

Foreign Direct Investment and the Insurance Market in Romania

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Abstract

The implications of foreign direct investment on the host country represents a very intense researched topic, the results showing a positive impact in some cases and in other cases a negative one. The impact depends largely on the volume of foreign direct investment and the sector where the foreign investment are taking place. Specialty papers show that the development of the insurance market depends largely on the development of the economy and at the same time, the development of an economy depends on the development of the insurance companies. If we assume that the insurance companies are important for the development of the insurance market and the development of the insurance market helps the development of the economy, we can assume that insurance companies can influence growth. In this context, is very important who the insurance companies are. In the Romanian case, the insurance market is a relatively new market, formed after 1990. Among the insurance companies that are operating in the Romanian market a large part of them are foreign companies more precisely foreign direct investment companies. This paper aims to examine the implications of foreign direct investment in the Romanian insurance market.

Keywords: Foreign direct investment, insurance market, economic development, service sector, Romania.

JEL Classification: G22, F23, F21

Introduction

The literature from the field examines the importance of the insurance sector for the economic development of a country. Today, the insurance sector is regarded as an essential component of the financial sector. Both life and non-life insurance are covering the risks and are necessary for a healthy economic development. As in other sectors, the impact of FDI depends largely on the size of FDI. Thus, in less developed economies with a weak insurance sector, FDI seem to influence the economic growth, or the GDP growth. (Omoke, 2012)

In the Romanian case, the impact of the insurance business both on the entire market and in its structure, on the life insurance and non-life insurance, in relation to the economic

growth in Romania, as compared to those applied to other markets at the international level seems to be positive. There is a high correlation, based on the causal link, between the insurance market, measured by the degree of insurance penetration, the degree of density and the economic growth, measured by GDP per capita. (Cristea et al, 2014)

Insurance are considered a necessity for the economic development. Taking as an example the developed economies, it can be observed that the insurance sector has made important contributions in the development of these economies. In some economies, especially in the developed ones, the developing of the financial intermediation and insurance sector has positively influence the productivity and the production factors in the economy. (Skipper, 2001)

The impact of FDI on the host country is also an intense researched topic in the literature. FDI are considered a necessary tool for the development of the service sector, especially in developing economies. (Chitrakalpa, 2011). The impact of the insurance sector on economic growth is positive and is particularly important for policy makers who set the policy towards subjects in the insurance market. (Richterkova and Korab, 2013) Regarding the impact of life insurance market on economic growth, it seems to be positive and an increase in life insurance market development promotes economic growth. (Chen et al. 2012)

Foreign direct investments are generally considered to have major contributions to the economic development of emerging economies. On the other hand, FDI are particular important for the developed economies. Thus, both developed economies and developing economies have a common interest in encouraging FDI flows, although their goals vary. (Resmini, 2000; Estrin and Meyer, 2004; Coe et al 1997) The positive externalities of FDI are important for local economies, while corporate profits and growth is a typical target for the FDI companies.

Alfaro finds that FDI flows into the different sectors of the economy (namely primary, manufacturing, and services) exert different effects on economic growth. FDI inflows into the primary sector tend to have a negative effect on growth, whereas FDI inflows in the manufacturing sector a positive one. She also concludes that the evidence from the foreign investments in the service sector are ambiguous. (Alfaro, 2003)

Insurance Market In Romania

Romania can talk about an existence of the insurance market of only 25 years. Until 1990, in Romania there has been a national monopoly in the insurance sector. During the period 1953-1990, in Romania there was only one insurance company, the state company named ADAS (State Insurance Administration). Since 1990, the insurance market in Romania was opened to both private companies and large financial groups in the field.

In 2000, in Romania there was a number of 72 insurance companies. The amendment of the law forced the insurance companies to a higher capitalization and had as effect their decrease to 45 insurance companies. (Cistelean et al, 2013)

Between 2000- 2014 the number of the insurance companies has remained relatively constant with slight oscillations. In 2014, according to the Financial Supervisory Authority, on the Romanian market were active a number of 36 insurance companies. Among the insurance companies operating on the Romanian market today I would mention: Allianz Tiriac, Ardaf, Asiban, Asirom, Astra, Aviva, Euroins, Garanta, Generali Insurance and Reinsurance ABC, AEGON Life Insurance, BCR Insurance, Carpatica Insurance, Credit Europe, GRAWE Romania, Groupama Insurance, ING Life Insurance, Omiasig, Axa Insurance, Signal Iduna, Uniqa,

Certasig, City Insurance, Platinum, Eureka. It can be seen that most of these insurance companies can be found in other countries especially the European Union.

In the European Union today we have a number of 5,300 active insurance companies. The countries with the highest number of companies are: England with 1247 number of companies, Germany with 570 companies and France with 405 insurance companies. Compared with these countries, the number of the insurance companies operating in Romania is relatively small.

The development of the insurance market has followed an upward trend, under the new legislative changes which came into effective on 1 January 2007 and that allowed EU insurance companies to enter in the Romanian insurance market based on the European principle of free movement of services. The insurance market is still today at a smaller scale compared to the dimension of the national economy and is significantly less developed compared to the banking sector.

The insurance and reinsurance market whose size (measured by value of gross premiums subscribed) was low in both nominal and real terms over the period 2008-2013. During 2012, the evolution in real terms of the insurance and reinsurance market has been positive, but not significant. After this stabilization, the year 2013 brought again a downward trend (-1.6% in nominal terms and -5.37% in real terms). (FSA, 2014)

Table 1.

The market share of insurance companies in Romania

| Company | Total (general and life insurance) | 2014 premiums and life |
|------------------------------------------|------------------------------------------|---------------------------|
| Allianz Tiriac Insurance SA | 984.986.460 | 12,11% |
| Omniasig VIG SA | 860.379.659 | 10,63% |
| ASTRA SA | 777.240.286 | 9,60% |
| Groupama Insurances SA | 710.847.112 | 8,78% |
| ING Life Insurance | 613.920.907 | 7,58% |
| Asirom Vienna Insurance Group SA | 575.276.138 | 7,11% |
| Carpatica Insurance SA | 553.811.137 | 6,84% |
| Euroins Romania Insurance Reinsurance SA | 474.376.061 | 5,86% |
| Generali Romania SA | 462.797.691 | 5,72% |
| Uniqa Insurance SA | 411.597.609 | 5,08% |
| Other companies | 1.669.209.795 | 20,62% |
| Total | 8.094.442.855 | 100% |

Source: Financial Supervisory Authority Report 2014;

From the data presented in table no 1 we can see that the top 10 insurance companies hold 79.38% of the market share for life and general insurance in Romania. The insurance company Allianz Tiriac Insurance SA has the largest market share of 12.11%. The first two companies, namely Allianz Tiriac Insurance SA, and Omniasig VIG SA, hold approximately 22.74% of market share and are companies with foreign capital.

An interesting aspect is that, of the 10 insurance companies representing approximately 80% of the Romanian market, eight are foreign owned companies or FDI companies. This shows the large presence of foreign investors in the Romanian insurance market.

Fdi Implications In Romanian Insurance Market

At 31 December 2013, the shares held by foreign investors, the subscribed and paid to the share capital of the insurance companies was 83.21%, while the Romanian capital was 16.79% of the total. According to the audited annual financial statements submitted to the Financial Supervisory Authority by the insurance companies, on 31 December 2013 in the aggregate amount of the subscribed capital at the market level was 3.466 billion lei, while the subscribed and paid-up capital share was 3.461 billion lei.

Compared with the aggregate amount of capital share from the insurance companies subscribed at the end of 2012, of 2.985 billion lei, the amount recorded at the end of last year increased by 480.392 million lei, which means a nominal increase of 16.09%. In the last 5 years, the value of the subscribed capital from the insurance companies decreased by 12.70%. (FSA, 2013)

The insurance market in Romania reached in the first half of 2014, a level of gross written premiums of 3.97 billion lei, down with 6.8% from the same period last year. The top 10 insurance companies generated nearly 80% of the total gross written premiums in both general insurance segment as well as the one of life insurance.

By the country of origin, the largest share in the total value of registered share capital subscribed and paid by the insurance companies are held by the investors from: Austria - 30.1%, France - 14.97%, Netherlands - 12.89%, Ireland - 9.71%, Bulgaria - 3.64%, Italy - 3.31%, Germany - 2.84%, Greece - 2.22%, Cyprus - 1.21%, Great Britain - 1.05%, Luxembourg - 0.95%, Moldova - 0.32%. As it can be seen, the majority of these countries are European Union countries.

According to data presented in table no 2, in the period 2003- 2013 FDI in Romania have generally had a positive evolution. The stock of FDI in 2003 was 12.202 million euros, reaching a value of 84.596 million euros in 2013. The year 2010 was the year in which was registered a slight decrease of FDI stock from 72.008 million euros in 2009 to 70.264 million euros in 2010. The value of the FDI stock remains high compared with 2003. The decrease in FDI stock largely due to the global financial crisis and the decrease of these flows at the global level.

Table 2.

Evolution of FDI stock and FDI in the insurance sector in Romania

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|------|
| FDI stock | 1220 | 2048 | 2581 | 4545 | 6296 | 6791 | 7200 | 7026 | 7134 | 7801 | 8459 |
| FDI in insurance sector | 2 | 6 | 6 | 2 | 1 | 0 | 8 | 4 | 4 | 0 | 6 |
| FDI in insurance sector (%) | 1110 | 2335 | 3743 | 1009 | 1467 | 1392 | 1368 | 1342 | 1298 | 1443 | 1201 |
| FDI in insurance sector (%) | 9,1 | 11,4 | 14,5 | 22,2 | 23,3 | 20,5 | 19,0 | 19,1 | 18,2 | 18,5 | 14,2 |

Source: National Bank of Romania reports 2004- 2013.

Starting with 2011, the stock of FDI in Romania has begun to grow again. According to data presented by the National Bank of Romania, in 2013 the FDI was 84,596 million dollars with an increase of 593.30% compared to the year 2003.

Regarding the FDI stock from the insurance field in 2003, they represented only 9.1% of the existing stock of FDI, namely 1.11 million. In 2004, their value increased by 110, 36% reaching a value of 2.335 million dollars. The year 2007 was the year that FDI in the insurance sector in Romania recorded the highest value, respectively 14.670 million mostly because of the Romania's accession to the European Union.

Starting with 2008, due to the decrease of activity of insurance companies worldwide, the existing FDI in the insurance sector from Romania have registered slight declines. After a period of decreases in 2012, the FDI in insurance sector starts to grow reaching a value of 14.432 million euros, representing 18.5% of the existing stock of FDI.

In terms of percentage, in the period 2003- 2007, the share of FDI in the insurance field from the existing FDI stock increased from 9.1% in 2003 to 23.3% in 2007. As can be seen in the data presented in table 2, in 2008, the year of the financial crisis, the share of FDI in the insurance sector had registered a decrease, their level was 20.5%. In percentage terms, the decline continued until 2013, the level was 14.2%, with a slight increase in 2012. Although in percentage terms have decreased, the level of existing FDI in insurance sector have registered growth, with value of over \$ 10 billion each year for the period 2006 to 2013.

Conclusion

From the research conducted, I found that although Romania has a relatively big market the insurance sector is less developed than in other EU countries. The number of insurance companies operating on the Romanian market is also very small. Regarding the presence of FDI in the insurance sector in Romania, it can be observed a large presence of 83.21% from all the insurance companies. In these conditions the development of the insurance market in Romania depends largely on the FDI from this sector.

Between the insurance market and the economic development of a country there is an interdependent relationship, in the sense that the economic development of a country depends on the development of insurance market and insurance market development definitely depends on the level of development of the economy. We can say that in terms of insurance market development, FDI seem to have a positive impact on the Romanian insurance market contributing to the development of the insurance market and to the development of the economy.

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