CONSIDERATIONS ON EMERGENCE AND DEVELOPMENT OF LIFE INSURANCE ON INTERNATIONAL LEVEL

CONSIDERAŢII PRIVIND APARIŢIA ŞI DEZVOLTATEA ASIGURĂRILOR DE VIAŢĂ PE PLAN INTERNAŢIONAL

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Abstract*: Insurance has always played an essential part in the development of international trade and financial services and has always held an important place in the development of world economy. It is a key component of world economy based on the value of premiums collected, extent of its investments, and more importantly, on the social and economic role played, covering various personal and business risks. Insurance is always present on the scene of any national economy, taking over the risks jeopardizing physical and legal persons, offering them, in exchange for premiums, a certain certainty.*

Key words**:** *insurance, risk, financial compensation, protection.*

INTRODUCTION

People have always tried to protect themselves against unwanted events, but no matter what they did, such phenomena could not be avoided. The only form of protection is insurance. In this activity, with reference to life insurance, with financial compensation character, the risk in question belongs to a certain person, and the loss for the family cannot be assessed, from a sentimental point of view, however, the financial loss can be reduced or even removed altogether, by going for a life insurance product.

In an endeavour to define life insurance one can say that it represents a "modality of protection against risks affecting life or health of people, by taking these risks, against payment, upon a specialized legal person called insurer" (Ş eulean, 2007); from the cost paid by each of the insured members, or on their behalf, called insurance premium, the insurance funds are created, required to pay for damages, or prejudices suffered by the policy holders. Unlike other businesses, where the "object of exchange is

visible and tangible, the insurance is a business based on trust and expectation."(Person, 2010)

Insurance is characterized by reversing the classical business cycle: insurance companies collect premiums, representing payment for services rendered, before paying the compensations for damages, namely, before rendering the service for which they are paid for.

Anyone has unlimited insurable interest regarding his or her own person, but the way in which he or she determines the insured sum depends on his/her financial power and the protection level he/she needs and can support. In countries with tradition in insurance, policies are drawn up based on individual voluntary basis, from personal interest or to protect one's families. Life insurance is a unique product, "unlike other product types, life insurance is not for you, but for your survivors" (Astor, 1999).

What is characteristic for the international insurance market is: existence of a significant number of insurance companies operating in various organizational-legal forms, concentration of enormous capital and assets, an extremely wide range of insurance operations and products offered, existence of a well-developed legislation for the field of insurance and of a viable state surveillance system, existence of various associations and unions of insurers and policy holders, a well-developed system for intermediaries, consulting and rating companies.

MATERIALS AND METHODS

One of the most significant features currently characterizing the development of the international insurance system is globalization of the international insurance market, which is in a process of gradual liquidation of economic and legal barriers separating insurance markets of some countries. One of the eloquent examples confirming this tendency is the creation of a unique insurance space in the European Union countries.

The present paper provides information about the origin of life insurance and also about development of life insurance, which have a great influence on the economic development of each country and such a influence on future evolution of the insurance system. To achieve the objectives of this paper, the working method used taken into consideration study data collection, processing and their interpretation. We used data and information from various books, publications and statistics by analysis,

comparison and interpretation.

RESULTS AND DISCUTIONS

ORIGIN OF LIFE INSURANCE

The beginnings of life insurance "are found in the old Greek associative practices: «thiasoi» and «eranoi», as well as in Roman «collegia» dating from the year 600 B.C"(Dragoș , 2007). These associations were in fact, both for the Greeks and for the Romans, religious groups, with a more utilitarian vocation later. Collegia – were funerary clubs where each member would pay honorariums and organize monthly dinners to collect club fees. The funds thus collected were used to cover the costs for the memorial services for the club members deceased during the month.

The Roman laws drawn up under emperor Justinian (482-565), included tables of life expectations allowing calculation of rents, but their imprecision made them impracticable. Ulpian drew up more exact life expectation tables, which were still used in Toscany in the 17th century. „Ulpian's table was not built up to satisfy military or administrative objectives, but to assess the heritages available in the form of annuities, according to the "Falcidian" law" (Dragoș , 2007). In the first half of the 15th century, life insurance contracts were concluded on the wife's, parents' or even third parties' lives, assuring the beneficiary compensations for possible losses entailed by those deaths.

It was difficult to make distinction between these prime forms of insurance and bets made on death or survival of famous people – such as the pope, kings or emperors – which were quite usual at that time. Insurance is based on the principle of mutuality, each contributes to building up a mutual fund, but only those who are affected by the happening of the risks insured benefit from it.

By the end of the 17th century, life insurance was forbidden in some areas by the public bodies of the time, due to its speculative character on human life and because a price was put on those lives. The English Government forbade life insurance companies in 1720 for one year.

In 1774 Gambling Act was created – a document regulating functioning of gambling, based on which insurance could also function. In 1762, Equitable Life Assurance Society was founded in London, the first society that used actuarial calculus in the calculation of premiums. Until

then life insurance companies used a uniform tariff, irrespective of the policy holder's age. Therefore, most of the subscribers were older people. Equitable was the first company that applied a variable tariff, function of age, so that life insurance lost its gambling, speculative character, finally acquiring a scientific character, which step by step conferred its legitimacy.

Another example in which life insurance was forbidden is France, where by a decree in 1793, all life insurance companies are prohibited, only in 1820 they were able to operate again.

Life insurance began in China, three or four decades after naval insurance. The first company with British capital was set up in 1846, Standard Life Assurance Co., in southern China, and its customers were almost all from western world. In 1853, another company was established, Moncreiff Standard Life in Shanghai, which in the year 1889 created the first table of mortality for China, in the year 1924. In 1924 the two companies merged (Bangyan et Nyaw, 2010). Later on, according to the statistical data of Hong Kong Government, a total of 207 insurance companies existed in March 1969, but this number also includes insurance agencies; an other estimation showed that, aside of agencies, there were 167 insurance companies at the end of the year 1969: 146 were in naval and fire insurance, the rest were in life insurance. In the year 1971 Royal Insurance Co Ltd. was created, which was in the top five companies in China until the beginning of 1990's.

DEVELOPMENT OF LIFE INSURANCE

Development of life insurance is considered to be tightly connected to dispersion of revenues that increased once the middle class salaries increased in the middle of the 19th centuries. The growth of the working class in the middle of the 19th century was as important as the growth of the middle class. The great expansion of life insurance taking place in the 19th century was accomplished not only by the usual life insurance, but also by industrial life insurance, which was specially created for the working class, with weekly paid premiums, collected by insurance agents whose compensation was made based on commission, paid function of the new policies concluded and function of the value of the premiums collected. In the United States industrial life insurance had the greatest market quota.

International insurance market showed fluctuant evolutions in various periods. Thus, years ago, American market generated more than half of the total insurance

premiums collected in the world, whereas currently, Europe is the leader in this sense. For the economy of each country, the share of life insurance aims to be greater than non-life insurance, since this participate in the loan offer on the financial market by turning to good account the reserves constituted, by investments in bank deposits, treasury bonds, stocks, bonds, granting loans to policy holders for the insured sums, and other forms of outlays. These reserves are invested depending on the possibilities of fructification, on legal provisions regarding liquidity levels to be ensured, and investment shares in various types of assets.

European insurance market experiences rapid changes and consolidation, especially after the plans and strategies developed by the European Union, viewing extension of insurance transactions. However there was not possible to create the required financial mechanisms, due to the organizational and national differences. The best results were obtained on the life insurance market that promoted efficiency by cost reduction. Therefore, regional globalization creates favourable conditions for Europe, reduces America's relative share, and especially strengthens the Japanese pole.

Table No 1 shows the present situation in the world regarding the number of companies operating in this field in countries where this activity was well developed.

Table 1.

Number of companies involved in life insurance

Country		2001	2002	2003	2004	2005	2006	2007	2008	2009
1	Spain	166	165	159	154	144	138	134	140	140
2	England	194	197	174	163	155	140	138	130	128
3	France	138	138	139	134	137	134	127	127	126
4	Germany	117	111	109	104	101	97	98	97	98
5	Italy	100	102	96	92	90	88	85	82	78

Source: CEA Statistics Nr. 45: The European Life Insurance Market: Data 2001-2009

Referring to Romania, once it became EU member, insurance activities can run on the territory of our country, based on the principle of free circulation of services, or based on the right to establish insurance companies within the European Union. Once Romania became an EU member, there were direct effects on insurance activity:

- increase of the number of insurers with foreign capital which activated on the Romanian market;
- liberalization of premium tariffs for motor liability insurance;
- acceptance by Romanian insurers of the necessity to ensure a high degree of solvability, correlation of acquisition costs with damage risk and structure of the portfolio;
- maturing and consolidation of national market;

- modernization and effectiveness of the insurance sales system, diversification of insurance products;

- management modernization and financial consolidation of insurance companies;

- increasing subscription rate much over the development rate of the national economy.

Increase of the number of policy holders on Romania, as well as the share of foreign capital in the total capital is shown in Table No. 2.

Table 2.

Number of insurance companies and contribution of foreign investors

Year	No of insurance companies	Share of contribution of foreign investors in social capital (%)
2006	41	53,33%
2007	42	58,10%
2008	43	87,93%
2009	45	88,65%
2010	43	90,40%

Source: Reports of CSA on insurance activity and evolution of the insurance market 2006, 2007, 2008, 2009,2010.

According to the 2010 Report of the Commission, the 43 companies in insurance /reinsurance in 2010 operated as it follows:

- 20 insurance companies were in general insurance;
- 12 companies were in life insurance;
- 11 companies had in mixed activity (general insurance and life insurance).

The analysis of Table No 2 from the point of view of foreign share in the social capital, it is seen that in the last 5 years, foreign investors made large capital infusions to consolidate the financial capacity of the of the owned insurance companies, so that by the end of the year 2010, the insurance system in Romania is based more than 90% on foreign capital, which means that the insurance market in our country is seen as a good business opportunity. In 2010, Romania's share is only 8,60% in the subscribed social capital, the rest belongs to investors from:

- France, with 31,93% share;
- Austria, with 24,62% share;
- Holland, with 14,22% share;
- Great Britain, with 4,63% share.
- Others, with 16,00% share.

CONCLUSIONS

Development of life insurance is influenced by many factors, such as: consumers' awareness of the need for protection and saving, winning their trust in products offered by insurers, but also offering products adapted to the beneficiaries' needs. An other factor of a great influence in this sector is the psychological one, since the fear and incertitude for the financial safety of the consumers will lead both to the increase of the number of contract annulment and redemption, and to postponing the intention of buying life insurance policies.

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