

# ASPECTS REGARDING PANDEMIC INSURANCE

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## **Abstract:**

*The development of the insurance segment plays an important role in the socio-economic system of Romania, participates in its stability and growth.*

*The aim of the paper is to study the importance of insurance in Romania, which are considered as the main types of insurance, as well as the development trends of this product. The relevance of this topic is due to the need to support the internal insurance system, especially during the period of exposure to COVID-19.*

*The scientific novelty of the article consists in the analysis of the current state of the life insurance segment in the context of the global economic crisis caused by the pandemic. Conclusions are made on the main problems faced by insurance companies in modern socio-economic conditions, measures are proposed to minimize the negative consequences, as well as options for the development of the segment.*

**Keywords:** insurance, socio-economic, pandemic, development, covid-19

**JEL classification:** M10, M20

## **Introduction**

Reflection on insurance is often focused on technical considerations and business issues. And yet, in a modern economy, insurance business plays an important role and deserves attention for understanding its environment and interacting with other branches of the economy. A well-organized area of insurance, with good national governance, which belongs to a region, is one of the inhibitors of the cause of the socio-economic growth of a country or region. Due to the uncertainty in today's and tomorrow's life, security documentation is a fundamental need of every human being in anthropological, cultural and politico-legal terms.

Insurance companies began to develop in our country in the XIX-XX centuries due to the development of economic activities carried out to a higher degree, for example, and the activities of exporting cereals mainly to other European countries. Different variants of insurance have been around since ancient times, but they have been shown under various variants, mastering the lifestyle of that time. After 1900, insurance companies began to grow, adapting to the times and needs, as well as the policies developed and applied in each stage of economic development.

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The paper examines the failure of private insurance markets and the alternative risk-sharing mechanisms to adequately address the economic losses caused by pandemics. This paper also identifies potential reasons for lack of insurance, as well as potential solutions.

The analysis and discussions are divided into two parts. In the next section, I will describe issues related to insurance and the influence of pandemic insurance. Although there are examples of private insurance for losses during the pandemic, the pandemic market deprives insurance is extremely thin in the sense that coverage options, especially those for business interruption, are extremely limited or non-existent for most of the entity's staff.

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Pandemic economic loss insurance poses a number of challenges for property and accident insurers that have collectively severely limited the insurability of risk in the private sector on a large scale. The result is that few products designed to address the risks of a pandemic have ever been brought to market by property - accident insurers and reinsurers. Consequently, there is a large gap between the economic consequences associated with the pandemic and the ability of insurers and reinsurers to provide protection products to analyze these consequences.

This paper will highlight many of the practical, institutional and theoretical hurdles of insurance facing pandemic risk underwriting and pricing. The main obstacle is the extreme risk of aggregation and accumulation associated with pandemics, which severely diminishes the ability to diversify and spread the risk. In addition, there is a balance sheet risk that results from the negative correlation between the expected value of the magnitude of the insured losses and the market value of the financial assets held in the insurer's investment portfolio.

### **Insurance issues**

Insurance notes a branch of activity, a field of developed financial services of insurance that have a complex economic meaning (insured individuals, legal entities and for the whole company); economic activities are permanently highlighted by a multitude of factors generated by both objective and subjective factors, the insurance sector is a necessary and objective economic and social process, because it takes measures as a means of protection, compensates financial losses covered by insured impediments, entrusts continuity economic activity that are intermittently temporary.

According to professors Iulian Văcărel and Florian Bercea, "insurance acts in close connection with the existence of common risks whose production can cause significant damage to the national economy and the population. ".<sup>1</sup>

Professor Gheorghe Bistriceanu considers that: "insurance is a system of economic and social relations, a necessary objective process of economic and social development arising from the action of objective economic laws, which consists in the joint creation by the population and economic agents threatened by certain risks , of a fund from which the damages are compensated and other economic-financial requirements are satisfied, probable, unpredictable".<sup>2</sup>

The Le Petit Larrousse dictionary, 1996 edition, states that: "insurance is a guarantee granted by an insurer to its insured to indemnify any damages, in exchange for a premium or contributions".<sup>3</sup>

According to Law 32 / 10.04.2000: „, insurance is the operation by which an insurer constitutes, on the principle of mutuality, an insurance fund, through the contribution of a number of insured persons, exposed to certain risks, and indemnifies those who suffer a damage on account of the fund made up of the premiums collected, as well as on account of the other incomes resulted as a result of the activities carried out”.<sup>4</sup>

Over time, many smart people have referred to insurance in their mentions. The argument can be related to the concern of individuals for the present and the future, because they have always thought of a protection for what can do them harm or trouble: enemies, an unfavorable state of atmosphere, accidents, deaths. The origin of the insurances is so remote, as it is theoretically impossible to predict an exact date of their appearance. The need for the insurance activity is due to the existence of so-called episodes, which represent an obstacle for the integrity of material goods or for the life of individuals: calamities, accidents, incidents.

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<sup>1</sup> Văcărel Iulian, Bercea Florian (2003), *Asigurări și reasigurări*, Editura Expert, pp. 74

<sup>2</sup> Bistriceanu Gheorghe, *Sistemul asigurărilor din România*, Ed. Economică, București, 2002, p. 146.

<sup>3</sup> Dicționarul Le Petit Larrousse, ediția 1996

<sup>4</sup> Legii 32/10.04.2000

Thus, it is precise that the first premise that initiated the basis of insurance was the emergence of the concept of risk when the wild man begins to understand what the risk is and how important it is in his life. Thus, the practice of Chinese merchants, who distributed their goods in several ships to be transported on China's dangerous rivers, can be considered as a first form of protection against the risks that precede contemporary insurance, thus preventing dangers as the entire amount of goods to be transported. reaches its destination to be subjected to loss. We cannot consider this an insurance, being only a form of risk wasting.

The second hypothesis in the discovery of insurance is related to the need for people to help each other in case of damage, ie the assertion of the principle of mutuality on which the insurance is based and the composition of the first insurance funds. People came together to collaborate in the face of the consequences of unpleasant events. In other words, it is about taking over the damages of a single individual from several people, or collaborating in the face of events that may occur in the life of any community, which are based on the contribution of each individual with small amounts, in the form of grants money used to help those individuals who have suffered doubts generated by certain events that motivated the gathering of the community. The principles of risk communities and mutuality can be the basis of the idea of solidarity, as well as insurance.

According to the study, 28% of Romanians say they are more interested in voluntary health insurance, possibly due to the COVID-19 pandemic, given that the risk of illness is one of the main factors that can affect the current financial situation - being mentioned as a cause for concern for 58% of respondents, regarding the perception of risk and the insurance culture in Romania.

Also, another detailed study on medical services and health insurance conducted in 2019, before the COVID-19 pandemic, by IRES at the request of UNSAR (2), indicates that 36% of Romanians consider voluntary health insurance as being the preferred solution to be able to access better medical services. According to him, two thirds of respondents (67%) prefer to have fast and guaranteed access to some medical services included in the basic package, with additional payment for more sophisticated procedures or better hospital conditions.

At the same time, 6 out of 10 respondents (61%) stated that they would agree to pay extra in order to have access to various better quality services in a state hospital, especially for better hospitalization conditions. About half of the interviewees state that they would accept the increase in costs for access to a certain doctor or for a better quality of more complex medical procedures if they went to a state hospital.

What are the services for which Romanians would be willing to pay extra, to have faster access or to benefit from a better quality?

- ❖ laboratory analyzes (73%)
- ❖ cases of medical recovery (69%)
- ❖ specialized medical and outpatient imaging (67%, respectively 65%)
- ❖ surgery or hospitalization (64%, respectively 60%).

Most (one third) of those who said they would opt for health insurance say they would invest an additional 50 to 100 lei / month, and a quarter would pay less than 50 lei / month for this service. 14% of the interviewees say that they would be willing to pay between 101-300 lei / month for a private health insurance, 5% would invest between 301-500 lei, and 2% of the respondents would allocate over 500 lei, shows the results of the cited study.

At the same time, the public health system remains the main solution used by Romanians when they have health problems, a fact reinforced by the cited study. It shows that about 61% of respondents say they are satisfied and very satisfied with the quality of these services.

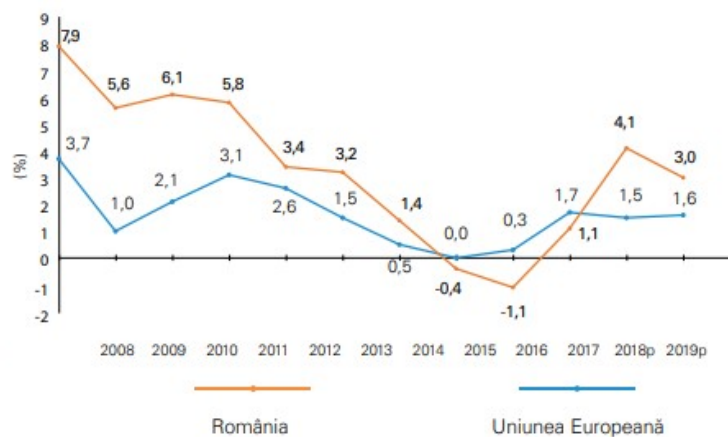
Regarding the services that a large part of the respondents were dissatisfied with, they are:

- ❖ long waiting time in front of the doctor's office (45%)
- ❖ long waiting period for doctor's appointment (44%)
- ❖ rapid exhaustion of free services (43%)
- ❖ lack of hygiene in hospitals and lack of equipment or materials necessary for the medical act (35% each).

The results of the researches show that private health insurance is an optimal solution to increase the access of the insured to certain categories of medical services and to bring a quality addition to medical services in state hospitals. The system of voluntary health insurance is a complementary mechanism to improve access to medical services for Romanians willing to pay in addition to the compulsory contribution to social health insurance (CASS) and not a substitute for the public system.

At the end of 2019, the statistics regarding the evolution of the private health insurance market indicated gross written premiums amounting to approximately 372 million lei, increasing by 11% compared to 2018, according to ASF data - the Financial Supervisory Authority, this being a proof further growing customer preference over voluntary health policies.

**Figure 1.** Inflation in Romania and the European Union



*Source (own processing)*

Recent measures to stimulate taxation and increase government spending, as well as increase fuel prices, have led to rising inflation after a period of inflation that lasted about two years. The macroeconomic forecasts for 2018 indicated at the beginning of the year an inflation rate of 4.1% in the absence of corrective actions, outside the corridor of 2.5% +/- 1% targeted by the National Bank of Romania.

### **The importance of insurance**

The insurance industry in Romania has adopted, this spring, at an accelerated pace, a series of special, unprecedented measures to protect both its customers and employees from the risk of infection with the new coronavirus (SARS-CoV-2), while ensuring the continuity of day-to-day operations in complete safety.

These include the existence of an action plan, the provision of antibacterial and disinfectant substances, the possibility to work from home and keep in touch with consumers online, as well as encouraging online payments.

It is not easy to change overnight the paradigm in which you were used to living a life. Social distancing is an impediment in the insurance industry, as the direct relationship

between client and consultant is one of the fundamental pillars on which a business in this field is based. Modern means of communication are, however, widely used during this period and things are proceeding in a relatively normal way. Probably, we will witness, in the next period, an accentuation of the digitalization in the distribution activity. According to him, there are products that can be sold exclusively from a distance, but he believes that human interaction cannot be replaced by online applications, as trust cannot be transmitted via the Internet, but only face to face.

The National Union of Insurance and Reinsurance Companies in Romania has shown that, since the beginning of the COVID-19 pandemic, insurance companies have quickly taken measures to protect and support employees and customers. Thus, it was implemented in the work from home system, so that insurance people can continue their activity safely in their homes, respecting all the recommendations of the authorities to limit the spread of the virus.

Also, the insurance companies were with their clients and by the fact that they provided online tools, so that any operation related to their insurance policies - acquisition, renewal, notification of a damage or indemnity - could be performed in simple and fast, from a distance. It is also important to mention that several companies have already stated publicly that they offer their customers the coverage of the risks related to COVID-19.

According to him, in terms of social responsibility, several insurance companies have made donations to support the fight against COVID-19, thus making it possible to purchase medical equipment and protection for the medical system, thus supporting vulnerable people during this period. Solidarity and responsibility are extremely important now. Even if these are just first steps, we are confident and look with all responsibility at the role that our industry has to play in society.

The insurance market is going through an unprecedented period, which will leave a considerable mark on the future business model.

It is very likely that this crisis we are going through will cause a change in the behavior of consumers and all customers, by increasing the use of online platforms for the acquisition and administration of insurance policies. Therefore, we expect the share of online sales to increase. In the medium term, we will see a more accelerated development of online tools and significant investments in this sector. At the same time, it is possible that by the time the pandemic ends, many of these changes will return to normal.

The pandemic taught us a lesson: that any difficulty can be overcome with the right attitude and that the difference between losers and winners in business is made by the mindset and the courage to revolutionize. This crisis has also proved to us that technology is the most reliable ally of business. The benefits of digitization can no longer be questioned today and are much more obvious than they were just a few weeks ago. Certainly, businesses can no longer return to "what was"; there is a need for reinvention, for an acceleration of digitalization both internally and in customer relations.

Digitization is one of them. Even if the main distribution channel remains the classic, consultative sale, the sales cycle will be shortened with the digitalization, and the products and services will become simpler and easier to access. I am convinced that many approaches to the way of working adopted during this period will be maintained after.

This transformation or adaptation brings many challenges and as many opportunities to develop, innovate and improve, he said.

In the context created by the COVID-19 pandemic, we see the distribution of insurance gaining in value and social importance, and the role of consultant of the insurance broker, more necessary than ever. In the crisis, both individuals and legal entities spend more wisely, the comparison of prices and coverage is made much more carefully and already the insurance consumer has learned that the answers are easier to find at brokers.

Brokers are at the forefront when it comes to the distribution of insurance on the local market, given that they mediate two thirds of total policies, with a considerable share in the general insurance segment.

Brokerage companies have made and continue to make efforts to meet customers, as well as to meet the security and protection needs of their employees. For the client, the processes have been digitized, the insurance products have been adapted to the new challenges - and I am referring here to cost optimization versus coverage for assets that are "in the production break", postponements on payment of the first, while some contracts have been suspended. For employees, remote working methods were quickly implemented, adapting the framework to the new challenges, but some of our colleagues had to take less pleasant measures, he explained.

According to him, the corporate will continue to be done as before - through the risk analysis based on direct discussions with the client, but the "fight" is with the continuous education of some insured individuals, who still do not know how to use e-mail, bank account or card payment. COVID has created the framework for this learning and an evolution in this direction is already visible, he added.

Thus, life insurance is a mechanism by which a person can plan continuous income in case of death, disability or old age. Life insurance in its general sense is used to refer to all forms of insurance designed to protect against loss of income in the event of incapacity for work, whether due to death, accident, illness or old age.

In our opinion, this reduction was caused by legislative innovations related to the life insurance market. The Union of Insurers throughout Romania has developed certain standards, the main purpose of which is to solve the problems associated with violations of the sale of complex insurance products, such as investments and life insurance savings. Customers do not always understand the essence of a particular product and also do not understand the nuances and risks. Innovations in life insurance oblige insurers to provide the customer with complete and reliable information about this insurance product, about its features and possible risks. All this was done to get rid of the violations and complaints of customers in this insurance segment, as well as to increase the level of attractiveness of this product among the population.

Today it is necessary to support insurance companies in government bodies, as well as to attract more people requesting insurance services, which may make it possible to create from such companies a potential investment tool that will help finance funds in various socially significant projects. Such measures will allow the life insurance sector to have an additional impact on the country's economic growth. The insurance product plays an important social role, contributing to reducing risks and increasing the level of social protection of the population.

### **Conclusions**

Pandemics are a recurring scourge on humanity that has been recorded throughout history and is responsible not only for incalculable human suffering, but also for extreme and lasting economic damage. The COVID-19 pandemic, which passed through the world in 2020 and is still developing in many countries, was no exception.

Undoubtedly, the economic interdependencies in our modern, globalized society have accelerated the spread of the virus and intensified its economic consequences, throwing the global economy into the sharpest contraction since the Great Depression.

Certainly, many executives, risk managers and insurance professionals knew that the occurrence of a pandemic and its associated economic losses was a possibility, if not a certainty at some point in the future. However, as we document in the Sect. 2 of this paper, the private insurance market offered limited insurance to cover economic losses caused by a

pandemic. Indeed, very few insurance products that protect against the "pure" pandemic risk have ever been brought to market.

While insurers are exposed to pandemic losses through some products with contingent or accidental exposures, our analysis suggests that the overwhelming majority of pandemic risk is uninsured.

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