The Place of Insurance in the Economies of Bulgaria and Romania in the Post-Crisis Period

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Abstract: The latest global financial and economic crisis has affected the insurance markets both in Bulgaria and Romania. In the period 2009-2012, the Bulgarian insurance market recorded a continuous decline. After 2012, however, the trend turned and the insurance companies working on the Bulgarian insurance market started to report growth in the realized premium income. To a certain extent, this is also applied to the Romanian insurance market. This study evaluates the place which insurance takes in the economies of Bulgaria and Romania in the post-crisis period (2012-2016). Special attention is paid to the main indicator, which characterize the development of the insurance markets, i.e. the premium income earned by insurance companies. The dynamics of two other indicators – insurance penetration and insurance density – have also been examined. The analyses and conclusions of the study are based on statistical information published in the Sigma Newsletter of the Swiss Re Institute for the period 2013-2017. This is the reason why insurers' premium income and insurance density indicator are presented in US dollars. This permits a correct comparison of the results obtained for Bulgaria and Romania with those showing the development of insurance in countries such as Russia and Turkey, which are also part of the European insurance market. The survey indicated that Bulgarian and Romanian insurance markets could still be identified as underdeveloped. The lag compared to the average European level is significant. This is especially true for Life insurance, which unlike our two countries, is the leading insurance industry for the economically leading European countries.

Keywords: *insurance market; insurance penetration; insurance density.*

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Introduction

Insurance can be regarded as a type of specific human activity, the main function of which is to compensate for losses occurring as a result of accidental events. It has come into being and is based on the idea of mutual assistance. Therefore, it is directly related to the value system of people.

The collapse of the Eastern Bloc, to which Bulgaria and Romania belonged, has led to turbulent political and economic changes in both countries. On the other hand, world economic cycles are increasingly affecting the economies of our countries. The latest global financial and economic crisis has negatively affected the insurance markets both in Bulgaria and in Romania. After 2012, however, the trend turned and the insurance companies working on the Bulgarian insurance market started to report growth in the earned premium income. To a certain extent, this is also applied to the Romanian insurance market.

This study evaluates the place which insurance takes in the economies of Bulgaria and Romania in the post-crisis period (2012-2016). In this regard, special attention is paid to the premium income earned by insurance companies, the share of insurance in the Gross Domestic Product of the two countries and the funds earmarked for insurance by the population of the two countries.

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Bulgaria and Romania are neighbouring countries, which in the recent history are often compared both politically and economically by analysts. After the end of World War II, these countries fell into so-called “Eastern Block”, which was dominated and largely ruled by the Soviet Union. They are also members of the “Warsaw Pact” and the Council of Mutual Economic Assistance.

The changes that occurred after 1989-1990 also reflected on the value system of people, including the necessity and benefits of insurance. In Bulgaria, the car has become the most valuable asset, and everything else, including the life, health and working capacity of the population, has remained in the background. Similar findings are also valid for Romania. This had an impact on the insurance market, and insurance companies reoriented their business mainly in General Insurance, with a focus on Motor Insurance. Then share of Life Insurance fell dramatically. The

inflation processes that were not characteristic of the Bulgarian and Romanian economies until the changes have role in this regard.

In recent times, Bulgaria and Romania are allies again in NATO and since 1st January 2007 they have been full members of the European Union. The expectations that with the full membership of our countries in the European Union, the insurance market will be balanced and the insurance will take its proper place in the economy have not come true. The initial boom was followed by a serious decline due to the global financial and economic crises. The decline in premium income earned by insurance companies continued until 2012. Then the trend changed, though slowly and with some hesitation, insurers began to report an increase in their premium income [1]

Table 1. Gross premium income of insurance companies working on the Bulgarian and Romanian insurance markets

Year	Gross premium income of insurance companies in Bulgaria (millions USD)	Gross premium income of insurance companies in Romania (millions USD)
2012	1039	2287
2013	1129	2482
2014	1180	2374
2015	1069	2137
2016	1139	2192

Source: Sigma-Newsletter of the Swiss Re Institute, for the period 2013-2017

The data in the table shows that the earned premium income on the Romanian insurance market exceeds twice the earned premium by the insurers working in Bulgaria. This is completely normal, giving the size of the two economies and three times higher population of Romania. The data also show that, except for 2015, the premium income earned by Bulgarian insurers is growing. From 1039 million USD, in 2012 this premium income reached its maximum of 1180 million USD in 2014. The subsequent decrease in 2015 was offset by a rise in premium income in 2016.

To some extent, the above findings are also applied to the Romanian insurers. Unlike the Bulgarian insurance market, the maximum of the earned premium income for the period was in 2013. The subsequent two-year decline, in 2014-2015 ended with a rising trend in the earned premium income in 2016.

The insurance companies in Bulgaria and Romania can develop their business in two main areas – Life Insurance and General Insurance [2]

Table 2. The share of Life Insurance and General Insurance in the insurance companies' premium income

Year	Bulgarian insurance market		Romanian insurance market	
	Life Insurance (%)	General Insurance (%)	Life Insurance (%)	General Insurance (%)
2012	16,71	83,29	20,77	79,23
2013	17,69	82,31	22,04	77,96
2014	19,19	80,81	19,21	80,79
2015	19,92	80,08	19,98	80,02
2016	20,88	79,12	18,93	80,07

Source: FSC, Sigma-Newsletter of the Swiss Re Institute, for the period 2013-2017 and author's own calculations

The share of the earned premium income in Life Insurance is one of the indicators reflecting the value system and the insurance culture in a country.

Figure 1. The share of Life Insurance and General Insurance in the insurance companies' premium income in Bulgaria

In Bulgaria, we have seen as a positive fact the steadily increasing share of Life Insurance in the years after 1989, which reached its maximum of 16.56% in 2007. Unfortunately, the global financial and economic crisis has led to reversal of the trend and this share fell to 15.37% in 2008 and

reached its minimum in 2009 when it was only 13.36%. After 2009, however, and especially in the years after 2012, the share of Life Insurance in total premium income of insurers in Bulgaria is constantly increasing. During the period considered (2012 – 2016), this share of 16.71% in 2012 reached 20.88% in 2016.

Unlike Bulgaria, on the Romanian insurance market for the period 2012-2016, there was a slight decrease in the share of Life Insurance in the premium income of insurers. The initial growth of 1.27% and reaching 22.04% in 2013 was followed by a decline in the next years to reach the levels of 18.93% in 2016.

The following figure illustrates the dynamics of Life Insurance – General Insurance ratio for the period 2012-2016 on the Romanian insurance market.

Figure 2. The share of Life Insurance and General Insurance in the insurance companies' premium income in Romania

Figures 1 and 2 unambiguously show a low share of Life Insurance in the premium income earned by insurers. While in some developed European countries as Luxembourg, Ireland and Finland, it approaches and even exceeds 80%, in Bulgaria and Romania this share is gravitating around 20%.

In addition to the global financial and economic crisis, the deteriorating demographic indicators as well as the low level of the average incomes of the population compared to other European Union countries can be mentioned as reasons for the lagging development of Life Insurance in Bulgaria and Romania. Last but not least, it should be noted the low level

of insurance culture in our two countries mentioned both in the specialized literature and in the numerous statements of specialists from the insurance practice. Unfortunately, this finding is valid not only for citizens' culture in demand of insurance protection, but also in the supply of this kind of protection.

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Determining the place which insurance takes in the economy of a country requires the calculation of an indicator called "insurance penetration". It shows the percentage that the insurance takes of the country's Gross Domestic Product [3].

Table 3. Insurance penetration in Bulgaria and Romania

Year	Insurance penetration in Bulgaria (%)	Insurance penetration in Romania (%)	Average values of the indicator for countries in Europe (%)
2012	2,01	1,44	6,73
2013	2,10	1,40	6,80
2014	2,10	1,20	6,80
2015	2,18	1,28	6,89
2016	2,18	1,23	6,73

Source: Sigma-Newsletter of the Swiss Re Institute, for the period 2013-2017 and author's own calculations

The calculations presented in Table 3 show a low share of premium income earned by the insurers compared to the Gross Domestic Product of both Bulgaria and Romania. While in countries such as the United Kingdom and Finland this share exceeds 11% in different years, in Bulgaria, this indicator reached its maximum (2.18%) in 2016 and in Romania this indicator reached its maximum (1.44%) in 2012. The difference is large (more than three times for Bulgaria and more than five times for Romania) also in terms of the average insurance penetration for the countries of the European continent.

The figures show that for the period there is a small but steady increase in the share of premium income in Bulgaria's Gross Domestic Product. From 2.01% in 2012 it reached 2.18% in 2016. This shows a steady increase in the significance of the insurance in the post-crisis period for the Bulgarian economy.

The tendency regarding the dynamics of "insurance penetration" indicator in Romania is reversed. For the period (2012 - 2016), this indicator

of 1.44% in 2012 reached 1.23% in 2016. This shows a decrease in the significance of insurance for the Romanian economy in the post-crisis period.

As it has already mentioned, insurance companies in Bulgaria and Romania can develop their business in two main areas – Life Insurance and General Insurance [4].

Table 4. Insurance penetration of General Insurance in Bulgaria and Romania

Year	Insurance penetration of General Insurance in Bulgaria (%)	Insurance penetration of General Insurance in Romania (%)	Average values of the indicator for countries in Europe (%)
2012	1,71	1,14	2,84
2013	1,70	1,10	2,80
2014	1,80	1,00	3,30
2015	1,80	1,03	2,73
2016	1,78	1,00	2,73

Source: Sigma-Newsletter of the Swiss Re Institute, for the period 2013-2017 and author's own calculations

The calculations show that, with regard to General Insurance, the difference between the indicators reflecting insurance penetration in Bulgaria and Romania on the one hand and the average for the European countries indicators is not so large. This shows that the insurers in our countries are offering with priority insurance products included in the General Insurance Section. The tendency here is the same. While there is a slight increase of the indicator in Bulgaria, there is a decrease in Romania during the period [5].

Table 5. Insurance penetration of Life Insurance in Bulgaria and Romania

Year	Insurance penetration of Life Insurance in Bulgaria (%)	Insurance penetration of Life Insurance in Romania (%)	Average values of the indicator for countries in Europe (%)
2012	0,30	0,30	3,89
2013	0,30	0,30	4,00
2014	0,40	0,20	4,10
2015	0,38	0,26	4,16
2016	0,39	0,23	3,99

Source: Sigma-Newsletter of the Swiss Re Institute, for the period 2013-2017 and author's own calculations

While in countries such as the United Kingdom and Finland the “insurance penetration” in Life Insurance exceeds 9% in different years, Bulgaria and Romania report levels of 0.2% - 0.4%. Although the indicator is growing in Bulgaria during the period, its levels are still very far from the average European ones. The situation is even more serious with regard to Romanian Life Insurance. The trend is to reduce the percentage of “insurance penetration” in Life Insurance, which means reducing the significance that it has for the economy of Romania.

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The last indicator we will consider is “Insurance Density”. Through it, we can determine what amount of money the average Bulgarian and Romanian citizen pay for insurance. Due to the different currencies used in European countries, the indicator will be calculated in US dollars for analysis purposes.

The data presented in Table 6 show an increase in the funds earmarked by Bulgarian citizens and companies for insurance during the post-crisis period. From \$ 140 in 2012, they reached \$ 160 in 2016. Only in 2015, there was a decrease in the indicator compared to previous year. This means that Bulgarian citizens pay more for insurance. The main reason for this is the significantly diminished interest rate during the period, which commercial banks approve on the savings deposits of citizens. The latter are looking for an alternative to their savings and as a result the premium income and hence the indicator “Insurance Density” in Bulgaria is growing [1].

Table 6. Insurance density in Bulgaria and Romania

Year	Insurance Density in Bulgaria (USD)	Insurance Density in Romania (USD)	Average values of the indicator for countries in Europe (USD)
2012	140	107	1724
2013	156	124	1833
2014	164	119	1902
2015	149	107	1634
2016	160	111	1620

Source: Sigma-Newsletter of the Swiss Re Institute, for the period 2013-2017

Data on the indicator “Insurance Density” in Romania shows that Romanian citizens and companies spend less on insurance compared to Bulgarian ones. The period 2012-2016 is characterized by constant fluctuations of this indicator. The indicator rose from \$ 107 in 2012 to \$124

in 2013 but then the trend turned and over the next two years there was a decline. The last year of the period showed a slight increase in the value of the indicator and it reached \$111.

The comparison of the indicator “insurance density” for Bulgaria and Romania with the average values of the indicator for the European countries shows a significant difference. For Bulgaria, the values are 10 times lower and for Romania – 15 times lower than the average values for the European countries. This means that Bulgarian citizens and companies spend 10 times less money and Romanian – 15 times less money for insurance. Besides the low levels of income, the reason for this tendency is the low level of insurance culture in our two countries.

The completeness of the analysis requires considering the above mentioned indicator for the main branches of insurance – Life Insurance and General Insurance.

In Bulgaria the indicator “Insurance Density”, reflecting the amount of funds Bulgarian businesses and individuals spend on General Insurance, shows an increase over the period. It reached from \$119 in 2012 to \$131 in 2016. The same is true for Romanian insurance market where the index of “Insurance Density” for General Insurance was growing from \$85 in 2012 to \$90 in 2016 [2].

Table 7. Insurance density of General Insurance in Bulgaria and Romania

Year	Insurance Density of General Insurance in Bulgaria (USD)	Insurance Density of General Insurance in Romania (USD)	Average values of the indicator for countries in Europe (USD)
2012	119	85	728
2013	130	97	758
2014	137	96	764
2015	123	86	647
2016	131	90	658

Source: Sigma-Newsletter of the Swiss Re Institute, for the period 2013-2017

Compared to the average values for the European countries, however, there is a serious difference. Bulgarian business and citizens in 2016 spent an average of 5 times less on General Insurance compared to the average values for European businesses and citizens. The situation is similar

for the Romanian Insurance market, where Romanian companies and citizens spent 7.3 times less than the average indicator for Europe. The observed lag is even greater with regard to Life Insurance. The data presented in Table 8 unambiguously show that Bulgarian and Romanian Life Insurance is far behind that of other European countries. While in countries as Finland, where citizens spend more than \$ 4000 over the period, citizens in Bulgaria and Romania spend an average of between \$ 21 and \$ 29 on Life Insurance.

It is evident that in 2016 Bulgarian citizens spent 33 times less money and Romanians – nearly 46 times less money for Life Insurance than the average European citizens [1].

Table 8. Insurance density of Life Insurance in Bulgaria and Romania

Year	Insurance Density of Life Insurance in Bulgaria (USD)	Insurance Density of Life Insurance in Romania (USD)	Average values of the indicator for countries in Europe (USD)
2012	21	22	996
2013	25	27	1076
2014	27	23	1138
2015	26	21	987
2016	29	21	962

Source: Sigma-Newsletter of the Swiss Re Institute, for the period 2013-2017

However, there is a steady increase in the “Insurance Density” index on the Bulgarian Life Insurance market. In contrast, there are some fluctuations on the Romanian Life Insurance market. At the beginning of the period, the values of the indicator increased. Then (2012-2013), Romanian citizens spent more money on Life Insurance than Bulgarians. In 2014, however, the trend was reversed and the indicator “Insurance Density” showed the money spent by Romanian citizens on Life Insurance was constantly decreasing to reach \$ 21 in 2016.

Conclusions

The indicators considered - premium income, insurance penetration and insurance density, show a significant lag of Bulgarian and Romanian insurance compared to the average European level. There is a huge imbalance between the main branches of insurance. Life Insurance is related to the most important – life, health and employability of people. While in the developed European countries Life Insurance is the leading branch in

terms of the premium income, in Bulgaria and Romania the situation is opposite. The share of Life Insurance, which is around 20%, is low and shows a low level of insurance culture of the population. Overcoming the imbalance that has been identified should be a major task for insurance companies and state regulatory authorities. Here is the big potential for the development of the insurance markets in Bulgaria and Romania and for reaching the average European level, regarding the place which insurance takes in the economy of the state.

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