

## **The Financial Crisis' Influence on the Insurance Industry Revenues**

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**Abstract – According to Sigma reports – „World insurance” the level of revenues for global gross written premiums registered in 2007-2011 a growth of over 13%, which is a good thing given the context of the global economy and the weight of the first three insurance markets, namely Western Europe, Japan and the newly industrialized economies of Asia and North America in 2007 had a weight of over 88%, and in 2011 this percentage was of over 83%.**

**Keywords: insurance, revenues for global gross written premiums**

### I. INTRODUCTION

The revenues derived by an insurance company are primarily in the form of insurance premiums, but also financial placements and rational use of the insurance fund to pay compensation benefits, in the purposes of paying only the amounts due. The revenue category includes the amounts or values received or receivable in own name from ordinary activities, as well as gains from any other sources.

The economic activity of insurance companies is achieved to obtain a profit as higher as possible, this being carried out through:

- Obtaining income from the sale of insurance products;
- Obtaining income from the financial investments;
- The rational use of the insurance fund in paying compensations for damages, meaning only the amounts that need to be paid.

Revenues are increases in economic flows as inflows of assets, increases in the value of assets or decreases of liabilities that result in an increase in equity (other than those resulting from contributions of shareholders) [4, 5].

The largest revenues of insurance companies are obtained from selling insurance policies. In most cases the premiums are collected at the beginning of the insurance period, meaning anticipated, in the amount and terms established in the insurance policy, and based on them the insurance company promises to

pay damages if the insured risks occur. Since the insurance premiums are collected in advance with the promise of payment of the compensation, the company constitutes a premium reserve in the event that it must repay a part of the premium.

The global insurance industry has made over the years premium income and the worldwide insurance development has evolved unequal.

### II. SOME STATISTICAL DATA AND DEBATES ON REVENUES IN THE INSURANCE INDUSTRY

It is well known that the largest insurance market in the world was North America in terms of income from gross written premium, but since 2005 Western Europe has become the largest insurance market in the world, North America was second, and the third insurance market in the world was Japan and the newly industrialized economies of Asia.

Before the advent of the current economic crisis, which started in USA in 2008, we can see an increase in both total premium volume, as well as in each market, especially an increase of insurance premiums in countries with developed economies from Europe and the American continent (Figure 1).

From Figure 1 we can see that the revenues from global gross written premiums increased annually, except in 2009, which registered a decrease almost reaching the level achieved in 2007, so the growth registered in the whole period was over 13%, which is a good thing given the context of the global economy, where all domains registered declines in revenues.

In Figure 2 there it can be observed that in terms of revenues from gross written premiums, in 2007, Western Europe became the largest insurance market in the world with a share of 39.56%, followed by North America with a share of 32.75% and Japan and the newly industrialized economies of Asia with a share of 15.78%, the three regions have achieved together over 88% of the turnover of the global insurance industry.

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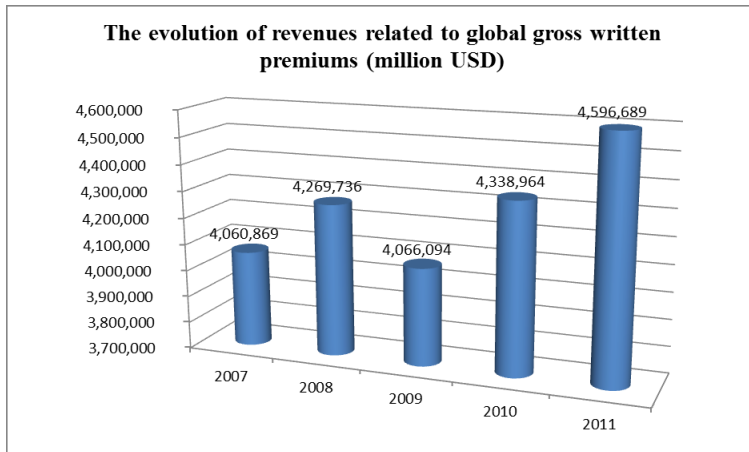


Fig.1. The evolution of revenues related to global gross written premiums (million USD) (the data source is [6])

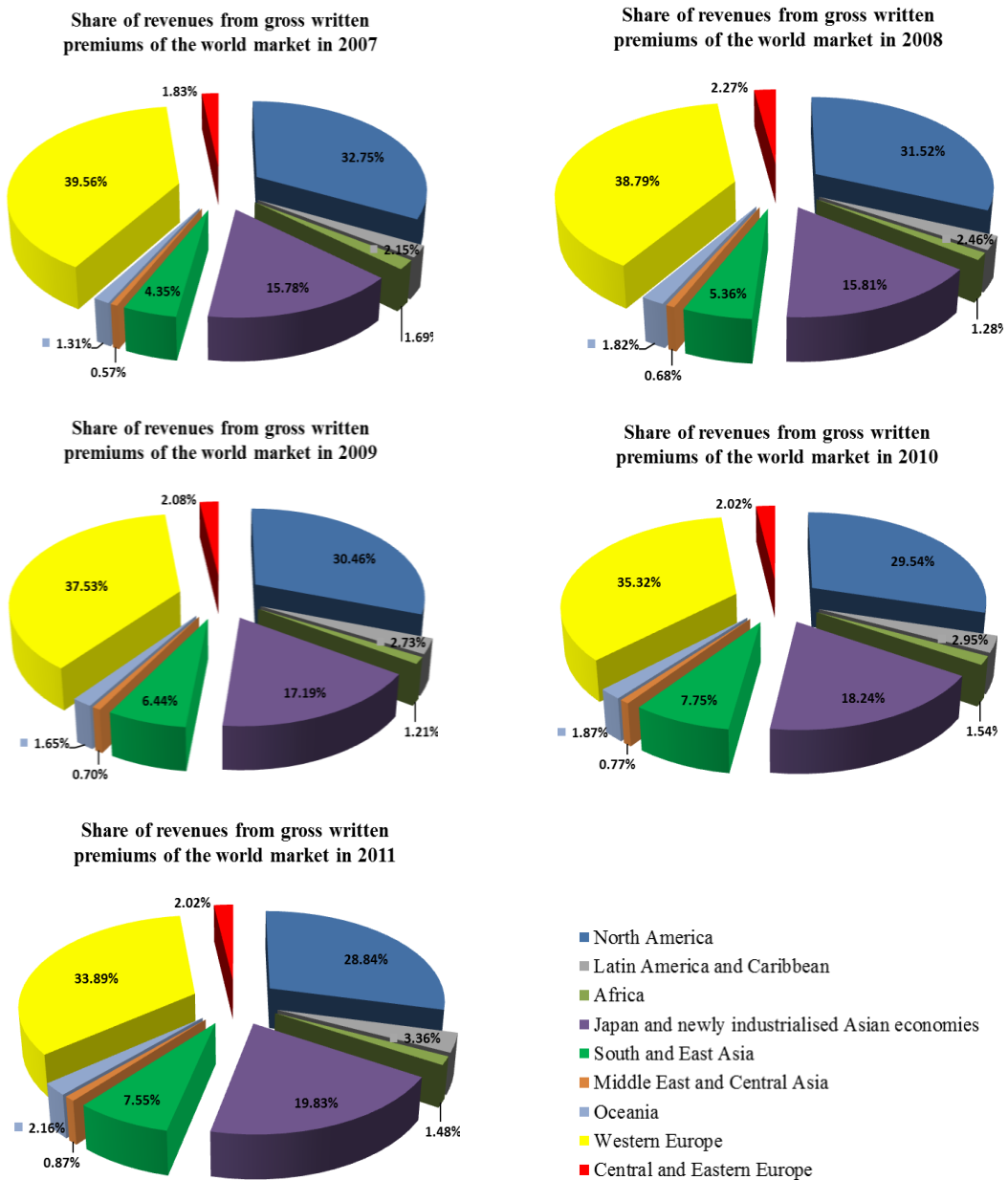


Fig. 2. Distribution of revenues from gross written premiums in 2007-2011 by geographic areas (the data source is [6])

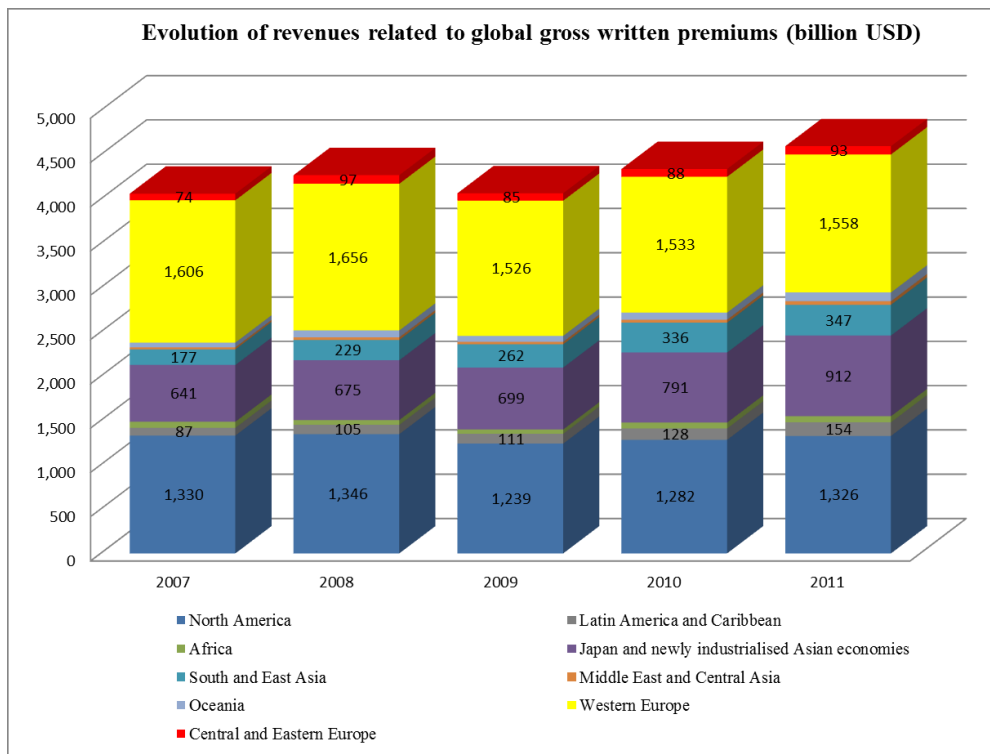


Fig. 3. Evolution of revenues related to global gross written premiums (billion USD) (the data source is [6])

In the period 2008-2011 we have the same top 3 global insurance market as in 2007, the three regions managing to achieve together during this period over 83% of the turnover of the global insurance industry.

It is also observed from Figure 2 that Japan and the newly industrialized economies of Asia have registered an increase from 15.78% (in 2007) share in total to 18.24% (in 2010) and 19.83% (in 2011), while Western Europe has decreased from 39.56% (in 2007) share in total to 33.89% (in 2011), this being due to the crisis that has affected even Western Europe.

In Figure 3 there can be seen that throughout the analyzed period the global insurance industry was able to grow, the strongest market today being the Western Europe which registered an increase only in 2008 of just 3% from \$ 1,606 billion in 2007 to \$ 1,656 billion in 2008, since 2009 this market registering a decrease of 8% compared to the previous year. From 2010 the insurance market recorded an annual increase of revenues for gross written premiums, but the increase was small, yet it did not reach the level achieved before the financial crisis.

The same situation occurred in North America where the volume of revenues from gross written premiums decreased by 0.3% across the entire analyzed period, from \$ 1,330 billion in 2007 to \$ 1,326 billion in 2011, this decrease was much greater in 2008 and 2009, but was recovered in 2010-2011.

Compared to Western Europe, in North America the volume of revenues from gross written premiums registered a smaller decrease mainly due to the fact that the insurance sector was highly developed even before the analyzed period.

From Figure 3 we can also observe that revenues related to gross written premiums have increased in

all regions during the period 2007-2011, the highest growth was recorded by South and East Asia, respectively 96%, from 176 billion dollars in 2007 to 347 billion dollars by 2011. An increase of over 86% was also recorded by Oceania, and the Middle East and Central Asia an increase by over 71%.

Central and Eastern Europe recorded an increase in the volume of revenues related to gross written premiums from 74 billion dollars in 2007 to 93 billion dollars by 2010, respectively of 25%.

### III. CONCLUSIONS

From the performed analysis we noticed that the main markets which determine the development of global insurance are those with a highly developed economy, the main actors are: America, Japan and Western Europe, which focus most of their revenues from subscribed gross premiums. Throughout the analyzed period the global insurance industry has managed to grow, despite the unfavorable economic climate in the period 2007-2010.

In Romania, one of the factors that have had a significant influence on the sector was the psychological one, because fear and uncertainty regarding the financial safety of consumers have led to an increase of contract cancellations and repurchase agreements, as well as to the postponement of the intention to purchase life insurance policies [1, 3, 4].

In insurance, the Romanian market is one of the least developed compared to other countries in the European Union. The citizens' reluctance in insuring was observed even after housing insurance became mandatory. Although the fines are provided as a means of coercion, some mayors have announced that

they will not fine the owners who will not prepare the documents within the time limits prescribed by law [3, 4].

The economic crisis resulted in a decrease of the revenues of insurance companies, being influenced by a number of factors, but the crisis' impact was much lower than in other areas, this being also due to the strict supervision of this field.

Insurance income decreased primarily because of the negative evolution of the auto sales sector (for example in 2010 according to figures published by the Department for Driving Licenses and Vehicle Registration the number of new vehicles passenger cars registered in Romania decreased by 18.5% compared with the previous year.), restriction of some companies' activities, and the more difficult access to financing sources through loans/ leases, rising unemployment and decreased revenues of consumers of insurance products.

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