a family - to ensure that their offspring will benefit of a financial stability if they die prematurely.(Astor B. ,1999:9)

Taking into account the crisis we are going through, may be a life insurance is not the best investment, but also are not a bad one. If we pursue pure, immediate profitability, we can choose another investment, as the primary function of insurance is not of investment, but of protection, insurance being considered a way of long term savings.

2. UNIT LINKED INSURANCE OR TRADITIONAL LIFE INSURANCE? WHAT IS THE BEST OPTION IN TIMES OF FINANCIAL CRISIS?

Unit-linked insurance is a modern one, is a "package insurance"(Badea, D, 2003:184), offering protection through insurance as well as investment opportunities, the money paid in by the insured will be invested in various funds – with a higher risk or a lower risk, as the insured chooses - by the insurance company. Finally, if the choice was a good one, the insured will get more money than in case of a traditional life insurance. Participation in these investment funds depends on the purchasing of a life insurance. In a unit-linked insurance the policy holder "does not participate in a mutual fund, but decides on his own investments to some extent. The participating policies hold a very strong position in many countries and the unit-linked market has been long in coming, but since the beginning of the twenty-first century life insurance companies in these countries has started to offer unit-linked insurance contracts. The unit-linked insurance contract can be decorated with many different kinds of guarantees, and insurance companies have shown some creativity on that point. However, the market is still young, and there is still a lot of space for new developments and improvements"(Moller T ,2007:9).

Unit Linked is a new product, a modern one, on the global insurance market, with a great success, especially in United States and Europe, being launched in the second half of the 20th century, there was very well received on the insurance market, and is known that investments represent the preferred form in association with protection through insurance.

Unit-linked is a complex product and is formed of two components: the protection component and the investment component. Moreover, unit-linked insurance are considered riskier than traditional life insurance, but are more flexible in terms of:

- Size of the premium (the choice of fee insurance);
- Choice of the insured amount;
- Choice of the investments funds;
- Choice of the investment component, and parts of the investment risk;

- Insured direct control over its investment;
- Insured amount may be modified all throughout the duration of the contract;
- Premium size can be adjusted;
- Payments frequency can be changed upon each anniversary of the contract;
- Possibility to pay additional single premium at any time;
- Policy holder has the right to withdraw, at any time, a quota of his units;
- Policy holder is entitled to transfer units among financial funds in which he holds participation;
- Policy holder has the equity of redemption;
- The contract can be transformed into a current account from which the client can withdraw, periodically, a certain quota;

Portfolio management is performed by professionals in the field through the investments programs managed by the insurer, through the investment experts – those which know better which are the risks investments and benefits investments. Anyway, portfolio management is difficult because the insurance holder is entitled to do changes at any time.

There are differences between traditional and unit-linked insurance in terms of substance, portfolio management manner, and also flexibility. From the point of view of the investment techniques, the differences are obvious. With traditional insurance the investment risk is borne by the insurer, while with unit linked it is borne by the insured party. (Badea, D ,2003:186)

Traditional life insurances are terms insurances with a deadline for insurance premium payment. These insurances implies a seriousness from the contractor of the insurance related to the premium payments with regularity and in due time. For a pure product may be added additional clauses taking into account the insured' needs, so that the protection offered through insurance being extended.

In case of the traditional insurance, the investment risk is borne by the insurer. In these circumstances, the insurer will have to invest money with great care, usually in bank deposits and state bonds, which are considered with a lower benefit but most safely for the insured (safe investments).

In case of the unit-linked insurance, the situation is different, because the investment risk is borne by the insured (policyholder) the value of the policy is obtained as the result of the multiplication of the number of units with the daily quota.

A unit is a division of the investment funds which entitled the insured person to participate and earn in accordance with the investment funds profitability. The insurer takes out a unit-linked insurance policy to insured person and asses the performance of the financial funds, upon the units. The value of the unit is established daily or weekly. The value of the policy is the result obtained multiplying the number of units with daily unit value, and the earnings are established according to profitability of the investment funds owned by the insurer.

The insurance premium has a simple flow which is described in the following:

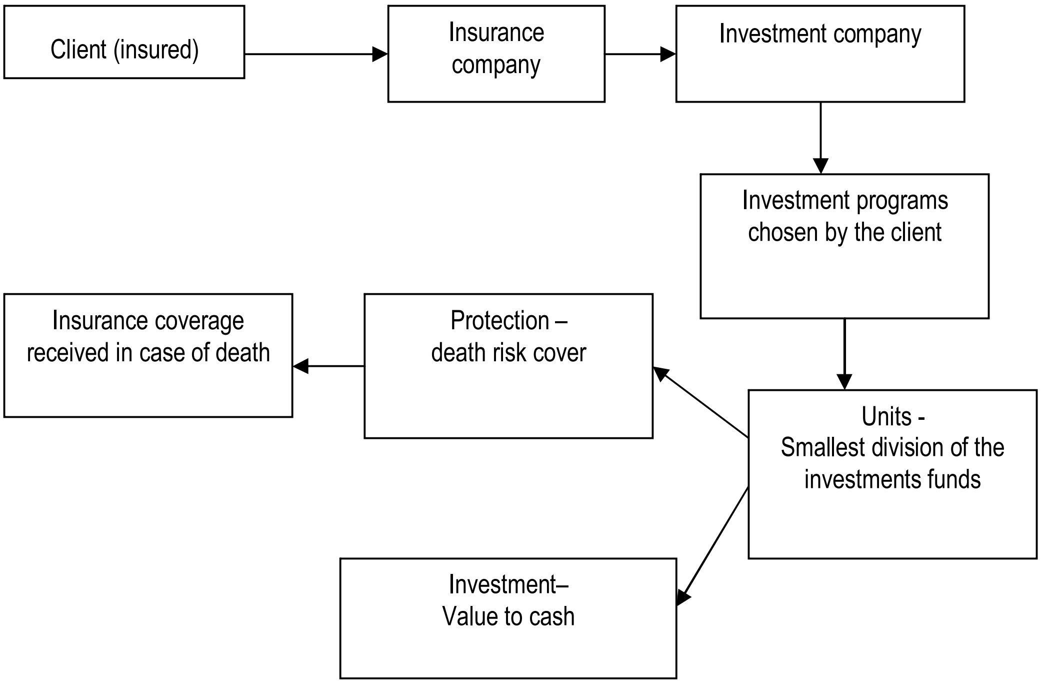

Figure no.1. Premium insurance flow in case of a unit-linked insurance

Unit-linked insurance has two components: the protection component and the investment component. The protection component consists in a whole life insurance, for which premium insurance is a scheduled one and is paid until retirement. During the insurance term the insured amount is guaranteed by the insurer. In case of death, anytime during the insurance term, the beneficiary will receive the maximum from the insured amount and the current value of the insured' account – which represents the value to cash of the units held. The insured amount is settled by the insured, between a minimum and a maximum level imposed by the insurance company. These levels depends on the client' age and the premium size. Current account is the monetary equivalent of the units held by the insured.

The investment component consists of the purchase of units from the insurer's investment programs. These are "internal funds, owned by the insurer, with a closed circuit, as they consist of financial assets, managed by the insurer, serving only unit-linked packages".(Badea, D. , 2003:185) The policy holder can choose the percentage of the premium allotment between the established funds, and also, at any time, the policy holder knows the value of the units held. Moreover, the client can change the percentage of the premium allotment and to redirect further premiums towards specific funds. If the insured wants to cancel a policy, he is entitled to receive the surrender value.

In case of choosing a unit-linked insurance, the insured is expected an increasing of units, but has to be prepared for both situations because the sales price per unit for each particular fund can be increasing or decreasing from one day to another. These types of insurance, usually, provide investment benefits on long term. A prudent policy holder will chose government securities or bonds, because of a higher safety of those in comparison with other financial assets. A risky policy holder will choose shares, expecting to obtained higher benefits on long term, but also taking into account an assumed risk.

3. COMPARATIVE CASE STUDY BETWEEN UNIT-LINKED INSURANCE AND MIXED LIFE INSURANCE

We will analyzed the case of a person which insures a traditional life insurance (mixed life insurance) and we will compare this one with a unit-linked insurance, taking into consideration the following elements: the person is 32 years old, insurance period is 4 years, insurance premium has a value of 2000 lei. These elements are the same in both cases. Also, we will consider in case of the unit-linked insurance, a prudential investment strategy of the policy holder. The policy holder prefers to invest in bonds.

Table no. 1 . Evolution of the unit-linked insurance

Year(from insurance period)	Insurance premium	Percentage of the premium allotment for investment funds	Insurance premium affected to investment component	Bond par value	Number of the allocated units	Account value	Account profitability		Account value with yield to adjusted maturity	Evolution of the surrender value
							%	Standard value		
Insurance begening.	2000	97.55%	1951	10	0.1951	1951	0%	0.00	1,951.00	0.00
2012	-	-	-	10	0.1951	1951	7%	136.57	2,087.57	2,045.82
2013	-	-	-	10	0.1951	1951	7%	136.57	2,224.14	2,179.66
2014	-	-	-	10	0.1951	1951	7%	136.57	2,360.71	2,313.50
2015	-	-	-	10	0.1951	1951	7%	136.57	2,497.28	2,497.28

Source: Informations from Asirom Vienna Insurance Group

Due to the fact that the insurance period is a short one (these types of insurance being appropriated to bring earnings on long term) and the insured person has a prudential behaviour the earnings at the end (on maturity) is quit small.

Refering to unit-linked insurance, the evolution of the account value with yield to adjusted maturity and the evolution of the surrender value are presented graphically, into a more suggestive manner, in figure no.2.

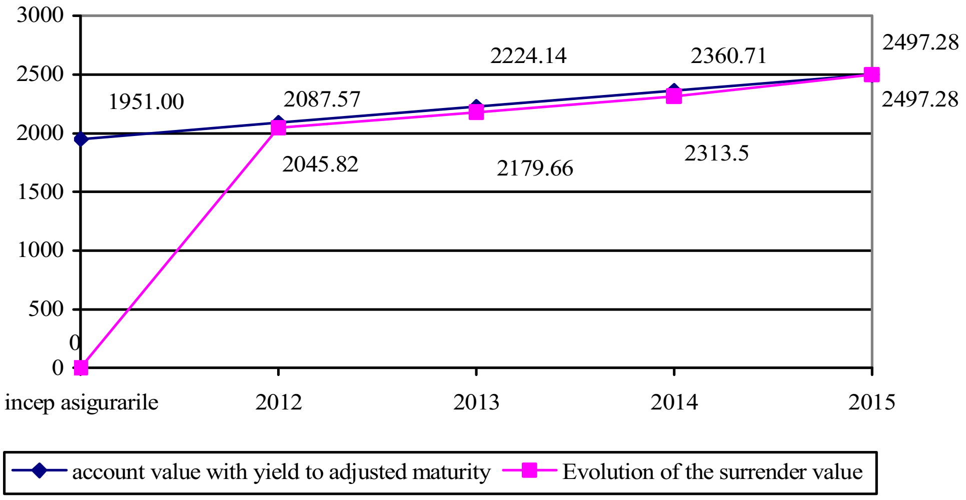

Figure no.2. Account value with yield to adjusted maturity

Refering to mixed life insurance, the evolution of the insured amount cumulated with excess equity and the evolution of the surrender value are presented graphically, into a more suggestive manner, in figure no.3. We take into consideration the same date in this second case, like in the first one.

Table no. 2 . Evolution of the mixed life insurance

Year (from insurance period)	Insurance premium	Insured amount for basis risk	Evolution of the surrender value	Excess equity	Insured amount cumulated with excess equity
2011	2000	2153.22	1913.80	0.00	2153.22
2012	2000	2153.22	1970.93	59.13	2212.35
2013	2000	2153.22	2029.88	121.80	2275.02
2014	2000	2153.22	2153.22	190.05	2343.27

Source: Informations from Asirom Vienna Insurance Group

Through this type of insurance (mixed life insurance), the basic risk is the death risk, and the investmest risk is covered by the insurer. So that the insurance company will invest the insurance premium with prudentiality. We can observe from the graphic below that the surrender value is smaller than the surrender value of the unit-linked insurance contract. The insured amount cumulated with excess equity is also smaller than in the previous case.

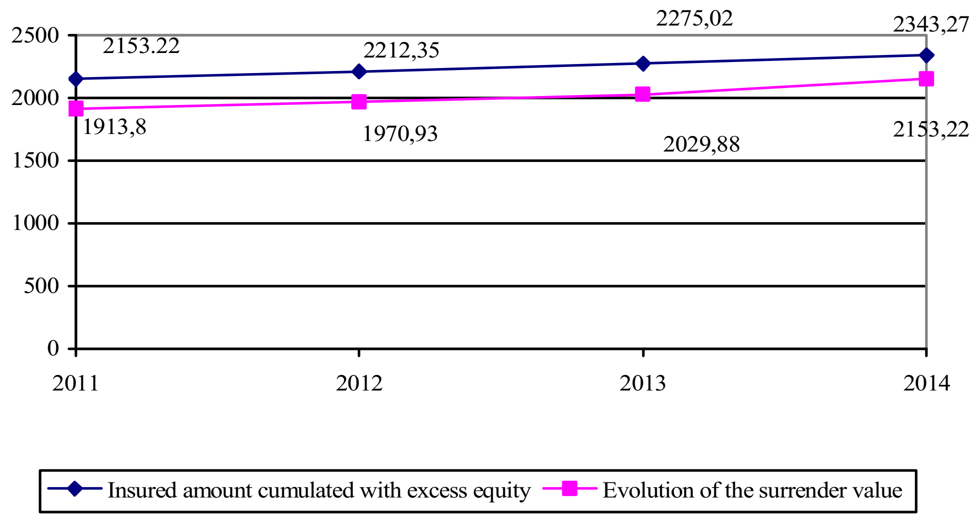

Figure no.3. Evolution of the cumulated insured amount and of the surrender value

Taking into consideration this comparison between these two types of life insurance contracts (mixed life insurance and unit-linked insurance), we observed, obviously, even on short term, the unit linked insurance is more profitable than the mixed life insurance, even if the policy holder of the unit-linked insurance is a prudential one, and the premium insurance was invested only in bonds.

4. Conclusions

Insurance are a key component of the whole economic system, through the collected insurance premium, investments scale, and more important, through the major social and economic benefits, covering various types of risk.

We have to mention the fact that Romania is still a developing country, so that the increased insurance penetration coverage combined with economy dynamics are sufficient motives which will bring many opportunities both for insured persons and insurers. We consider that most important unit-linked insurances developing factors are client's beliveness for savings and protection needs, and the earning of the customer trust through insurance products, adapted to the client's needs.

Life insurance industry was mostly affected by the financial crisis, taking into consideration increasing of the unemployment and customers incomes diminution. But not at least, one of the most factors which affected the life insurance industry was a psychological one through fear and uncertain regarding to the financial safety of the population. These fears caused by the increasing number of insurance contracts cancellation, increasing number of contracts surrender, and also a stay of intention to insure a life policy.

In the last year, life insurance industry presented an uptrend, especially because of profitability of the unit-linked investment programmes, but also because of the persons trust that this type of insurance is a better saving way on long term. It is expected that the life insurance industry uptrend being maintained also in the years that follow.

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