SOLVENCY OF INSURANCE COMPANIES IN THE ROMANIA

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Abstract

The insurance companies operating in a competitive and dynamic economic climate, so solvency is a very important problem. The guarantee funds protect policyholders against situations where insurers can not meet its contractual obligations, and supervisors constant attention is how to regulate the insurance business. Overall solvency of insurance companies show that has been achieved relative success in this area due to regulations adopted. Although in recent years the number of insolvency cases increased worrying emphasis on solvency control should lead to a reduction in the occurrence of such cases and the increased safety offered by insurance products.

Key words: *solvency, insurance companies, problem*

Classification JEL : *A, A1*

1. Introduction

This paper proposes the analysis of a topic that is difficult Romanian solvency of insurance companies. The importance of research in that it motivates the subject is relevant in the context of the Romanian insurance companies were subject to particularly increased market requirements in a business environment that is at least difficult to navigate.

The Romanian insurance solvency is a topic that is currently the subject concerns both the most national and international control bodies and researchers in the field. In terms of a common market, single European level there is a strong and effective prudential supervision of the insurance sector is very important

Solvency of insurance companies may be defined in the simplest way possible, as the insurer's ability to meet its commitments.

Because the insurance companies are financial institutions value their assets and liabilities depends on the changes in financial markets. More that, the attributes which buyers of insurance products depends on to the financial soundness the insurance company. That is why solvency has a great importance for customers, investors, supervisory institutions and insurers themselves.

Given of its importance, control authorities, agencies notation and insurance companies have developed and implemented over time, several systems solvency assessment. European debating about the solvency of insurance companies have emerged around regulations relating to the solvency of the banking sector (Basel 2), reform of international accounting standards IAS-IFRS and the various reform projects of European Insurance domain.

The insurance sector move from a system of direct supervisory control in a more liberalized environment. This step requires new control and risk management. Supervisors also need new and improved techniques for the control of insurance companies. As these institutions are the most and the largest investors, their stability is defined impact on the financial market. Reference point of an insurance company's solvency or its financial capacity. Other terms that have been used to express the financial stability of insurance companies are financial health and soundness.

Prospective analysis of solvency of insurance companies requires first of all that there is a European consensus. The desire to have a uniform approach regarding capital adequacy and solvency margin calculation in insurance entails compliance with common international rules that require implicit revision of prudential regulation and supervision. The European context of turmoil in the insurance accounted for regulators and the insurance industry right opportunity to reform the entire insurance prudential regime.

Many of the problems resulting in the general solvency of the way in which the underwriting activity. Even the most powerful insurance companies can not remain indifferent when their direct competitors are ready to capture any lost customer due to rising insurance prices. The current trend of tightening markets, seems to indicate a return to the principles of sound technical bases subscription. Establishing a right quates is one of the important aspects of underwriting, an equally important risk selection back.

Usually an insured himself against the risks to which it is exposed, most notably the frequency of good subscribers manage to avoid major damage. In this context, it is worth noting that the accumulation of risk still remains an underestimated factor. The accumulation of damage for all classes of EISC involved may lead to a situation where insurers have to face much higher damages than expected.

Although the main reasons for which insurers may face solvency problems have not changed, the probability that they manifest a frequency and high intensity may be increasingly higher. Most times, the solvency deficit arises from the deficiencies recorded in connection with the underwriting business, investment or reinsurance.

In addition, insurance companies have to face specific risks to their area of Acti: undercutting premiums, miscalculation of technical, unpredictable changes in the frequency of claims, damages catstrofale, inadequate reinsurance was.

Given the importance that insurance presents a modern economy requires that both legal chariot and good work undertaken by insurance companies to determine that they are always solvable. In other words, insurance companies must have at any time to be able to honor its obligations under the insurance contracts concluded.

To achieve solvency of an insurer is very important that its assets have a proper structure so the need to be easily converted into cash. Therefore, taking into account their sizing work of it, to ensure the efficiency and liquidity of investments. This implies diversification and proper dispensing of such investments.

The available solvency margin and the average degree of solvency of insurance companies in the Romania

To achieve solvency of an insurer is critical establishment of technical reserves, based on rigorous criteria. Even in these circumstances, insurers may face as a result of the random nature of the risk, the volume of payments (for claims) times greater than that predictable. In order to prevent a lack of liquidity or insolvency is necessary as part of assets to include a certain surplus above the level that balances current liabilities . This excess actually representing the solvency margin. This serves to create confidence that the obligations of an insurer will be propped honored.

The solvency margin amount represent which the net assets exceed liabilities insurance company. In other words, solvency margin could be defined as the difference or surplus which assets exceed debts insurer.

This indicator depends on the amount of liabilities assumed in strict correlation with the insurance programs of each insurance company of each company, depending on past obligations and claims reserves, which are the future obligations.

The solvency margin consists of own funds or assets available, ie assets that are not considered to cover foreseeable debts.

Analysis of the ratio determined for each category of insurance in accordance with EU directives governing the actual solvency, and in 2012-2013 was a priority in the prudential supervision of Romania.

In addition to the capital adequacy ratio, which is the financial capacity of a society to meet at any time, from their own resources, all obligations under contracts, CSA safety monitoring and the fund must have a permanently company insurance.

An evolution of the value recorded for the available solvency margin insurance and life insurance in Romania is presented in the following situations, according to reports from the CSA analyzed.

Table No. 1 - Evolution of the available solvency margin value recorded for general insurance and life insurance in the period 31.12.2008 - 31.12.2012

	The available solvency margin	
YEARS	**General insurance**	**Life insurance**
2008	1.856.450.935	944.393.619
2009	2.012.033.024	1.199.193.246
2010	2.125.511.889	1.219.431.465
2011	2.038.318.791	1.028.915.044
2012	1.939.918.788	1.062.053.390

Source: www.csa - isc.ro

From the analysis of the available solvency margin values shows that they have signed an upward trend until 2010 values first decrease solvency margins for both insurance and life insurance, has been reported in 2011 for insurance, this decline continued in 2012, while life insurance have increased slightly. However, the available solvency margin was below the value recorded in 2011 at the end of 2012, the available solvency margin relating to general insurance business registered a nominal decline 98,400,003 lei, respectively 4.83% valid to the end of 2011 This was due to negative technical result recorded in the insurance sector in 2012.

At the end of 2012, the available solvency margin relating to life insurance business registered a nominal increase of 33,138,346 lei, respectively 3.22% compared to the end of 2011.

Table no. 2 Evolution of the average solvency registered insurance and life insurance in the period 2008-2012

	The available solvency margin	
YEARS	General insurance	Life insurance
2008	2,14	3,64
2009	2,15	4,46
2010	2,21	4,29
2011	2,13	3,93
2012	1,97	3,94

Source: www.csa - isc.

In the insurance sector, according to the calculation at the aggregate level, average the solvency ratio at the end of 2012 continued to slightly decrease, while the life insurance segment, it was around the same level compared to the end of 2011.

The General insurance companies and life tend to a point that in 2011, the similarity in terms of the exposure solvency developments following as of that date to follow different directions. Insurance records since 2010 a fall in the debts-equity. Life insurance provides a development characterized by a constant alternation between increases and decreases in the exposure of the solvency of the year, the highest value being recorded in the year 2012 insurance companies and liability, are characterized by almost continuous growth of the exposure of company solvency, due to the increase in the debt to total equity.

The factors that will influence the exposure of Romanian insurance solvency, they are among the most important are:

- to confirm the hypothesis from which we started, that diversification reduces risk reinsurance insolvency ;
- liquidity problems can be achieved by an insurance company where invests heavily in fixed assets or is unable to control debtors, which could affect its ability to meet its obligations to third parties;
- romanian insurance market, with increasing firm size increases the risk of insolvency of insurance companies;
- increasing Total Total equity increases with increasing membership in the Romanian insurance companies;
- a high ratio of total raw damage deterrmină an increase in total equity debt or increase the risk of solvency;

Despite all obstacles, the insurance market is declared ready to face solvency regime by investors expected to increase company value, corporate managers who want better control risk, the regulator that aims to improve the financial capacity of actors market and not least the final consumer, who expects better protection and innovative insurance products.

Conclusions

Certainly, a prudential solvency regime should find the optimal division between quantitative and qualitative prudential. As a starting point in finding the optimal partition, I was concerned to find a proper quantitative expression of insurance. In this regard, we showed that such expression is possible, if we call the theory of rare events, which is well known in financial literature as being an effective way of determining the probability of ruin in insurance.

Many decisions are taken continuously undertaking economic entity at all levels of its organization, for it to survive, is the management of the enterprise, its pilotage. It is important but how does this "pilot" as an effective management requires increased profitability by optimizing capital structure and allocation, in terms of solvency.

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