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ALIGNING DECISIONS IN INSURANCE WITH EU NORMS

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1. Market Evolution

The European Union and The United States are the major players on the insurance market, but from the volume point of view, each one contests the supremacy on different segments, the first one on the life insurance segment, the other on general insurance. This is highlighted by a study made by City Of London Corporation. Although far behind those two leaders, the analysts take inconsideration the great potential of China and India markets. As of 2004, the global insurance market worth 2.6 trillion Euros (3.2 trillion US Dollars) based on subscribed premiums. The European Union holds 34.4% of subscribed premiums and The United States, 33.8% from the global market (2004). In this period, in the European Union the subscribed premiums reached 896.7 billion Euros, from which, life insurance segment holds 529.3 billion Euros and non-life segment, 367.6 billion Euros. On the other hand, in US, the value of subscribed premiums is 883.8 billion Euros; from which general insurance holds 485.4 billion Euros. The value of Life insurance subscribed premiums is 398.3 billion Euros. The greatest markets, based on the value of subscribed premiums, are:

1. UE – 896.7 billion Euros
2. USA – 883.8 billion Euros
3. Japan – 396.4 billion Euros
4. Canada – 56.1 billion Euros
5. South Korea – 55.2 billion Euros
6. China – 42 billion Euros
7. Australia – 39.8 billion Euros
8. Taiwan – 34.8 billion Euros
9. Switzerland – 33.8 billion Euros
10. South Africa – 24.7 billion Euros
11. India – 17.1 billion Euros
12. Brazil – 14.5 billion Euros
13. Russia – 13.2 billion Euros

Analyzing the value on the subscribed premium and the economical power of each country, the City of London Corporation study shows that the market penetration in countries like China and India is at a very low level, but also that does countries have a very big potential as the economy grows. All of the numbers are from 2004.

In Romania, the value of the insurance market reached, at the end of 2006, 1.3 million RON, opposed to 876.66 billion RON in 2005.

The Companies with the most contributed capital are: ASTRA-UNIQA – 192.71 million RON, UNITA – 114.19 million RON, OMNIASIG – 103.24 million RON, ASIBAN – 76 million RON and ASIROM – 63.79 million RON.

An increase with 50% is proposed, based on the necessity to cover the loss from automobile segment.

From the 130 million Euros have been allocated to cover the losses, 90% are meant to the automobile segment, to maintain the solvability degree settled by law.

The Romanian market reached in 2006 a value of 1.6 billion Euros, from which 1.3 billion Euros are from general insurance policies and 300 million Euros are from life insurance premiums has declared The Insurance Supervisory Commission

In 1992, the total volume of insurance premiums had a value of 50 million Euros. Between 1998 and 2002, life insurance had a substantial growth, with 50-70% increases each year. From 2003, based on the decrees of bank interest, the life insurance market has temperate, following the general insurance trend.

The volume of subscribed premiums from insurance contracts made between 1 of January and 30 of September 2006 was 4.25 billion RON (nearly 1.2 billion Euros), according to The Insurance Supervisory Commission. 3.34 billion RON from the total amount has been from general insurance, and 811.29 millions RON from life insurance. The first 3 trimesters from 2006 where 96% from the total amount of 2005. General Insurance represented 102% and life insurance 78%, according to The Insurance Supervisory Commission.

Financial stability and strength of an insurance company should be a major consideration when purchasing an insurance contract. An insurance premium paid currently provides coverage for losses that might arise many years in the future. For that reason, the viability of the insurance carrier is very important. In recent years, a number of insurance companies have become insolvent, leaving their policyholders with no coverage (or coverage only from a government-backed insurance pool or other arrangement with less attractive payouts for losses.

The insurance industry allows individuals and businesses to pool and shift risk that they are not willing or able to bear for themselves. Policyholders can insure against a variety of risks.

The insurance industry provides protection against financial losses resulting from a variety of perils. By purchasing insurance policies, individuals and businesses can receive reimbursement for losses due to car accidents, theft of property, and fire and storm damage; medical expenses; and loss of income due to disability or death.

Insurance carriers are large companies that provide insurance and assume the risks covered by the policy. Insurance agencies and brokerages sell insurance policies for the carriers. While some of these establishments are directly affiliated with a particular insurer and sell only that carrier's policies, many are independent and are thus free to market the policies of a variety of insurance carriers.

2. General Terms

Insurer, in economics, is the company that sells the insurance.

Insurance is defined as the equitable transfer of the risk of a potential loss, from one entity to another, in exchange for a insurance premium and duty of care. Insurance is a risk-reducing investment in which the buyer pays a small fixed amount to be protected from a potential large loss.

The insurrance premium is a form of risk management primarily used to hedge against the risk of potential financial loss.

Insurance rate is a factor used to determine the amount, called the premium, to be charged for a certain amount of insurance coverage.

Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

Risk is a concept that denotes a potential negative impact to an asset or some characteristic of value that may arise from some present process or future event. In everyday usage, "risk" is often used synonymously with the probability of a known loss. Paradoxically, a probable loss can be uncertain and relative in an individual event while having a certainty in the aggregate of multiple events (see risk vs. uncertainty below).

Risk management is the human activity which integrates recognition of risk, risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources.

The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk

3. The home insurance

Romania is a country where most people own their homes, as opposite to the West where the rent is commonly used.

Many westerns frequently use rent or mortgage and become owners after their forties, so they are obligated by the banks to have home insurance. Most home buyers borrow money in the form of a mortgage, and the mortgage lender always requires that the buyer purchase homeowners insurance as a condition of the loan, in order to protect the bank if the home were to be destroyed. Anyone with an insurable interest in the property should be listed on the policy.

Also in Romania the increasing number of insured properties is caused by the outgrowing mortgages. In this context, Romania as a market could gain normality, forcedly rising but with good intention the number of insured houses.

The Romanian National Institute of Statistics tells us that over eight million houses are private properties.

Romania is one of the most exposed to natural disaster state in Europe, especially earthquakes and landslides, which often causes material damages and human loses with great economical and social costs. In this context, “The risk reduction in case of natural disasters and readiness for emergency situations project” represents a helping hand from the Romanian Government in diminution of the ecologically vulnerabilities, social and economical costs of a possible natural disasters.

A natural disaster is the consequence of the combination of a natural hazard (a physical event e.g. volcanic eruption, earthquake, and landslide) and human activities. Human vulnerability, caused by the lack of appropriate emergency management, leads to financial, structural, and human losses. Disasters occur when hazards meet vulnerability.

The maximum ensure value of the mandatory home insurance will be the equivalent in our national currency as follow:

- 20 000 eur for each building of type A (bulding made from reeinforced concrete walls or metal framework, building made form blue brick, stone and other similar materials, without reeinforced concrete or metal framework)

- 10 000 eur for each building of type B (building with walls made from wood, timber frame and/or other similar materials).

The insurance premium for the ensure value are the equivalent in our aditional currency as follow:

- 20 eur for the ensure value of 20 000 eur;
- 10 eur for the ensure value of 10 000 eur;

All this values can be modified periodical by the Insurance Supervisory Commission as the imobiliar market fluctuate and if the reinsurance company agrees.

The terms and condisions of the mandatory home insurance will be the same for all the insurance company.

The policy insure the dameges produse by natural desaster to homes.

The licensed insurance companys will pay damages to the ensured only to reper or replace the dameged home without exceding the ensured value.

The amends are paid even when, in case of imminent danger of flood or land slide, the home was demolished or relocated. Also, in case of earthquake, floods or land slide the use of the home is no longer possible, and is necessary to demolish or relocate.

The insured are obligated to take any reasonable measure necessary to prevent or limit the damage caused by natural disasters before and after the event.

The homes that are built illegal or without the conformity of the materials used, cannot be assured.

The insured that makes modifications to the building without the proper authorization, which affects the structural integrity of the home, will not be compensating.

The insured are obligated to provide the documents that prove the right to ownership to the insurance company.

The mandatory home insurance premiums will be fiscally deductible. In the memorandum approved by the prime minister it's keyed that the premiums are deductible.

Through deductions, millions of euros will be saved to the insurance pool.

The Insurance Supervisory Commission's agent added that the coverage degree of home insurance amongst the other types of insurances is at a very low level. The social capital of the new entity, called insurance pool, will be at least 8 millions RON and its activity shall be monitored by The Insurance Supervisory Commission.

In these new conditions, the owners of those types of buildings will be compensating with the money from those who built their homes strongly. In other words, this system may be views as a form of social solidarity imposed by the government.

Basically, this new system brings us back to 1995, the last year when this type of insurance has been mandatory. But in those times, the owners didn't insured their homes because, the premiums whore embedded in local taxes. After the removal of that, the degree of insured decreased from 90% to 6, 2% from the total number of homes in urban area, ands only 1, 8% from the homes in the rural are.

According to estimations, the amount that will be collected in 1 year will be approximately 130 minion euros. More the half of this amount will be intended to pay the reinsurance premiums.

In other states, another solution, more efficient, was found. In California for example, those who want to insure their homes against the earthquakes, can call a private insurance pool, and the compensation receive only those who contracted this type of insurance. In Florida, insurance against hurricanes and storms exists.

Now, only 15% of homes in Romania are insured, taking in consideration that 85% population own their houses. In Western Europe, only 45 to 65% of population owns their homes, but the vast majority of landlords insure their buildings. An enforced type of insurance has no chance to survive in those conditions.

On first of September at most, all the civilians who own a home, shall be bound the have a home insurance. The value of the prime will be set in concordance with the building material from which the home is made of.

The bill project that regulates the mandatory home insurance, initiated by the Ministry of Internal Affairs, has been approved by the Ministry of Finances, and it's now in diabetes in Parliament. The bill will be promoted at most in the first days of September.

From there on all the citizens, owner of their homes will have to insure their house against floods, landslides and earthquakes. Those who want more complex types of insurance, like fire dangers, will have to by optional insurances. The bill is designated for all the owners of their home. The premium is supported by the owners. In the case of tenets on stat property, the premium is paid by the institution who owns the building.

4. Defined contribution plans for retirement

In 9 years from now, pension age of Romanians will be gradually "indexed" to the standard European age of pension. So, the period in which the wage-earner will work, shall increase by a few months per year, until the common UE age: 60 for women and 65 for men, in 2014. After 2015 the age of pension and contributions will be stabilized.

EU wanted a more rapidly increase of this age, but the specific work conditions in the last decades have been more difficult than those in UE. So, UE officials accepted the 9 year period to gradually align the retirement age.

A slow increase in life expectancy of Romanian citizens is apparent, 68 years to men and 75 to women.

Meanwhile, the period between the time of retirement and time of death is 14 years, also a 6 month increase compare to previous year.

In 2005, 18% of citizens had over 65 years, in 2020 the percentage will be 30% and in 2050, more than half of the citizens will be elderly. Even thou the birthrate have slightly increased in the last 2 years, the future salaried personal will not be able to influence the aging trend that is present today.

In 1990, 8, 5 million contributors existed and 2.5 million retired. Now, less than 4.55 million are salaried and more than 6 millions, retired. This fact led to a very large contribution plan, bigger than other European countries.

In Romania the mean rate between wages and allowance has been decreased from 43.95 % in 1991, to 30.61 in 2003. This is a large iniquity between different generations.

In Belgium – men can retire at the age of 65 and women at the age of 64, but only if they have a 35 year length of service. In Denmark – minimal retire age is 65 year for citizen that achieved 60 before 1 of July 1999, and 67 for the others.

In Holland, Portugal, Luxemburg, Ireland, Spain the minimum are of retirement is 65 years, except seriously handicap situations, incapacity of working or general incapacity. In Island and Norway the legal retirement age is 67. In Italy – 65 for men and 60 for Women.

The largest niche in which insurance companies can increase their business is the private retirement plans. In Eastern Europe, only 27% of citizen has that kind of insurance, 44% in Western Europe and only 10 % of Romanian citizens.

Also, while 20% of eastern and 48 % of western Europeans have some kind of life insurance, only 13% of Romanians have this type of insurance.

From august 2007, private retirement plans shall be made compulsory. Also, from May 2007 optional retirement plans will be available.

For the contributors to both state and private retirement plans, the amount of allowance will be 80 % of average last wages.

Romanian citizen will chose from august 2007 a private retirement fund, and the personnel younger than 35 year will have to choose a private retirement found administrator to have a peaceful old age. The state retirement plan will still work, but with lower and lower resources.

For those without this type of private retirement plan, the quantum of allowance will be as low as today, namely 30 % of the actually wage.

Romanians will have the option cash in the optional private retirement founds only after they achieve 60 years and state retirement founds after 65 years old.

According to National Statistics Institute's estimations, around 2.5 million citizens will subscribe to the compulsory private retirement funds. Every employee younger than 35 years will have to contribute monthly to this retirement found with 2% from his brute income.

The employee between 35 and 45 years can contribute to this system only if they choose to. The cogitations will be made not by the employees individually but by the employers. Exception to this rule make the freelancers, like agricultures, who what to pay themselves the subscriptions.

Those 2 % that every employee will pay to private retirement funds will be deducted from those 9.5 % - the social retirement contribution from present.

5. Health Insurance

Health insurance, which is coverage for individuals to protect them against medical costs, is a highly charged and political issue, which does not have socialized health coverage. In theory, the market for health insurance should function in a manner similar to other insurance coverage's, but the skyrocketing cost of health coverage has disrupted markets around the globe, but perhaps most glaringly in the

Health insurance is a type of insurance whereby the insurer pays the medical costs of the insured if the insured becomes sick due to covered causes, or due to accidents. The insurer may be a private organization or a government agency. Market-based health care systems such as that in the United States rely primarily on private health insurance

A Health insurance policy is a legal, binding contract between the insurance company and the customer. The largest difference between private sector health insurance and life insurance is that for life insurance, a person may purchase guaranteed renewable insurance for the whole of the insured's life at a constant premium rate, while health insurance is generally purchased year by year with generally no assurance of renewability and if renewable no guarantee that premium rates will not increase.

With health insurance claims, the policy-holder pays a deductible plus copayment. Usually there is a maximum out-of-pocket payment for any single year, and there can be a lifetime maximum.

Prescription drug plans are a form of insurance offered through many employer benefit plans in the U.S., where the patient pays a copayment and the prescription drug insurance pays the rest.

Some health care providers will agree to bill the insurance company if the patient is willing to sign an agreement that he will be responsible for the amount that the insurance company doesn't pay, as the insurance company pays according to "reasonable" or "customary" charges, which may be less than the provider's usual fee. The "reasonable" and "customary" charges can vary.

Health insurance companies also often have a network of providers who agree to accept the reasonable and customary fee and waive the remainder. It will generally cost the patient less to use an in-network provider.

Because of advances in medicine and medical technology, medical treatment is more expensive, and people in developed countries are living longer. The population of those countries is aging, and a larger group of senior citizens requires more medical care than a young healthier population. (A similar rise in costs is evident in Social Security in the United States.) These factors cause an increase in the price of health insurance.

Some other factors that cause an increase in health insurance prices are health related: insufficient exercise; unhealthy food choices; a shortage of doctors in impoverished or rural areas; excessive alcohol use, smoking, street drugs, obesity, among some parts of the population; and the modern sedentary lifestyle of the middle classes.

In theory, people could lower health insurance prices by doing the opposite of the above; that is, by exercising, eating healthy food, avoiding addictive substances, etc. Healthier lifestyles protect the body from some, although not all, diseases, and with fewer diseases, the expenses borne by insurance companies would likely drop. A program for addressing increasing premiums, dubbed "consumer driven health care," encourages Americans to buy high-deductible, lower-premium insurance plans in exchange for tax benefits.

Health insurance contributions will be deducted from income tax within the 200 Euros limit. Romania may put into service the system that performs in France.

There is a voluntary health insurance system that is not based on individual risk factors but on mutual principle. We are talking about France’s mutual system.

In France, this system has a 20% share from the total health costs. I think that this system can be applied in Romania, because his social character. The system ensures a good social protection because it is based on income rather than indicial risk.

Health insurance market will have a boom in the next 3 years and will excide the value of 150 million Euros until 2010, if it doubles each year. At the end of 2006, this market reached 10 million Euros, (nearly 35 million RON). This value embodies only 0.75 % of this market and to reach the 150 million targets, a rise of 80.89% per year is necessary.

6. Conclusions

Now, life insurance in Romania is an emergent market that has a value of 1.25 billion RON (300 million Euros). This is only 0.4% of the Gross Domestic Product, against 5% average in EU. The life insurance density in Romania is only 57 RON per citizen per year, and life insurance represents 25% of all insurance market, against the 60% average from EU.

The population does not have the medium and long term planning excesses. This concludes that Romanian citizens spend only 1.6% of their income. Meanwhile 27.3% represent general expenses.

Last Year, 700 million Euros have been paid for damages, a 55% increase from 451 million Euros in 2005.

After the first months of 2007, surely the market will continue to grow with 25-30%. I believe that the general insurance will dominate the market, but life insurance will grow visible.

The value of insurance market grew last year in Romania with 34 % to the amount of 1.6 billion Euros from which general insurance occupies 1.3 billion Euros and 300 million Euros, life insurance.

If the grow rate of 25-30% per year will stay, the insurance market will achieve 4 billion Euros in 2010.

According to an INSOMAR opinion poll taken in OMNIBUS regime in January 2007, the share that have home insurance last year grew from 7% to 12,8%. The vast majority of them lives in urban area and is younger than 50 years.

Over 60% of opinion taken agrees that the Mandatory Home Insurance is appropriate. The percentage in 2003 was 38%. Over 12% from the partakers have life insurance against 8% in 2003 and 65.6% of them feel that is suitable.

Also, over 59% from the participants believe that a private retirement found is a viable alternative to state social security system. The same question achieved 46% in 2003, at the previous opinion poll.

In the automobile area, 85% from the participants have a Civil Responsibility Policy, 23% Motor Insurance, and 8% doesn’t have any kind of insurance.

The revenues from the insurance market from Europe, excided 790 Billion Euros last year. Romania was classified as the 25th country with 890 million Euros, according the Comité Européen des Assurances (CEA).

Insurance brokers will come to account for 35% in policies sold on the Romanian insurance market in the next three years. The insurance brokers' share of the market is put at 20-25% of a market worth 1.6 billion euros in 2006 and the increase to 35% is likely to bring domestic brokers over 16 million euros more in fee revenues.

Insurance brokers can play a significant role on this market and could reach a weight of 35% in the next three years given the considerable increase witnessed by brokers as part of the overall market in Poland.

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