

INSURANCES STRUCTURE DEVELOPMENT PERSPECTIVES

Adriana, Năstase (Dumitrache)¹

Abstract:

The insurance sector is an important part of the EU's financial sector. Insurance represents a key sector of the European economy, whose influence is felt both in the protection against risks in the economic and social field of the member countries, in the role of stimulator of the idea of saving in the medium and long term, and as a provider of funds for financial markets. The research method used in this work is the investigation of statistical sources, regarding the structure of insurance at the European level, as well as in Romania, in the last five years. The results signal that the globalization of financial services continues to mark the entire evolution of the insurance and reinsurance field, and also another important aspect refers to the sudden revaluation of risk premiums that can lead to a decrease in the value of insurers investment portfolios.

Keywords: insurance, structure, globalization, solvency

JEL Code: G22

1. Introduction

In the market economy, the crisis generated by COVID-19 was superimposed on a European economic environment characterized by low yields and a high level of uncertainties, which led to an intensification of these vulnerabilities from the perspective of insurance companies. In this context, the high degree of uncertainty and the existing challenges have led to an increase in the risk of maintaining very low long-term interest rates and of a sudden revaluation of risk premiums, which has imprinted a tendency to amplify the risk of solvency, profitability and reinvestment for insurance companies.

2. Theoretical approach

The development of a single European insurance market was a gradual process that lasted several years. The directives of the European Union relating to insurance represent the generally accepted principles at the level of the European Community with the aim of standardizing the rules of insurance and facilitating international trade, referring primarily to the activity of insurance, but also to that of reinsurance. (Ciurel, V., 2000)

At the European level, it can be stated that the world of insurance has experienced an overall evolution, with certain common characteristics, but also with appreciable differences from one country to another. It must be stated first of all that Europe is the birthplace of modern insurance and remains an essential market worldwide, with rapid growth especially in the branches of life and savings insurance, but occupying second place after the United States. (Constantinescu, D., 2002) We are currently witnessing a maturation process of the single European insurance market, with achievements, but also with its difficulties, which have not yet been overcome. (Acatrinei, M., 2020)

If we refer to the international level, the insurance market is characterized by a high degree of heterogeneity as a result of the diversity of damage-causing events and the activities it can affect. (Joldeș, C., 2020). As a result of this fact, it is practically impossible to define a single insurance and reinsurance market, each of them being characterized by the preponderance of certain insurance categories, the existence of certain insurance and reinsurance companies, specific rules and regulations, higher coverages or exclusions more extensive. (Badea, D., 2004)

¹PhD student Romanian Academy, Doctoral Department: Economic, Social and Legal Sciences, nstsadriana@yahoo.com, contact for this paper

Between insurers, reinsurers and insureds: large multinational companies tend to raise their self-insurance threshold and transfer risks or part of them directly to reinsurers; the choice is made more and more on the principle of global financial management. (Bistriceanu, Gh., 2002)

3. European and Romanian insurances structure analysis between 2017-2021

Very low interest rates, higher risk premiums and the potential increase in liquidity requirements, in the context of an increase in the value of claims and the value of redemptions, could increase the risk of inefficient asset allocation, in the sense that assets do not match the characteristics of liabilities. In addition, uncertainty about capital markets could also contribute to increasing the risk that asset allocations will not be efficient.

It is observed that the portfolios of insurance companies both at the European level and in Romania are mainly oriented towards investments in bonds. Unlike the investment structure of EEA insurers, in Romania government bonds hold a much higher weight (85%). Unlike Romanian insurance companies, insurers in Europe have oriented themselves towards a greater diversification of investments, in search of higher returns, considering that one of the main vulnerabilities for European insurers is related to the persistence of the prolonged environment of very low interest rates.

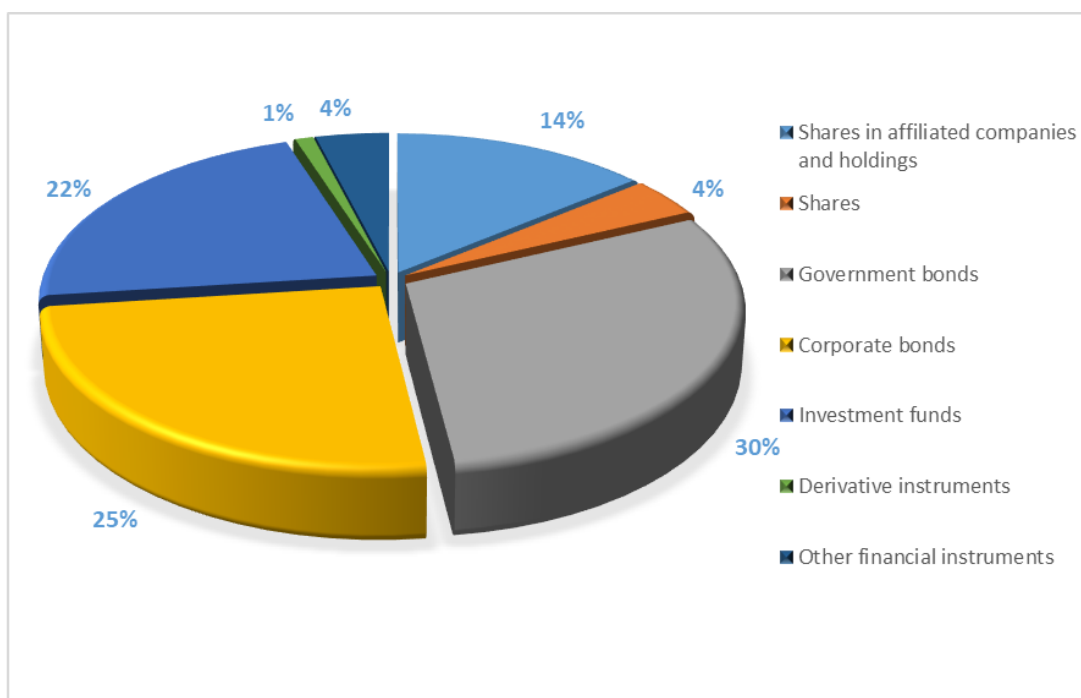


Figure 1. Aggregate investment structure of insurance companies in Europe (QIV 2021, 30 countries)

Source: processed after the report of the Financial Supervisory Authority

The degree of insurance penetration in GDP, an indicator calculated as the ratio between the value of gross premiums written and the gross domestic product (GDP), recorded significant values in the case of France during the analyzed period. In 2021, France (12.2%) recorded the highest value, followed by Germany (8.7%), Italy (8.1%) and Spain (5.4%). In the case of Romania, we observe an increasing trend regarding the degree of penetration of insurance in GDP in 2021, showing a value of about 1.29% compared to the level of 1.15% of GDP in 2020. The degree of penetration of insurance in GDP increased in Romania due to the significant increase in the volume of gross premiums written.

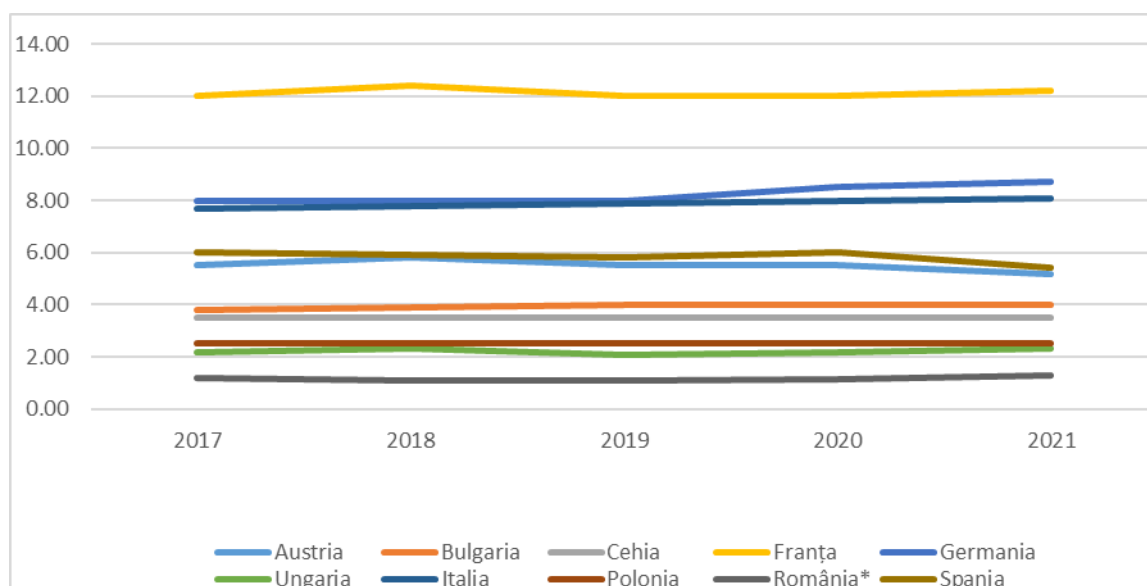


Figure 2. Insurance penetration in GDP

Source: processed after the report of the Financial Supervisory Authority

Insurance density is an indicator that shows how much, on average, the resident of a country spends on insurance products. In 2021, France occupied the first position also regarding this indicator (4,478 euros/inhabitant), followed by Germany (3,733 euros/inhabitant), Italy (2,436 euros/inhabitant) and Austria (2,213 euros/inhabitant). In the case of Romania, in 2021, the insurance density was at a value of 161 euros/inhabitant, increasing by approximately 24% compared to the previous year.

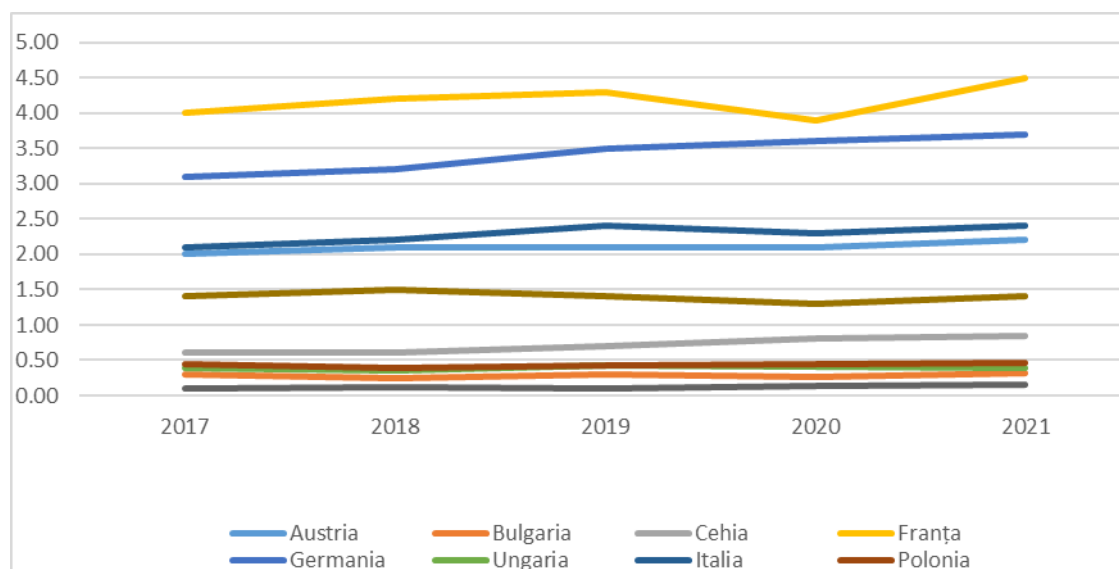


Figure 3. Insurance density (EUR)

Source: processed after the report of the Financial Supervisory Authority

The share of life insurance activity in the total insurance sector in Romania from the perspective of the volume of gross premiums written is at a low level compared to the other EU states analyzed. In 2021, the volume of gross written premiums for the life insurance segment registered a modest decrease, while the value of written premiums for the non-life business increased slightly, which caused the weight of the life insurance segment to decrease to 18% in total subscriptions.

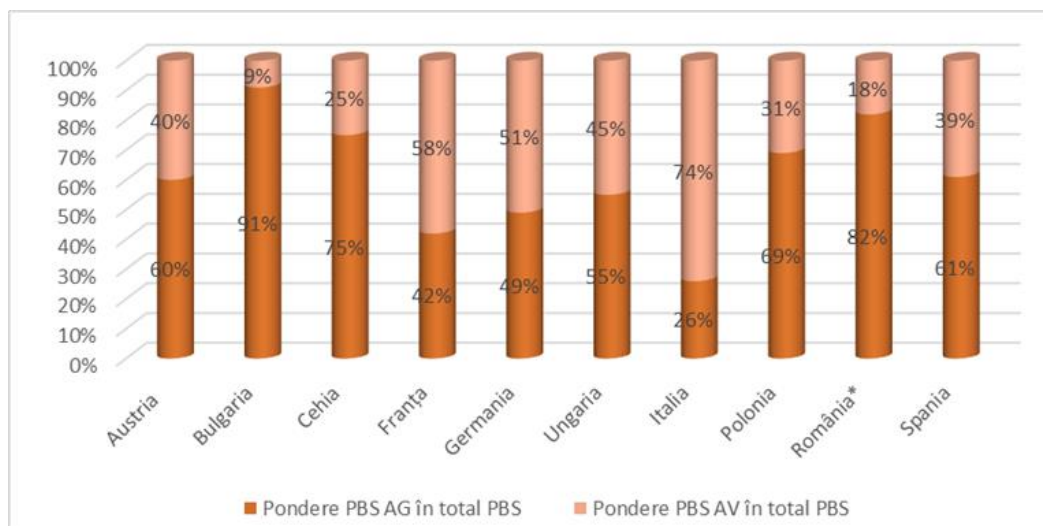


Figure 4. The structure of the insurance market according to the gross premiums subscribed for the general and life insurance activity (QIV 2021)

Source: processed after the report of the Financial Supervisory Authority

Regarding the solvency of the European insurance system, according to published statistics, the SCR rate at the level of the insurance market in the 30 countries that report to EIOPA was in the fourth quarter of 2021 at a level of 2.59, and the median SCR rate was at a value of 2.20.

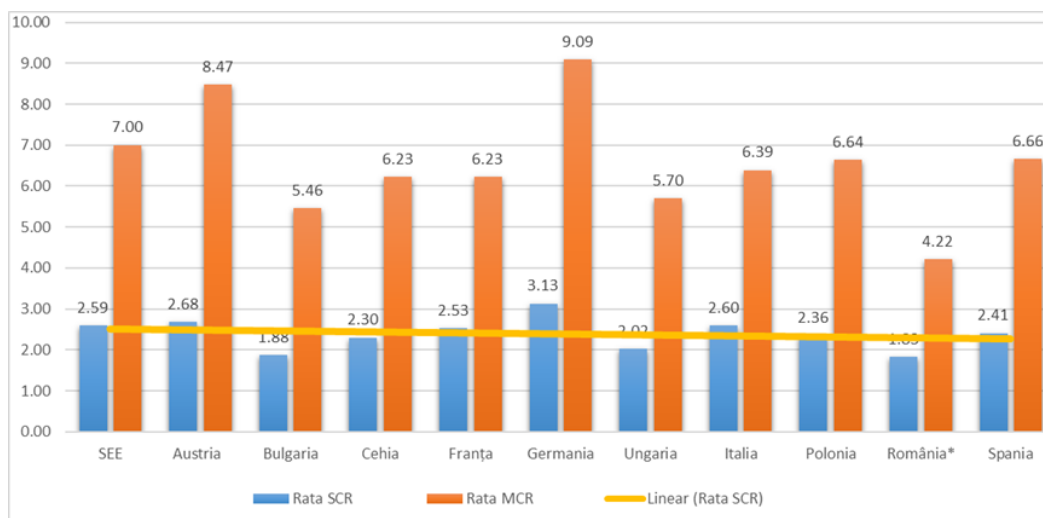


Figure 5. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) rates (QIV 2021)

Source: processed after the report of the Financial Supervisory Authority

Although Romania registers lower levels of these indicators compared to the European average, the prospects for the development of the insurance sector remain favorable. Therefore, increasing the level of consumer confidence in the insurance industry, launching new insurance products and adapting them to the needs of the population, as well as developing financial education remain effective ways to strengthen the insurance sector in Romania.

Conclusions

Insurance policies are essential for many Europeans and for European companies. They protect citizens against financial losses in the event of unforeseen events. Insurance companies also play an important role in our economy, channeling savings into financial markets and the real economy, thus providing European companies with long-term financing. Insurance protection is essential for many households, companies and financial market participants. The insurance sector also provides pension income solutions and helps channel savings into financial markets and the real economy.

One of the key challenges for today's insurance market is low interest rates. Insurers, especially life insurance, which accounts for 65% of the EU insurance market, face significant problems in obtaining guaranteed interest rates for products sold in previous years.

Therefore, the business models of life insurance companies are currently undergoing profound changes, one of the consequences of which is the assumption of additional risks. Moreover, digital technologies and an increased use of large volumes of data (big data) have significantly reshaped the insurance market (Fintech), creating not only opportunities for companies but also a series of new challenges and risks for customers.

Bibliography

1. Badea, D., ș.a, (2004), *Asigurările de persoane și reflectarea lor în contabilitate*, Editura Economică, București;
2. Bistriceanu, Gh., (2002), *Sistemul asigurărilor din România*, Editura Economică, București;
3. Ciurel, V., (2000), *Asigurări și reasigurări: abordări teoretice și practice internaționale*, Editura AllBeck, București;
4. Constantinescu, D., (2002), *Conjunctura pieței mondiale a asigurărilor*, Editura București;
5. Acatrinei, M., (2020), Indicator de stabilitate financiară pentru piețele financiare nebancare, *Revista de Studii Financiare*, vol V, nr.9;
6. Joldeș, C., (2020), Impactul COVID-19 asupra pieței de capital din România: O evaluare a indicelui BET și a acțiunilor BRD, SNP, TLV, FP & SNP, *Revista de Studii Financiare*, Vol. V, Nr. 9
7. <http://www.asfromania.ro/publicatii/rapoarte-anuale/rapoarte-anuale>