

# Romanian Insurance Market in Transition

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## Macroeconomic Highlights

- European Commission's report published on October, 6 2004 at Brussels concluded: **Romania-functional market economy;**
- In December 2004 Romania **closed all chapters of negotiations** with EU and in April 2005 the **adhesion treaty** for January 1, 2007 will be signed.

**Romania as well as the Central and South Eastern European** countries are passing through a continuous development process, accompanied by profound reorganization and legal harmonization with EU directives.

## Main characteristics:

- **General growth rhythm of the CEE markets is considerable higher as compared to that of EU markets:** IMF estimates for the CEE markets an average growth of the GDP of 3.5-5% even up to 6.5% in 2004, while for EU markets it will not exceed 2.5%; according to IMF statistics the average growth of GDP registered by Hungary, Lithuania, Estonia and Slovenia between 1998-2002 exceeded the average on the candidates countries, as well as the

individual results of over 85% of EU countries;

- Relaxed taxation for companies and employees effective 2005, a unique taxation quota of 16% is going to be applied on individual income as compared to previous progressive taxation system, **tax on profit will be reduced from 25% to 16% and tax on dividends for individual residents will double to 10% the same as for legal residents;**

- **Merger and acquisitions market in Romania** rose to EUR 615mn in the last 11 months of 2004 up by 28.7% Y/Y. The trend is expected to continue in the next years on the background of economic growth and the forthcoming accession to EU;

- The European Union is to provide Romania with pre-accession funds of EUR 407mn under the financing Memorandum for 2004 PHARE Programme (EUR 405mn) and the Programme regarding Community Support for Nuclear Safety (EUR 2mn);

- According to NBR, during January-October 2004 period **FDI amounted to EUR 1.884bn.** an increase of 45.3% against the same period last year.

## Insurance Market Highlights

- **High increase potential:** the insurance markets of CEE are very young and are in the middle of accelerated developing process;
- Along with the economic development it is expected that the **prosperity and saving power of inhabitants of CEE countries to increase**, thus important amounts of money to be saved for insurance products. Also the diversity and the intense production and commercial activity will lead to larger insurance needs at corporation level;
- The average growth rate on the insurance market registered by the candidate countries in 2001 was 13.4% while the EU countries only 1% (Gerald Muller, *Identifying Trends on the CEE Insurance Market*, Prague 2003);
- The average penetration degree for the CEE countries is 3.1% while for EU it is 8%; this emphasizes once again the significant growth potential of CEE countries;
- It is expected that by adapting the legal provisions according to EU's, by the free access of foreign capital, by the reform of pension and health insurance system and by measures of fiscal encouragement there will be a faster increase of this market, leading to new business opportunities;
- Insurance penetration degree (ratio between gross earned premiums and GDP) is 1.09%, the first year it is above 1. Although an increase was registered lately the level is still low

compared to the values registered in Central East European countries (3-5%) or with the average level of 8% of the European Union;

- Present regulations for minimum required capital and shareholding capital are for life insurance 21 billion ROL and non life insurance 15/30 billion ROL (without/with compulsory insurance) gradually increasing for 2005- 2006 as it follows: for life insurance 150 billion ROL and non life insurance 100/150 billion ROL;

## SWOT analysis of the Romanian insurance Market

### Strengths

- There is a rather **large numbers of foreign insurance companies** 50.2% of the subscribed social capital being held by foreign investors;
- More than half of the insurance companies benefit from foreign shareholders;
- Policy of mergers and acquisitions considering the fact that **until 2007** when Romania will join EU the **number of insurance companies active on the market is expected to be not more de 25**, maybe less;
- The insurers have the role to educate the consumer according to the international tendencies. The insurance companies started earning people's trust and this is a sign that the

population is more educated. People can buy more insurance products from the same company as such their satisfaction will increase.

- Generally, the costs for compulsory or necessary insurance (compulsory motor TPL, property damage or household insurance) are generally small;

- Further to **adhering to European Union**, population has now **access to information** provided by this region and to international insurance market practice. Thus **the client knows what the quality of services should be**. The average age for those buying such products is generally low and the level of education is high;

- **The agents are legal or natural persons writing insurance policies on behalf of different insurance companies** for a mutually agreed commission. The agents have a direct connection with clients and can influence their buying decision. Most of insurance products are sold by their intermediation. Therefore insurance companies can not give up on them as they represent the main distribution channel. **Very strict rules are imposed to legal entities** in terms of having the necessary competence to act or not on insurance market;

- **Insurance brokers** are an important element in the insurance sector because they are negotiating for their clients (legal and natural entities) the contracts and are offering them assistance during the period. Some

commissions had been regulated by law (compulsory motor TPL).

### *Weaknesses*

- Most of the insurance companies are offering both **general insurance** products but also **life insurance** ones. **The adhering process to Union will lead to a separation of these two activities, as such implying additional costs for insurance companies;**

- The number of people working in insurance field is rather low;

- In terms of product portfolio the most **well known and sold products are motor and household insurance, the other types being less familiar;**

- **Population is not enough educated in this respect** and a rapid action of consumer for buying such products is preceded by promotion activities and is registered for compulsory products. This behaviour is specific in countries having a not very strong economy, and with very limited salaries. On the background of Romanian economy, **the buyer is usually deciding on an insurance company according to the offered tariff regardless the weak protection in case of a loss.**

- Both agents and brokers are asking for significant commissions (if the law is not regulating this otherwise). Agents should be well grounded in insurance and have important knowledge in the field. Many times these agents do not have

this specific education but they are very good tradesmen;

- At 31.12.2002 the Insurance Supervisory Commission registered **145** authorized brokers and 5 recently authorized - **a number relatively small compared to potential clients on the market;**

- Out of 111 brokers that reported to Insurance Supervisory Commission only 54 had the minimum legal capital (ROL 150 millions), 49 had a social subscribed capital between ROL 150-500 millions and 8 had a capital of more than ROL 500 millions.

## *Opportunities*

- **For the following 20 years many highways are to be built.** It is also to notice that outskirts of the cities are enlarged, new areas are developed in the rural zones placed near important cities and along main roads;

- **Adapting our insurance regulations to the European Union's,** process managed by the Insurance Supervisory Commission, the changes the Romanian market is facing (take-overs, mergers and acquisitions) represent also opportunities for insurance field.

## *Threats*

- **The permanent emigration of "grey matter",** the constant decline of living standard, the lack of cohesion of economic and social development measures on the background of a lack

of trust of population in economic straightening;

- The existence of areas inclined to natural disasters (land sliding, floods, Earthquakes);

- **The infrastructure both in rural and urban areas is not enough developed** from a quantitative and qualitative point of view;

- **The dumping policies** practiced by some competitors in the insurance market;

- **Penetration on Romanian market of big insurance companies with important support from foreign "parent" company;**

- **New fiscal regulations that might discourage** the activity of insurance agents and insurance.

## **The top ten companies**

**A brief presentation on the main insurance companies on the Romanian market**

On Romanian insurance market there are playing 46 (out of which 44 active) insurance companies.

**The non-life insurance sector** provides the main part of the Romanian insurance market income representing 80.2% of the entire insurance portfolio. First half of 2004 the non- life insurance market reached at EUR 354million rising with 13.34% comparing to the same period of 2003.

The growing rate for **life insurance sector** of 12.64% comparing to the same period of 2003 was slower than non life insurance sector. The premium income for first half of 2004 was EUR 87 million.

The top ten companies in terms of capitalization are: Asiom, Allianz Ţiriac, ING Nederlanden, Omnisig, Astra, Ardaf, Unita, Aviva, AIG Life and Interamerican.

This is an analysis of the first ten companies classified according to their market share, for general insurance, so combining results of both life and non-life insurance. Separately, each classification on life or non-life looks different. There are companies writing only life products and be placed amongst the first top ten on this line, but having no non-life products would not be found amongst the top ten companies on general classification.

### *Allianz Ţiriac*

The shareholder structure is: 51.6% owned by Allianz AG, 44.5 by Vesano Trading Limited and 4.4% by individual persons.

The company is offering both life and non-life products.

At first semester 2004 it was ranked **1<sup>st</sup>** in the general insurance classification with a market share of 20.33% based on the gross written premiums of EUR 132 mil, significantly increasing from 10.08% in 2000.

It is ranked the **1<sup>st</sup>** amongst non –life insurance companies on the Romanian market with a market share of 23.58%.

Yet in the life insurance companies classification it is ranked the **5<sup>th</sup>** with a market share of 4.68%.

Its main distribution channel is represented by brokers

### *Asiom*

The shareholder structure is: 38.14% owned by Interagro Bucureşti SA, 19.74% by Broadhurst Investments, 17.79% by Rafinăria Astra Română, 24.335 by others.

The company is offering both life and non-life products.

At first semester 2004 it was ranked the **2<sup>nd</sup>** in the general insurance classification with a market share of 16.85% based on gross written premiums of EUR 109 mil. For this company the market share significantly decreased compared to 2000 when for general insurance was 25.78%.

Asiom holds this **2<sup>nd</sup>** position both in terms of life and non-life insurance

The company is selling its products mainly directly.

### *ING*

The shareholder structure is: 99.97% owned by ING Continental Europe Holding B.V. and 0.03% by others.

The company is selling only life insurance products.

At first semester 2004 the company was ranked **4<sup>th</sup>** in the general classification with a market share of 8.33% but **1<sup>st</sup>** in the life insurance classification and holding 40.67% of

the life market with gross written premium of EUR 35 mil.

## *Astra*

The shareholder structure is: 75.67% Nova Trade, 5.67% SIF Banat Crisana, 5.67% SIF Moldova, 5.67% SIF Transilvania, 5.67% SIF Muntenia and 1.65% others.

It is ranked the 5<sup>th</sup> in the general insurance classification with a market share of 5.80%. In the non-life classification it is ranked the 4<sup>th</sup> but the 18<sup>th</sup> in the life's. In respect of this company it was registered a decrease in the market share on general business from 7.59% as in 2000.

## *Ardaf*

The shareholder structure is: 66.83% owned by TENDER SA, 9.09% by Clairmont Holding, 5.29% by Business Man's Fund, 5.18% by Eurom Bank, 5.93% by Fibelfin and 7.68% others.

The company is ranked the 6<sup>th</sup> in the general insurance classification with a market share of 5.39%. It is holding position 5<sup>th</sup> in the non-life insurance classification and 15<sup>th</sup> in the life classification.

The main distribution channel is represented by agents.

## *Asiban*

The shareholder structure is: Romanian Commercial Bank with 20%, Romanian Bank for Development – Group Societe Generale with 20%, Transilvania Bank

– with 20%, Romanian Savings Bank with 20%, ISAF with 20%.

After the 1<sup>st</sup> semester of 2004, the company is ranked on the 7<sup>th</sup> position in the general insurance classification with a market share of 5.15%, compared to its market share of 2.79% in 2000. The company is offering both life and non-life insurance products as such being ranked the 4<sup>th</sup> and respectively the 7<sup>th</sup>.

## *Unita*

The shareholder structure is: 58.5% owned by Wiener Staedtsche Allgemeine Versicherung Aktiengesellschaft, 41.5% by Wiener Staedtsche Wechselseitige Versicherungsanstalt Vermogensverwaltung- Wien, Austria.

At the end on 1st semester of 2004 Unita held the 8<sup>th</sup> position in the general insurance classification with a market share of 5.07%. To this position in the general classification led the 6<sup>th</sup> position in the non-life top and the 11<sup>th</sup> in the life's.

## *BCR Insurance*

The shareholder structure: Romanian Commercial Bank with 74.28% and natural persons, employees of Romanian Commercial Bank with 25.72%.

In the general classification it is ranked the 9<sup>th</sup>. Yet in the non-life classification the company registered the highest increase at the end of 1<sup>st</sup> semester of 2004 as it passed from the 10<sup>th</sup> position as in 2003 to the 8<sup>th</sup>.

**Generali**

72.88% of the company is owned by Generali Holding Vienna, 15.57% by Astra Insurance and 11.55% by others.

It is ranked the 10<sup>th</sup> in the general insurance classification but the 9<sup>th</sup> in the non-life classification and 12<sup>th</sup> in the life classification.

As compared to the same period of 2003 the company raised with one position.

These are nine of the top ten companies of the general insurance classification. **Number three** on the market in the top general classification is *Omniasisig* and information on the company will be detailed below. But as previously mentioned there are companies which due to no non-life portfolio are not registered amongst the top ten on general classification but are amongst top ten life insurance companies. Such companies are AIG Life, Omnisig Life, Aviva, Interamerican.

There are rumors on insurance market according to which starting with 2005 it is possible to have **new foreign companies acting as competitors on this market: AXA, QBE, UNIQUA, OTP, BRD- GSG**. This could have as an effect a significant change of the competitor's structure on the Romanian insurance market.

**SWOT Analysis for OMNIASIG**

OMNIASIG is a solid insurance group, consisting of:

- OMNIASIG Insurance-Reinsurance Company (general insurance)
- OMNIASIG Life Insurance (life insurance)
- OMNIASIG-ADDENDA (the first company in Romania specialized in the field of private health insurance)
- AGI ROMANIA Insurance-Reinsurance Company (life and general insurance)
- ASIRAG ROMANIA (life and general insurance)

The shareholding structure of OMNIASIG Insurance-Reinsurance Company is the following: TBIH Financial Services Group NV – in the capacity of majority shareholder, and Romanian Commercial Bank Group, as a significant shareholder

The Dutch holding TBIH Financial Services Group NV – one of the main operators of the financial markets in the Central and East Europe, is the majority shareholder of certain insurance companies and pension funds which currently operating in **Bulgaria, Romania, Croatia, Slovakia, Serbia, Georgia, Ukraine, Russia.**

**TBIH is held 58.19% by Herfstzon Beheer BV, 24.65% by MidOcean Partners and 17.16% by Englefield Capital.**

**Kardan holds approximately 56.7% of TBIH (via Herfstzon).** Kardan is an investment holding company,

traded both on the Euronext and on the Tel Aviv Stock Exchange.

**Deutsche Bank** was a shareholder in TBIH from its establishment in April 1998. In February 2003 DB Capital Partners, Deutsche Bank's private equity group, sold 80% of Deutsche Bank's late stage private equity investments in the United States and in Europe to its managers – MidOcean Partners.

**Englefield Capital** is a private equity fund with assets under management of EUR 700m making European private equity investments in buyout and development capital.

With a registered capital of **ROL 250.030.000.000** OMNIASIG is one of the strongest capitalized companies on the general insurance market.

On the non-life insurance market OMNIASIG has the third position.

From its very emergence on the market, OMNIASIG earned the image of a solid, trustful player, with a strong, stable financial basis, which benefits from the support, know-how and expertise of a renowned shareholding.

In order to contribute to the development of the insurance field according to principles of professionalism, objectivity, co-operation, equidistance and true fellowship, OMNIASIG got involved, as a founding member, in the creation of the Professional Association of the Insurers in Romania

OMNIASIG is perceived by the public, by the media, by the

competitors as being one of the most dynamic, flexible and innovative insurance companies on the market, within the meaning of a quick adjustment to the changes of the environment where it operates its business, and of its ability to offer products correlated to the protection needs expressed by various segments of population.

Integration of the international practice and policies in the field led to the development of a modern organizational culture.

## **Strengths**

- According to the market share OMNIASIG is ranked 3<sup>rd</sup> amongst the insurance companies;
- OMNIASIG has a strong brand, renown on the market and of notoriety among insurance products consumers;
- A good communication channel was developed with targeted market by means of efficient promotion tools and policy;
- The company has a national network having 43 branches and over 100 agencies and sale points;
- Post-selling services are offered to clients via a loss center. For old customers OMNIASIG is offering preferential tariffs, high quality services and products and the promotional policy is adapted to OMNIASIG's profile;



- Company's marketing efforts were not only concentrated on selling products but also involved an intensive communication with external environment, that is an activity of permanently informing the consumer via mass-media on its products and services. Among these informing activities to be mentioned promotional campaigns with attractive prizes, image campaigns, Public Relations campaigns, organizing special events and direct mailing;
- In order to align to international practices a special service was developed. This service is oriented towards "customer care". This activity is focused on personalized sales and clients' service. In order to maintain a permanent connection with them a special line called "customer line" was developed. Post-selling service is part of OMNIASIG's modern marketing policy;
- According to the social capital OMNIASIG is ranked the 4<sup>th</sup> in the insurance companies top;
- The financial stability offered by a strong shareholder, worldwide known;
- A rather large company compared to the other insurance companies (over 1,000 employees and 6,000 agents);
- According to company's profitability it is ranked the 5<sup>th</sup>;
- The solvency margin recommends OMNIASIG as one the financially solvent and stable company;
- OMNIASIG continues its policy of taking over and acquiring companies playing on the insurance market. As shareholder of other companies OMNIASIG has as such another source for profit;
- Reinsurance programmes are guaranteed by top worldwide reinsurers;
- The financial statements are audited by one of the world's famous auditors: Ernst & Young;
- The existence of organizational culture in company's structure;
- Qualification of the management and international experience;
- Well trained employees and special training programmes;
- Important support offered by foreign shareholders;
- Good relations between management and employees;
- Young highly educated (average age 36 years, 75% having economic studies) personnel;
- All OMNIASIG's branches are connected on-line.
- Personnel abilities of creating new products;

- The possibility of quickly answering to different actions on the market, thus crossing competition acts;
- Rich insurance product offers;
- Upgraded informational technology;
- OMNIASIG benefits from the most performing IT technology:
  - integrated IT system, developed on Oracle platform positioning OMNIASIG on the top of Romanian insurance companies in this respect;
  - all OMNIASIG branches are connected by VPN and are working on-line, in a unique database;
  - all users are equipped with last hour, brand name equipment;
  - powerful management IT tools for budgeting, forecasting, analysis;
- International standard level for insurance conditions;
- Capability of creating products able to comply with customers' needs and insurance market prevision;
- OMNIASIG is the first non-life company on the Romanian market with Actuarial & Analysis Department;
- OMNIASIG benefits from co-operating with experienced personnel, strong network of agents and brokers, worldwide renown brokers, well prepared sale force, partnerships with

important financial-banking groups operating on Romanian market (Finansbank, Volksbank, Eurombank, AlphaBank and many more);

## *Weaknesses*

- A large number of companies are operating on the insurance market;
- Slanderous issues published in mass-media, even if not real are leading to deterioration of company's image;
- Ineffective tools of foreseeing the impact of other companies' promotional campaigns;
- A too less developed public informing on insurance importance and role, on products and facilities offered by OMNIASIG;
- There are many strong capitalized companies, supported by important shareholders worldwide known;
- A poor co-operation between some branches and the head office;
- The personnel can chose another insurance company, also ranked amongst the top companies, when not remunerated according to their effort;
- Poor negotiation abilities of other agents fact that might lead to losing insurance contracts;
- Some insurance companies are using dumping policies although the quality of products is low;

- The increased demand for insurance products on the market is followed by printing more policies and hiring more agents and this is a reason for losing more money;
- Some brokers or agents may “leave” the insurance company with OMNIASIG’s clients portfolio;
- Some of the “agents” do not have the required professionalism level and for this reason they loose many contracts or conclude them in a defective manner this leading to prejudices to the company;
- A distribution network less developed as compared to Astra’s or Asirom’s networks.

### *Opportunities*

- Romanian insurance market is continuously developing. New opportunities are offered by **acquisitions and mergers that lead to horizontal extension of the company**;
- The consumer is more educated and for this reason is more oriented towards high quality insurance products offered by stabile companies at competitive prices;
- Further to development of using the Internet in Romania there is the possibility of selling insurance products on-line, the consumer having thus quick access to information;
- By means of video-conference between the service unit and loss centre the loss files will be solved/

settled without being necessary that the agent be present at event place, thus saving time and money;

- Some events happening on the market can be used as a way of promoting the company (sponsorships offered to football teams or museums). OMNIASIG got involved, as a sponsor, in supporting some actions of a social, or cultural, humanitarian nature in the purpose of promoting the culture, authentic values, talents, of raising the interest towards genuine arts. As such OMNIASIG supported during 2002 the Romanian Theatrical Union, The National Museum of Cotroceni, monasteries, foundations, medical centers, universities, movie productions and televisions programmes;

- The insurance companies may benefit from co-operating with strong banks playing on the financial market – by such a support significantly increasing the amount of gross earned premiums;

- A not too large segment of population but that should not be ignored is formed by people preferring expensive cars and luxurious houses, as it represents an important income source for insurance companies;

- Also development of partnerships with important business groups as **Renault Dacia** is to be mentioned here.

### *Threats*

- The presence on the Romanian market of **important worldwide**

players further to adhering process to European market;

- **Aligning to European Union standards will impose an increase of tariffs** for some insurance products (an example is the unification of Compulsory Motor TPL with Green Card) and this measure will probably not be welcomed by population;
- Also competition is trying to keep up with these changes on the market and there is the risk that other insurance companies respond quicker to new demands compared to OMNIASIG. As a possible result OMNIASIG will lose clients or some products due to their inappropriate tariffs;
- Dumping policy practiced by some competitors on the insurance market (tariffs under the average and high commission level).

## Morals and Ethics in business. Meanings of morals and ethics

### *Morals*

*Romanian Explanatory Dictionary* defines morals as “assembly of norms such as living together, behaving with each other and in collectivity, and whose non complying with is punished not by law but by public opinion”.

Thomas Maltus showed in *Principles of Political Economy* (1820) that political economy has more to do with morals and politics than with mathematical sciences.

Some of basic principles for moral behaviour are: dignity, responsibility, freedom, solidarity, fairness and charity.

### *Ethics*

According to the *Romanian Explanatory Dictionary* the ethics is defined as “the science focused on studying morale principle, their historical development laws, their content and role in social life; totality of norms of moral conduct appropriate to a certain class or society.

A healthy ethics is the essence of civilized society; it is the foundation for every relationship; it is reflected by our relationship with employer, employees, clients, subordinates, suppliers, the community we live in and by the relationships with each other. Ethics does not reflect the relationships we have with other people but the quality of such relations.

### *Example and effects of applying moral and ethical principles*

Since 1977, General Motors benefits from a personnel integrity policy according to which one employee “*should not make anything to be ashamed of in front of his family or to be afraid it might become magazines first page issue*”. General Motors is not the only company promoting ethic behaviour. Almost 1/2 of USA important companies have a “*common behaviour code*”. Such codes are a support for employees that feel some pressure from decisions they consider unethical. This code is also some sort

of training for behaviour the employees should have.

“Johnson & Johnson” company has the following ethical creed: *“Our main responsibility is oriented towards doctors, nurses and patients, mothers and fathers and everybody using our products and services. We are responsible for employees, for men and women all over the world working with us. Each should be individually considered. We have to respect their dignity and recognize their skills. We have to offer them a proper and judicious management, that must be just and moral. We are responsible for the community we live in as well for the global one. We have to be kind citizens. When we behave as such then our shareholders would have equitable profit.”*

According to Eastman chemical company’s creed: *“We are honest with ourselves and the others. Our integrity is reflected by our relationships with employees, clients, suppliers and neighbors. Our purpose is to develop relations based on truth.”*

An example of applying healthy moral principles is Services Master Corporation from USA which during 25 years registered a continuous increase in profit and at present has about 200,000 employees and a USD 4 billions turnover. On the frontispiece of company is written the main principle of company’s ethical code: “We praise to God in everything we do”.

In 1999 a percentage of 60% of the first 500 companies from USA and Great Britain had an ethical code as compared to only 15% in 1989.

## Conclusions

### *An ethical professional code model:*

#### 1. All members of a company will act with:

- responsibility and fidelity towards public needs;
- fairness and fidelity towards associates, clients, suppliers and employer;
- proficiency, committing themselves to high ideals of personal honour and professional integrity.

#### 2. A member of the company:

- would maintain independence of own thoughts and actions;
- would not express opinions on company’s contracts and financial statements, until having a relationship with clients to determine if such opinion should be considered independent, objective and non-aleatory by somebody knowing all data;
- when preparing financial reports that express an opinion on company’s financial situation would present all known material facts so that not to mislead; would gain sufficient information for guaranteeing expressing such opinions and report any statement’s material errors or deviations from professional principles generally accepted.

**3. A member of the company:**

- would not disclose any confidential information related to employer's business or client, unless when acting according to one's duties or when such an information needs to be disclosed for own defense or for defending an employee or associate in any legal action or against any assumed professional unfairness, at disposal of legal authorities or management or any committee but only when necessary in such purpose;
- would inform the employer or client on any connection or business interest that might be an advantage for them;
- while acting for the interest of the employer or client would not receive, keep or negotiate any tax, remuneration or benefits without having employer's or client's consent;
- would follow all steps in arranging any commitment as consultant, for making clear its work's purpose and objectives before starting it and would offer an estimative profitable cost to the client before commitment and the soonest possible.

**4. A member of the company:**

- would politely and in good faith behave with subordinates;
- would commit no act that might bring into ill-repute one's company or profession;
- would not get involved or commit oneself in any business which

is not in line with one's professional job or company's morals;

- would not agree on committing to check another subordinate of the same employer unless having this subordinate consent or when the connection of the subordinate with this work ended;
- would not try to gain any advantage/ benefit against other subordinates by accepting a commission when concluding a contract or offering a service;
- would encourage the general principles of his profession;
- would never maliciously act so that to spoil other members' public professional reputation or impede them achieving their goals.

**5. A member of a company:**

- should maintain at the level of competence expressed by academic requests and experience for entering the company and continuing the activity of it's member;
- would share the knowledge with the other members of the company and would generally promote company's and profession's progress;
- would get involved in works for which is skilled and prepared according to education and experience and which are for employer's or client's interest and advise the client or employer to hire other specialists;
- would disclose in front of company's court any unethical, illegal

or unfair act of a subordinate that might prove injurious to company's honour, dignity or reputation;

- would make sure that any partnership where to get involved as partner, chief, manager, inspector or employee is based on professional ethics code and professional behaviour rules established by the company.

### ***Importance of ethics and morals for managers***

David Murray in the work *The core 7 values, small and medium size companies and their beneficiaries* presents 7 values that managers and employees should consider for a more ethical activity. These values are "**respect** – towards neighbours, **supervision** – in keeping ethical standards, **creativity** – for saving resources and protecting the environment, **offering services** - to the clients as good as possible, **fairness** – towards suppliers, beneficiaries, employees, associates, community, **transparency**- avoiding/eliminating lies from communication with partners, clients, suppliers, employees, authorities and **interdependence** - with the community we live and work in. There are also 12 moral challenges in the business life, he is mentioning in the same work: "appreciating work dignity, good business relationships, offering the best services to clients, morality in acquiring, morality in competition, treating personnel with dignity and respect, proper remuneration of personnel, obeying/respecting laws, protecting the personnel, concluding business without bribe, maintaining honesty in business, surviving in case of major changes".

Although an employee might be honest, and fair and with good

morality the example of his managers might lead him in ignoring unethical practices and even adopt them.

Top managers have the power of setting and dictating organization's policy, of underlining the moral shape. They have the big responsibility of properly using this power, they can and must become behaviour models for the whole organization. Their daily behaviour should be based on high ethical principles, they need to communicate within organization similar expectancies from employees, to encourage positive results.

Unfortunately there are cases when top management suggests they are not interested in finding out illegal and unethical practices of employees; on the other hand members of management are known to use company's resources for personal purposes and accordingly personnel of lower level is considered to behave as such.

Every manager can influence subordinates and they should behave as positive ethical models.

In this respect it is very important to set objectives, to clearly describe expectancies.

The results of a research carried on 238 general managers were surprising as 64% admitted they feel themselves obliged to destroy their personal standards for achieving company's goals.

A research carried by "Fortune" magazine of USA showed that 34% of

questioned persons consider that the president of a company can create an ethical climate by setting reasonable objectives “*so that subordinates not to feel forced to take unethical decisions*”. It is obvious a manager can encourage unintentionally unethical decisions, by manifesting too much pressure in reaching difficult goals.

### ***Source for a healthy morality and ethics***

On the paper of US dollars it is written “*We trust in God*”. Present economic position of these states is not result of this sentences imprinted on money. It is actually result of principles deeply rooted in the Bible, the book of Christian religion. There are documents proving that the Constitution of United States is inspired by Holy Scriptures. Persons that elaborated the text of this document, the basics of American social system confirm this fact.

### ***Corruption***

After so many years from radical change of the social system in Romania skimming through main magazines one may find daily **two issues: commercials for erotic phone calls and issues on corruption** at each and every level and field of Romanian society.

### ***Social, political and economic-financial corruption***

Bertram Spector (Management Systems International) offered some results of a research carried out by United States Information Service

Romania on the perception about corruption level in different institutions. According to these results individuals consider that the **highest level of corruption one may find in Parliament and Executive Committee** followed close enough by business environment, privatizing agency, local administration, police, hospitals etc. More than **60% of questioned subjects agree that clerks accept bribe.**

Even parliament representatives agree that the difficult social, economic, financial state is generated by the **very strong relationship between politics and corruption.**

A research carried by World Bank shows that **51% of Romanian companies offer bribe** in order to facilitate and develop their business and this percentage is high compared to other central and east European countries’, where it is below 20%. This means actually that 4% of annual income of companies represents the money used for bribe.

**Romanian society is mainly led by personal interests** – or by the interests of a small group- and by principles that might be useful to national interests. Poverty, economic underdevelopment, violence can only be diminished by raising the level of culture, education and moral commitment. According to Spuru Haret in its work *Social Mechanics* the social state of a society is determined by its economic, intellectual and moral state. **Romania is placed on 74<sup>th</sup> position among 174 countries included in the United Nations**



**Programme for Development in terms of Human Development Indicator.** This indicator is taking into account a complex of indicators as **life expectancy, education level and GDP.**

One may notice that judgments made by Spiru Haret long time ago in terms of politics are still of valid for present circumstances: *“what it is called by politics it is many times nothing more but a texture of expedients, mean subtle arguments, small intrigues and villainies – which actually are not that small all time – instead of being a very difficult science, built on strong and sure basis”.*

#### *Effects of corruption*

In a research carried by World Bank on managers, the subjects stated that main obstacle in developing a business is corruption. One article published by National Messenger Magazine showed that “Romania is not part of investors’ interest area” due to unstable legal and financial climate and also due to presence of birocraism and corruption at high scale.

#### *Basis of corruption*

The main reason of corruption is the lack of well determined value system and indoctrination of Romanian society for about 50 years with materialist atheism. Along with destruction of social communist system, on the background of no moral or ethical borders people holding political, economic, legal and social key factors were actually

encouraged to use them for their own interest. This is also possible as ethics can not be imposed by law because a person that is not accepting morals and ethics nor will accept the laws imposing this and would anyway elude it.

University Professor Dimitrie Gusti in his work *Ethical ideal and personality* states that *“Many of us do not have the necessary moral virtue of honestly and with dignity waiting what they deserve, according to their level of work and education. Legal or social provisions that should be guiding the way of things seem to be obstacles or useless forms”.*

#### *Solutions for destroying corruption*

Within society life there is a very strong interdependence between subsystems forming it: social, economic, political and moral. As such, within this transition period the Romanian economy crisis is related to a strong moral one.

Therefore the solution for ending up this economic and political crisis is to turn back to healthy moral values and promoting them in every social environment and by any means. In Romania the first reform that should have been accomplished was neither the political nor the economic one but the moral reform by promoting a system of healthy values with a high moral and ethical standard.

In United States the importance of ethics for managers was first shown when *“Management Accounting”* a journal published by the Institute of Management Accountants had a

special issue on ethics in June 1990. Two major concepts were shaped in the issue:

- business schools (universities) should make students aware of the ethical nature of the decisions they will take in business world;
- business companies should admit that setting standards of ethical behaviour for employees is very important for financial success.

As Roger B. Smiths, ex president and general manager of General Motors put it *"practicing ethics simply means a good business"*.

Benjamin Franklin, physicist and politician, confessed before beginning to issue the document the following: *"I have lived a long life and the more I am aging more proves I find that God is leading humans' business, and as a bird can not fall from the sky without His consent how could an empire be raised without His help. There are proofs in Holy Scriptures according to which if it is not God building a house, people building it would work in vain. I strongly believe this and I think that without His help we will never progress in this political construction just the way Babel tower constructors never did; our projects will be destroyed, we will be a nation to mock at in the future"*.

George Washington, the first president of United States asserted: *"more than anything else had Bible's messages positive influence on humanity, blessing it"*.

John Adams, the second president of United States asserted: *"The first and*

*maybe the only book that should be studied by everybody is the Bible"*.

According to Thomas Jefferson *"studying the bible would turn you into a better citizen"*.

William H. Seward, ministry of USA considered that no republican form can exist as long as people are forgetting and distancing themselves from the Bible. For how long lasted such governments in countries where the policy is based on atheist doctrines can be seen by viewing the history of ex-communist countries.

## Conclusions

Romanian insurance market is now characterized by an exceptional dynamics having an annual growth of approx. 20%. In terms of growth Romania is placing itself in the top of Central and East European countries where the average growth is 13% while in the Western part of Europe it is of only 1%.

This is an exceptional increase in the context of Romania being ranked the last in terms of market penetration that is only 1.4% in GDP for 2004.

The insurance income on Romanian market is dominated by the income for motor insurance lines as a result of increasing needs for changing and improving the park of old cars. Another line of business that is worth being mentioned due to its increase is the insurance for protecting consumer credits.

Besides this increase of insurance income there are some disturbing factors creating significant problems to the insurance companies:

- the legislation in insurance field is incomplete and unrealistic;
- the regulatory body named Insurance Supervisory Commission is not yet able to apply own regulations due to political reasons (even the commission itself was named by political reasons);
- a weak professional association of Romanian Insurance Reinsurance companies, disturbed by internal matters but also by the fact that not all authorized companies are part of it but just half of them;
- the lack of legal measures which to be applied by the Insurance Supervisory Commission led to a competition where even the most elementary principles are missing, to offering prices that are not based on actuarial calculations (and in insurance field this is totally wrong) and which in most of the cases can not be supported by reinsurance programmes. As such it is noticed the chase after cash against the insurance institution. The shareholders of the companies reaching a critical financial situation are fighting to discover those financial solutions that might allow them one more year of surviving, under the indulgent sight of Insurance Supervisory Commission.

Year 2005 will definitely lead to a revolution on the Romanian insurance

market and the following measures should imperiously be considered:

- changes in terms of legislation on insurance market, that should be adapted to business environment;
- limiting the power of the Insurance Supervisory Commission; this body should be submitted to the control of the Parliament so that it could become a proper regulatory body, responsible of its entire activity and decisions;
- electing young members within the management of the Professional Association called the National Union of Insurance and Reinsurance Companies in Romania; attracting within this body all authorized insurance companies of the Romanian market; this association will do its utmost so that any norm for insurance field should not be issued without its advice encouraging Romanian insurance market to become less hostile;
- establishing a control body by mixing up employees of the Insurance Supervisory Commission and of the National Union of Insurance and Reinsurance companies; this mix body will undertake the control activity of insurance companies, will take decision that will lead to remedying any shortcoming offering in the same time transparency of these controlling actions;

We really hope and put our trust that the programmes of the newly established government will lead to

destroying corruption in each and every field and that these programmes will have effect also on insurance market mainly considering Romania's desire for European integration in 2007 and taking into account that on long term the contribution of insurance in GDP will reach 8%.