

Some Aspects Regarding the Analysis of the Life Insurance Market

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***Abstract.** This paper aims to draw-up an analysis of the life insurance market in Romania. This survey is drawn up for the period 2003-2006 and the data used for this analysis were taken over from the Annual Reports published by the Insurance Supervision Commission. Life insurance market in Romania is a steady growing market as a result of the economic growth and the purchase power but is still far away from the development stage of the European markets.*

Key words: insurance market; gross written premium; mathematic reserves; inflation rate; insured value.

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JEL Codes: G22, G23.

REL Codes: 7J, 11C.

To start with, we shall proceed to an overall presentation of the situation to be faced at the level of the life insurance market. To this purpose it is compulsory to underline

the absolute volume of the subscribed gross premiums, both in nominal terms and real terms, as well as the evolution of these indicators over the analyzed period.

Subscribed gross premiums evolution (2003-2006)

Indicator/year	2003	2004	2005	2006
Total subscribed gross premiums (nominal)	619,932,113	746,025,160	1,037,995,713	1,138,281,900
Inflation rate	14.10%	9.30%	8.60%	4.87%
Total subscribed gross premiums (real) ¹	543,323,500	598,201,735	766,407,821	801,425,082
Absolute increase as against the previous year (nominal)	-	126,093,047	291,970,553	100,286,187
Absolute increase as against the previous year (real)	-	54,878,235	168,206,087	35,017,261
Relative increase as against the previous year (nominal)	-	20.34%	39.14%	9.66%
Relative increase as against the previous year (real)	-	10.10%	28.12%	4.57%

Table 1

¹ Underlying year = the year 2002.

² Available online at <http://www.insse.ro>.

Source: CSA Yearly Reports 2003 – 2006, Statistical Yearbooks of Romania² 2003–2006, self calculation. The amounts are expressed in RON.

As noticeable, the market followed up an upward trend during the period 2003 – 2006, when the global volume of the subscribed gross premiums out of life insurances had almost doubled, from 619,932,113 RON to 1,138,281,900 RON (in nominal terms). If taking the year 2002 as the underlying year and eliminating the influences of the inflation over the considered four years period, we note that the market reached the volume of 801,425,082 RON in 2006, increasing from 543,323,499.56 RON in 2003. The following diagramme is showing a synthesis of the evolution of the Romanian life insurance market, as it is presenting the total volume of the subscribed gross premiums both in nominal and real terms:

In accordance with the values previously presented, the increase rates in nominal (real) terms counted for 20.34% (10.10%) in 2004 as against 2003, for 39.14% (28.12%) in 2005 as against 2004 and for 9.66% (4.57%) in 2006 as against 2005. The tremendous differences between the nominal rates and the real rates of increase are the consequence of the fact that during the analyzed period the inflation has reached high values within the first three years (14.10% in 2003, 9.30% in 2004 and 8.60% in 2005), while it has diminished below the threshold of 5% in 2006 only, when the recorded inflation rate counted for 4.87%. Below we are presenting the annual variations of the volume of subscribed gross premiums out of life insurance, both in nominal and real terms.

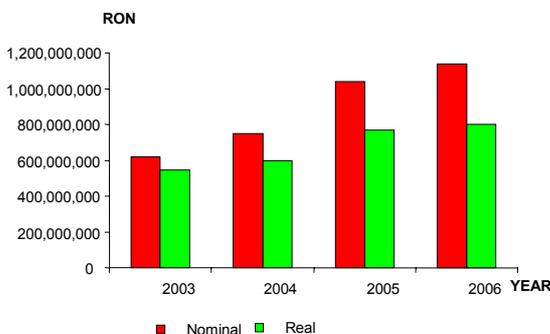


Figure 1. The subscribed gross premiums from life insurance, during the period 2003–2006

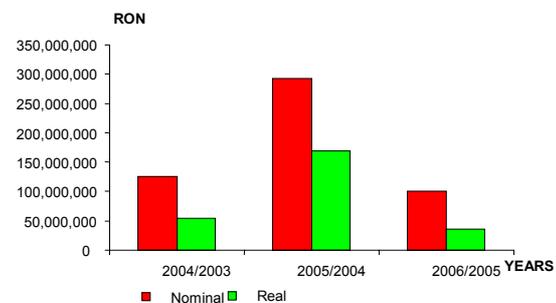


Figure 2. Annual increases of the market during the period 2003–2006

It is also of interest to analyse the weight held by the life insurance in the frame of the total insurance market from Romania. Contrary to the European countries taking the advantage of a real tradition in the field of insurances, where the financial culture of the extended public is exceeding the average level, the life insurances are playing a small part in the Romanians' life, from the point of view of their importance. In our country, the main concern of those applying to insurance products goes to the protection of

the goods the respective individuals are holding. Thus, during the period 2003 – 2006, the life insurances have counted for about 20 – 23% in the total of the insurances market, while the real dynamics of the life insurance market was, generally speaking, inferior to the real dynamics of the general insurances market. The only one exception is given by the year 2005, in fact a year during which the life insurance market recorded the most significant increase in the context of the analyzed period.

Insurance market evolution in Romania during 2003-2006 period

Table 2

Indicator/year	2003	2004	2005	2006
Total subscribed gross premiums out of life insurances (nominal)	619,932,113	746,025,160	1,037,995,713	1,138,281,900
Total subscribed gross premiums out of general insurances (nominal)	2,021,742,747	2,697,574,672	3,379,170,106	4,591,002,641
Weight of life insurance within total market	23.47%	21.66%	23.50%	19.87%
Weight of general insurance within total market	76.53%	78.34%	76.50%	80.13%
Relative increase as against the previous year (nominal) – life insurance	-	10.10%	28.12%	4.57%
Relative increase as against the previous year (nominal) – general insurance	-	22.08%	15.35%	29.55%

Source: CSA Yearly Reports 2003–2006, self calculation. The amounts are expressed in RON.

As shown by the table, for the year 2003 the structure of the Romanian insurance market counted for 23.47% life insurance and 76.53% general insurance. Comparatively with the year 2003, in 2004 the weight of life insurance within the total market decreased by 1.81 percentage points, becoming 21.66%. Meantime, the weight of the general insurance increased up to 78.34%. The year 2005 marked a slight increase of the life insurance market within the total insurance market, this weight reaching now the level of 23.50% (an increase of 1.84 percentage points as against the year 2004) coming back, in fact, to the value of the year 2003. Accordingly, the

weight of the general insurance within the total market diminished to 76.50%. As for the year 2006, the weight of the life insurance within the total market marked the most dramatic decrease of the overall of the analyzed period: the life insurance market reached a level of 19.87% of the insurance market (decreasing by 3.63 percentage points as against the year 2005). Meantime, the weight of the general insurance increased, exceeding, for the first time within the interval 2003 – 2006, the barrier of 80% of the total of Romanian insurance market.

In order to achieve a pertinent description of the market it is necessary to study also the ration between the global

volume of the subscribed gross premiums and the gross domestic product (GDP). This ratio, known as the penetration degree of life insurance⁽¹⁾, is emphasizing the contribution of the life insurance sector to the forming of the gross domestic product. As shown by the following table, over the four years, the volume of the subscribed gross premiums out of life insurance counted for between 0.30% and 0.36% of the GDP, a very low value if comparing it with those recorded at the level

of many countries of the European Union⁽²⁾. The penetration degree of the life insurance reached the maximum value of 0.36% in the year 2005, increasing by 0.06 p.p. as against the year 2004 and by 0.05 p.p. as against the year 2003, while in 2006 it diminished (comparatively with the year 2005), reaching the value of 0.33%. Meanwhile, the penetration degree of the general insurance was higher, reaching values between 1.41% and 1.67% for the analyzed period.

Subscribed gross premiums volume (2003-2006)

Table 3

Indicator/year	2003	2004	2005	2006
Total subscribed gross premiums out of life insurances (nominal)	619,932,113	746,025,160	1,037,995,713	1,138,281,900
Nominal GDP	197,564,800,000	246,468,800,000	288,047,800,000	342,480,000,000
Penetration degree of the life insurance	0.31%	0.30%	0.36%	0.33%
Penetration degree of the general insurance	1.41%	1.46%	1.54%	1.67%

Source: CSA Yearly Reports 2003 – 2006, Statistical Yearbooks of Romania 2003–2006, self calculation. The amounts are expressed in RON.

As regards the ratio between the economic growth and the dynamics of the life insurance market, it has to be pointed out that during the years 2004 (as against 2003) and 2006 (as against 2005) the life insurance market increased slower than the overall economy (the elasticity coefficients⁽³⁾ of the total volume of subscribed gross premiums as againsts the GDP counting for 0.82 ad, respectively, 0.51). In the year 2005, when the life insurance market recorded the most spectacular increase this elasticity coefficient recorded a value of 2.2, which means that the dynamics of the life insurance market exceeded the general

economic growth. The values of these elasticity coefficients are compatible with the outcomes being previously achieved for the indicator penetration degree of the life insurance.

Another indicator relevant for our analysis is given by the volume of the subscribed gross premiums out of life insurance, per capita. The size of this indicator, called life insurance density⁽⁴⁾, is pointing out the concern of the potential life insurance consumers as to acquire such products. For comparison, we have included in the table the general insurance density as well. The outcomes are shown by the following table.

Subscribed gross premiums volume evolution (2003-2006)

Table 4

Indicator/year	2003	2004	2005	2006
Subscribed gross premiums out of life insurance per capita (nominal)	28.52	34.42	48.00	52.77
Subscribed gross premiums out of life insurance per capita (real)	25.00	27.60	35.44	37.15
Relative increase as against the previous year (nominal) – life insurance	-	20.69%	39.45%	9.94%
Relative increase as against the previous year (real) – life insurance	-	10.40%	28.41%	4.83%
Subscribed gross premiums out of general insurance per capita (nominal)	93.02	124.47	156.27	212.84
Subscribed gross premiums out of general insurance per capita (real)	81.53	99.80	115.38	149.85
Relative increase as against the previous year (nominal) – general insurance	-	33.80%	25.55%	36.20%
Relative increase as against the previous year (real) – general	-	22.41%	15.61%	29.88%

Source: CSA Yearly Reports 2003–2006, self calculation. The amounts are expressed in RON.

As it can be seen, the volume of the subscribed gross premiums per capita recorded an upward evolution over the period 2003 – 2006, both as nominal and real terms. If considering the fact that life insurance density in nominal terms almost doubled during the four years (from 28.52 RON/inhabitant in 2003 to 52.77 RON/inhabitant in 2006), the evolution in real terms was somehow “smoother” as a result of the attenuating effect of the inflation. Thus, the subscribed gross premiums out of life insurance, in the prices of the year 2002, from 25 RON in 2003 to 37.15 RON in

2006. Out of the previous table we can conclude also that the general insurance density is about 4 times higher than the life insurance density (which in fact is normal as the life insurance market is representing 20% only of the insurance market), while the dynamics of the general insurance density is superior to that of the life insurance (both nominal and real), excepting the year 2005. The following diagram is pointing out the life insurance density and the general insurance density for our country, during the analyzed period:

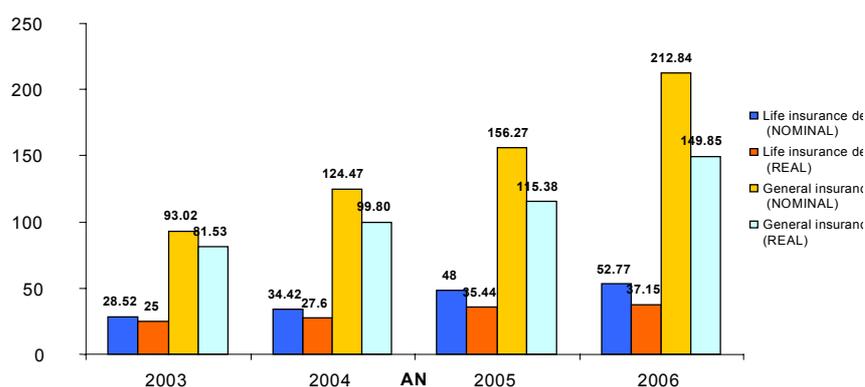


Figure 3. Life insurance density and general insurance density during the period 2003–2006

The relative annual variations of the life insurance density went from 20.69% in 2004 as against 2003, to 39.45% in 2005 as

against 2004 and to 9.94% in 2006 as against 2005, in nominal terms and from 10.40% in 2004 as against 2003, to 8.41% in 2005 as

against 2004 and to, respectively, 4.83% in 2006 as against 2005, in real terms. The evolution (both in nominal and real terms)

of the subscribed gross premiums out of life insurance per capita is shown by the diagramme below:

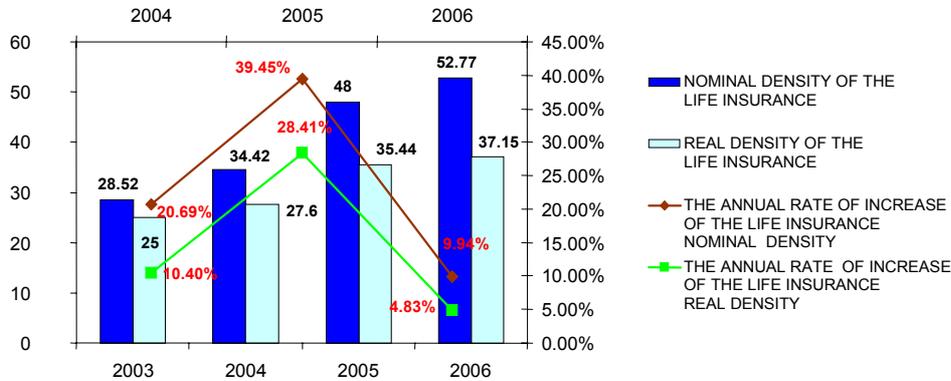


Figure 4. Evolution of the density of life insurance during the period 2003–2006

In Romania the life insurance market is recording an up warding trend, as pointed out by the annual rates of: 10.10% in 2004 as against 2003, 28.12% in 2005 as against 2004 and 4.57% in 2006 as against 2005 (in real terms). Thus, by the end of year 2006, the market counted for 1,138,281,900 RON, which means over 320 million EUR. The specialists are forecasting that the increasing tendencies will keep on maintaining over the next years as well.

The structure of the Romanian insurance market is the consequence of a poor purchasing power of the population as well as of the persistence of the lack of financial culture, the life insurance being considered as luxury products. The Romanians are applying for insurance products mainly for the protection of their belongings: consequently, within the total market the life insurance is holding a weight of about 20% only. If comparing with other European countries (not necessarily the developed ones), this percentage is a very small one.

The gross compensations paid for life insurance increased from 62,499,098 RON in 2003 to 140,824,708 RON (about 40 million EUR) in 2006, the relative yearly changes counting for 10.20% in 2004 as against 2003, 19.12% in 2005 as against 2004 and, respectively, 37.89% in 2006 as against 2005 (in real terms). The weight of the gross compensations paid in the frame of the total subscribed gross premiums increased from about 10% in 2003 to 12.37% in 2006.

The technical reserves of the companies are representing warranties for the safety of the insured persons and, consequently, they are holding a central position within the activity of life insurance. They amounted 2,238,411.928 RON (about 63,5 million EUR). The study of the reserves enlightens the fact that the mathematical reserves are the most important component of the technical (their weight increasing from 68.31% in 2003 to 77.30% in 2006). The other categories of technical reserves are

holding much lower weights: premiums reserves – 16.17% in 2006, reserves for benefits and returns – 5% in 2006, while the damages reserves (both notified and not notified) and the reserves for un-expired risks are representing bellow 1% of the total technical reserves meant to life insurance.

As far as the re-insurance activity is concerned, the weight of the premiums being ceased to re-insurance, in the total subscribed gross premiums counted for 2.81% in 2003, 3.75% in 2004, 3.11% in 2005 and 2.47% in 2006, when the ceased premiums to re-insurance counted for 28,142,358 RON (a little bit less than 8 million EUR).

The Romanian life insurance market is a concentrated market where the first two companies held a cumulated market quota of over 50% during the interval 2003 – 2006, while the first five companies held a market cumulated quota up to even 80% in 2003, diminishing gradually to about 71% in he year 2006. The undeniable leader of the market kept on being, all over the entire period making subject of this analysis, ING ASIGURĂRI DE VIAȚĂ, which, in 2006, held a market quota of 38.29%. The following positions went to AIG LIFE (12.14%), ASIROM (7.73%), ALLIANZ ȚIRIAC (7.66%) and GRAWE (5.67%).

If considering the gross compensations paid, the first position has been held every year by the company ASIROM, which in 2006 paid compensations amounting 70,944,097 RON (over 20 mil. EUR).

The analysis led to the conclusion that, generally speaking, the technical reserves of the insurers have been directly correlated with the volume of the activity they are running. Thus, during the interval 2003 –

2006, the company ING ASIGURĂRI DE VIAȚĂ, the leader of the life insurance market in Romania, kept technical reserves amounting 46 – 48% of their cumulated volume at the level of the entire market. In 2006, the quantum of the technical reserves of ING ASIGURĂRI DE VIAȚĂ counted for 1,072,112,044 RON (about 304 million EUR). Other companies, which maintained significant reserves (in 2006) are AIG LIFE – 243,564,498 RON (69 million EUR) or ASIROM – 234,421,673 RON (66.5 million EUR).

From the point of view of the profitability of the life insurance activity, it is to be noted the fact that, over all the four years considered by the analysis, ING ASIGURĂRI DE VIAȚĂ kept on being the market leader as to the technical outcome of the life insurance activity. In the year 2006, this technical result consisted of a profit of 44,541,817 RON (about 12.6 million EUR), almost triple in comparison with the outcome recorded in the year 2003. ING has been followed by ASIBAN, AIG LIFE, AVIVA and BCR ASIGURĂRI DE VIAȚĂ, which recorded profits between 6 and 36 million RON.

Taking into consideration the above facts and conclusions, we do consider that there is a favorable ground for the further development of the life insurance market in Romania, which for the time being is placed faraway from other European markets.

However, in time, the increase of the population's purchasing power as well as the diminishing of the lack of financial culture at the general level of the public will definitely cut off the handicap as against the other market. At last but definitely not the

least, the gradual diminishing of the market concentration degree will generate the conditions for competition development, which will lead to increased concerns of the

insurers as to supply competitive and diversified products, to the obvious benefit of the consumers of life insurance products.

Notes

- (1) Available online at <http://www.insse.ro>.
- (2) According to CSA.
- (3) A comparison in this sense will be presented later.
- (4) The elasticity coefficient of the total volume of subscribed gross premiums as against the GDP is

determined as the ratio between annual modification of the subscribed gross premium and the annual GDP modification (in %).

- (5) According to CSA.

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