

# CONSIDERATIONS REGARDING EU LIFE INSURANCE MARKET

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**Abstract:** The main feature characterizing the development of the insurance system is globalization of world insurance market through a process of gradual liquidation of economic and legislative barriers between states. European insurance market analysis will be made through gross written premiums, insurance density and penetration, comparing European insurance market with the major regions markets of the world. The effects of financial crisis on the life insurance market of EU countries, and the place of Romanian life insurance market in EU, will be analyzed using the following indicators: number of life insurance companies, gross written premiums at EU level, the number of active contracts, gross indemnities paid.

**JEL classification:** G01, G14, G22

**Key words:** insurance market, financial crisis, insurance density, insurance penetration, premiums, indemnities

## 1. INTRODUCTION

At beginning of our century the global economic system was buffeted by unexpected events. „The global crisis is comprised of many regional jigsaw pieces and the events were triggered and accelerated by the so-called domino effect as a consequence of the interlinking and interlocking worldwide financial and trade systems. Nevertheless they need to remain fitted together if our global system is to function in the future too” (Jungmann,Sagemann,2011). Paul Krugman say that „depression economics has returned,essentially it means that for the first time in two generations, failures on the demand side of the economy-insufficient private spending to make use of the available productive capacity-have become the clear and present limitation on prosperity for a large part of the world”(Krugman,2009).In such circumstances we have analyzed the effects of financial crisis on the life insurance market of EU countries. The European insurance market is the largest insurance market in the world. Europe is also a very specific region with various culture differences on one hand and manifold different economic foundations on the other. The financial crisis had a different impact on the international insurance market, from one region to other, from one country to other. „Economies without financial markets cannot have financial crises. This is a pointer to what sorts of countries suffer most from financial instability. Generally, these are not the poorest countries, which have relatively rudimentary financial markets” (Lomborg,2004). Referring to life insurance, the developed countries were less affected than the countries with emergent economy. Life insurance determines a higher level of financial safety for the population, and even a possible reduction of expenditure with social protection and increase of sustainability of the social insurance system. The more rapid development of the life insurance market would lead to the development of the economy by a larger investment volume, by a more efficient allocation of the capital, by stimulating long term savings, but also a more rapid development of financial markets.

## 2. THE PLACE OF EUROPEAN INSURANCE MARKET IN THE GLOBAL INSURANCE MARKET

I have analyzed the world insurance market per principal regions, using the following indicators for the dimensioning of the market: premium volume, insurance density and insurance penetration. The situation of the main markets from the world, through the first indicator taken into consideration - gross written premium from life insurance is presented in Table no. 1.

**Table no.1. Premium volume**

Region	Gross written premium from life insurance (Millions of USD)				
	2006	2007	2008	2009	2010
AMERICA	601.784	659.759	666.954	579.626	612.349
EUROPE	940.586	1.035.942	1.050.815	953.515	965.661
ASIA	602.266	623.469	690.951	732.267	855.370
AFRICA	35.468	38.111	37.866	32.564	47.244
OCEANIA	29.214	35.807	43.835	33.594	39.448
World	2.209.318	2.393.088	2.490.421	2.331.566	2.520.072

*Source: Swiss Re (2007, 2008, 2009,2010,2011)*

The authority of Europe is to be noticed over all the other areas, followed by Asia and America. The most significant increase in Europe, is seen in the year of 2008 (10,4% compared with the first year of analysis). Most affected by financial crisis was the year of 2009, when it is notice a decrease of gross premium written in all regions, with an exception in case of Asia, it is the only region that has seen a continuous increase throughout the period under review. Europe remains the largest insurance market from the world that still dictates the world insurance trends.

The second indicator analyzed is the insurance density on global level.

**Table no.2. Life insurance density by regions (USD/inhabitant)**

Region	2006	2007	2008	2009	2010
AMERICA	1731,8	1869,3	1954,1	1648,4	1714,4
EUROPE	1119,6	1222,6	1244,1	1111	1110,6
ASIA	154,6	156,7	173,9	180,3	208,1
AFRICA	896,3	1071,4	1281,5	930,7	1109,7
OCEANIA	38,3	39,6	38,4	32,3	45,8
World	330,6	358,1	369,7	341,2	364,3

*Source: Swiss Re (2007, 2008, 2009,2010,2011)*

In the year of 2008, on world level to purchase a life insurance policy an inhabitant paid an average of 369,7 US dollars, and in 2009 and 2010 the average amount decrease at 341,2 US dollars and 364,3 US dollars. The largest amounts for a life insurance policy have been paid by inhabitants of America, almost 1954,1 US dollars/inhabitant, followed by Europe, with 1244,1 US dollars/inhabitant. The year of 2009 is a year in which it recorded a decrease of insurance density in all regions of the world, a worldwide an inhabitant pays for purchasing a life insurance on average of 341,2 US. Europe is the second region in the world by means of this indicator. During 2010, global life insurance density increased with 6.34% compared to last year in Europe showed the smallest increase, with 0.03%.

The third indicator analysed, in the comparative study, is insurance penetration rate. In Table no. 3 it is presented the evolution of the insurance penetration from the main regions of the world.

**Table no. 3 Life insurance penetration by regions (% in GDP)**

Region	2006	2007	2008	2009	2010
AMERICA	4,9	5,1	5,0	4,5	4,5
EUROPE	5,3	5,0	4,5	4,5	4,5
ASIA	5,0	4,6	4,4	4,5	4,5
AFRICA	3,4	3,4	4,0	3,1	2,8
OCEANIA	3,4	3,1	2,5	2,2	2,7
World	4,5	4,41	4,1	4,0	4,0

*Source: Swiss Re (2007, 2008, 2009,2010,2011)*

Analyzing the insurance penetration from life insurance in 2006 the highest insurance penetration is registered in Europe equal to 5,3%, followed by Asia and America. This indicator, for the past two years, has remained constant for Europe, America, Asia (4, 5%), and worldwide (4, 0%).

### **3. IMPACT OF FINANCIAL CRISIS ON EU LIFE INSURANCE MARKET**

I have analyzed EU life insurance market, under the influence of the financial crisis, because this type of insurance was most strongly affected by the financial crisis, using as indicators: the number of life insurance companies, gross written premiums by life insurance, the number of active contracts, life benefits paid. Table no. 4 I presented the first 10 EU countries according to the number of life insurance companies.

**Table no. 4 Number of life insurance companies**

No.	Country	2004	2005	2006	2007	2008	2009
1	Spain	154	144	138	134	140	140
2	United Kingdom	163	155	140	138	130	128
3	France	134	137	134	127	127	126
4	Germany	104	101	97	98	97	98
5	Italy	92	90	88	85	82	78
6	Netherlands	93	75	70	72	67	62
7	Denmark	70	68	64	64	61	59
8	Belgium	58	54	52	53	52	53
9	Sweden	40	41	42	46	44	41
10	Austria	36	36	35	33	33	33

*Source: CEA, Statistics, nr. 45, The European insurance market in 2010, February 2012*

Countries are ranked by the number of existing companies in 2009. It is noted that Spain has the largest number of companies that sell life insurance policy, followed by United Kingdom (which has reduced the number of companies with 35% during the analysed period) and France. Table no. 5 I have presented the first 10 EU countries according to gross written premiums by life insurance.

**Table no. 5 Gross written premiums by life insurance (millions €)**

No.	Country	2007	2008	2009	2010
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1	United Kingdom	295.250	193.720	155.417	152.583
2	France	137.080	122.368	137.923	143.837
3	Italy	61.439	54.565	81.116	90.102
4	Germany	75.434	76.306	81.371	87.165
5	Spain	23.241	27.246	29.074	27.297
6	Sweden	17.509	17.732	18.134	22.203
7	Netherlands	26.450	26.434	24.381	21.573
8	Belgium	21.916	19.450	18.404	19.141
9	Denmark	13.609	14.999	14.342	14.938
10	Portugal	9.100	10.466	9.876	12.103
...22	Romania	434	507	384	214
	EU	721.490	604.466	606.353	629.016

*Source: Data collected by the author from CEA reports*

The largest markets continue to be the UK, France, Germany and Italy, which together represents more than 70% of European life premiums. UK life insurance market suffered a decreased for the third consecutive year (the largest decrease has performed in 2009 by 24% compared to 2008), the other three countries from the top (France, Italy, Germany) experienced a growth between 4 % and 10%.

Table no. 6 I have presented the first 10 EU countries according to the number of active contracts. CEA estimates indicate that more than 520 million life insurance contracts were active in Europe the end of 2010, which corresponds to a decrease of less than 1% compared to 2009. Germany is the first EU country, in terms of the number of life insurance followed by the UK and Sweden.

The number of contracts is decreasing in analyzed period, small increases are reported in Sweden (0.74%), Poland (2.63%) and Portugal (5.74%).

**Table no. 6 Number of active contracts**

No.	Country	2007	2008	2009	2010
1	Germany	93.931	92.832	91.482	90.540
2	United Kingdom	95.432	95.596	86.471	84.652
3	Sweden	36.220	40.477	41.472	41.784
4	Spain	31.699	n.a.*	32.394	30.421
5	Poland	12.196	22.577	22.412	23.019
6	Portugal	8.982	9.325	9.622	10.209
7	Austria	10.175	10.547	10.360	10.007
8	Denmark	9.071	9.390	10.308	9.980
9	Slovakia	n.a.	n.a.	n.a.	9.536
10	Czech Republic	6.526	6.566	6.550	6.485

Source: Data collected by the author from CEA reports

\*Data not available

Table no. 7 I have presented the first 10 EU countries according to life benefits paid. UK is about one third of the total benefits paid. A decrease of 2.5% was recorded in this country in 2010, compared with a decrease of 24.2% in the previous year. France and Italy, the markets which ranked second and third (17% market share, and 12%), in terms of benefits paid, experienced increases of 5.7% and 14.4% .

**Table no. 7 life benefits paid (million €)**

No.	Country	2007	2008	2009	2010
1	United Kingdom	248.639	226.787	171.753	176.238
2	France	83.133	93.978	87.548	92.752
3	Germany	66.161	71.876	71.195	72.391
4	Italy	74.316	65.547	57.198	66.802
5	Spain	22.670	25.539	24.966	26.345
6	Netherlands	21.881	22.017	21.201	23.761
7	Belgium	12.818	15.239	13.283	12.463
8	Denmark	9.292	9.358	9.280	10.398
9	Portugal	6.638	10.013	8.040	10.260
10	Sweden	5.693	6.265	6.490	6.180
...19	Romania	56	59	58	104
	EU	574.396	572.459	497.554	515.679

Source: Data collected by the author from CEA reports

#### **4. CONCLUSIONS**

Economic and financial crisis had direct and indirect effects on EU insurance market. The main conclusion is that the European market is the largest market in the world. In the period of the study European continent was and still is the largest insurance market from the world through gross premium volume, being that market which dictate world insurance course, followed by America, Asia, Oceania and Africa. The year of 2009 was the most affected year by global crisis pointing out a decrease of gross premium volume with a single exception regarding trends from Asia. Global crisis effects were more visible on life insurance sector than non-life insurance.

I think that the most important factors for the development of insurance in EU is consumer awareness of the need for protection and saving their confidence in the products offered by insurers.

The life insurance sector was the most affected by the financial crisis, given the higher unemployment and lower population income. One of the factors that had a significant impact on this sector was the psychological factor, fear and uncertainty about the financial safety of the consumers. One of the first financial crisis impacts refers to reduction of the insurer undertakings solvability and assets value. For the economy of each country, the share of life insurance should be higher than that of other insurance forms, since it participates in the loan offer on the financial market by fructifying the reserves that are made in the form of investments in bank deposits, treasury bills, bonds, loans to the policyholders in the account of the sums insured for life insurance and other forms of investments.

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