INSURERS AFFECTED BY THE CURRENT FINANCIAL CRISIS: THE CASE OF ROMANIA

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Abstract

While USA is still digesting the end of Lehman Brothers, a much bigger threat is looming on the horizon. The situation in the economic world is very grim, day by day. It is a global situation affecting everyone and everything. Naturally one gets worried if insurance companies and the insurance money will be affected by the present crisis. Though, the insurance industry has so far fared well in comparison to other sections of financial services, the industry is not immune to the effects of the current crisis. With many specialists suggesting there will be no end to difficult economic conditions in the near future, the insurance industry will not escape untouched. In the first part of this paper we focused on the "cause-victim" situation of the insurance industry regarding the financial crisis. The second part is dedicated to the effects that the present turmoil has on Romanian insurers by studying the evolution of profits, claims and fraud registered while in the third part we try to outline possible anti-crisis solutions for them. Last but not least, though the financial crisis has not passed yet, we highlight some lessons to be learned from this crisis, which may help both Romanian insurers and insurers around the world.

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1. Introduction

Financial crises are phenomena that can have a major impact on the world economy. By the combination of some structural and cyclic factors, we witness today a situation that threatens the financial stability all over the world.

The first clues that signalled the emergence of the present financial crisis appeared in 2007 when Bear Sterns, a giant of the American financial world, was confronting serious problems, being on the brink of ruin.[1] Things would be looking black again when the *Lehman Brothers* bank sent up the bankruptcy procedure.[2] Short after FED tries to save AIG in various ways which had been in a tight corner for some time.[3]

The roots of the present crisis are to be found both at micro and macroeconomic level. A close analysis could emphasize the existence of some structural and cyclic factors responsible for the financial crisis.[4]

Structural factors:

- A dramatic rise in the role of capital markets (non-banking financial institutions) in the financial intermediation process. The growing complexity of financial markets has become an issue in itself.
- An increasing use of new financial instruments (securitisation) which have spread out risks across national borders, but which have made markets more opaque (reduced transparency). In part this was due to the lack of due diligence. However, the lack of effective trading of many of the new financial products has made rising opacity quite inevitable.
- Rising opacity of financial markets has accentuated systemic risks. There has been a fallacy of composition at play here. The ‘origination and distribution” of synthetic products was meant to diminish individual (micro) risks by their diversification and spreading. But micro-rationality clashes with macro-rationality when markets lose transparency.

[1] FED decides to intervene soliciting the taking over of the Bear Sterns bank by JP Morgan for the price of 2 US$/action (actions that a year before were worth 80$). As a result of negotiations, JP Morgan takes over Bear Sterns for the price of 10US$/action, Business Insurance no. 45/2008.
[2] JP Morgan supplies 138 billion dollars for the bank following an agreement with FED. FED returns the money in two rounds, thus a precedent being created and declared “isolated” by FED, Business Insurance no. 45/2008.
[3] In Wall Street nobody shows interest in buying AIG and time was too short for the Government to interfere. Thus, FED opens a credit line of 85 billion $, which will be subsequently paid by the USA Government in the account taking over the majority of the AIG actions, Business Insurance no. 45/2008.
[4] Daniel Daianu, Laurian Lungu, *"Why is this financial crisis occurring? How to respond to it? "*, Romanian Journal of Economic Forecasting4/2008, pp.65.

- The pressure of globalisation and the rise in cross-border operations. Transactions costs have been reduced constantly over the last years and, as a consequence, large volume of transactions can be carried out in short amounts of time. Again, these evolutions may in fact, have enhanced a lack of due diligence. Inadequate quantitative methods (risk and econometric models) to the extent they are meant to replicate the functioning of actual markets and decisionmaking relies heavily on them.
- Seemingly intractable conflicts of interest among market participants.
- Inadequate incentive structures (compensation schemes) in the financial industry that have encouraged excessive risk-taking at the expense of prudence.
- An excess of saving in a number of countries – notably China – and the global redistribution of wealth and income towards commodities exporting countries. But, also, one would have to mention, in this regard, the unusual situation of the US economy as the wealthiest and most developed in the world: instead of showing high domestic savings, and relatedly, substantial net capital outflows (which befits wealthy economies) its savings ratio is stunningly low and it relies on foreign capital in order to finance its large current account deficit; the US economy is overdriven by consumption.
- And most importantly, inadequate and obsolete worldwide regulatory frameworks; regulatory and supervisory failures have compounded the magnitude of the debt and credit risk.
- An over-reliance on the self-regulatory virtues of markets.

Cyclic factors:

- low-risk investments without significant profit at maturity within the great economies of the world;
- crediting politics with excessively low risk, spread at the level of all financial instruments.

The structural factors are those that create the general favourable conditions of a potential crisis, while the cyclic factors are those that unleash it.

"There is no doubt that we are confronting the most powerful financial-economic crisis from 1929 on. "This crisis is as violent as the result of the combination between a series of grievous mistakes made both at the level of financial markets and at state level. The market players, particularly banks, encouraged by their behaviour excessive crediting, which led to extreme real estate speculations…", declared Denis Kessler, chairman and chief executive officer (CEO) of SCOR in *Risques* magazine.

A new element in what concerns the present financial crisis is the fact that it is, without doubt, the first crisis that can be called "global" and which spread quickly worldwide. This global aspect of the crisis denotes that it will last more than it was expected, as long as each problem that a country deals with has a retroactive effect upon some other country and so on.

A link between insurance and the current crisis appeared when some specialists considered that the insurance market has been the main cause of the current crisis. Cause or victim of it, the truth is that insurers around the world felt the impact of the crisis and now, in order to solve the external or internal problems, they are looking for possible viable solutions.

Large insurance/reinsurance companies deal with numerous problems. Alongside AIG, one of the greatest insurers of the world, Swiss Re, reported an annual loss of 735 million dollars, and AXA, the second company worldwide, also reported a total loss of 1.16 billion dollars. These losses are mostly due to the limitation of crediting and investments that have failed because of the present unfavourable economic environment. Henry Castries, director of AXA, expressed dissatisfaction with the financial results, asserting that *"2009 will be another provoking year that will be put in the light of the difficult economic global environment that we all experience"*.

Though the financial crisis influenced insurers activity and results, all over the world, the major impact is felt in countries in which the insurance market is still developing, such as Romania. Discussing the issue of financial crisis with Romanian insurers we realise that growth of frauds, growth of the number of buy-backs for life insurances, diminished growth of the market are the major problems Romanian insurers deal with.

2. The insurance industry, victim or cause of the crisis?

The insurance industry is obviously affected by this crisis. Still, there has to be made a clear distinction namely that insurances are not the cause of this crisis but, on the contrary, its victim. First, the crisis has its beginnings in the banking domain. There is at the moment on the market an excessive degree of indebtedness whose absorption will take some time and also a lack of liquidities that has shaken the entire financial world. Insurances did not contributed to the growth of this “balloon” called financial crisis, which, once it exploded, buried humankind in recession.

Some insurance companies faced major difficulties and the internal crisis that affected them deluded some analysts who considered that insurers had a similar role to that of the banks in unleashing this crisis.

There were American insurance-reinsurance companies known under the name of “monoliners” which practiced the so-called “credit-enhancing”. Initially, they guaranteed the local authorities’ loans. Being equitable, with a high rating (AAA), monoliners would guarantee the local authorities’ loans, and these would benefit from low rates, thus existing a dispersal of the risk among them. Monoliners would guarantee for structured financial products which represented the result of the securitization operations, this leading to the growth of the rating of these products, even if they also included actives of medium quality. “Nobody can change lead into gold – this is the lesson that historically changed alchemy into chemistry.”, declared Denis Kessler, chairman and chief executive officer (CEO) of SCOR in *Risques* magazine.

The offer of products of a low quality but with a high rating due to the guarantees offered by the monoliners was a mistake that made victims both among investors and insurers and reinsurers. Once with the knowledge of the crediting risk degree, the securitized products have lost their value, and the monoliners’ rating has collapsed. Other insurance-reinsurance companies have also expanded in the banking branch, as it is the case of AIG which has enjoyed development in the banking domain, but which suffered from the difficulties encountered along. It was not the “insurance” side that put these insurers in the position of bankruptcy, but the “banking” side of the conglomerate.[5]

Insurers and reinsurers feel the effects of the present crisis, but they are not in its epicentre, a situation caused by some real reasons. First, insurances are not exposed at all or almost at all at the risk of liquidity and this thanks to the “viscosity” of the balance sheet especially in what concerns the non-life branch. The insured cannot influence the insurer’s degree of liquidity on his own initiative, but he is dependent on the emergence of some loss, or of some damage, which is something he cannot control. The insured can influence an insurer’s degree of liquidity only with the help of the saving products, but in this case penalties will not delay to show up. The present financial crisis is, above all, a crisis of

[5] SCOR „*The crisis and the insurance: where do we stand*? "Risques Magazine no.76/2008.

liquidities. Furthermore, the insurer takes his risk, being not just a simple mediator, and if he wants to transfer the cost, he will have to highlight it in the balance sheet. Its non-highlighting in the balance sheet is an inexistent phenomenon or an extremely rare one in the case of insurances and reinsurances. The present financial crisis is one non-highlighted in the balance sheets. After all, the insurance industry presents a low degree of exposure at what it is called "risk of contamination". The reinsurance mechanism has nothing in common with the crediting mechanism between banks, neither in what concerns volatility, nor the degree of usage.

The present crisis raises for discussion the devastating phenomenon of "financial contamination", the risk of bankruptcy being real and omnipresent. We have to take into consideration the fact that the idea of bankruptcy in insurances does not exist. The collapse of an insurance/reinsurance company from one day to another is not possible pure and simple. The process of collapse in insurance/reinsurance is a long process: the liquidity of contracts can last for years and in the majority of cases the management of this process proves to be profitable. [6]

3. The effects of the present crisis upon Romanian insurers

"*Some insurance companies will fall victim to the present financial crisis*", declared Robert Stein, chief executive officer for actuarial services within Ernst & Young, in *Reactions* magazine.

The Romanian insurance market has not yet felt major shock waves, caused by the financial crisis. But, although so far the insurance industry has relatively well overcome this crucial moment, we cannot hide the fact that "not everything is in the pink".

First, a major problem with which insurers will have to deal is that of the growth of frauds generated by the present financial crisis. The crisis determines many car owners to reduce their costs by any means, including fraud.[7]

"*The situation is already alarming. Fraud has reached the level of the persons in high positions… This means that there is the belief that this is proper to be done. In periods of*

[6] „*Financial Crisis strongly reinforces the case for Solvency II.* "Business Insurance no.45/2008.
[7] The case of the judge Marioara Dumitru from the Court of Appeal Pitesti, investigated by the attorneys of the Prosecutor's Office of the Supreme Court for fraud is, in the insurers' opinion, an indicator of the level of fraud in the domain. Marioara Dumitru is accused that, after she found her car hit, and without having an insurance, she would have set up an accident with the help of the mayor and a policeman from Brasov.

crisis the transfer of all costs in other areas is practiced.”, declared the chief executive officer of Astra Insurances Romania, Radu Mustatea for Business Standard.

Another effect of the crisis is the growth of the number of buy-backs for life insurances, the maximum impact taking place in October 2008. According to some statistic data provided by the Insurance Supervisory Commission (ISC), the total buy-back volume that has been paid by the insurance companies this month amounted to approximately 26.6 million lei, a level 80 percent higher than the average of the first nine month of the year 2007, whereas in November 2008 the total buy-backs reduced with 11 percent in comparison to the value of the preceding month.

A diminished growth of the market, another effect of the crisis, makes us think of the fact that the insurance market will suffer from a decline of the rhythm of growth for the year 2009. For Romania it is stipulated a growth of not more than 15%, comparatively with the growth of 25% that has been estimated for this year, the percentage being influenced by the problems the car market copes with, but which will be the main growth engine of the general insurance market. However the problem of diminishing gross premiums subscribed in this sector is posed and this due to the diminishing of car sales.[8]

Table 1: The evolution of the first 10 players on the insurance market

COMPANY	***T3 2008 (MIL.EUR)***	***T3 2007 (MIL.EUR)***	***T3 2006***	***EVOLUTION 2008 VS.2007 (%)***	***EVOLUTION 2007 VS 2006 (%)***
ALLIANZ TIRIAC	283.47	277.83	236.8	2.03	17.33
OMNIASIG	252.44	187.22	103.64	34.84	80.64
ASIROM	157.67	144.45	133.89	9.15	7.89
ASTRA-UNIQA	137.49	85.23	72.06	61.31	18.27
ASIBAN	128.65	135.20	93.24	-4.84	45
ING life insurances	113.75	110.58	89.95	2.86	
BCR insurances	109.11	137.82	81.82	-20.83	68.45
UNITA	107.82	102.10	52.03	5.60	96.24
GENERALI	87.63	85.17	59.30	2.88	43.64
ARDAF	78.50	34.13	45.68	129.99	-25.28
Total TOP 10	**1456.52**	**1299.73**	**958.41**	**12.06**	**34.21**
Total Market	**1836.31**	**1517.30**	**1198.91**	**13.56**	**4.90**

Source: www.standard.ro

[8] In 2006 the insurance market was of about 1.6 billion euros, while in 2007 it grew with 25.2% up to 7.175 billion lei (approximately 2 billion euros), and in the first nine months of 2008 the increase of bonuses was of 25.6% up to 6.675 billion lei, compared to the level registered in the interval January-September 2007 (about 1.8 billion euros); http://www.csa.ro

In what concerns life insurances, for the year 2009 the rhythm of growth will be much more moderate than the one in 2008, this reason being especially due to the deceleration of crediting, taking into consideration that these policies are connected to the credit grants.[9]

Table 2: Evolution–the first 10 players on the market of guarantee and credit insurances

COMPANY	*T3 2008 (mil. EUR)*	*T3 2007 (mil. EUR)*	*EVOLUTIE (%)*
ASIBAN	13.54	15.82	-14.41
OMNIASIG	9.06	18.19	-50.19
GARANTA	8.24	8.28	-0.46
BCR INSURANCES	4.07	42.48	-90.43
BT INSURANCES	3.33	3.66	-9.10
CREDIT EUROPE ASIG	3.21	N/A	-
ALLIANZ-TIRIAC	2.01	2.45	-17.98
ASTRA	0.77	0.98	-21.36
CARPATICA ASIG	0.26	1.40	-81.38
UNITA	0.23	0.25	-7.13

Source: www.standard.ro

The chief executive officer of the brokerage company MARSH, Cristian Fugaciu, declared that the effects would be felt on the insurance market, because this is tightly connected to other industries[10], "companies now think to save money and they might reduce the budgets allocated for the purchase of insurance products". It was therewith mentioned the substantial cut, at the level of the entire market, of the business volume on the segment of the policies related to the consumer credits, as a consequence of the substantial losses that this business line generated in the previous years.[11]

There will be two important factors, an external and an internal one, that will significantly influence the evolution of the insurance market in 2009 – financing and tariff, declared the chief executive officer of Allianz-Tiriac Company, Cristian Constantinescu. At the end of the year, the insurance companies will renew their reinsurance treaties. Thus it is stipulated an increase of costs with the reinsurance, there being obvious signs in this respect noted by the international reinsurers. Increases will be felt in case of the disproportionate reinsurance contracts, of the type excess of loss, for all the business lines, declared the Allianz-Tiriac chairman. Thus, insurers from Romania will have to compensate the influence of the augmentation of costs once with the reinsurance, which will be possible mainly through the increase of the insurance rates. Another factor that could influence the profit of the

[9] In 2007 the life insurance market grew with 26.5% up to 1.44 billion lei, and in the first nine months of the year the cash advance was of 26.8% up to 1.31 billion lei. Life insurances have a weight of about 20% on the insurance market. http://www.csa.ro

[10] Business Standard *„Criza trage in jos asigurările"*,no.23, 2008 , pp.19

[11] At the end of SI this year, the volume of gross bonuses subscribed in connection with the guarantee and credit insurances was 30.56 million euros, decreasing with 60% comparatively with the similar interval in 2007, when the value exceeded 77 million euros; http://www.csa.ro

insurance companies would be the evolution of the financial and money market. The effects of the reinforcement of euro in relation to the home currency materialize in the majority of costs with the indemnifications, as a consequence of the increase of the replacement value of the damaged goods, respectively the increase of costs with the components and the manual labour, in case of car insurances, because these are usually expressed in euro, explained the Allianz-Tiriac chairman.[12]

Further on, there is a graphic presentation of the penetration level of the subscribed gross premiums into the gross domestic product (GDP) in the period 2004-2008, with the mention that there is a slower growth in the period 2007-2008 than in the period 2006-2007.

Figure 1: Penetration level of the subscribed gross premiums into the GDP

Year	*Penetration level in GDP %*	**Subscribed Gross Premiums (billions EUR)**
2004	1.46	0.876
2005	1.54	1.2
2006	1.67	1.7
2007	1.71	2.15
2008	1.77	2.38

Source: www.standard.ro

4. Anti-crisis solutions dedicated to the Romanian insurance market

Under the pressure of the economic crisis, managers find themselves obliged to find solutions for the improvement of costs. In this respect, they start the analysis of different profitability and lucrativeness indicators, and also the evolution of the commodity market of their products and services. All these analyses conclude with the implementation of some anticrisis measures. There are taken into consideration all the expenses that have to do with production, modifications of how the employees' facilities and premiums are made, salaries are blocked, contracts with providers, brokers, etc. are renegotiated.

Many times the managers of the insurance companies take into account in this kind of situations the insurance expenses. In order to be able to reconsider an insurance programme, Gheorghe Grad, chief executive officer of SRBA, shows that efficiency would be a good

[12] Business Standard „*Criza trage in jos asigurarile* ", no.23, 2008, pp.23

analysis of the operational risks, an evaluation of the real estate values secured in relation to their new market values, an evaluation of the goods in stock, of the turnover estimated for the present year and thus it could be determined what types of insurance policies can be re-evaluated. This way, the following examples could be given: insurances of general third-party liabilities, of the producer, those of pollution and contamination; the reduction of the amounts for property insurance, taking into consideration the decrease of the real estate market; policies for the insurance of operational and exploitation risks, if a series of production capacities are temporally closed.[13] Whatever the foresights for the insurance market in 2009, the insurer has to take into consideration that there is a series of insurance types he does not need to give up, among which there can be mentioned the insurance of goods in case of fire and natural disasters, the third-party liability towards the others, the third-party liability of managers, RCA (car insurance), malpractice, professional responsibilities, the insurance against the risk of the non-cashing of the receivable, irrespective of destination.

Considering that the profit margins of the insurers are affected by the crisis, there should be found new strategies of business support. *“2009 will be an extremely difficult year economically speaking. Also 2010 will be a difficult year and probably the first half of 2011.”*, declared Dragos Cabat, chairman of CFA Romania, who recommends insurers to orientate themselves towards profit, even if they might register a lower number of clients. The life insurance sector, also affected by the crisis as shown above, could receive help from the state by the introduction of the deductibility of premiums paid for life insurances. In Romania, premiums paid for life insurances are not deductible from the moment of tax payment, as compared with other countries that have benefited from such deductibility for some time.

The determination of some insurance companies predisposed to failure in this grey period of the world economy is a difficult issue if not even impossible to accomplish, but history shows that these crises of the market are generally followed by the collapse of some insurers. That is why insurers also are advised to take certain protection measures. In this respect, they can use the rating agencies which offer analyses and information with regard to the insurance sector. The insured ones should show permanent interest in the understanding of the rating criteria used by the agencies. Agencies evaluate the impact that the financial and economic conditions have on the insurers’ capacity to meet their obligations. They take into consideration the financial performance, the economic tendencies, the market conditions as

[13]XPRIMM Magazine, *"Asigurari prioritare in perioada de criza "*, no.1 -2/2009,pp. 16

well as a large variety of quantitative and qualitative factors at the moment of establishing the rating. Besides these ratings, agencies can also offer support through the outlook service which indicates if future performances of the analysed insurance company will be negative, stable or positive. So what is an Insured to do?

1.Monitor insurance rating. There are several rating agencies that provide commentary and analysis on the insurance sector. Policyholders should take an active interest in understanding the criteria that rating agencies utilize. Credit rating agencies assess the impact that business, financial, and economic conditions have on an insurer's ability to meet its obligations. The agencies continually assess financial performance, market conditions, economic trends, and a variety of other quantitative and qualitative factors when issuing ratings. Typically, a rating agency issues several kinds of ratings; the Financial Strength Rating is typically the most useful as it considers the long-term ability of a company to meet its commitments. Additionally, an agency may offer additional guidance in the form of an Outlook, which would indicate whether the future performance of the company is likely to be Negative, Stable, or Positive. These rankings are by no means perfect, but they are among the best ways of assessing a carrier's viability.

2. Know your contracts and insurer's status. Policyholders should gather and review both their own policies of insurance, as well as commercial contracts, and assess the potential impact an insurer's downgrading or receivership could have. As to contracts with third parties, an insured should determine and understand any insurance procurement and maintenance requirements, e.g., additional insured clauses, bond requirements, etc., and determine whether and when the drop in an insurer's rating (e.g., A.M. Best, Standard & Poor's, Moody's or Fitch) or receivership could impact the contract. A policyholder can benefit greatly by tracking an insurer's status, as well as its performance and financial condition on a regular basis.

5. The necessity of Risk Management in the insurance industry, accentuated by the financial crisis. Implementation in the Romanian insurance market.

Irrespective of the economic factors, the purpose of the insurance companies stays the same: the profit, achievable by means of the selling of insurance products and by taking the risk. The problem of uncertainty and risk represented a concern both for specialists and for practitioners throughout ages. The system of risks consists of: general risks (natural disasters, accidents, and death), the country risk which reflects the level of economic performance and political stability of a country, the currency risk, the bankruptcy risk which is characterized by the incapacity of a company to adapt in time and at the lower cost to the variation of the environment conditions (economic and social). It also has to be mentioned that risk is the defining element of a commercial insurance only if it meets certain judicial, technical and economic conditions. The uncertain characteristic of the risk in insurances, generator of damages of goods and of bodily harms, gives birth to a series of unknown vectors in the economic equation of the insurance companies. Statistics and actuarial mathematics can only estimate it. The estimation has a margin of error and a coefficient of variation that cannot be measured. If in the insurance domain wealthy periods bring the insurers a profit of not more than 5%, this can easily disappear during the less favourable periods. The maintenance of the profit margin can be done through the growth of the turnover, i.e. of the subscribed gross premiums, or through the reduction of expenditures spent on indemnifications or the administrative and of acquisition ones. If because of the competition on the market the problem of the growth of the turnover becomes hard to solve, the indemnifications that have to be paid are reduced by specific methods of fraud control, and the acquisition and administrative expenditures also have a minimum threshold, then managers have another task namely the risk management. Modern science develops a concept called risk management. Risk management includes several directions of action: risk management at subscription, when doing contracts, in management, risk management in granting indemnifications, in accountancy, the management of the investment risk.

An insurance company where the concept of risk management represents a theoretical issue can go bankrupt if besides the common risks there shows up an economic risk (deflation, economic crisis, financial crisis, economic freeze, etc).

The present financial crisis accentuated the necessity of the insurance companies to implement new strategies regarding risk management. The problem of liquidities does not seem to be very acute in the insurance company in comparison to banking sector. Nevertheless, the evaluation of actives was severely affected by the financial crisis, and the reserves of capital of some insurance companies have been substantially diminished. As a result, S&P's and Moody's rating agencies recommend insurers to approach the problem of risk in a more efficient way so as to assure a rating as good as possible. SAS Analytics, a leader on the market of business solutions, backing at the moment 1100 insurance companies throughout the world with its programmes, among which Allianz, AXA, Groupama France wish to come in the insurers' help on the international market in case of the problem of risk with a new programme called SAS Insurance Intelligence Architecture, the centre of this innovation being an updated model that will sustain the analysis of the risk.

At the moment few insurance companies have an efficient strategy regarding the risk management. Solvency II and the financial crisis have put light on the necessity of the insurance companies to come up with efficient solutions of the risk management. The implementation of a basis for the data management represents the key to success of these systems. SAS Insurance Intelligence Architecture helps insurance companies in gathering data from operational applications and then transforms and filters the corresponding data until the obtaining of an efficient form for them.

Solvency II, an instrument of the control of risks, imposes solvency limits to the insurance companies, at the same time taking into account the necessary methods of risk management. Within this procedure an insurance company will not be able to function in case it is situated under the minimum limit of capital. Simultaneously, an insurer situated under the necessary level of capital for the integration within the solvency limits, will be obliged to reconsider the rectification of the situation with the regulatory authority by which it is supervised. By the medium of Solvency II, companies are imposed the maintenance of a level of available capital for the diminishing of the probability to enter insolvency and they will have to choose between the implementation of the standard model, of an internal one or a combination of both.

This prudent system of insurance supervision also gained ground on the European insurance market. Insurers can learn from the challenges to which the banking system was subject by the implementation of the Basel II convention regarding the requirements of capital for the credit institutions starting with 1 January 2008, one of the most important issues being the volume, consistency and quality of data available for the making of new models for the evaluation of the risk.

Looking into the problem from the perspective of the Romanian insurance market, we ask ourselves how many profile companies would be determined to use a programme of the type SAS-IIA in Romania, if they had the opportunity to do it? Would the managers of these companies be attracted to lay the foundations of a risk management strategy by the medium of such a programme? And if yes, how should it be considered such a new challenge? First the challenge we are talking about will have to be seen from the point of view of the costs. Are the Romanian insurance companies willing to contribute with financial resources for such a development? Do they have these resources? Referring to human resources, heads should know the potential of their own staff. Are they ready for such changes? And if not, can they be trained in the most efficient way possible? We cannot leave out the existent technology in the Romanian insurance companies; is it prepared to assume this kind of tasks and will there be necessary some improvements from this point of view? Are there trained and capable managers to work with such programmes? These are just a few of the elements that the management of quality has to take into account when making such a decision.

In Romania the debates on problems of this type have to wait. Why? Because, at least on the outside, the Romanian insurance market shows a favourable evolution, a fact sustained by the record subscriptions that the insurance companies register in the sector of life insurances.

Interested in the future and wanting to avoid certain unexpected events that could show up in time, Romanians start to get assured. At least this is what the statistical figures of some companies on the Romanian market prove, and which registered increases over the average at the level of the first nine months of the year. At the same time, the problems with which the large insurance companies cope abroad seem not to influence in an obvious way the Romanian insurance market, thus AIG Life Romania registered a positive evolution during the last period despite the rumours of a possible bankruptcy of the mother company.

Thus, in the given circumstances, what would be the success rate of a support programme of the risk analysis in insurances in Romania? If the organisations that will take the initiative in creating a basis of data management will be much better trained to welcome Solvency II legislation and will gain from the benefits offered by the risk management, what will happen with those companies that are reticent to such projects or with those that pure and simple cannot afford it? It’s for sure that the fight for survival on the insurance market will be a much tougher one.

The present financial crisis creates obstacles to all the sector of economy all over the world and without exceptions.

Having a glance at the solutions of getting over the crisis that were at the disposition of the today insurers, we realize that these are measures that should have been implemented a long time ago. The efficiency of expenditures, the decrease of the acquisition costs, the implementation of the efficient methods of risk management, a re-orientation towards the growth of the profit and less towards the market share are old measures, whose implementation was postponed, but which now become compulsory. The estimation of the impact of the financial crisis upon the insurance industry would be as difficult to accomplish as when we tried to foresee a return of the exchange. Everybody has an opinion, but nobody really knows what will happen. All we can do is to believe in the existence of a positive side of the present crisis, namely that this will make the present problems the insurance market deals with find an immediate solution.

6. Conclusion- lessons to be learned form the current financial crisis

The lessons to be learned from the current crisis are numerous and interrelated and can be taken into account by Romanian insurers and insurers around the world. We can consider them within two broad categories: prudential and protective. The first concerns the management of banks and other financial institutions, in terms of firms' own best practice as well as the regulatory requirements imposed upon them. The second theme concerns the lessons for the authorities on the management of systemic risk, the management of financial crises and the limitation of systemic damage.

Talking about prudential lessons we have to mention:

Understanding Risk

A fundamental lesson to be learned from the crisis relates to the understanding, assessment, measurement and management of risk. Failings in this area led to the widespread underpricing of risk and inadequacies in managing liquidity funding risk and risk weighted capital. The overall assessment and management of risk is a key strategic matter for the board of directors of a financial services firm. There are suggestions that not all firms accorded the management of risk sufficient priority at the most senior levels.

Liquidity funding risk

Recent events have revealed gross inadequacies in the management of liquidity funding risk by banks, resulting in a shortage of liquidity in a time of crisis and a heavy reliance on the provision of emergency liquidity and, in extremis, lender of last resort facilities by central banks.

Capital adequacy requirements

The current crisis has also put firms' capital under severe pressure, and some firms have had to raise additional capital, suggesting that in some cases it may have been inadequate prior to the crisis.

Valuations, transparency and disclosure

The current crisis has revealed problems in valuing assets and assessing counterparty risk in times of uncertainty and when market liquidity dries up so that "mark-to-market" prices are either highly volatile or unavailable.

When we reffer to protective lessons we reffer to:

Market Discipline

Market discipline, needs to be strengthened.

Reducing the systemic risks of bank failure

Moral hazard will have increased as a result of support given to financial firms during the current crisis. In order to lessen the likelihood that this will promote future crises, it is therefore appropriate that regulatory requirements on banks be tightened and that, once the immediate crisis is passed, they increase capital and liquidity buffers.

Emergency Liquidity and Lender of Last Resort Facilities

The current crisis has, once again, demonstrated the importance of generous and flexible emergency liquidity provision and lender of last resort facilities.

With the exception of the specialist bond and mortgage insurers, the insurance industry has played little, or no, role in the evolution of the current crisis. Nevertheless, many of the lessons to be learned from the crisis also have relevance for general, life insurers, reinsurers and their regulators.

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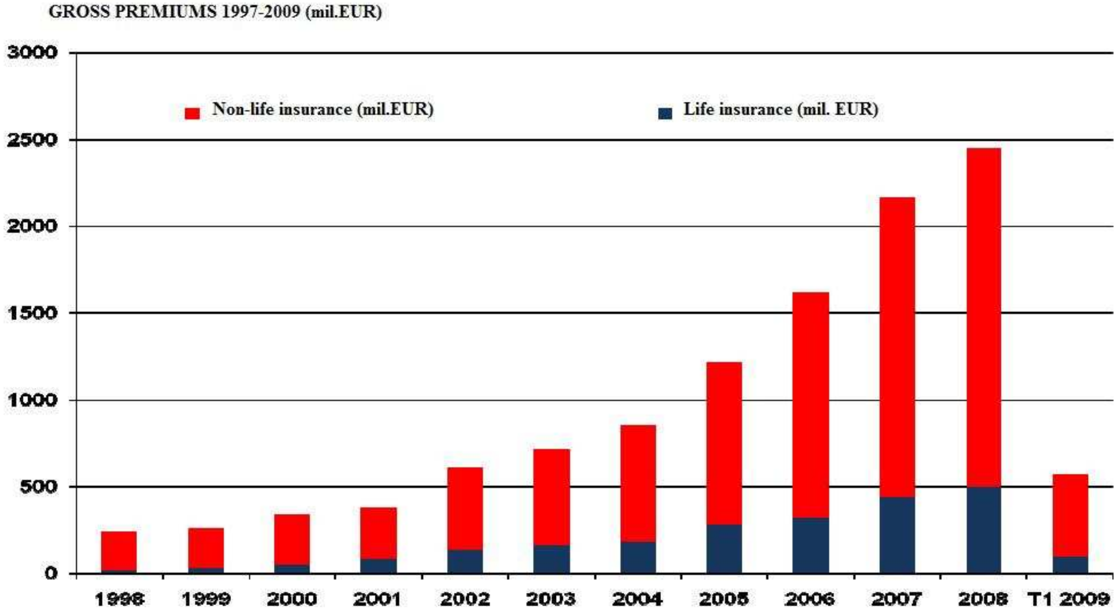
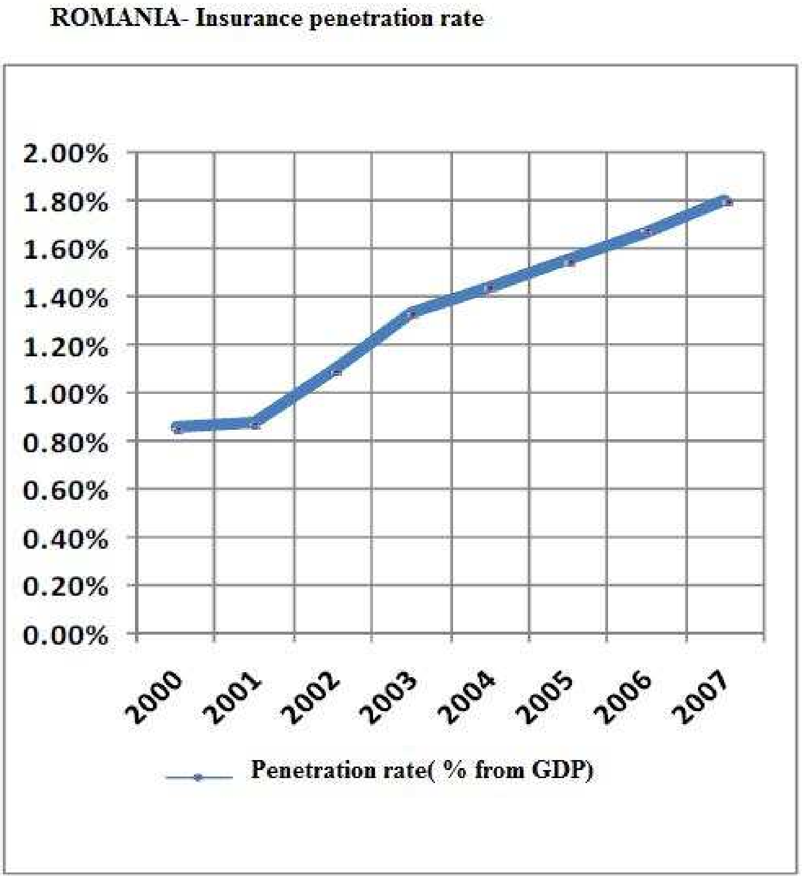
Appendices: Romanian Insurance Market – dynamics and potential

Figure 1: Gross premiums 1997-2009 (mil.EUR)



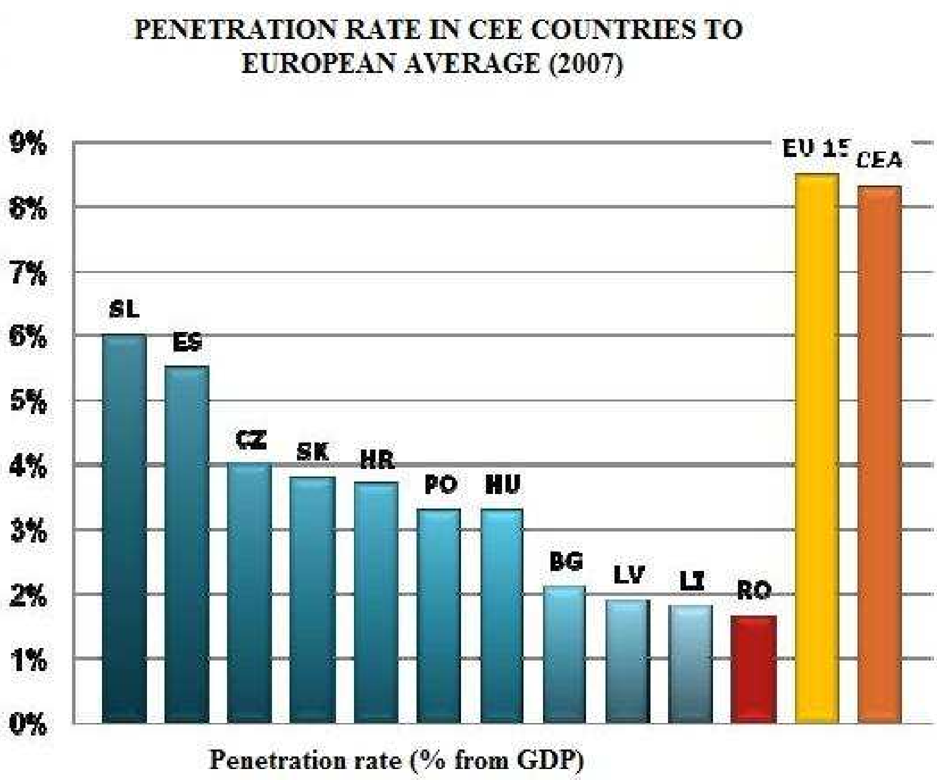
Source: www.xprimm.ro

Figure 2: Romania- insurance penetration rate



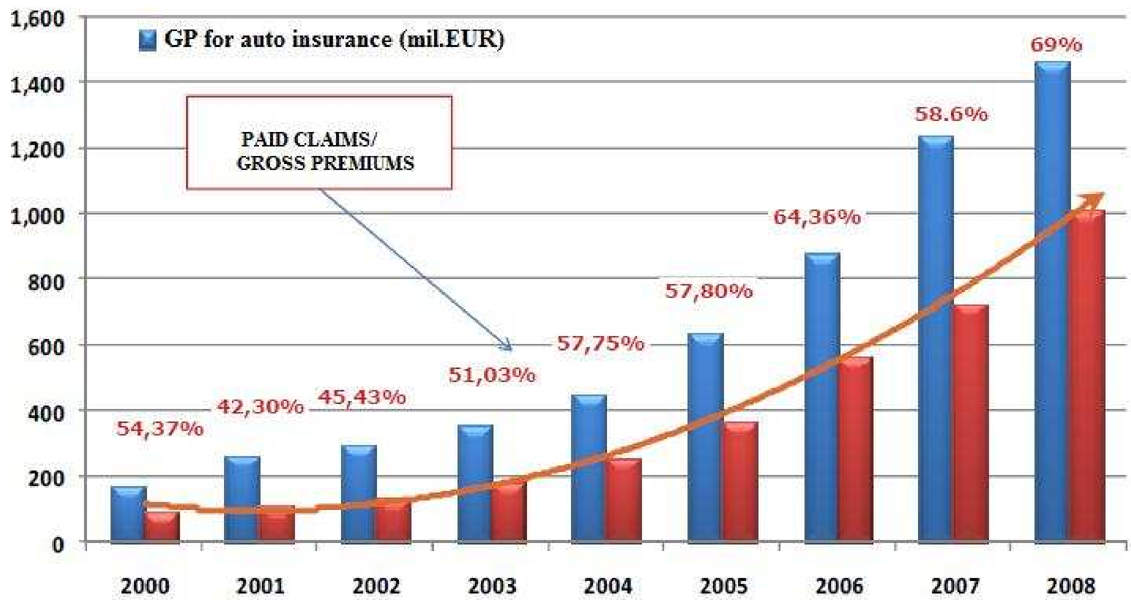
Source: www.xprimm.ro

Figure 3: Penetration rate in CEE countries to European average (2007)



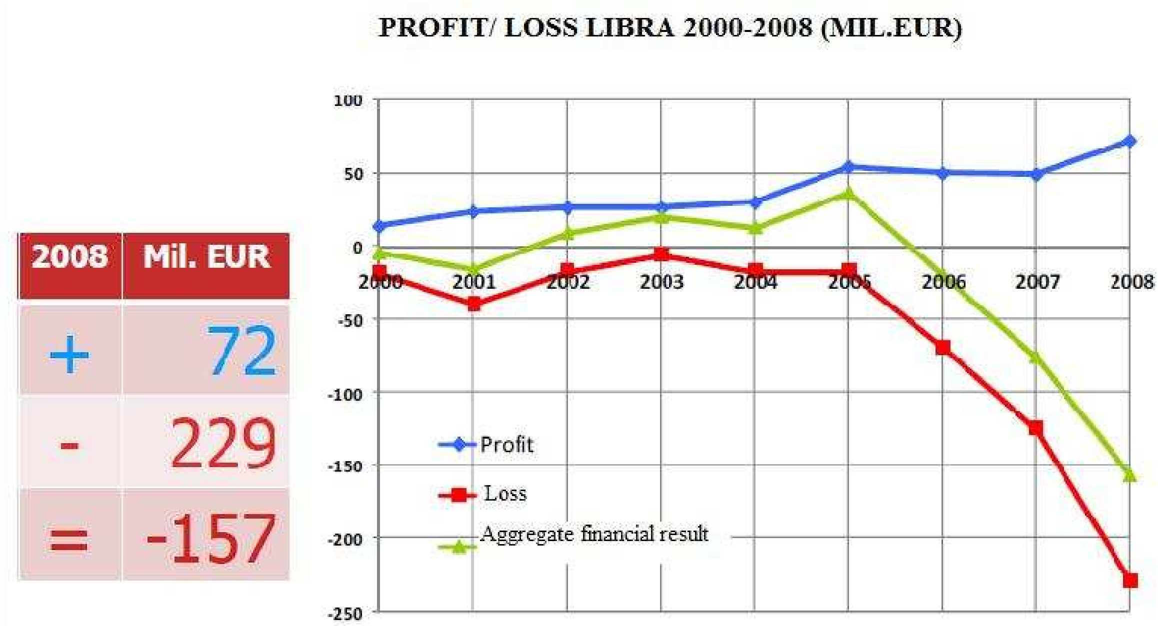
Source: www.insuranceprofile.com

Figure 4: Evolution of paid claims/GP



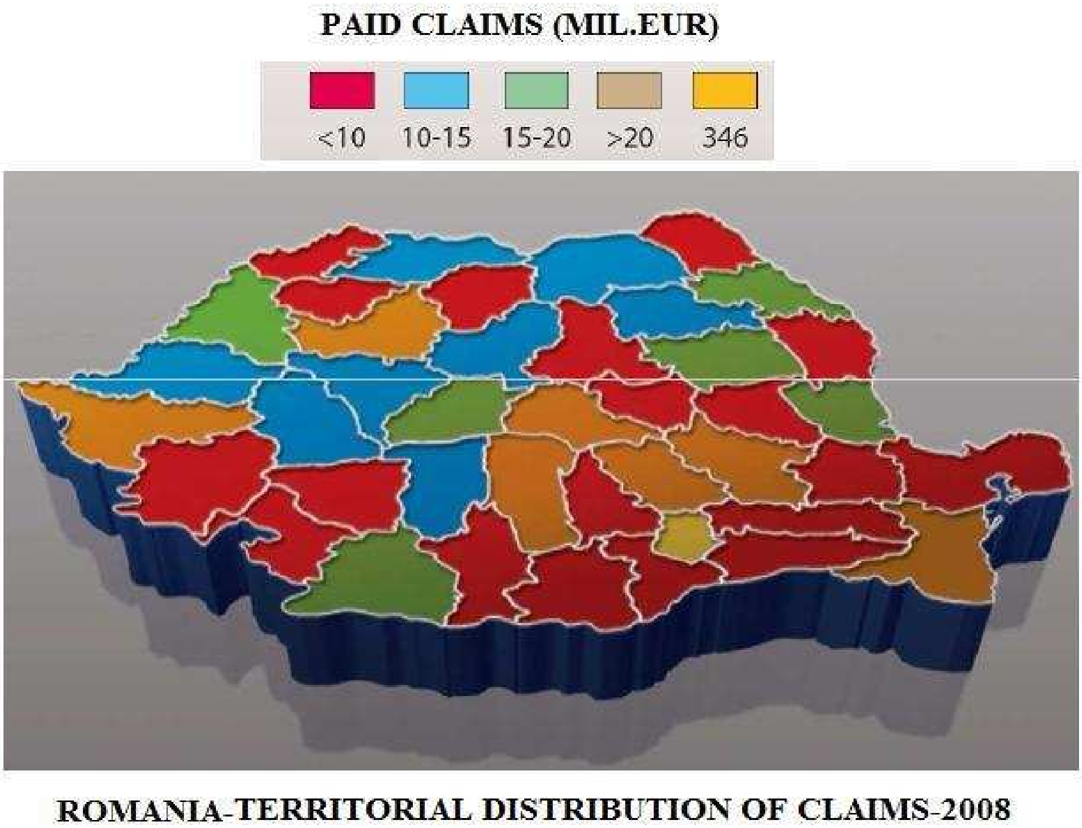
Source: www.xprimm.ro

Figure 5: Profit/loss libra 2000-2008 (mil.EUR)



Source: www.xprimm.ro

Figure 6: Romania- territorial distribution of claims - 2008



Source: www.xprimm.ro