

# The Insurance Market in the Context of the Globalization of the Economy

Gheorghe MATEI<sup>1</sup>, Ștefania-Sonia ZAMFIR<sup>2</sup>

<sup>1,2</sup> University of Craiova

ghematei@yahoo.com, zamfir\_sonia@yahoo.com

**Abstract.** *The global insurance market, characterized by a great diversity, represents an increased complexity and without having a predictability of some distinct delimitation. Compared to this, at the European level, the insurances are on an evolving curve, which presents also some differences distinctive for each country, but also some similar characteristics. Moreover, the European unique insurance market imposes a trend in a weighted growth, which also included the overall evolution of the Romanian insurance market. The purpose of this paper is to present a summary of the measures taken on the Romanian insurance market, both those imposed at national level, having as an objective the aligning with the new European standards and those generated by the global orientation, as well as the situation and the current trends.*

**Keywords:** force areas, European unique market, directive, indicators.

**JEL Classification:** F60, E44, E60, G20, G22.

## 1. Introduction

The interdependence social actions and economic activities, has lately multiple valences in the globalization era. We say "era" because the globalization phenomenon was and remains a process which is not static, but, on the contrary, it is in a permanent change, in the same sense with the human actions. Thus, it becomes a "ball" which encompasses all forms of manifestation of the economic, political, social, cultural, informational etc. field and which will generate a single behavior and act as a single entity.

The economic aspect of the globalization phenomenon is the most obvious and manifests itself most prominently, in all other fields. The geographical boundaries no longer exist and the transfer of all types' resources, the commercialization and the production of goods, the technological transfer competes in the creation of the new areas of economic force and which determines new rules that the weaker or less developed entities must respect them.

Taking into account the diversity of economic systems, generally, the globalization phenomenon implies a transformation or a rethinking and re-adaptation in the spatial organization, first of all, of the economic relations and transactions, and secondly in terms of manifestations and interactions between economic systems. Starting from the purpose of the trade policy of the European Union (UE) Member States, to create equal opportunities for all participants in the economic space, regarding the Romanian insurance market, the aim is to reach a similar existing level compared to that of the EU gender markets by practicing rates and quotas which guarantee the fair competition. The aforementioned aspect is in accordance with the objective of the World Trade Organization that of preserving the predictability and fairness of the way of conducting trade through agreements and following and supervising the common rules that apply between nations.

## 2. The stage of knowledge

At the global level, the economy in the globalization process is the main field of reference. As part of the globalization phenomenon, an initial form was manifested at the trade level, so that it was practiced internationally as a result of the localization, above all, of the state borders, first of all, the production cycle and the appearance of the transnational societies. According to Ionescu and Popa "as a determinant of the economic globalization, the economic and financial vector represents the dynamic factor and the initial motive of the universal phenomenon of globalization.... The economic dimension objectively launches the struggle for resources and offers the opportunities for capital accumulation, ultimately determining the statute of certain economic realities, outlined on the profile of the so-called world economic order, with heterogeneous qualitative differentiations, all over the globe "(Ionescu, Popa, 2010, p. 17).

Cociuban (2007, p. 25) declares that the phenomenon of globalization appears in the 1970s in the USA, it continues in the 1980s in the United Kingdom and extends to Japan and the European Union, and which currently includes Central and Eastern Europe, so that Romania is also captured.

Subsequently, the globalization manifested itself by removing the restrictions on the foreign direct investments and capital markets. Murariu mentioned that "the twentieth century was witness of an unequal economic development and in leaps, with a significant increasing of the global GNP per inhabitant. The strongest expansion occurred during the second half of the last century, a period of rapid expansion, accompanied by liberalization of the international trade, as well as on the level of financial relations on a global scale" (2011, p. 332).

In a study realized by KPMG International in 2006, taken from the site 1asig.ro, it presents the fact that "49% of the directors of insurance companies interviewed by KPMG believed that the insurance industry will develop at a worldwide faster rhythm, in the next two years, and the changes at the industry level will include the norms of supervision of the field, the development of new distribution channels and the change of the needs of the clients, 70% of the respondents considered that the most important objective of their companies is the development of the customer relations service, 65% said that their priority is to promote the company's brand, while 58% of the respondents appreciated that they will focus on developing the new insurance products within their companies" (1asig.ro, 2006). Also, in the same study, it is stated that the main means of realizing the strategies imposed by the globalization era are the Internet and information technology, which implies the major changes within the insurance companies regarding the information systems that use the ICT means. Thus, there will be a change in the ways of providing insurance on a global IT platform, in the development of customer contact forms and the purchase-sale of insurance products through call-center services or alternative channels.

Spulbăr surprised the fact that "the informational technologies changed the fact that information technologies have changed the way they are produced, in which markets are realized and in which they are consumed. The expansion of world trade, the multiplication of capital flows, the progress of science and technology, the transition of the communist economic system to the market economy have generated the acceleration of the progress of regional and global integration and new business opportunities. The relations between the states and the individuals have reached unimaginable levels in a few decades ago" (2016, p. 121). In this way, the regional integration supports the phenomenon of globalization at European level.

But, all these challenges and opportunities to take the advantages from the trends of globalization will require a rethinking of a reliable management of the associated, risks, generally, the challenge of the insurance market being the escalation

of the concentration of risks.

From the perspective of the European Commission, "we are still in the initial phase of the transformation process where the digitalization, robotics, artificial intelligence, the Internet of objects and 3D printing will revolutionize the way we produce, work, move and consume" (European Commission, 2017, p. 12). The changes will occur in all sectors of the economy, from transport, energy, telecommunications, agro-food industry, health, production and distribution, to financial services including the assurances that will require the specific companies, but which will operate virtually or in a participatory financing system. But even if all these involve a concentration of forces in certain spatially limited areas, "they could generate a multipolar world order, characterized by the different political, technological, economic and military powers. But this also means new expanded markets for European businesses" (European Commission, 2017, p. 11).

Taking into account all these aspect, in my opinion, the economy globalization will mean that the economic systems will be in a continuous resettlement and evolution, having a solid created base, but which won't be concentrated only in a few force areas, but the others will gravitate around them, making a change taking into account the new rules and norm which they will be imposed.

### **3. The Insurance Market in the European Union and in Romania**

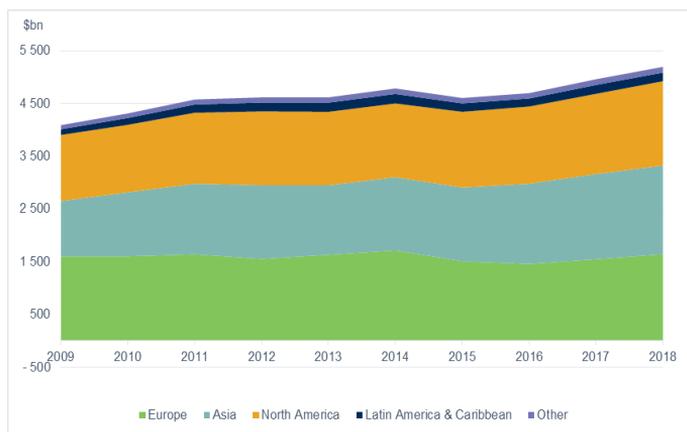
The establishment of the European Economic Community has laid the groundwork for the integration at European level of all fields, thus, even if the assurances are not specified; they are generally included in the provisions regarding the freedom to provide services. The evolution over the course of 35 years has led to the creation of the single insurance market and which has no global competitor in terms of its manifestation.

In Europe, all the 28 countries that make up the European Economic Area also represent the single insurance market. This is still in a dynamic process of transformation, starting in 2015, when "The European Commission has initiated a broad market consultation on ways to create a stronger market for financial services for consumers at European level, allowing them the access at the best offers, at a wider range of options and at more competitive prices. The consultation launched by the European Commission concerns financial services from a consumer perspective, with the aim of increasing competition, transparency and diversity of offers. European authorities aim to identify and eliminate the unjustified barriers that consumers face when they want to access financial services cross-border" (Tuchilă, 2015, p. 50). This way of the European Commission to create progress, especially with regard to the insurance market, represents, in Tuchilă's point of view (2015, p. 50), a complement to a number of Directives and Strategies that are being implemented at European level, as well as that of bank accounts, mortgage lending, insurance distribution, the Single Market and Digital Single Market Strategy. All of these have the role of "reducing barriers and preventing discrimination at EU level and accelerating access to digital services and products" (Tuchilă, 2015, p. 50).

In the *Special Report* no. 29, the European Court of Auditors mentions in 2018, that "the insurance market, with assets accounting for about two thirds of the EU GDP, is a significant part of the financial market in Europe. The difficulty of this sector could negatively affect the real economy and the welfare of the consumers" (European Court of Auditors, 2018, p. 83). The control body also states that "one of the key challenges for the current insurance market is the low interest rates. Insurers, especially those in the field of life insurance, which represent 65% of the EU insurance market, are facing significant problems in obtaining the guaranteed interest rate for products sold in previous years. Therefore, the business models of life insurance companies are

currently undergoing profound changes, one of their consequences being the taking of additional risks. Moreover, the digital technologies and increased use of big data have significantly reshaped the insurance market (Fintech), creating not only opportunities for businesses, but also a number of new challenges and risks for customers” (European Court of Auditors, 2018, p. 13).

The position of Europe in terms of world insurance premiums is graphically represented in Figure no. 1. Thus, it is easy to see that Europe remains constant in terms of the volume of premiums, during the last ten years, eliminating the small fluctuations between 2012-2013 and 2015-2016, compared to the other areas.



**Fig. 1.** World insurance premiums in the period 2009-2018 (\$bn)  
 Source: *Insurance Europe, Insurance Data Base September 2019*  
<https://www.insuranceeurope.eu/insurancedata>

In absolute amounts, the distribution by year of the volume of the insurance premiums in Europe is presented in Table no. 1, below.

**Tabel no.1.** Europe insurance premiums - (\$m)

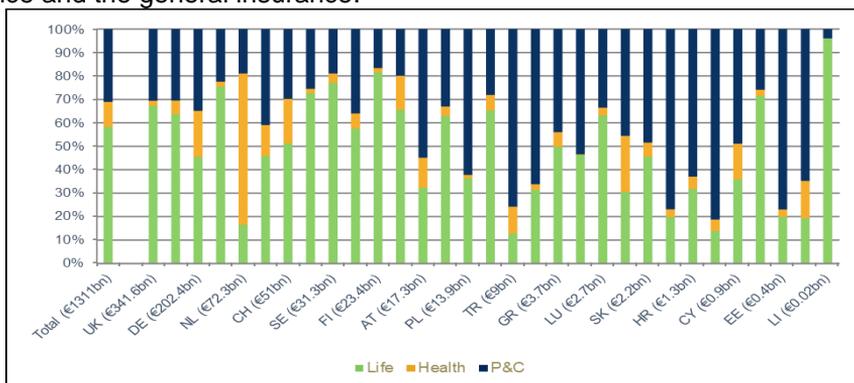
Year	Value
2018	1,641,198
2017	1,546,484
2016	1,457,316
2015	1,508,604
2014	1,713,176
2013	1,630,607
2012	1,551,882
2011	1,639,959
2010	1,601,565
2009	1,600,319

Source: *own processing based on Insurance Europe, Insurance Data Base September 2019*  
<https://www.insuranceeurope.eu/insurancedata>

Analyzing the figures we observe that in 2016 the lowest value was registered, and in 2014 the highest value was recorded in the interval subject to observation, against the effects of the economic crisis that started at the beginning of 2008. For the period 2009-2018, the values of the insurance premiums doesn't present a significant

fluctuation, but which in a pessimistic scenario these small variations can generate large imbalances.

Starting from the value of the gross subscribed premiums for the year 2018, the country distribution is presented in Figure no. 2. We will notice that it is represented in a different structure on the three types, respectively the life insurance, the health insurance and the general insurance.



**Fig. 2.** The situation of gross premiums subscribed by countries in 2018

Source: Insurance Europe, Insurance Data Base September 2019

<https://www.insuranceeurope.eu/insurancedata>

The different structure on the three types of insurance is based on the state differentiation both from an economic point of view, as well as from demographic and cultural aspects. At the same time, the differences are also found in the construction and development of the individual insurance markets in the European economic area, being known that the insurance market in the United Kingdom, France and Germany holds the share of the volume of premiums collected at EU level, followed by Switzerland, Italy and Spain and the other countries share the third part. The insurances of the countries of the European Union differ from one country to another and according to variables, such as the share of people who own cars and housing, the pension and health insurance system. In some countries, the life insurance has a higher share than non-life insurance, which is also reflected in Figure no. 2.

In our opinion, the process that is currently running, that of the growing up of the unique European insurance market is unequivocally influencing the economies at the global level. The financial forces at the European level will consolidate the international offers, will dominate in this way and it will create a new market, much more solid and stable, in this way being concentrated the competition between their force area and other areas.

In this context, when we are talking about Romania, this is on the same favorable trend of the economic growth as the other European financial markets, but at a slower rate, this aspect being obvious, because it does not have the same force. The Financial Supervisory Authority of Romania (ASF) mentions in the Report on the stability of the non-banking financial markets for the first quarter of 2019 that “on the domestic level, the economic growth has remained robust, significantly higher than the European Union average, under the conditions of a low level of total debt and external debt and an evolution within the accepted limits of the budget deficit, but also accompanied by an increase of the current account deficit (with moderate effects yet on the exchange rate) and an upward recovery of the inflation” (Financial Supervisory Authority, 2019, p. 8).

Also, within the same Report, it is mentioned that “the Romanian insurance market has had a positive evolution during the last years from the perspective of the volume of gross premiums subscribed and of the structure of the insurance market,

with a tendency to accentuate the diversification of the consumers interest for the products of insurance, especially for the life and health insurance segment” (Financial Supervisory Authority, 2019, p. 37).

Cristian Roșu, vice president of ASF Romania, declares in an interview that "in the first half of 2019, the insurance companies authorized and regulated by ASF subscribed gross premiums worth 5,438,764,708 lei, up with 7.8% from the same period of the previous year” (magazine Bursa, 2019), aspects that are also found in the Report on the evolution of the insurance market in the first semester of 2019.

Synthesizing, the Romanian Financial Supervisory Authority reports for the first half of 2019 an overall increase, of which 79% represent general insurance, but which are 8.7% higher than those registered in the first half of 2018 and 21% insurance of life. But, if in Europe in 2018, the insurers paid gross amounts of 1069 billion euros, which represents 3.1% more than in 2017, in Romania the insurance market registered a growth of 4.5% compared to 2017 that of 2017, which is however a progress lower than the European average. Also, in terms of insurance density, at the level of Europe it had the value of 2170 euros, and in Romania it was only 109 euros, the situation by countries being presented in Figure no.3. According to the information presented by Insurance Europe, Romania occupies the last place both in the case of life and health insurance and on the penultimate place in the general insurance situation. It is worth mentioning that, in the group of those with a low insurance attractiveness, there are placed to Romania, Bulgaria, Poland, Latvia and Estonia.

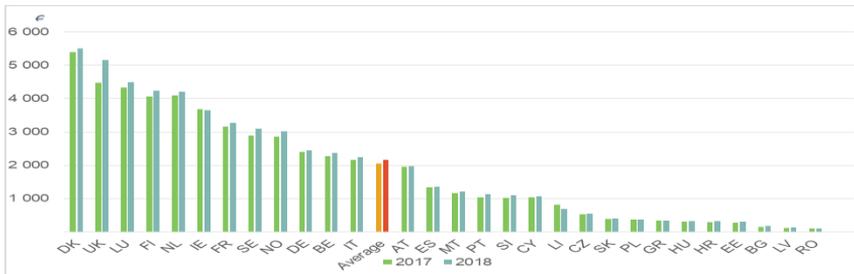


Fig. 3. The situation of insurance density in the period 2017-2018

Source: Insurance Europe, Insurance Data Base September 2019  
<https://www.insuranceeurope.eu/insurancedata>

Following the analysis for the degree of insurance penetration in the gross domestic product (GDP), it at the level of Europe for the year 2018 is 7.46%, divided on the life insurance of 4.35%, the health insurance of 0, 80%, and 2.31% for general insurance. The situation presented on EU member states in Figure no.4. In Romania, the degree of insurance penetration in the gross domestic product (GDP) was 1.13% at the level of 2018, being in decrease compared to the value registered for 2017, and because of the fact that the GDP in our country registered a much higher growth than the one registered by the insurance market.

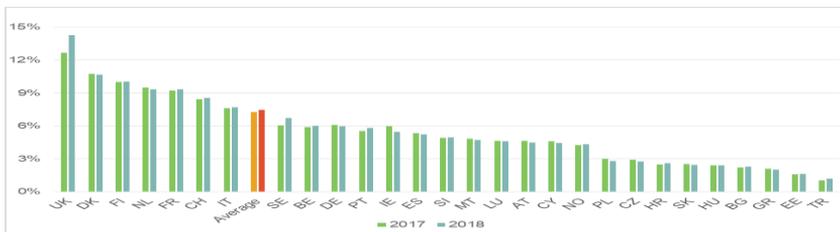


Fig. 4. The situation of the penetration of the insurances in GDP during the period 2017-2018

Source: Insurance Europe, Insurance Data Base September 2019

In our opinion, taking into account all these information, we can argue that Romania has come a long way until it reaches this status. As mentioned by the Romanian Financial Supervisory Authority (ASF), "the general insurance market remains dominated by auto insurance" (ASF, 2019, p. 6), "a change manifested especially during the last two years (2017-2018) and which continued during the first 6 months of 2019 is the consolidation of the life insurance segment, in the first half of 2019 continued the positive dynamics of this sector, and the volume of gross subscribed premiums remains at the highest level of the last period" (ASF, 2019, p. 6), at the same time, "health insurance has accumulated at the end of the month June 2019 gross premiums subscribed in the amount of 205 million lei, increasing by about 24% compared to the same period of the previous year. The number of contracts in force at the end of the reporting period increased by about 18%, and the highest share is held by the health insurance contracts assigned to the general insurances" (ASF, 2019, p. 6). At the same time, the stability of the insurance companies operating in the Romanian market was solid, taking into account an exception; the companies "met both the requirements of the solvency capital requirement (SCR) and the minimum capital requirements (MCR). Also, the SCR and MCR rates, calculated at the market level, that the ratio between the total of the eligible own funds to cover the capital requirements and the total value of the capital requirement, have registered super-ordinary values" (ASF, 2019, p. 6).

In 2017, the ASF management underlines that "the Romanian insurance market is taking its maturity exam" (1asig.ro, 2017). Since then, the Romanian insurance market has passed the examination regarding the implementation of the IDD and the new Law of the RCA. It is known that, regarding the insurance market, Romania started this process in the era of globalization with important legislative gaps related to the international environment. In this context, the insurance companies were forced to gain new market sectors, in a context of the capital market not exactly favorable, being a poorly developed and at the same time unstable environment. In this regard, the insurance market in Romania, year by year, had to overcome the new challenges in order to align with new and important standards at European level, to rethink and reform both at the individual level, of the actors who are working in the insurance market in Romania (insurance companies, intermediaries, etc.), but also globally acting as a whole.

The insurance market in Romania has evolved and will evolve, will continue to follow and implement the European Directives in the field. In the short term, ASF declares that it intends to "re-analyze a series of rules, there are proposals for amendments of the legislation in order to bring it in line with the present economic realities, considering the re-establishment of the law of the Guarantee Fund, in order to a better serving of the interests of the insured, creation of a distributed database (DLT), with specific advantages: it creates trust, efficiency, traceability, a simplified risk reconciliation, knowing the fact that, globally, the financial markets are the largest users of DLT technologies, in proportion of about 46% (1asig.ro, 2019). Also, during the European Conference of Financial Services, it was mentioned that "the insurance industry is undergoing a period of profound changes – the European legislation is changing, the consumer behavior is changing and, in addition, a rapid digitization has a strong impact on all segments of the business" (1asig.ro, 2019).

#### **4. Conclusions**

The Romanian insurance market will continue to remain concentrated in the area of general insurance, an aspect that cannot be overcome if the reform of the whole economy will not progress and will remain between different visions of management and development of the economy. It is obvious that the Romanian

insurance market will continue to expand and will still have the alignment at the EU level in this area.

The solution is found in the deep penetration of foreign investments in our country, which come with new visions and connected more directly in the trend of the globalization movement, thus an increase of population incomes will be obtained, all these will generate not only the coverage of current living costs, but also the choice of protection costs. At the same time, these will determine a positive dynamic of the economy as a whole, which will lead to the existence of strong financial companies, increasingly interested in developing not only locally but also globally. In this way, once again the insurances will prove their role as a stimulus for the economy.

The supervision at EU level in the field of insurance also plays a key-role in the development of the insurance market in our country. The reform processes at European level will be more easily agreed upon and applied at national level if they are early monitored and implemented. The lessons learned by the EU Member States with advanced experience in this field should be models to be followed.

At the same time, the aggressive campaigns for raising the awareness of the importance of the financial education in everyday life should be undertaken, Romania still having a large segment of the population that lived before the 1990s, period which still has effects.

Of course, it's not easy at all, but all these will require a comprehensive reform of the insurance field. In our country, the population is characterized by a lack of confidence and perspective, but the appearance of a law of moral damages for this segment is viewed with much opening.

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