Life Insurance - Their Characteristics Importance and Actuality On The Romanian Market

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For the twenty-first century life, there cannot be a real, long-term and sustained progress, without insurance. Let's only consider the avalanche of natural disasters and acts of terrorism in recent years that have affected many parts of the world, brought suffering to millions of people and caused huge economic losses.

The common knowledge that a country's economic strength lays in banking and insurance needs no arguments. It is not accidental that the most stable economies, where even population's prosperity is remarkable, are found in countries where insurance is well represented in economic life.

In a modern economy, insurances play an important role due to its contribution to financial stability, by promoting effective control of various risk categories and mobilizing people's savings.

This paper plans to identify the main characteristics, trends and developments of life insurance products and their market, as well as the interactions between the insurance sector, banks and financial markets and to highlight some of the determinants of insurance demand. Also, another topic addressed is the current economic context, and the effects of inflation and economic recession on this sector.

Finally, this paper contains a short observation of the evolution of this particular market, striving to make a "prediction" of the immediate prospects of this activity.

Keywords: *life insurance, insurance contract, insurant, insurer, protection, insured risk, risk transfer, financial sustainability, solvency, inflation, financial stability, risk management.*

Introduction

Over time, many wise people have made references in their thoughts on insurance. The reason people care is about the present and especially future. It is a natural part of prevention and providing a sense of belonging to which is a part of tradition, education, the natural way of thinking ahead and even of instinct.

The insurance sector has an important role in the economic development of a country, mainly by its role of intermediary and provider of financial services and by identifying the risk transfer of the society.

Due to the broad scope and diversity of insurance, the continuing inventiveness if insurers, reinsurers and brokers to offer new forms of risk protection for more and more varied risks that sometimes go beyond the classical definition of insurance, studying this field is limitless and requires a growing interest. It is a very dynamic and comprehensive field, both in quantity and in quality, whose development marks the economic and technological progress and, why not, the progress of mankind in general.

Moreover, the insurance companies facilitate long-term investments, thus offering financial stability and encouraging the accumulation of new capital while providing both individuals and corporations with insurance in front of different risks that may affect their activity in different ways.

The demand for life insurance grew rapidly in recent decades, due to socio-economic changes, extension of life expectancy and improvement of financial education. All this contributed to an increase of dependency costs and provided a reason for covering it through insurance. Also, the limits of social welfare and the pressure of taxing are widely seen as stimulators of life insurance consumption, as the the public institutions will cover increasingly less of the financial needs of the population. Furthermore, development of financial savings for retirement age is seen as a factor that strongly sustained the demand for life insurance.

A short history of life insurance

Society development is marked by people's effort and drive for their own prosperity and for their defence against events which may jeopardize their existence and becoming. No matter how much we try to avoid problems, nobody can ever be sure of success. Some adverse events (calamities of nature, accidents, loss or reduction of work capacity following illness or old age) imply trauma or significant financial loss.

Life insurance has emerged just from the man's need of protection in the face of danger and finding appropriate solutions to remove them.

Long ago, people felt the need of compensation for a person who died. The oldest forms of insurance are common since antiquity and date back about 6,500 years. Egyptian craftsmen stone cutters, established a relief fund, formed by everybody's contribution to cover the damage caused by various calamities that struck community members.

In ancient Rome a burial association was constituted, based on a Regulation of the funeral Board of Lavinium, that work on the basis of fees for registration and regular payment. Thus, Association members were insured to have a pyre and a grave when they died.

However, the first insurance contract discovered is dated 18 of June 1583 and was completed in England, as a life insurance policy on the name of William Gibbons, worth £ 383. The contract had a term of 12 months, during which the amount had to be paid if the owner died. On May 8th, Mr. Gibbons died, so that the sum was paid.

In the next 100 years, life insurance existed mainly in the form of short-term policies issued by mutual associations, in which members contributed to a pool that provided the amounts payable in the event of death. As mutual associations grew and had profits, more insurance offices were created in England, starting with the seventeenth century.

Another form of insurance was the system of granting life annuities, called tontines[1], which emerged in France in the seventeenth century and then spread to Holland, England and Germany. The system was based on the principle of life insurance, but participants received life annuities instead of the insured amounts. At the end of the eighteenth century, life insurance companies that did not share their profit with the policy owners were constituted. In these companies, profits were distributed to the shareholders. In 1762 it was signed, for the first time, a life insurance based on mortality tables.

Emerging in Europe, life insurance also expanded rapidly on the coast of America, where the insurance industry was dominated by British insurance companies. Elizur Wright created several American insurance companies and supported the enactment of state control over insurance companies. He helped

1 Tontines are associations established for a period of time (eg 15 years) consisting in a number of adherents who give to the common fund an annual fee that vary according to age.

develop a method for calculating the correct premium reserve of life insurance and appropriate tables necessary in the field of life insurance. In 1859, there were 18 life insurance companies functioning in USA and Canada. Laws were changed and a series of government regulation were obtained.

Nowadays, life insurance companies have seen a strong development, focusing on diversification of products for the customers. Marketing has become a widely used concept, while companies realized they must focus their efforts towards the customers. Sale forces began to have a significant share in this industry. Products became more complex and began to perform other functions besides that of insurance in case of death.

U.S. market is the largest in the world, over 65% of their population having a life insurance. Another developed market is that of Great Britain, in which over 61% of the population insured their life. Emerging markets include Eastern Europe, China, India and Brazil.

In Romania, the guilds from Transylvania, founded in the 16th century, were the first organizations that practiced a form of insurance on the principle of mutuality and mutual assistance. In the 19th and 20th century, following the development of society and the increasing complexity of activities, people's interest in the insurance also grew. The first actual insurance organization was established in Brasov in 1844 by the Craftsmen Association and it was named "The National Institute of Pensions", being specialized in life insurance. Historical conditions in Transylvania allowed that, under the influence of important insurance companies of the time (Assicurazioni Generali and Riunioni Adriatica di Sicurta), the population of this part of Romania to acknowledge the insurance institution before other parts of the country.

In the second half of the 19th century and first half of the 20th century, following the economic development of the country, the insurance sector also grew and a number of insurance companies such as Transylvania-1866, Dacia-1871, Romania-1873, National-1882, General-1887, Agricola-1906, Urania, Patria, General Insurance Bank-1911. After moving the headquarters to Bucharest, General insurance company diversified insurance
Operations especially in the life insurance industry, having around World War I a prosperous financial situation.

In 1923 the insurance company Romanian-Insurance was established and had a rapid growth through the introduction of popular life insurance without medical examination. It should be noted that until World War I foreign insurance companies only participated as shareholders in Romanian insurance companies and after 1918 they opened their own agencies and branches. Since 1940 there was a massive penetration of the German capital on the Romanian market by companies like Victoria, Vatra Dornei, Allemania, Dacia-Romania, Nationala, Steaua-Romaniei, Transilvania.

In 1930 in Romania operated 44 insurance companies, out of which, following the competition on the market in 1936 only 23 were still working. In terms of state intervention in the insurance area it is noted that in 1915 The Insurance Company of Interior Ministry was founded and was reorganized in 1936 and in 1942 the Autonomous Direction of Insurance was established.

The communist period of 45 years has brought important changes in Romanian economy and society[2]. First of all we remember the nationalization and socialization of property, the establishment of centralized management of economy and society, economic subordination to one-party political leadership, the transition from the market economy to planned economy, centrally directed, etc.

The insurance sector underwent a period of changes, some positive others imposed by the quality of monopoly that the state has imposed. A first step was made in 1948 when insurance companies were nationalized and handed over to the state. Their entire portfolio and technical and mathematical reserves went to the Soviet-Romanian insurance company, Sovromasigurare.

In 1952 the State Insurance Administration was created, ADAS, who took over the business of the State Reinsurance and reinstated the practice of insurance by law. Sovromasigurare insurance company practiced optional insurances. In 1953 Sovromasigurare was liquidated and its portfolio was taken over entirely by ADAS. ADAS practiced insurance of goods, people and legal liability in two forms: a) insurance by law, b) optional insurance.

Along with the transition to market economy the insurance industry has also entered a process of profound transformation. Starting January 1, 1991 ADAS has ceased operation. Insurance portfolio and heritage of this company was taken over by the first three stock insurance companies, newly established, state-owned (Romanian Insurance, Astra and Carom). In the summer of 2000, Astra also introduced in its portfolio the practice of life insurance with capital accumulation.

After 1990 on the Romanian insurance market appeared a number of private insurance companies, some with Romanian capital, some with mixed

2 apud *Insurance history - National Union of Insurance and Reinsurance Societies of Romania*, pe site-ul www.unsicar.ro, May 30, 2012

capital and some with foreign capital, all trying to grab as much as they could of the Romanian insurance market.

In conclusion, the insurance in Romania experienced a slow evolution as being due to economic, political and social conditions of each period. The nature of under insured market with a lack of knowledge of the advantages brought by protection through insurance still remains today. People insurance on a contractual basis also registered a limited development and diversification, not covering the needs or the ability of national economy. Moreover, the mere state insurance mechanism could not be competitive enough to stimulate the development of a sector so important for any national economy.

The concept of life insurance. The specificity of life insurance products

Life insurance is a form of protection of the dependants or of other people designated as beneficiaries in the event of the insured person's death (the person whose death risk is insured), that gives financial security to the family so that after the insured person dies the family can be able to manage financially.

In terms of the insurance company, life insurance is a way to transfer the financial risk attached to the loss of life or health of an individual to a group of individuals, exposed to the same risk. In terms of the individual, life insurance can be defined as an agreement through which the insured pays a certain amount of money – the insurance premium – and in exchange to that the insurer will pay a certain amount of money – the insured sum – in case of death or compensation.

Life insurance is a way of financial protection of an individual and his family. As a way of individual protection, life insurance generates an extra income for a certain moment in life by ensuring a capital or a pension. The purpose of life insurance is to guarantee the payment of a sum of money by the insurer, in case of an event related to the insured person: injuries, illness, death or his survival. Life insurance, unlike general insurance, has certain *characteristics*:

- The capitalized value is a fund that accumulates during the entire duration of the policy and to which the policy holder can have access in many ways;

- Financial difficulties within life insurance are determined by what money is needed for the funerals, ensuring some financial resources to the successor, after the insured dies, moral recovery after the death;

- The reasons for which people make a life insurance are: stress, personal motivations, their idea about death;

- Risk is defined by most economists as an actual loss, or loss caused by negligence that may have consequences on an individual or on a property;

- The insured amount is determined at a flat rate by the insured, according to his needs and financial possibilities;

- Insurance indemnity is the sum of money that the insurer pays to the insured if the insured risk happens;

- The insurance contract it is concluded in writing (by completing a statement of insurance);

- Termination of the insurance contract is done in the following ways: the usual way is when the contract expires at the and of the period for which it was enclosed; the contract also ends if the ensured risk occurs;

- Denunciation shall be made by the insurer if the insured did not communicate, in writing, the changes in the contract about the data considered in the signing of the contract;

- Cancellation means temporary termination of the contract because one of the parties din not accomplished their obligations out of reasons that can be charged to them. Effects of the contract to termination shall remain valid;

Nullity of the contract may be caused by inaccurate or incomplete statements made by the insured, or lack of insurable interest from the contractor, upon its conclusion. Today, life insurance is practiced in many forms, most of which occurred in recent decades, and are based on increasingly varied needs of people.

The main life insurance products may include or not, next to a component of insurance, which is an insured guaranteed sum in the event of the insured person's death, a component of "cash", which can be a savings plan or an investment one. The latter presumes an insurance premium (the amount paid to the insurer in exchange for the protection and savings that they offer to the insured) considerably higher.

Consequently, the most important types of life insurance are term insurance and those with savings or investment component. Besides these main categories there are other forms of life insurance that are sometimes separated policies (eg, accident insurance) or appear as clauses attachable to the above listed types of insurance or have benefits for a greater number of people (shared life insurance, group insurance).

Term life insurance provides protection for a specified period, usually a short one, for a specified premium. In this case, there is no accumulation of capital and protection refers mainly to covering the risk of death. Insurance premiums for such policies are generally small, as it is considered that the possibility of death of the insured in the contractual period is relatively low.

Regarding term insurance, the insured amount can remain constant over the whole duration of the contract or may decrease, the premiums remain constant or increase and the duration of contract is generally of several years. If the insured dies during the period of the contract, the beneficiary designated in the policy collects the death benefit called indemnity insurance. If the insured does not die during the period of the contract, the beneficiary does not receive anything and the policy ceases without any obligation of the insurer. Death following suicide of the insured is covered only after two years of contract.

Savings insurance can be on indefinite period, mixed, rent for studies, dowry, unit-linked or annuities. Savings insurance are usually made for longer periods, may remain in force until maturity and do not cease unless the owner stops paying the premiums. This type of insurance requires constant deposit of amounts which, over time, decrease the risk assumed by the insurers to pay compensation if the insured event happens. The owner can have access to the money through various types of withdrawals or redemptions.

- Indefinite term insurance covers the risk of death over a longer period than the term insurance (e.g. up to 95 years). Usually, the condition is that the premiums to be paid until retirement. The main advantages of this type of insurance are the guarantee of a benefit at the moment of death and an amount of money for survival. On the other hand, the premiums are inflexible, much higher than term insurance and the amount of money for survival does not offer a proper gain, but the insured amount indexed to inflation.

- Mixed life insurance allows capitalization, thus covering not only the risk of death but also the survival. The protection component of the policy guarantees an insured amount payable to the beneficiary named in the contract, when the insured dies. On the other hand, if the insured does not die, the beneficiary named to survival receives the same sum and the capitalization.

- Dowry or studies insurances are similar products, set up to accumulate an amount for the child, accessible at the time of marriage or studies, to provide support for an independent life. By this type of contract, the parent makes sure that in the event of his death the child (beneficiary) will receive the sum insured, at the time of marriage or a certain age or the study rent starting at the age established in the contract. The amount paid by the company is made in a single tranche for dowry and sequenced for rent of studies. If the beneficiary dies, the policy becomes a mixed life insurance.

- Unit-linked insurance (UL) is a relatively new product that covers the protection component of life, but also offers the possibility of a medium and long term investment. Thus, the insurant protects his family in the event of his death, but has the opportunity to add a gain to what he saves and can receive a surplus to what he deposits. Some of the insurance premium is used to cover the costs related to the risk of death of the insurant and most of it is invested in units of the insurer's investment programs, as determined by the insurant (owner). The investment accumulates in an account of units. When signing the policy, the insurant choses the investment type of his first premiums, but during the contract he can change the selected program or programs. The protection component implies the existence of an insured amount of money guaranteed by the insurer over the period of the contract, in case the insurant dies. The advantage of investing through an UL type insurance is the fact that being done on medium and long term, the client can obtain a reasonable gain.

- Annuities do not represent a life insurance in itself, but a means by which a person can use their already accumulated capital, over a longer period of time, usually after he ceased to produce other income (retirement age). Annuity is paid by the company periodically to the annuity receiver (person receiving an annuity). This payment can be made throughout the life of the annuity receiver or over a shorter established period. For setting up the authority to receive annuity, the client deposits money either through a single premium or installment premiums. The main advantages of the annuities are the safety in maintaining a living standard through periodic amounts paid by the companies, enabling a financial stability for the whole family and that can transformed into funds to cover death expenses and funds for the descendants.

The only authority empowered by law with powers of authorization, prudential supervision and control of the insurance business / insurance brokerage in Romania is the Insurance Supervision Commission (CSA). CSA has the duty of issuing norms for the application of insurance laws. Insurance Supervision Commission operates under Law no.32/2000 regarding the insurance activity and insurance supervision, with the subsequent amends and supplements. This law regulates the organization and functioning of insurance companies, insurance-reinsurance and reinsurance as well as the insurance brokerage, the organization and functioning of the Insurance Supervision Commission, supervision of insurers and reinsurers that operate in or from Romania, supervision of the activity of insurance and reinsurance intermediaries and other activities in connection therewith.

The role of the Insurance Supervision Commission consists mainly regulating and monitoring this type of market, in terms of financial stability, fair play and honoring the assumed obligations. Also, this authority is the one that monitors the insurance market indicators such as liquidity, establishment of technical reserves and solvency in order to detect early any major problems that could affect the financial capacity of insurance companies. In a still very fragile economic environment, the supervisory authority of the insurance market is interested in the development and implementation of standards and solid principles of risk management.

The current economic context of the insurance market, evolution and perspectives.

Life insurance demand has increased rapidly over recent decades, significantly exceeding worldwide income. The socio-economic changes, the increasing life expectancy and the improving of financial education contributed to this growth. In addition, the limits of social welfare through taxes, reaching a critical point, are being anticipated as stimulators of the life insurance consumption, the more so as the public institutions will cover less and less of the financial needs of the population.

Opening domestic markets to foreign competition has resulted in the emergence of increasingly diversified and attractive life insurance products. Also, the acknowledgement of the needs to save for retirement is another factor to support the growing demand for life insurance in rapidly maturing economies. Along with this we can enumerate and evolution of disposable income, life expectancy, number of dependents, level of social security spending, inflation and the real interest rate.

In **Romania**, the insurance market it is still in an early stage of development, mostly seen in the developing countries that in a country that is an EU member[3]. In contradiction to some optimistic prognosis, a turnover of

3 *A report on the insurance market and the activity of CSA 2010,* www.csa-isc.ro, publication issued by CSA, June 2011

10 billion euro in 2010 and approximately 20 billion euro in 2020, its standard it's still low, of only 2,4 billion euro in 2008. The contribution of the insurance industry to the GDP is under the European average.

Because life insurance contracts are long-term, the negative effects of the inflation on the insured value have been increasingly felt. While the life insurance products are designed to offer protection against premature death, inflation and the rising cost of life can undermine this protection.

In a time when the world's economy was rising, the insurers focused more on promoting their products in order to generate revenue and less on risk control. This subsequently led to great loss (2008, 2009) and to a drop of this market, many insurance companies merging or temporarily suspending their activity.

A decrease in the population's revenues, because of unemployment, reduced the ability of consumers to finance the insurance costs. Also, investment market decline and the reduction of the pace of economic growth, limited the capacity of insurers to generate income. A decrease in the population's revenues because of unemployment, reduced the ability of consumers to finance the insurance costs. Also, investment market decline, the reduction of the pace of economic growth, limited the capacity of insurers to generate income.

However, the insurance had a stabilizing effect due to long term investments and prudent, even conservative investment policy, largely dictated by the requirements of solvency. The profitability of insurance decreased due to the crisis, mainly in life insurance, by a reduction of investment performance because of a drop in stock indexes and financial market volatility. Solvency margin for the insurance field remained, generally, very good.

In the euro area countries, Japan and the U.S., the levels of interest of the government bonds issued for a period of 10 years reached record low levels. The infusion of cash made by governments of various countries in the financial system to save the banking system, had an adverse effect on insurance market, due to reduced interest rates, especially on those life insurance products whose liabilities are affected by the interest rate.

However, there were also positive effects of the crisis on the insurers'activity that came from need to survive and to continue their business. Thus, product offer continued to grow and products to exploit the opportunities for expansion have been launched, compensating for the reduced demand of traditional insurance with a rapid development of products that were more flexible and less costly for the clients.

Diversification of the distribution channels with more emphasis on online sales, communication and better service and quality for customers, lower costs and greater flexibility are, therefore, effects of the crisis and led to more flexibility in the behavior of insurers.

The Romanian insurance market has also seen some effects of the crisis, not very different from those in other countries, but weighted by market size: reduced sales, termination of a much larger number of life insurance policies, insurers shift to alternative solutions for new products, new facilities for existing insurances, new distribution channels and another way of communicating with the clients.

Insurance will bear long-term effects of the crisis, by affecting consumer behavior, a temporary reduction in sales of unit-linked insurance and annuities in favor of increasing sales of guaranteed products with emphasis on safety.

In 2010 the life insurance sector began to recover and in 2011, only in the first three quarters, an increase of 8.43% over the same period of the past year was recorded, a significant share being held by the traditional insurance products (7.6%) against (0.83%) those with an investment component. This increase in the percentage of life insurance agreements is due, on the one hand, to a better information of the population about the benefits of such products. The value of the gross premiums in late 2011 was about 1.29 billion lei, which represents an increase of 5.38% compared with the end of 2010. However, even in 2011 the expectations did not exceed the stage of hope, the market suffering declines for the third year in a row, according to CSA (Insurance Supervisory Commission)[4].

Estimates on the evolution of financial markets have become increasingly difficult. Besides the significant influence that the evolution of the other economic sectors exert on the financial industry, we must also take into consideration the living standards of the consumers of financial products, their expectations about the trends of their income in the future and the scarce trust they have in these markets. Insurance industry has experienced a bit later the financial crisis. Therefore, the return to a sustainable growth trend of the market will take place with some delay to the overall economic recovery.

It is premature at this point to say that 2012 will be the year of market re-entry on the upward trend. Rather, this year should be one in which the insurance market as a whole - supervisor, insurers and intermediaries - should

4 in Buletin CSA, no. 5, March 2011, pe site-ul www. csa-isc.ro

create and implement strategies tailored to the structural economic changes, as they derived from the financial crisis. 2012 is the fourth year when the insurance sector faces new and old challenges, a year when it will have to overcome other obstacles caused by the domestic and international economic and financial context. These being the circumstances, 2012 started under the spectrum of increase pressure on the market, the intensification of the investors' policies in reducing expenses to increase efficiency and / or profit. Concepts such as underwriting, prudence, pricing policies, objectives such as portfolio cleaning also repeat in the insurers' words this year.

Conclusions

The Romanian market is still very strongly under-insured, with a small amount of premiums and very low advance compared to both the mature European markets and the countries of Central and Eastern Europe. Low insurance advance level below 2%, compared to an average of 8% in Europe and about 3% in countries in the region can lead us to the conclusion that there is still a potential uncovered.

The same feature occurs in the case of insurance density, which is not yet 100 Euro / capita, compared to an average of 2000 Euro at European level. These data should be viewed in the context of Romania's population average income, because the level and structure of income and expenditure in the EU and Romania are very different. The major differences between our country and the EU also appear in the share of both classes of insurance in total collected premiums. If in the EU life insurance holds about 60% of total premiums, in Romania they do not exceed 20% of total written gross premiums. The reasons are largely related to insufficient or no tax incentives, lack of financial resources, understanding the need for insurance or the tradition of life insurance. To this, add the specific reasons related to the impact of the economic crisis, the high debt rate accumulated by the population years before the crisis, reduced credit, lower income levels and uncertainty about financial security, losses from insurance products that have an investment component and even lower confidence in this field.

Above all of this, there are also the differences regarding the capital's structure of the companies on the market - in Romania companies with foreign shareholders prevail, the high degree of market concentration, the large number of companies compared to market size, a lower and less diversified insurance products range, quality of customer service, business practices on the market.

We still have many differences that can be mitigated by stimulating the growth of the insurances and their role in the economic progress, increasing professionalism, ethics and discipline of all those working in this industry and by increasing customers' requirements and their level of understanding insurance.

When referring to what should happen in the market during this period, measures should be taken to promote security and development of the insurance sector, support business growth, increase market confidence in the insurance system, promoting greater transparency, introducing or increasing the deductibility for certain insurance categories that help clients (life insurance, health insurance, private pension, housing insurance - with limits higher than the existing ones), more emphasis on financial education and, more importantly, increase professionalism, discipline and ethics on the insurance market.

The greatest strength of this industry is financial stability, ensured by the presence of strong shareholders with international reputation, which is reinforced by regulations in conformity with European legislation. Insurance industry had a loss of image in recent years because of the quality of services offered to consumers. This is one of the main weaknesses caused by some practices in handling and payment of claims, which have seriously affected consumer confidence in insurance.

The biggest opportunity of the local insurance industry is the significant growth potential it has, if we think about the low level of protection in Romania. Therefore, the professionalism of the insurance industry should be intensified, given the asymmetry between the consumers' knowledge, the products and services becoming more complex and the information received by the clients.

The experience of financial crisis showed the disastrous effects that can arise from a poor risk management both on the financial sector and on the real economy in general.

Volatile macroeconomic and socio-political environment determined a rapid change in the needs and expectations of consumers of financial products and in the characteristics of the risks taken by the insurance industry. These significant changes, combined with the slow economic recovery prospects, should motivate insurers to rethink their internal processes and operational strategies and development, adapting them to current market conditions.

Nowadays, insurance companies face challenges arising from an increased frequency of assumed risks, aspect that will require an analytical discipline of existing portfolios and a very high level of risk management practice.

Another challenge which the insurance market in Romania will have to cope with is finding a balance between the real costs of the assumed risks and the prices to which they are sold to consumers, because they have an important influence on service quality and not only.

Insurance market imperfections also occur as a result of selling prices of the products that not always reflect the true economic costs of insurers. These include, besides the cost of risk, all the other expenses of the insurers for their products. A price that is set without a strategic vision, but only based on the moment's interest to increase market share, not reflecting the real total costs of a product, will adversely affect both profitability and especially their ability to meet the obligations to policyholders.

In preparation for the transition to the new solvency regime (Slovency II), insurers will be forced to rethink their business models and product mix, depending on the expected capital requirements, determined using either a standard formula or by using internal models, complete or partial. Therefore, the new supervisory philosophy of CSA focuses on anticipating trends and future prospects and on stimulating the development of an adequate risk management.

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