

## **Continuity and Performance on the Romanian Insurance Market in the Context of the New Macro-Prudential Supervision Requirements**

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**Abstract:** Given the expansion of regulatory macro-prudential supervision concerns at an international level, the experiences of young democracies in their fight to ensure the protection of insurance holders, operators and investors against unfair, abusive and fraudulent practices can contribute to the stability, competitiveness and proper operation of the financial instrument markets. In Romania, the insurance market is quite small compared to other countries, due to the population's lack of economic culture. However, the concentration of the insurance market in Romania is significant, given that 10 insurance companies cover about 80% of the insurance market, but also the fact that there is significant competition on the market, and no company holds a dominant position. In this study we analyzed the 2004-2016 activity of the best 3 Romanian insurance companies with a high degree of visibility due to their long-term continuity and influence on the domestic insurance market. Considering the increasing potential offered by Eastern Europe in general and Romania in particular, we believe that our study is particularly useful to specialists in the field interested in identifying ways to improve their investments in globalized financial instruments.

**Keywords:** financial stability; SOLVENCY II; Romanian insurance companies; economic and financial crisis; insurance indicators

**JEL classification:** G19; G20;G22; G28

### **1. Introduction**

Insurance companies, as companies that contribute to the funding of measures for the prevention and fight against events that are damaging and disturbing to the economic activity, play a major role in the modern society, where uncertainty and risk are increasingly characteristic of the current economic and social environment.

In this study we analyzed the 2004-2016 activity of the best 3 Romanian insurance companies with a high degree of visibility in terms of availability of data on their own websites (annual reports), as well as continuity of their activity: in addition to

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the objectives of their activity, these companies also kept their names, in spite of structural changes following mergers or takeovers.

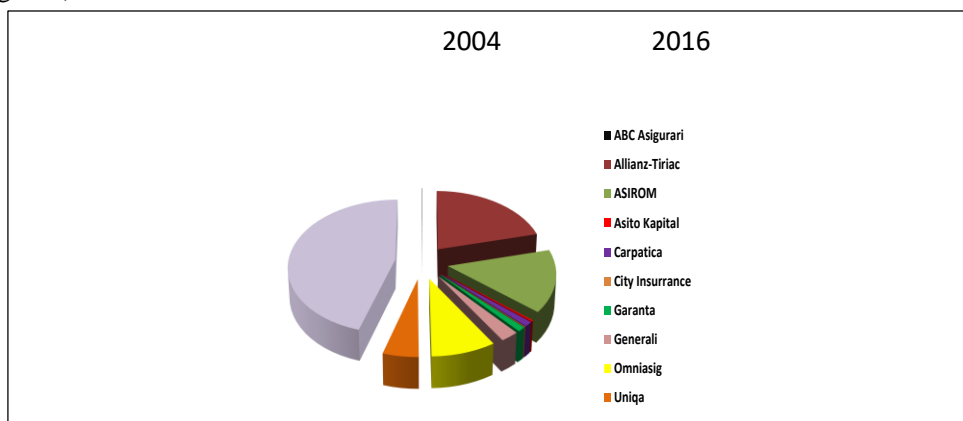
The selected sample includes the best 3 companies, for which we wanted to capture the way in which they overcame the important economic and financial moments of the analyzed period (Romania's accession to the EU as of 1 January 2007, the economic-financial crisis 2008-2010, the introduction and application of the new Solvency II macro-prudential supervisory system as of 1 January 2016) based on the main financial indicators from each company's annual financial statements. The chosen sample contains three insurance companies: Allianz Tiriac, Omniasig VIG, ASIROM VIG. In Romania, Vienna Insurance Group (VIG), which is one of the most important groups in Austria, with implications on the insurance markets of Central and Eastern Europe, holds three of the top ten insurance companies: OMNIASIG – with non-life insurance activities, ASIROM – activating on both insurance segments, and BCR Asigurări de Viață – active on the life insurance segment.

The three above-mentioned insurance companies have a number of common features, despite their diversity in size and turnover. Thus, they are among the most long-lived companies on the Romanian insurance market, have acquired credibility and prestige in the field, have a decisive influence on the domestic insurance market, and contribute to the education of the population in the insurance field.

## **2. Analysis of Some of the Most Long-Lived Romanian Insurance Companies between 2004 and 2016**

In 2004, 10 companies (City Insurance, Allianz Tiriac, Omniasig VIG, ASIROM VIG, Generali, Uniqa, and in addition to these there are companies such as ABC Asigurari, which is the smallest one, and also AsitoKapital, Carpatica and Garanta) held 54.6% of the gross written premiums from the total insurance market, with Allianz Tiriac holding 21% as market leader in 2004, followed by ASIROM with 15% and Omniasig with 8.7% (Figure 1). In this category, ABC Asigurări had the lowest share, of 0.1% of the gross written premiums. The data in this section are based on the annual reports of the companies and those of The Romanian Financial Supervisory Authority. The total share of subscribed premiums covered by the 10 mentioned companies out of the entire market increased from 54.6% in 2004 to 62% in 2016, meaning that the companies enjoyed continuity and stability, and that they grew and developed over the years. If we were to make a comparative study of each company's share in terms of gross written premiums, there are companies for whom the total market share was larger in 2016 as compared to 2004: ABC Asigurari, Carpatica, Generali, Omniasig, the most spectacular growth being City Insurance,

from 0.1% to 8.4% in gross written premiums of the total insurance market (Figure1).

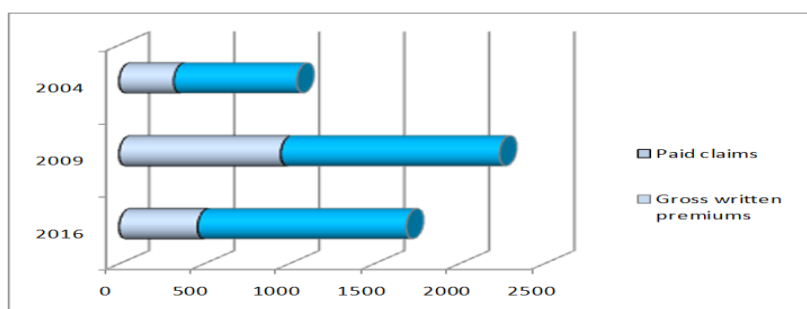


**Figure 1. Companies' share of gross written premiums out of the total amount thereof in the insurance market between 2004 and 2016**

*Source: Our own calculations based on data extracted from these companies' annual reports*

### 1) Allianz Țiriac Asigurări S.A.

The company was founded in 1994 as Asigurări Ion Țiriac. In 2000, the sole shareholder, Ion Țiriac, sold 52.2% of the shares to German group Allianz (which also owns Gothaer on the Romanian market), which explains the company's current name. Non-life policy sales account for approximately 90% of Allianz- Țiriac's earnings, life insurance policies representing only a small part of the company's activity.



**Figure 2. The paid claims and gross written premiums to Allianz Tiriac (mil. lei)**

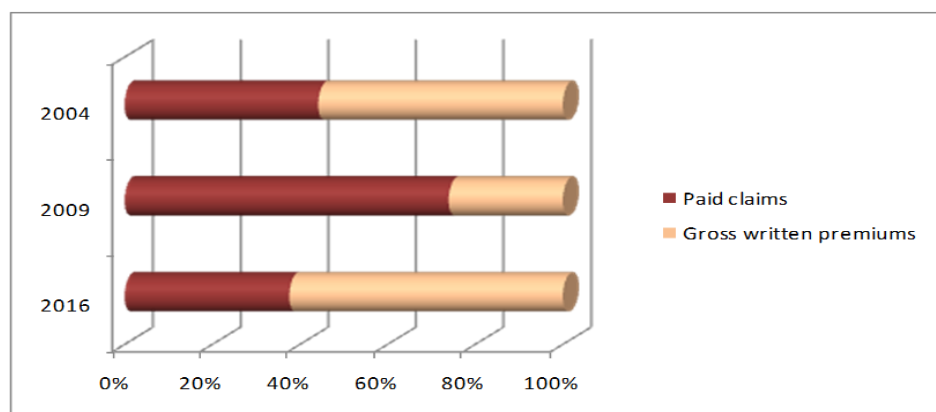
*Source: Data extracted from Annual Report of Allianz Tiriac Company (2004, 2009, 2016)*

Within the non-life insurance segment, income is mainly derived from CASCO policies (optional motor vehicle insurance which pays indemnities even if the driver of the insured vehicle is at fault) and RCA policies (casualty and collision - compulsory civil liability insurance).

During the years studied, 2004-2016, this company has been the market leader on the non-life insurance segment every year. Allianz-Tiriac also registered an upward trend in terms of gross written premiums (Figure 2), in 2009 the company becoming market leader on the insurance market as a whole.

Gross indemnities paid in 2004 accounted for 37.6% of gross written premiums, but in 2009 this share increased to 74%, the highest share of gross indemnities paid in all years studied. These indemnity evolutions show the consequences of the financial crisis. Although the income from gross written premiums in 2009 is the highest on the market, the paid indemnities are also the highest, which led to a decrease in the company profit by 28% compared to 2004. In 2016, the percentage was 44.2% due to the measures taken by the amendment of the RCA insurance legislation (Figure 3).

The company's net profit also registered negative values in the studied period, such as 2010 with a deficit of Ron 18.9 million, as well as 2012, with a deficit of Ron 42.7 million. The years before and after the negative ones though are characterized by positive net profits higher than these losses, which allowed the company to bounce back.



**Figure 3. The share of paid claims in gross written premiums for Allianz Tiriac (%)**

*Source: Our own calculations based on data extracted from Annual Report of Allianz Tiriac Company (2004, 2009, 2016)*

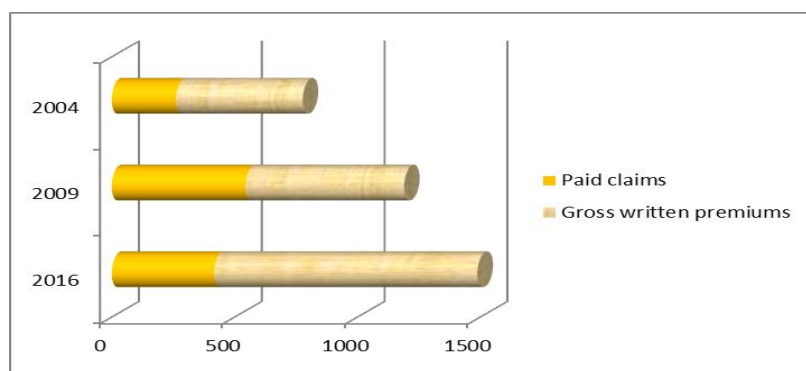
The subscribed and paid-up share capital of this company is Ron 94.4 million in 2016, the same as in 2014.

The company is subjected to the decisions of the majority group – Allianz – and uses the Value-at-Risk (VaR) approach to quantify risks, with a one-year impact period. From the point of view of complying with Solvency II risk management requirements by calculating Solvency Capital Requirements, Allianz Tiriac applies the Standard Formula, resulting in a 99.5% confidence level, the Company owning funds that exceed the two requirements imposed by SCR (Solvency Capital Requirement) and MCR (Minimum Capital Requirement).

## 2) ASIROM (Societatea Asigurarea Românească Asiom - Vienna Insurance Group S.A)

The company was established on 1 January 1991, being the oldest and one of the most powerful insurance companies in Romania. This company has a wide range of insurance products, being a composite company with activities on both insurance segments: life and non-life. By developing a network of branch offices in the country, Asiom succeeded in preserving and consolidating its position as “Romanians’ favorite insurance company”.

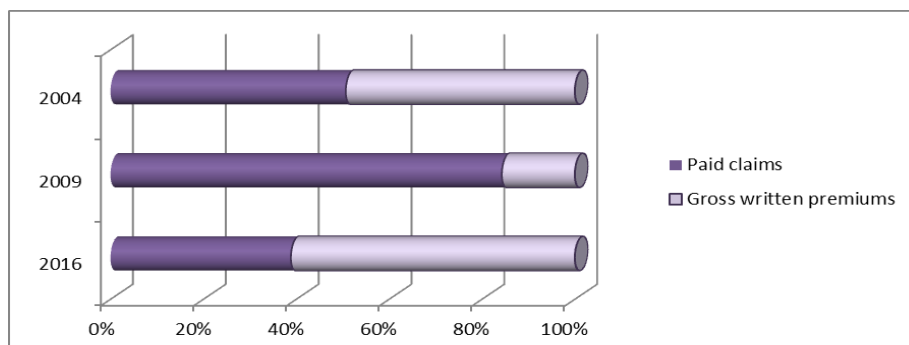
Gross written premiums registered by Asiom experienced a slightly different rate than paid gross indemnities, as shown in Figure 4.



**Figure 4. The paid claims and gross written premiums to ASIROM (mil. lei)**

*Source: Data extracted from data extracted from Annual Report of Asiom Company (2005, 2009, 2016)*

The gross indemnities paid in 2004 were 50.7% of the gross premiums written in that year, but in 2009 this share went up to 84.3%, the highest level of gross indemnities from all years studied (Figure 5). This is true for most insurance companies for 2009, as an indirect reflection of the financial crisis. The share of gross indemnities paid stabilizes at 38.9% in 2016 (Figure 5).



**Figure 5. The share of paid claims in gross written premiums for ASIROM (%)**

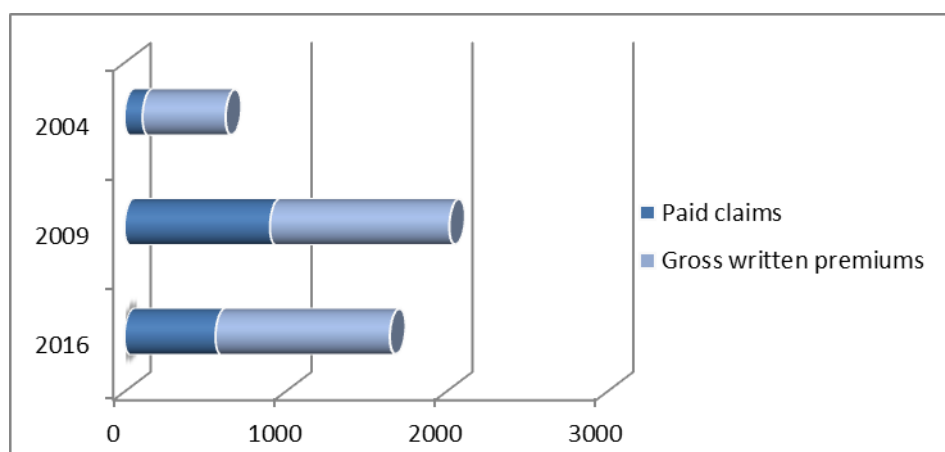
*Source: Our own calculations based on data extracted from Annual Report of Asirom Company (2005, 2009, 2016)*

The company's net profit also registered negative values in the studied period starting with 2004, characterized by a Ron 23.6 million deficit, same as 2007 and 2008. In 2009, the company had a Ron 5.2 million profit, followed by losses in 2012 and 2013 alternating with earnings in the other years, and culminating in losses of Ron 50.5 million in 2015. This situation is also determined by the fact that Asirom owns approximately 25% of the RCA market in Romania. The challenges faced by insurers in this field in recent years are also reflected in the subsequent decisions of the Financial Supervisory Authority (FSA). In January 2016, Asirom was fined with the highest amount ever fined by the Financial Supervisory Authority – Ron 260,000 – for problems related to the payment of RCA and CASCO claims. This fine includes Ron 200,000 payable by the company, Ron 50,000 payable personally by the Company VP and Ron 10,000 payable personally by the company's President, as they were directly responsible for the faulty management and the delays in the payment of indemnities. In this context, on the brim of a recovery procedure by the ASF, Asirom' Board of Directors, by shareholder resolution, decides to issue new shares, in order to increase the capital and, implicitly, its own funds.

The subscribed and paid-up share capital of the company is increased by Ron 169.1 million compared to 2015 and reaches Ron 424.9 million at the end of 2016. Regarding SCR and MCR requirements, these are eligible, thus complying with the requirements of the law and of the VIG Group (According to the Asirom Annual report for 2016).

### 3) Omniasig VIG

In Romania, Omniasig VIG is an insurance and reinsurance company included in the Vienna Insurance Group. Omniasig is the largest company in the Austrian group's Romanian portfolio. It offers life and non-life insurance products. The evolution of its gross written premiums and gross indemnities paid fluctuated as shown in Figure 6.

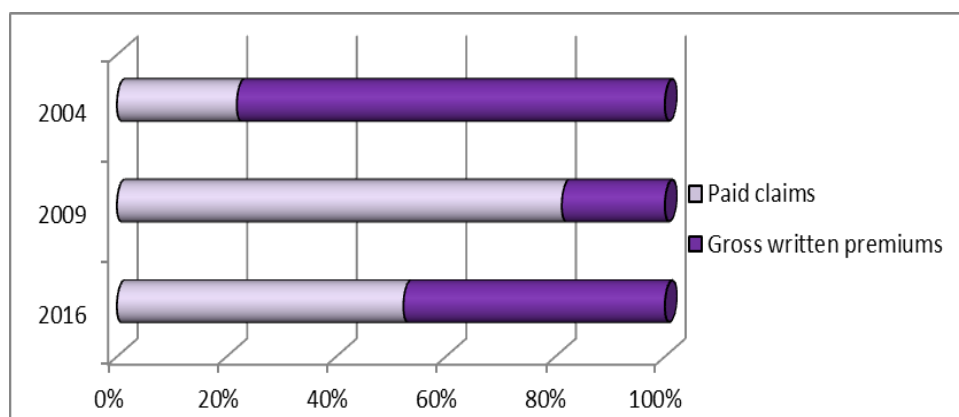


**Figure 6. The paid claims and gross written premiums to Omniasig (mil. lei)**

*Source: Data extracted from Annual Report of Omniasig Company (2004, 2009, 2016)*

The situation is also mirrored by the evolution of the gross indemnities paid within gross written premiums, as shown in Figure 6. In 2009, the company had the highest share of indemnities paid, part of the impact of the economic crisis.

OMNIASIG VIG SA merged with BCR Asigurari VIG SA in 2012, with a share capital increase of 158%, by Ron 236.9 million (Report 2012, Omniasig). Although the strategy was the development of the business, the company's net profit was negative from 2012 to 2015, when it finally achieved a positive net result of Ron 15.8 million (Report 2012, Omniasig). This positive trend continues in 2016, although at a much lower scale, of Ron 0.9 million. Still, the positive result is corroborated with the maintenance of the volume of RCA policies and the diversification of the policy portfolio, with a 31% increase in premiums written for health insurance and the same increase for premiums written for shipping (Fig. 7).



**Figure 7. The share of paid claims in gross written premiums for OmniaSig ( %)**

*Source: Our own calculations based on data extracted from Annual Report of OmniaSig Company (2004, 2009, 2016)*

In 2015 OmniaSig received the “Best in Non Life in 20 Years” Excellence Award from the Financial Market and the “Flexibility in Negotiation and Bidding” Award at the UNSICAR Awards Gala (National Union of Intermediation and Insurance Consulting Companies in Romania, [www.unsicar.ro](http://www.unsicar.ro)).

At the end of 2016, this company was meeting Solvency II capital requirements with sufficient funds and a liquidity ratio of 2.09 (Report 2016, OmniaSig).

### 3. Discussion

Insurance companies that are representative for the Romanian insurance market have undergone intermediate development phases. The companies’ efforts were also supported by state institutions, for the harmonization of the national framework with the European one. This proves that state institutions became aware of the insurance activity’s contribution to the country’s economic progress, especially in the context of European legislative efforts to promote a climate of confidence in the insurance sector among the population.

Also, the insurance market is constantly developing; the insurance penetration rate, calculated as a ratio between the sum of the gross written premiums and the gross domestic product indicates a level of 7.16% in the European Union and only 1.77% in Romania in 2016, which shows that in Romania the insurance market is quite undeveloped compared to other states (France, with 11%) due to a lack of economic culture among the population.

The density of insurance in Romania had an upward trend in 2007-2009, with a Ron 435 per capita peak in 2009, followed by a decrease to Ron 388 per capita in 2001,



the following period reversing the upward trend so that in 2017 it reached Ron 528 per capita amidst the accelerated growth of gross written premiums, the diversification of insurance products and the entry of new companies into the market.

Of significance is the concentration of the Romanian insurance market, considering that ten insurance companies cover about 80% of it. However, the economic and financial crisis of 2008 forced a series of hierarchical changes, meaning that a series of companies with a significant share in the previous period (ASIROM) entered bankruptcy, while others opted for mergers (ALLIANZ-ȚIRIAC). In 2017, the first two companies held about 13% of the market each, while the next two held between 10-11.2%, which shows that there is still a competition on the market, and no company holds a dominant position.

#### 4. Acknowledgements

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#### **Notes**

Note 1. PAID - Natural disaster insurance pool (by means of compulsory housing insurance against earthquakes, floods and landslides).

Note 2. RCA - Civil Liability Insurance for Car Owners (Ro: RCA).