

A Comparative Perspective between Romania and the Russian Federation regarding Life Insurance

Loredana Nicoletta MEGA¹
Maria Loredana POPESCU²

Abstract

Life insurance plays a crucial role in financial planning, risk management, and economic stability. Life insurance is a critical financial instrument that provides economic security to individuals and their families by mitigating the financial impact of unforeseen death. It serves as a risk management tool, enabling wealth transfer, estate planning, and long-term financial stability. This paper reviews the historical development of life insurance, factors influencing consumer demand, market trends, and economic significance. Additionally, it explores challenges faced by the industry, including regulatory constraints, demographic shifts, and technological advancements. The future of life insurance is likely to be shaped by digital transformation, data analytics, and personalized policy offerings. Understanding life insurance's role in financial planning is essential for both consumers and policymakers in ensuring economic resilience and security.

Keywords: *determinants, development, life insurance, performance*

Jel classification: G22;G52

DOI: 10.24818/RMCI.2025.2.354

1. Introduction

This research paper will address the different dimensions and challenges of the life insurance industry in Romania in contrast to those in the Russian Federation and the performance of the sector in the mentioned countries. Both Romania and Russia represent relatively mature markets in terms of life insurance providers. The objective of life insurance is to provide financial security to policyholders and their families. Traditionally, this guarantee was provided through a lump sum payable depending on the death or survival of the insured life.

The sum insured would be fixed and guaranteed. The insured would pay one or more premiums during the term of the contract for the right to the sum insured. Life insurance is the economic instrument that allows the accumulation of large monetary funds at the level of the country, regions and certain insurers and also ensures the increase of the standard of living of citizens and social stability in society (Axenciuc, 2012). Life insurance is a contract under which an insurer undertakes, in

¹ Loredana Nicoletta Mega, PhD Student, Bucharest University of Economic Studies, meganicoletta21@stud.ase.ro

² Maria Loredana Popescu, Associate PhD, Bucharest University of Economic Studies, maria.popescu@mk.ase.ro

exchange for insurance premiums received, to pay either the insured or the insurance beneficiary a specified amount in the event of the insured's death or when the latter survives a period defined by the contract.

The purpose of life insurance can be summarized as financial protection in the event of premature death and/or a means of saving for those who survive the period provided for in the contract (Beck& Webb, 2003). The aspects related to protection within life insurance are much more important in the first years of the family's existence when expenses are also higher, while savings-related expenses become pressing later to provide protection for children, for retirement or for other purposes (Djuvara, 1995). In life insurance, the insurer cannot grant its guarantee until after the risk taken on has been specified.

He must, especially for death insurance, make a selection of risks in order to avoid concluding contracts in which the occurrence of the loss would have an abnormal probability. He can resort to statistical data (mortality tables), but the information provided by them is insufficient, considering the averages or trends (Browne& Kim, K., 1993). The purpose of the paper is to reveal through a comparative analysis of the functioning of the life insurance markets in Romania and the Russian Federation, certain regularities and distinctive features of the development of the markets and to define additional branch perspectives.

2. Literature Review

In relation to the insurance system, a number of authors have expressed their point of view. Anghelache (1999-2017) dealt with the analysis of the evolution of insurance in Romania. Anghelache (2004) presented methodological and practical aspects regarding the insurance market in the context of the capital market and financial supervision.

Anghelache and Pârțachi (2015), (2011) presented the essential aspects regarding actuarial statistics. Axenciuc (2012), in the study regarding the evolution of the Gross Domestic Product over time in Romania, also addressed essential aspects regarding insurance. Djuvara (1995) also made references to the system and role of insurance in the modern era. Văcărel (2016) published an extensive chapter referring to the evolution of insurance in Romania. Văcărel and Bercea (2007) dealt with the study of the insurance and reinsurance market in our country. Văcărel (2001), in his approach to fiscal and budgetary policies, also refers to insurance.

At the current stage, the issues of evaluating the efficiency of insurance enjoy increased interest from researchers. The issue of efficiency and the role of insurance in the economy is studied from different aspects, respectively, the methodological approaches to its evaluation are presented in different ways. However, the multiple studies and management models are difficult to apply to the realities of the Romanian economy (Lusardi& Mitchell, 2014).

Models of complex analysis and evaluation of insurance efficiency do not enjoy interest from management teams in Romania, who prefer to adopt financial decisions based on the evaluation of efficiency through traditional methods, transposed into solvency and profitability indicators, considered by experts to be

outdated by the current context of the evolution of financial markets, especially in the context of new regulations (Huebner, 1915).

Research in the field of insurance is carried out in important national, European and international scientific centers: Insurance Europe, SwissR, etc. However, there are no clearly outlined opinions on the efficiency of insurance, the financial potential of the insurance company, the impact of insurance on economic growth. Insurance, having the role of financially protecting the personal and patrimonial interests of people, companies and the state, is currently seen as an essential sector for guaranteeing a prosperous, resilient economy focused on solving social problems. Thus, insurance is a guarantor of stability, helping to economic growth and financial stability by taking on risks and mobilizing savings (Gutter& Hatcher, 2008).

Life insurance has a long history, dating back to ancient civilizations. According to Outreville (2013), early forms of life insurance were seen in Roman burial clubs, which provided financial aid for funeral expenses. The modern life insurance industry began in the 18th century with the establishment of actuarial science, which allowed for more accurate risk assessments (Cummins& Venard, 2008). The industry has since evolved with technological advancements, regulatory changes, and the diversification of insurance products.

Numerous studies highlight the importance of life insurance in providing financial stability. Outreville (2013) developed a life-cycle hypothesis that explains how individuals use life insurance to balance consumption and savings. Yaari (1965) found that life insurance positively impacts economic stability by reducing financial vulnerability in households.

Several factors influence the demand for life insurance:

- **Income and Wealth:** Empirical studies suggest a positive relationship between income levels and life insurance demand. Beck and Webb (2003) found that higher income individuals are more likely to purchase life insurance.
- **Education and Financial Literacy:** Lusardi and Mitchell (2014) argue that financial literacy plays a crucial role in financial decision-making, including life insurance purchases.
- **Demographics:** Age, gender, and family structure influence life insurance uptake. Young individuals with dependents tend to buy more insurance (Rothschild& Stiglitz, 1976).
- **Economic and Institutional Factors:** The availability of financial markets, tax incentives, and regulatory policies also impact the demand for life insurance (Ward & Zurbruegg, 2002).

3. Research Methodology

In this research, research methods such as analysis, comparison, induction, analogy, mathematical modeling were used. The object of research includes the activity of insurance companies, the impact of which influences the increase in insurance efficiency, as well as the insurance market as an element of the financial system. The research hypothesis is defined by the efficiency of insurance, which is

determined by the potential of insurance companies and the adaptation of the financial mechanism, increasing their performance and implicitly the development of the insurance sector and economic growth in general.

The delimitation of conceptual approaches to the notions of insurance, insurance efficiency and the explanation of their forms, respectively the explanation of the diversity of opinions was carried out with qualitative, quantitative research methods, the method of comparison, analogy, historical method, documentary analysis, the method of scientific abstraction (induction, deduction). These methods were applied to distinguish between different concepts and to contrast different opinions. The current state of knowledge regarding the financial potential of the insurance company was defined by applying content analysis, observation method, deductive method, analogy, observation and systemic analysis. In order to assess the development trend of the insurance market in Romania and the Russian Federation, concentration indices were calculated and analyzed.

The accumulated data were processed with statistical procedures such as grouping, relative magnitudes of dynamics, of structure. The comparative method is widely applied in the article, in particular, comparison over time, territorial comparison (the insurance market in Russia and Romania, as well as with the European average).

The methodological and normative study of insurance activity in the context of Solvency II requirements was carried out by applying the financial rate method, systematization of indicators, grouping, modeling of time series, etc. In order to achieve the dimensioning and analysis of the financial potential of insurance as a field of activity and element of the financial system, the matrix method was used, and the scientific approach to evaluating the financial potential of the insurance company was based on the component analysis method.

4. Results and Discussion

The Russian life insurance market for many years (late 1990s - early 2000s) was heavily polluted by "gray schemes" to optimize taxation of the payroll of enterprises. By means of imaginary life insurance for their employees, companies and organizations reduced their paid social taxes. However, by 2005, this practice was almost completely suppressed by the Ministry of Finance and tax authorities. Since 2010, life insurance has been one of the fastest growing segments of Russian insurance. In 2010-2013, the growth of insurance premiums from year to year was about 150%, in 2014-2015, the growth decreased to about 120%, and in 2016 it sharply increased to 160% from year to year.

In the first quarter of 2017, in terms of the value of insurance premiums collected, life insurance for the first time surpassed MTPL, while at the end of 2019 the volume of life insurance premiums exceeded MTPL premium collection almost twice. However, life insurance in the Russian Federation lags significantly behind economically developed countries in Europe, Asia and America in terms of key indicators (penetration and insurance density).

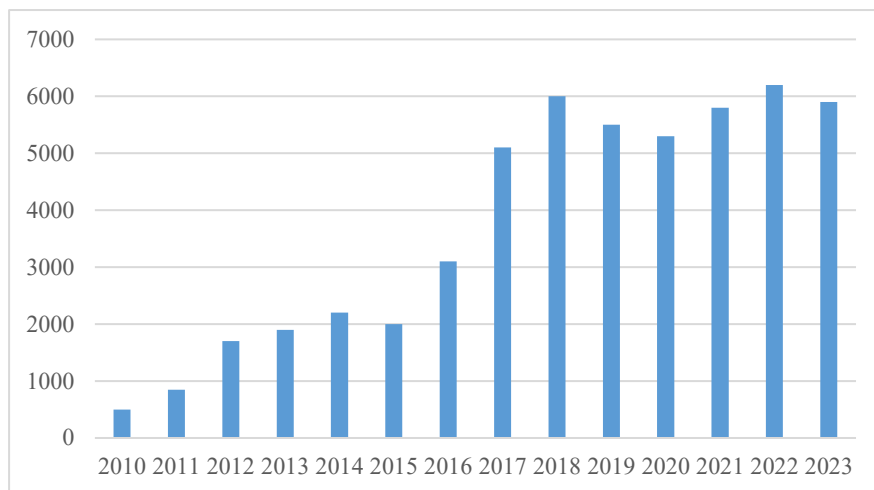


Figure 1. Evolution of the Russian Insurance Market According to Total Premiums
Source: National Institute of Statistics of Russia, 2023

From the above chart we can see that the highest growth was recorded by life insurance, which involves the participation of the client/insured in the investment income of the insurance company, providing greater confidence in the potential gain for the insured. Regarding the evolution of the life insurance market in Romania, this indicates a much more stable path, without major changes in the premiums collected. This aspect is a negative one from the point of view of the evolution of the life insurance market in Romania.

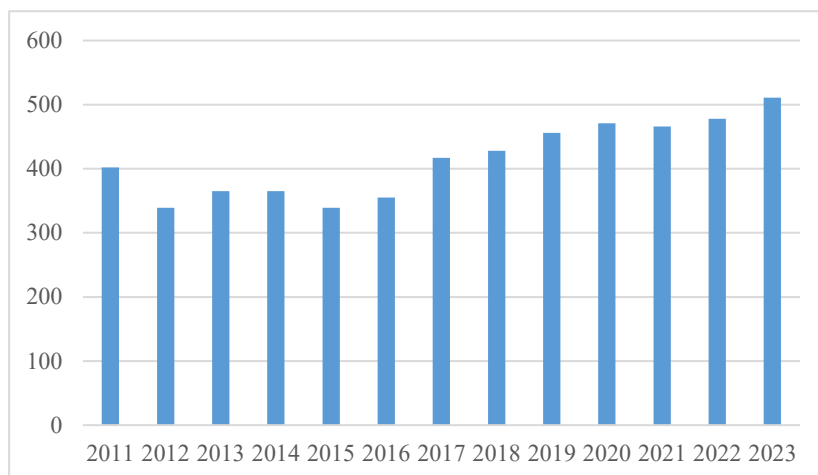


Figure 2. Total Value of Premiums on the Insurance Market in Romania
Source: National Institute of Statistics of Romania, 2023

Thus, in 2018 it can be seen that the life insurance market in Russia is about 14 times larger than that in Romania, and after 2016 it has experienced a very large

evolution. This aspect can be motivated by the very weak infrastructure of the state insurance in Russia in terms of managing the pension fund in correlation with the average age of death in the country. At the same time, there are much more effective indicators for comparing some markets, in addition to the gross total, which I am going to analyze, such as the total value of premiums reported to the population and adjusted to the average salary, or the total value of premiums reported to GDP.

If we follow the indicators that describe the evolution of the life insurance market in Romania in relation to GDP, we observe a slight decline in the popularity of life insurance. However, in general, the same evolution observed when analyzing the absolute evolution of the gross value of premiums collected for life insurance in Romania is maintained.

4.1 Main Suppliers, Efficiency and Regional Distribution

In Romania, the life insurance market is dominated by a non-banking institution. Thus, NN Asigurări de Viață, the leader of the life insurance segment, also leads the ranking of claims paid in this segment at the end of the first nine months of 2020 with a value of 319 million lei, down slightly by 0.3% compared to the same period in 2019, according to data from the Financial Supervisory Authority (ASF).

Thus, the company holds a share of 41% of the total gross indemnities paid by life insurance companies in the first nine months of 2020, of 779.6 million lei. BCR Asigurări de Viață, a company that is in second place in the top 10 life insurance companies according to the value of claims paid in nine months of 2020, recorded a value of 153 million lei, 14.2% more compared to the same period in 2019. Thus, we can see that in Russia the life insurance market is dominated by banks, with other institutions even experiencing a slight decline in recent years.

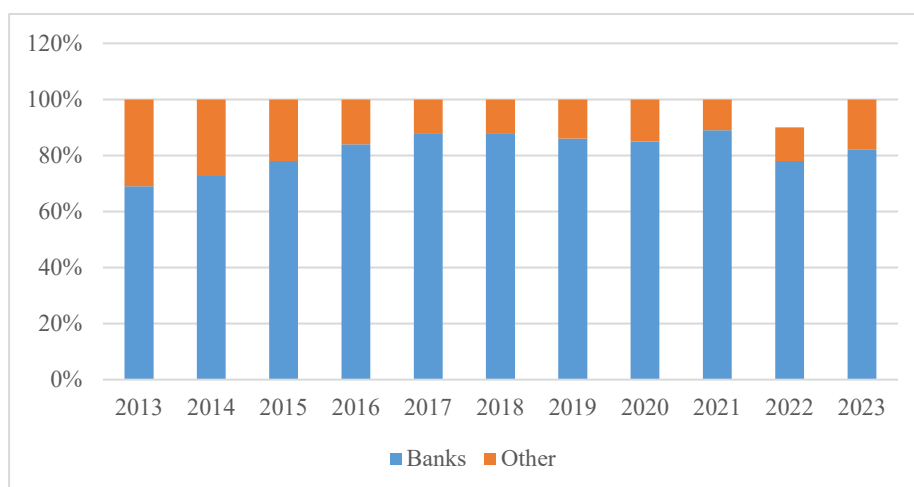


Figure 3. Segmentation of the Insurance Market by Banking and Non-Banking Institutions
Source: KPMG Rusia, 2023

Following the diagram below, we note that the main provider of life insurance is Sber Bank, which is also the largest bank in Russia. It holds about 40% of the total life insurance market in Russia. In terms of the share of life insurance in total insurance, in Russia it holds about 28% of the total insurance market. This indicator is relatively weak if compared to developed EU countries, but compared to Romania it suggests a much greater trust of the population in life insurance.

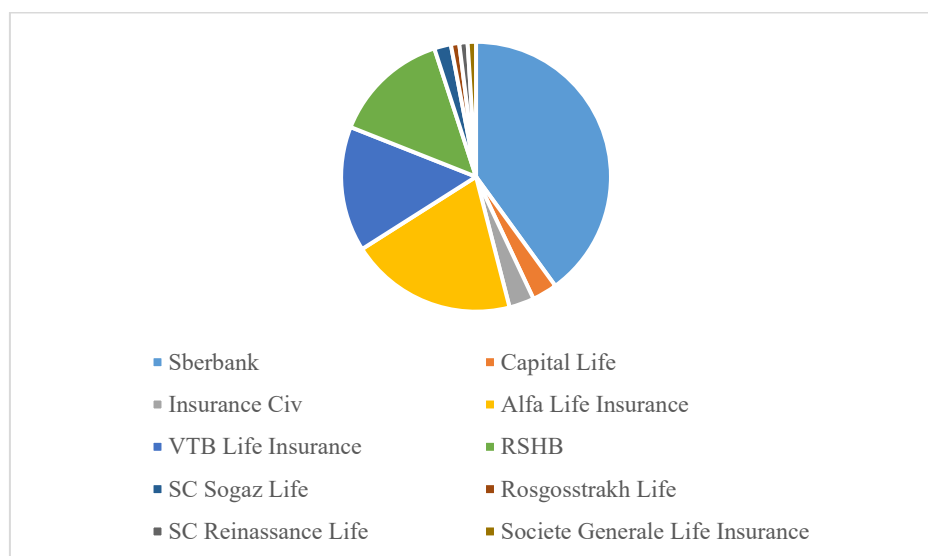


Figure 4. Total Life Insurance Premiums in Russia

Source: Banca Centrala a Rusiei, 2023

In Romania, this share is slightly more modest, being only 19% according to ASF. The share of life insurance activity in the total insurance sector in Romania from the perspective of the volume of gross written premiums is at a low level compared to the other EU countries analyzed. In 2020, the volume of gross written premiums for the life insurance segment recorded a modest decrease, while the value of written premiums for the general insurance activity increased, which determined the decrease in the share of the life insurance segment to 19% in total underwritings.

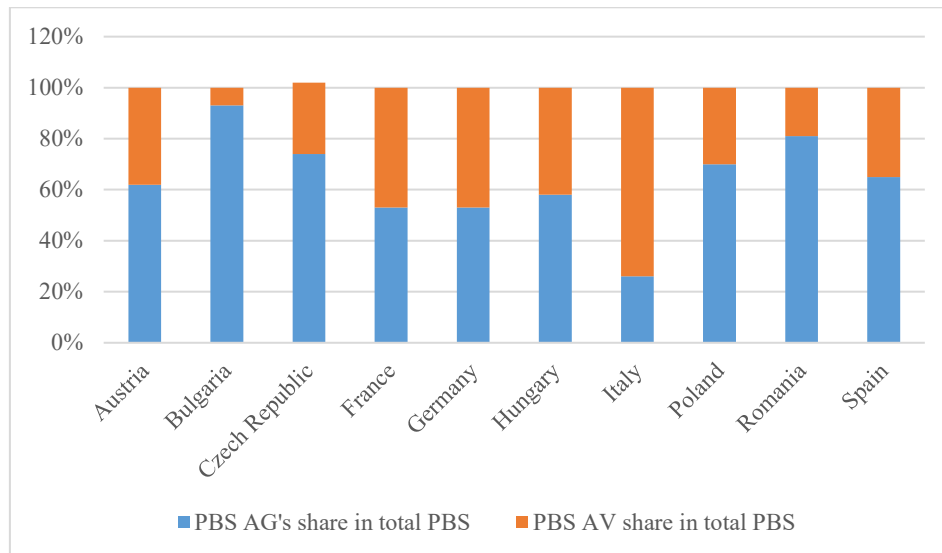


Figure 5. Gross Premiums Written

Source: EIOPA

The last very important indicator for life insurance markets to analyze is their efficiency. So far we have analyzed everything from the perspective of premiums collected, but the payment of claims highlights the profitability of insurers and the efficiency of the insurance market in general.

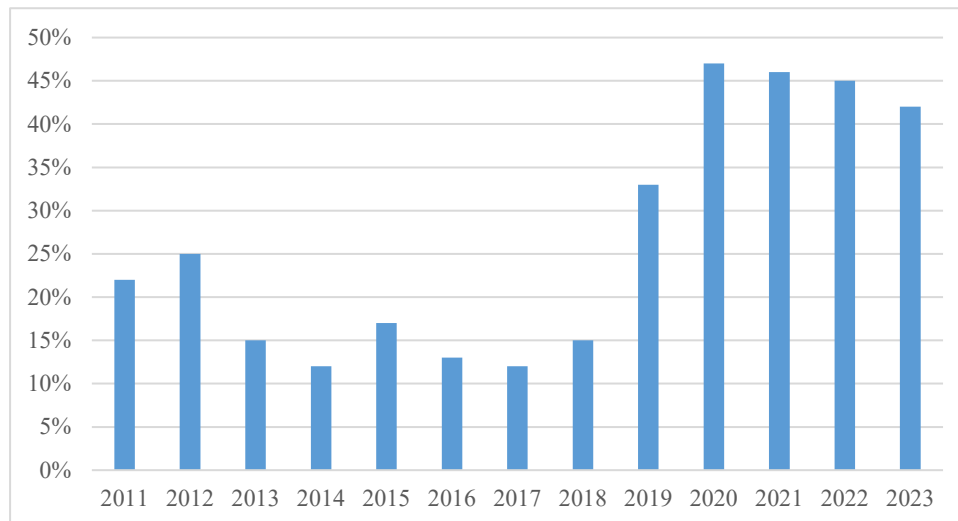


Figure 6. Percentage of Claims Paid out of Total Premiums Collected for Life Insurance in Russia

Source: KPMG Rusia, 2023

According to the above scheme, we can see that life insurance companies in Russia have a fairly high profitability. However, the last 2 years have been

characterized by much higher amounts of compensation compared to previous years. This phenomenon is stimulated by the rapid growth of the market, and a strategy to increase the share and popularity of life insurance among citizens.

Regarding the profitability and efficiency of life insurance in Romania, this indicator in 2020 indicates that the value of gross indemnities, maturities and redemptions paid for life insurance was at a level of 200 million euros, i.e. about 47% of total premiums collected, exactly the same rate as in Russia. Thus, both markets have experienced a similar profitability in the last year, the insurance market in Romania, as well as the one in Russia, recording a high level of efficiency.

5. Conclusion

In conclusion, the life insurance market in Romania and Russia has similar products and due to a similar life expectancy and retirement age, they also have similar prices. At the same time, the very small discrepancy between the average salaries of both countries also outlines the fact that life insurance companies in Russia and Romania demand premiums of similar value from their clients. Another similarity is the level of profitability among life insurance companies in Romania and Russia, both recording the payment of approximately 47% of the total premiums collected for the year 2020. Regarding the level of penetration of life insurance, compared to other types of insurance, they are more popular in Russia than in Romania, recording a share of approximately 28%, compared to 19% in Romania.

At the same time, the evolution of the life insurance market according to the premiums collected has recorded a very high growth in recent years in Russia, both in absolute terms and in relation to GDP and population. In Romania, these indicators have shown a stability of the life insurance market in the last 10 years, without major reductions or increases.

In terms of regional distribution, both countries concentrate their receipts from life insurance premiums in urban areas, with a larger, richer population and a higher level of development. In conclusion, Romania should work more intensively on popularizing this investment instrument for the population, as many countries in the European region, including Russia, record a much higher penetration of life insurance among the population

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