THE MAIN ISSUES REGARDING THE EMERGENCE AND DEVELOPMENT OF THE INSURANCE MARKET IN ROMANIA

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Abstract

Insurances appeared and were practiced by insurance companies from 1857-1870 when there were 11 insurance companies but all were foreign-owned. Gradually, after 1871 they founded a series of companies based in Bucharest, which ensured the financing of some activities and their insurance at a time when the economy had fluctuations in its evolution. The authors also focus on the fact that, in the interwar period, Romania’s economy, hit by inflation and financial speculation, has encouraged the creation of a larger number of insurance companies. They have severely filtered out economic activity, and regulations that took place until the 1930s, the year when the first insurance law came into being, carried out somewhat uncontrolled activity.

In the interwar period, the state fire risk insurance was developed which worked alongside the House of Savings, Help and Pensions. Subsequently, in 1942 the insurance house became an autonomous state-owned company, and during the privatization period there were a number of state-owned insurance companies that had a positive effect on the consolidation and avoidance of the losses of economic agents. After 1990, the insurance market was re-launched, and the Insurance Supervisory Commission subsequently appeared, which was integrated into the Romanian Financial Supervisory Authority. The Department that exists in this Authority deals with the insurance study, supervises and regulates the activity in this field. The authors point out that the insurance market in Romania has developed through the emergence of new insurance companies, but also by the development of reinsurance activity. There are a number of significant aspects related to the activity of the National Authority, the data being of course those provided by the annual reports of the Financial Supervisory Authority. This article emphasizes on the one hand the emergence and evolution of the insurance system in Romania, as well as the way in which results have been obtained that can be improved as a
result of certain insurance, insurances that compensate those who the field of activities, but also individuals when cataclysms occur, there are losses that are in line with those that the insurance company may defer.

Keywords: insurance, reinsurance, premium, indemnification, insurance market

JEL Classification: G10, G22, I13

Introduction

In this article, the authors conducted a thorough, structured study, starting from the way insurance companies, insurance business, how they developed, and especially at the present time, to highlight how they are doing this activity and the need to improve and improve the activity in this field. There are presented a series of issues that refer to the way in which the first insurance companies appeared, first with foreign capital, then with local capital, going on the historical stages until World War I, the interwar period, then the period after 1945 until 1989, that of the stagnant economy, in which there were state insurance companies that deplored in all the situations in which losses arose, and then to the analysis of the current situation, where the insurance department is part of the structure of the Financial Supervisory Authority Romania. Using significant charts and tables shows how the insurance activity in our country has evolved over the last period of time. Numerous figures are given expressing the rate of damage, the combined damage rate, insurance, indemnification and all these, of course, ensuring the sustainability of the economic, financial, service and individual situations of all citizens. As a result of the work carried out by the Financial Supervisory Authority, the confidence of individuals and legal entities in the insurance system has increased, and even if there is not a cult in the Western countries, insurance is perceived as a necessity, an immediate need to guarantee the results work through insurance. In this context are also presented the insurance classes, the first used, the way in which the recovery of the damages was made. Also, although the law stipulating the obligation to provide housing has emerged, it should be noted that year-on-year the number of housing insurance contracts is increased due to the fact that a series of natural phenomena that fall under the category of force majeure cause damage to the owners who acquire through insurance stability and possible recovery of losses.

Literature review

In connection with the insurance system a number of authors have made their point of view. Anghelache (1999-2017) dealt with the analysis of insurance developments in Romania. Anghelache (2004) presented

Research methodology, data, results and discussions

Insurance came about and was practiced by insurance companies. In parallel, social insurance also developed. Private insurance covers the risk aspects, namely accidents, transports, thefts, natural calamities, life, etc., constituted in historical practice as insurance branches. As insurance extends to the interests of a significant part of the population, it is subject to state regulation and control. In Romania, insurance companies have emerged since the fifth decade of the nineteenth century. The first form of insurance was in the Danube ports - insurance for the export of grain. In 1870, nine insurance companies were operating in Braila and one in Galati. Their statutes and regulations were similar. At the same time, they establish their headquarters in Bucharest with some foreign insurance agencies. Between 1856 and 1870, 11 insurance companies were created, all with external capital. The increased interest in setting up insurance institutions, especially foreign ones, came from the profits they earn, explaining the emergence of insurance companies, more numerous and stronger than the first banking and industrial institutions. The expansion of private insurance was also influenced by the development of land, commercial, industrial credit institutions. The two categories of private financial activities were complementary and stimulated each other. Commercial and industrial enterprises could not obtain credits if the wealth guaranteeing the loans was not insured against fires, thefts, etc. Thus, all branches of private insurance (transport, agricultural, fire, etc.) develop. Life insurance later on.

Gradually, domestic initiatives to set up insurance companies are gradually emerging. In 1871 the company „Dacia”, based in Bucharest for complex insurance, is founded. Two years later, another society - „Romania” - was set up and merged with „Dacia” in 1882. Until the First World War several insurance companies appeared. Some agencies of foreign companies withdraw from Romania or give in favor of native ones. Three companies
operated with external capital. „Victoria” (Berlin funding), „Generala” and „Agricola”, of Western trusts. In Transylvania until 1918 there was a network of agencies of the insurance companies in the Austro-Hungarian Empire and one of the Romanian, Hungarian and Saxon capital (Transylvania, Agronom, etc.). After the Union of Transylvania with Romania, agencies of foreign companies are taken over by indigenous companies that integrate into the national insurance system.

The interwar period, hit by inflation and financial speculation, encourages the creation of a large number of insurance companies. These fall into the economic crisis of 1929-1933, which severely filters them.

The regulation of the activity of the insurance companies is introduced in Romania by the provisions of the Code of Commerce of 1886. Previously, the creation of a company was authorized by special laws, which approved also the operating conditions.

The most regulated private insurance is provided by the law of July 1930. A control office attached to the Ministry of Industry and Commerce is responsible for verifying that companies meet the conditions imposed by law. As a result, of the 44 existing insurance companies, only 17 national companies and two foreign companies retain their right of operation, 11 companies are granted provisional authorization until the criteria laid down by law are in place and 16 companies are liquidated. After 1930, seven foreign insurance companies were established in the country. A law in 1941 requires the nomination of all actions. The new law prohibits the establishment of insurance companies, considering the existing ones as sufficient.

In addition to three companies (the „Vulturul” insurance cooperative and the „National Insurance”, „Romanian Insurance”), the others were under the control of foreign capital (Italian, English, French, German etc.).

At this point, the reinsurance activity appears to disseminate the financial effort to cover the risks.

In the interwar period, state insurance for fire risk develops. This type of insurance functioned alongside the House of Savings, Help and Pensions. In 1936, the House of Insurance of the Ministry of the Interior was established. The insurance house extends the scope of insurance to all immovable, movable and movable property belonging to State-controlled institutions. In 1942, the Insurance House was transformed into the State Registry of State Assets (RAAS). New insurance departments (Casco, civil liability, car damage, accidents, life, floods, hail, transport insurance, theft, etc.) arise. State insurances involved most of the assets of state assets.

Life insurance had the highest weight, and the evolution of reserves and capital provided reflects the expansion of activity. The insurance company
is the only private or public institution created in the interest of the insurer and the insured, the patrimony and the real management of the insured enterprise. The economy of a company, branch, or country is most evidenced by insurance companies.

**Evolution of insurance companies between 1921-1939**

*Table no. 1*

- millions of lei 1913 -

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Capital</th>
<th>Technical reserves</th>
<th>Insurance and reinsurance</th>
<th>Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>9</td>
<td>5.6</td>
<td>13.6</td>
<td>4.2</td>
<td>0.8</td>
</tr>
<tr>
<td>1929</td>
<td>31</td>
<td>8.4</td>
<td>29.2</td>
<td>10.8</td>
<td>16.6</td>
</tr>
<tr>
<td>1939</td>
<td>19</td>
<td>10.1</td>
<td>62.6</td>
<td>7.6</td>
<td>40.1</td>
</tr>
</tbody>
</table>

The most relevant indicator of the financial strength and solidity of these institutions is the mathematical and technical reserves that express the difference between the premiums and the damages paid. Technical reserves increased 4.6 times between 1921-1939.

For the purpose of calculating value added in the field of banking financial services, institutions of this nature have been grouped into four categories according to their specificity: the central bank for money and discount issuance, the savings and notes houses, the commercial banks and the specialized banks and the insurance companies. For each category were synthesized the synthetic indicators: gross output, intermediate consumption, depreciation and value added, referring to the periods of establishment up to 1947, ordered in four tables. Initial data denominated in current currency were deflated. Thus, the indicators expressed in lei at the level of 1913 become comparable for the whole period as well as with the values in the other sectors of the economy.

We continue to present the data from which the added value was calculated for the most significant years between 1866 and 1947.
Gross output, intermediate consumption and gross added value in banking and insurance activities in the selected years of the 1866-1947 period

Table no. 2
– lei 1913 –

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross production thousand lei</th>
<th>Intermediate consumption thousand lei</th>
<th>Gross value added thousand lei</th>
<th>Share in value added of services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1866</td>
<td>368</td>
<td>41</td>
<td>327</td>
<td>0,1</td>
</tr>
<tr>
<td>1882</td>
<td>2629</td>
<td>274</td>
<td>2355</td>
<td>0,5</td>
</tr>
<tr>
<td>1902</td>
<td>32521</td>
<td>6676</td>
<td>25845</td>
<td>3,5</td>
</tr>
<tr>
<td>1914</td>
<td>106914</td>
<td>25754</td>
<td>81160</td>
<td>7,2</td>
</tr>
<tr>
<td>1924</td>
<td>193246</td>
<td>39777</td>
<td>153469</td>
<td>6,9</td>
</tr>
<tr>
<td>1938</td>
<td>122129</td>
<td>29120</td>
<td>93009</td>
<td>3,2</td>
</tr>
<tr>
<td>1942</td>
<td>44235</td>
<td>12331</td>
<td>31904</td>
<td>1,5</td>
</tr>
<tr>
<td>1947</td>
<td>17510</td>
<td>7545</td>
<td>9965</td>
<td>0,8</td>
</tr>
</tbody>
</table>

The composition and structure of the added value of the gross banking and insurance business, by category, in the selected years of the period 1866-1947

Table no. 3
– lei 1913; weights –

<table>
<thead>
<tr>
<th>Year</th>
<th>Total thousands lei</th>
<th>%</th>
<th>The National Bank of Romania thousands lei</th>
<th>%</th>
<th>House of Savings and Consignments thousands lei</th>
<th>%</th>
<th>Banks and other banking institutions thousands lei</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1866</td>
<td>327</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1882</td>
<td>2355</td>
<td>100</td>
<td>2131</td>
<td>90,5</td>
<td>224</td>
<td>9,5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1902</td>
<td>258445</td>
<td>100</td>
<td>6598</td>
<td>25,5</td>
<td>3765</td>
<td>14,6</td>
<td>15482</td>
<td>59,9</td>
</tr>
<tr>
<td>1914</td>
<td>81160</td>
<td>100</td>
<td>13381</td>
<td>16,5</td>
<td>4329</td>
<td>5,33</td>
<td>63450</td>
<td>78,2</td>
</tr>
<tr>
<td>1924</td>
<td>153469</td>
<td>100</td>
<td>9425</td>
<td>6,13</td>
<td>1911</td>
<td>1,25</td>
<td>129184</td>
<td>84,2</td>
</tr>
<tr>
<td>1938</td>
<td>93009</td>
<td>100</td>
<td>12619</td>
<td>13,6</td>
<td>5102</td>
<td>5,49</td>
<td>51354</td>
<td>55,2</td>
</tr>
<tr>
<td>1942</td>
<td>31904</td>
<td>100</td>
<td>7915</td>
<td>24,8</td>
<td>1206</td>
<td>3,78</td>
<td>13305</td>
<td>48,0</td>
</tr>
<tr>
<td>1947</td>
<td>9965</td>
<td>100</td>
<td>1977</td>
<td>19,8</td>
<td>197</td>
<td>1,98</td>
<td>3150</td>
<td>31,6</td>
</tr>
</tbody>
</table>

The evolution of insurance in Romania has, over time, a sinuous evolution. The insurance cult penetrated quite slowly. In the beginning, the insurance business was treated together with the banking business.

In periods that can be defined after 1918, banking and insurance activity had a practically insignificant share in the formation of the Gross Domestic Product as well as the Gross Domestic Product Indicator per inhabitant. Hence, indicators have also been derived on the relative contribution of the banking and insurance systems to GDP formation.
In the Communist period (1945-1989), the banking system was very low, with only a few national banks having subsidiaries in all counties and large localities, as well as a single foreign bank. The insurance system was serviced by Adas and a specialized national company with branches in each county and important locality.

After 1990, the insurance market has relaunched. There were insurance companies with Romanian capital, mixed or foreign. The insurance category has also been diversified and the National Insurance Authority is established to oversee the internal market. Subsequently, the National Insurance Authority was integrated into the Romanian Financial Supervisory Authority. In this autonomous body there is a specific Department for the supervision of the insurance market.

Against the background of the trends on the international market, but especially as a result of the economic environment, the tendency to reduce the penetration rate of the insurance in the economy of our country continued. The insurance density, calculated as the ratio between the value of the gross written premiums and the population, was somewhat constant.

The indicator called „penetration rate” is the ratio between gross written premiums (for life and non-life insurance) and gross domestic product. This indicator has risen, reversing the downward trend. The size of the insurance market is mainly given by the value of the gross written premiums.

There is a high level of gross premiums written for non-life insurance compared to life insurance. This feature differentiates the insurance market in Romania from other countries, where the emphasis is on life insurance. In Romania, general insurance dominates (79% of the total), and 47% of them are civil liability insurance (RCA). In the euro area, the insurance business is focused on life insurance.

There are 33 insurance companies in the insurance market in Romania, 19 of which provided only non-life insurance (AG), 7 life insurance (AV) and 7 companies with composite activity.

The value of gross premiums written by insurance companies and branches in Romania has increased over the last decade.

The breakdown by insurance premiums of gross written premiums highlights the dominant position of non-life insurance and within the car insurance.

Companies with the largest volumes of gross written premiums are shown in Figure no. 1.
The dynamics of the breakdown by insurance segments in 2012-2016

Figure no. 1

<table>
<thead>
<tr>
<th>Nr. crt.</th>
<th>Societate</th>
<th>Total prime subscrisă (exigurări generale și de viață) [lei]</th>
<th>Cota totală de piață</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ASIROM VIENNA INSURANCE GROUP S.A.</td>
<td>660.885.029</td>
<td>14.14%</td>
</tr>
<tr>
<td>2</td>
<td>ALLIANZ - TRIAC ASIGURĂRI S.A.</td>
<td>594.729.112</td>
<td>12.75%</td>
</tr>
<tr>
<td>3</td>
<td>OMNIASIG VIG</td>
<td>453.492.306</td>
<td>9.76%</td>
</tr>
<tr>
<td>4</td>
<td>CARPATICǍ ASIG S.A.</td>
<td>451.766.097</td>
<td>9.60%</td>
</tr>
<tr>
<td>5</td>
<td>GRUPUL NA ASIGURARI S.A.</td>
<td>440.142.823</td>
<td>9.43%</td>
</tr>
<tr>
<td>Total (1-5)</td>
<td></td>
<td>2.603.014.367</td>
<td>55.79%</td>
</tr>
<tr>
<td>6</td>
<td>EURONS ROMÂNIA ASIGURARE REASIGURARE S.A.</td>
<td>399.910.566</td>
<td>8.57%</td>
</tr>
<tr>
<td>7</td>
<td>NN ASIGURĂRI DE VIATA SA</td>
<td>319.773.047</td>
<td>6.65%</td>
</tr>
<tr>
<td>8</td>
<td>CITY INSURANCE S.A.</td>
<td>312.595.468</td>
<td>6.70%</td>
</tr>
<tr>
<td>9</td>
<td>GENERALI ROMÂNĂ ASIGURARE REASIGURARE S.A.</td>
<td>272.919.839</td>
<td>5.85%</td>
</tr>
<tr>
<td>10</td>
<td>UNIQA ASIGURARI S.A.</td>
<td>211.135.816</td>
<td>4.53%</td>
</tr>
<tr>
<td>Total (1-10)</td>
<td></td>
<td>4.129.369.103</td>
<td>88.28%</td>
</tr>
<tr>
<td>Alte societăți</td>
<td></td>
<td>546.287.786</td>
<td>11.71%</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>4.665.656.889</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: ASF, ASF-supervised markets report in 2016

The top ten insurance companies hold 95% of total non-life insurance, with the highest shares of A10 - Civil liability for land-use vehicles; Class A3 - Land vehicles, excluding railway rolling stock and class A8 - Fire and natural disasters.

The weight of these three classes was 89% of the total gross written premiums for non-life insurance.

In the case of life insurance, the gross written premiums registered significant increases.

Of the total gross premiums, more than half belong to two companies, namely NN Asigurări de Viață SA and BCR Asigurări de Viață Vienna Insurance Group SA.

Of the total gross written premiums for life assurance, the highest weights are held by life insurance classes and annuities related to investment funds.

Together, the two classes account for 95% of the total gross written premiums for life insurance (Figure 2).
Evolution of the volume of gross written premiums on life insurance classes (million lei)

![Figure no. 2](image)

*Source: ASF, ASF-supervised markets report in 2016*

The evolution of gross indemnities paid by insurance companies in the period 2012-2016 is shown in Figure no. 3.

Evolution of the volume of gross indemnities paid including maturities and redemptions for general and life insurance (lei)

![Figure no. 3](image)

*Source: ASF, ASF-supervised markets report in 2016*

Significant weightings of 94% of the gross indemnities paid were recorded in the same classes A3, A8 and A10, which attracted the highest gross premiums.

In life insurance, the value of gross indemnities, maturities and redemptions paid has been steadily rising.

The most important weights were recorded by C1 and C3.
If the CASCO and RCA insurance claims are analyzed for 2014-2017, it is found that the rate considered is very close to 100%.

**Quarterly Evolution of Damage Rate and Combined Damage Rate for Main Unemployment Classes in 2014-2016**

![Figure no. 4](image)

*Source: ASF, ASF-supervised markets report in 2016*

Lately, there has been an increase in the housing insurance market (compulsory and optional).

Obligatory housing insurance is illustrated by the results of the Disaster Insurance Pool (PAID). The number of contracts increased by 15% compared to the previous year, and the gross premiums written were 24% higher.

Optional housing insurance continued its upward trend in 2017, with gross premiums written 5% higher than in the same period of 2016.

Characteristic is the emergence and development of the product of risk reinsurance. Of the total gross premiums written under the non-life insurance category, reinsurance is ceded at 32%. Insurers conclude retirement retirement contracts for a significant portion of non-life insurance products such as catastrophe insurance and civil liability insurance. Relocation remittance allows the damage to be limited to a maximum of bearings in the event of occurrences with significant financial impact.

Approximately 29% was the financial effort of the insurance companies, the rest being amounts recovered from the reinsurers. With respect to reinsurance cession, there are significant differences in life insurance compared to general insurance. Thus, insurance premiums are generally
anticipated, and life insurance payments are more predictable, which makes insurance companies take most of the risk, and reinsurance disposals are reduced. The reinsurance cession rate was below 5% over the past ten years.

In the context of prudential supervision, insurance companies are supervised to ensure that they meet their obligations towards policyholders and comply with the solvency requirement.

Indicator The liquidity ratio is the ratio between the liquid assets and the short-term liabilities of the insurers to the policyholders, which, according to the rules on prudence, must be over-unitary.

In the case of life insurance, the liquidity ratio was higher, 5.01 against 2.01 for non-life insurance.

The level of liquidity ratio increased on the basis of investments made by insurance undertakings in readily liquidable assets.

The current solvency regime is a prudential risk-based regime.

Solvency II solvency regime application encourages efficient asset management and increases consumer protection for insurance products. Well-capitalized insurers will allow the insurance market to withstand shocks. The scheme is structured on three pillars: financial requirements, governance and oversight, reporting and transparency. Financial requirements are of particular importance, imposing two thresholds: the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). The stage of preparation for the application of these requirements was achieved during the period 2013-2015, when the insurance companies proceeded to increase the share capital. Capital requirements are higher, being in line with the risks assumed by insurance companies. The transition from Solvency I to Solvency II results in an additional requirement at the insurance market of ROL 1.26 billion.

The eligible own funds reached ROL 4.21 billion, and in terms of their structure, items of rank 1 without restrictions have a weight of 94%. This indicates that at the level of the market the capital of the insurance companies is of very good quality, being mainly the own capital.

Conclusion

From the authors’ study on insurance, some conclusions are drawn. Insurance is generally an activity complementary to any other activity. The insurance system brings a balance of the one who acts either on the capital market, in the economy, in science, or in his everyday life. The insurance system is a system that has emerged and developed continuously. The natural-geographical situation of Romania has imposed compulsory housing insurance but has gradually become a requirement and an activity based on the knowledge and will of all those who carry out certain activities. We know
the causes of force majeure covered by the insurance system that give quiet, at least in part, to those who buy an insurance policy.

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