THE COVID-19 PANDEMIC IMPACT ON LIFE AND HEALTH INSURANCE

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Abstract

Prevention has never been the strong point of Eastern European citizens compared to Western nationalities. But since the COVID19 pandemic, our appetite, Romanians', to generate protection for both ourselves and those close to us has grown exponentially. Another segment in which there were increases was that of legal entities (employers) that began to offer insurance as part of the salary package. Thus, starting with 2020 until now, the majority of insurers owning in their portfolio health insurance products or products with capitalization have reported increases in gross written premiums and obviously in the level of premiums collected. By using the quantitative research method (empirical data, from official open sources on the insurance market), we shall follow the evolution of the insurance companies' portfolio and identify the changing needs of the consumer of such products. The analysis carried out among customers shows people's needs to be protected both from the disease and from financial challenges (cases where the pandemic also hit social, thus generating job losses and ultimately depriving entire families of income). If by 2020 the major players in the insurance market were making enormous efforts to achieve their sales goals at the level of Life's portfolio, in 2021 most of them managed to develop their customer portfolio and offer insurance solutions to everyone, in a sustainable way.

Keywords: *insurance, pandemic, protection, benefits, health.*

1. Introduction

The COVID19 pandemic has significantly affected both people's lives and the global economy. Regarded as safety nets, insurance companies have been put under scrutiny, with concerns about their solvency.

Consequently, the European Insurance and Occupational Pensions Authority (EIOPA), based in Germany, has launched an analysis process, carried out in collaboration with national supervisory authorities, in order to support the effort to cover the risks caused by the pandemic, and to reduce the negative effects of COVID19 on the private insurance sector, especially life and health insurance. On this matter, Gabriel Bernardino[11], President of EIOPA, stated: "The insurance industry has to deal with difficult market conditions and maintain operations, while protecting its employees and policyholders." Moreover, the pandemic affected the normal operation of insurance companies, the one set by the actuarial conditions, forcing them to compensate an exceedingly large amount of damages at a much higher level than expected, thus destabilizing assets reserves and shortening the road recourse to reinsurance companies.

Thus, the risk exposure of insurance companies experienced a forced increase during the pandemic, companies being forced to adapt, by modifying existing products or creating new products, designed to identify, understand and serve the needs of the population at risk due to the pandemic.

The evolution of the insurance market during the pandemic, as shown in the reports of the financial years declared, indicates a rather negative scenario related to the ratio between the assets and liabilities of insurers. The negative developments registered on the market during the pandemic reveal that we can expect a decrease in assets relative to debt, caused by declining liquidity and increasing outstanding debt.

The present paper we analyze the effects of the COVID 19 pandemic on European and Romanian insurance companies. The economic stalemate imposed by the authorities during emergency states, isolation, quarantine and the number of registered medical cases have reached unprecedented levels, destabilizing the entire financial system, especially the insurance system, the mainstay of the economic system.

2. The insurance market in the context of the COVID pandemic 19. Empirical analysis

2.1. General context

A well-developed and stable insurance industry is a pillar of support in a country's economic situation.

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1 https://www.eiopa.europa.eu/media/speeches-presentations/interview/eiopas-response-coronavirus-crisis_en, accessed on 28.03.2022.

The financial performance of insurance companies has a direct impact on the population, covering the full spectrum from policyholders, employees, intermediaries, company shareholders to financial supervisors.

The market shocks experienced at the outbreak of the March 2020 crisis were unprecedented, shifting yield curves to new all-time highs, putting pressure on profitability and solvency positions, especially for life insurance. However, European insurers have managed to cope with this situation.

The European insurance sector has overcome the situation due to the fact that it has entered a crisis in good shape. Although the industry may still face some consequences of the crisis, such as potential financial market corrections or increased credit risk when certain tax safeguards are exhausted, the likelihood of any major failure has decreased significantly. EIOPA is currently conducting an EU-wide stress test, which will provide more information on insurers' vulnerabilities. In addition, EIOPA will continue to monitor market developments in order to address any risks to financial stability that may arise before they materialize, "Petr Jacubik, director of Xprimm[2], said in an interview.

According to the European Central Bank, the insurance sector manages more than 7 trillion euros in assets worth about 1 million individuals, in addition to independent collaborators and intermediaries.

The results for the second quarter of 2020 were severely affected by the effects of the crisis caused by the COVID-19 pandemic, the period in which the most severe contractions were recorded in 1995, since the introduction of the data series, according to Eurostat. The economy of the European Union registered a decrease of -11.1% compared to the previous quarter, the economic contraction in the euro area being slightly wider (-11.5%). The gradual relaxation of quarantine and isolation measures, which took place in the summer of 2020, created the conditions for economic recovery, with the EU and euro area economies registering significant increases of 11.7% and 12.6% respectively in the third quarter of 2020. The IVth semester of 2020 was marked by the outbreak of the second wave of the pandemic, with an increase in the number of infections and the emergence of new strains of coronavirus, which led to the re-imposition of isolation and quarantine measures, with an impact on economic results in the fourth quarter. According to Eurostat data, there was a contraction of -0.4% in the EU and -0.6% in the euro area in the fourth quarter of 2020 compared to the previous quarter. Compared to the same period of the previous year, the EU and the euro area economy decreased by -1.3% in the first quarter of 2021. Stronger contractions compared to European averages were recorded in Portugal (-5.3%), Austria (-4.5%), Spain (-4.2%), Germany (-3.1%), Czech Republic (-2.4%), Greece and the Netherlands (-2.3%), Malta (-2.0%), Bulgaria (-1.8%), Cyprus and Hungary (-1.6%), Poland and Finland (- 1.4%), while at the opposite end are countries such as Ireland (9.9%), Estonia (+ 5.0%), Luxembourg (+ 4.9%), Slovenia (+ 2.3 %), Lithuania (+ 1.4%), France (+ 1.2%), Slovakia (+ 0.3%) and Romania (+ 0.1%). In terms of short- and medium-term developments, according to the European Commission's summer economic forecasts, the impact of the COVID-19 pandemic on economic activity in 2021 was estimated to be less significant than expected in the spring economic forecast. The euro area economy grew by 4.8% in 2021, an upward revision compared to the previous scenario (+ 4.3%), and estimates for the EU economy indicated an increase of 4.8% in 2021 compared to 4, 2% (economic forecasts for spring 2021). The economic forecasts for 2022 indicate the recovery of the EU and euro area economies, being revised upwards to 4.5% for both areas, 0.1 pp more, from 4.4% in the previous scenario. At the local level, the National Commission for Strategy and Forecast positively revised the economic growth forecast for 2021, to 5% (from 4.3% according to the preliminary winter forecast of CNSP), amid the return of activity in industry (+5 , 8%), agriculture (+ 14.8%), constructions (+ 6.1%) and services (+ 3.9%) compared to 2020. For 2022, CNSP estimates a recovery of the Romanian economy, with an advance of 4.8%.

The shock generated by the COVID-19 pandemic has overlapped with a number of vulnerabilities in the global economy related to the slowdown in growth rates of previous years and the very high level of government debt, which reduces room for maneuver in dealing with shocks. The share of government debt in GDP is 98.1% in the euro area for the fourth quarter of 2020, higher when compared to the level recorded in the fourth quarter of 2019 (84.0%). At the level of EU Member States, there is a considerable heterogeneity of the level of indebtedness, with the share of public debt in GDP ranging from 18.2% (Estonia) to 205.6% (Greece). Romania is among the EU member states with a low level of indebtedness (47.3%), below the average indebtedness of EU member states of 90.8% of GDP. In April 2021, Romania's public administration debt stood at 526.70 billion lei, up from the end of 2019 (373.5 billion lei), representing 49.9% of GDP. (ASF, Financial Reports).

Although insurers have reported damage claims at an unprecedented level, there has also been a positive scenario, in which the pandemic has prompted the

[2] Information taken from the interview for EIOPA https://www.eiopa.europa.eu/media/speeches-presentations/interview/european-insurers-during-covid-crisis_en, accessed online on 27.03.2022.

population to become aware of the risk of disease and the need to access medical services, especially in private hospitals, where individual access is increasingly difficult to sustain financially.

According to the reports published by the Financial Supervisory Authority, during the year 2020, the persistence of the low level of annual inflation rates, the tendency to increase the unemployment rate and a change in consumer behavior towards the contraction of aggregate demand, as a result of reduced incomes. available population and increase savings were noted. The second quarter of 2020 was the worst affected by the effects of the COVID-19 pandemic, with the EU and Eurozone economies contracting the most severe contractions since 1995, with the introduction of the -14.6% data series. respectively -13.8% compared to the similar period of the previous year. The results obtained in the third quarter of 2020 marked a recovery: the euro area economy returned to a growth rate of 12.5% (seasonally adjusted series) and the GDP of the European Union increased by 11.6% compared to the previous quarter, amid the gradual lifting of restrictions and the relaxation of measures implemented to prevent the spread of COVID-19. Compared to the same period of the previous year, the EU and euro area economies decreased significantly in the fourth quarter of 2020, by -4.4% and -4.7%, respectively. More severe contractions compared to European averages were recorded in Spain (-8.9%), Malta (-7.7%), Greece and Croatia (both -6.9%), Italy (-6.5%) , Portugal (-6.1%), Austria (-5.9%), Belgium (-4.9%), Czech Republic and Slovenia (both -4.8%), while at the opposite end are Lithuania (-1.1%), Finland (-1.6%) and Romania (-2%), which recorded the lowest economic contractions compared to other Member States. According to Eurostat data, the Eurozone economy contracted by 6.5% in 2020, and the EU economy declined by -6.1%.

In terms of short- and medium-term developments, according to the European Commission[3], the impact of the COVID-19 pandemic on economic activity in 2021 is estimated to be less significant than expected in the autumn economic forecast. According to the same data, the euro area economy grew by 4.3% in 2021, an upward revision compared to the previous scenario (4.2%) and estimates for the EU economy indicate an advance of 4.2% in 2021 compared to 4.1% (economic forecasts for autumn 2020).

The year 2020 tested the ability of markets and participants to adapt to unwanted and unexpected challenges caused by the COVID-19 pandemic. The shock was felt globally and locally in most economic and financial branches, while affecting each individual. In this volatile context, characterized by uncertainty, the non-banking financial markets in Romania, regulated and supervised by the Financial Supervisory Authority, showed good resilience last year, even if at the beginning of the pandemic they were affected in the short term by shocks propagated by financial markets. Thus, the capital market registered sharp decreases between March and April 2020, amid the manifestation of contagion effects, but followed by a return in the next period and a stabilization by the end of the year.

Thus, life and health insurance have enjoyed an increase as a result of the coronavirus pandemic. Consumers, especially younger contributors to the development of the labor market, have accessed a much larger number of health care products brokered by insurers, as the number of illnesses has risen and a record number of deaths have been recorded since the beginning of the pandemic. The increase in health and life policy underwriting is considered by experts to be a normal result, given the basic risk of life insurance, namely the financial protection of the family in the event of the death of the family pillar.

The COVID19 pandemic has forced the consumer's mind to realize the need for financial protection against illness and / or death, by designing scenarios such as: "What happens if the family supporter dies unexpectedly because of Covid19?" "What will happen to his family?"

Health and life insurance is intended to cover that immediate risk of financial destabilization and to support the standard of living that the family is accustomed to for a period of time allowing thus reanalyzing the financial priorities and the acquisition of new income.

An analysis of Google traffic found that in 2020, indexed searches for the word group "life insurance" increased by 50% compared to the same period last year.

Most companies with life and health insurance products and / or mixed products in their portfolio recorded increases between 15-30 percent in gross written premiums, compared to the same period of the pre-pandemic years.

2.2. The evolution of insurance on the Romanian market

Approximately 85% of Romanians paid for products that cover their basic needs, those aimed at survival, safety and health, starting with the decree of the state of emergency imposed by the spread of the new coronavirus, according to a study conducted by AEGON Romania in the first mid-April.

[3] Detailed forecasts for autumn 2021, available at https://ec.europa.eu/commission/presscorner/detail/en/ip_21_5883, accessed online on 28.03.2022.

In terms of emotional priorities, it was found that the majority of participants, 84%, were equally divided between those who were focused on overcoming difficulties and those who remained on watch. Thus, the results show that approximately 42% of respondents during this period focused on values such as care, stability and learning, and another 42% adopted a mentality based on overcoming obstacles, exploration and entertainment, in order to manage to relax. The main objectives of the research included determining how Romanians have adapted to the current situation, the changes that have taken place in their consumption behavior, the perception that respondents have about the future, and identifying the level of interest in life insurance. The same research, conducted by Aegon ROMANIA, shows that the outbreak of the epidemic and concerns about health and job stability led 55% of respondents to consider it necessary to take out life insurance. Out of the total number of participants in the study, the idea of having a life insurance aroused the highest interest for people aged between 25 and 44, with secondary or higher education, middle or high income and with children up to 14 years. Thus, 62% of respondents from this category consider it necessary to take out life insurance. This perception is also shared by 63% of middle-aged, unmarried and childless adults.

The study showed a significant openness to buying insurance online even after lifting restrictions. Thus, 43% of respondents state that they would prefer to purchase life insurance online. Women have shown interest in buying insurance online in a percentage of 48%. Also, 4 out of 10 respondents would still prefer to go to the offices of banks or brokers, especially men (45%).

The increases of gross written premiums in the period 2019-2021 reported by the big insurance companies, confirm the trend outlined on the Romanian insurance market, as follows:

- Groupama Asigurări, one of the leaders in the Romanian insurance market, recorded a 30% increase last year compared to 2019 in the line of life insurance (individual and group), the total value of gross premiums written on this line being 46 million lei.
- in the life insurance segment, UNIQA continued to consolidate its results, with an advance of 40% on gross written premiums reported for 2021, compared to the previous year. The company reported sustained increases in both life insurance for credit products and traditional life insurance.
- within the Allianz-Țiriac portfolio, the total life insurance underwritings increased by approximately 40% and exceeded 277 million lei.
- signal Iduna Asigurare Reasigurare ended 2020 with a 27% increase in the volume of gross written premiums compared to the previous year, thus exceeding the value of 120 million lei. The company remains the leader in the health insurance market, according to the latest report issued by the Financial Supervisory Authority.

3. Conclusions

Although they have emerged out of a difficult time globally, both financially and socially, the major insurance companies have managed to close the annual financial years on a positive note, in terms of underwriting life and health insurance.

Changes in portfolios and product levels have been observed, with companies trying to provide customers with relevant coverage, reported and adapted in near real time to crisis situations in the medical system.

It was found that the existing insurance products did not adequately serve the needs of individuals and thus there were major changes in the area of risks covered, with international expansions and risk transfer between insurance companies.

The companies that until now did not serve the field of life and health insurance, registered in order to deliver services within this range, identifying thus the earning opportunity that arose from the context generated by the Covid crisis19.

The segment of clients who accessed life and health insurance was mainly made up of young adults, aged between 25 and 45, suggesting the need for protection, both individually and at the family level.

The recommendations towards insurance companies fall into the category of those in the legal framework, namely contractual exclusions which are in most cases far too demanding and exhaustive. Clients are always concerned about the terms of the contract, so the recommendations include: withdrawal or reduction of the waiting period for hospital or surgical benefits, including the risk of medical coverage in case of involuntary intoxication with drugs or alcohol, creation of multidisciplinary risk coverage packages, directly proportional, from a financial point of view, to the existing social classes in Romania at the moment and offering the possibility to young people up to 18 years of age to conclude individual protection contracts.

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