

EVALUATION OF THE INSURANCE COMPANIES DEGREE OF INFORMATION TRANSPARENCY

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Abstract: One of the major concerns of the Financial Supervisory Authority is to ensure protection for insurance consumers.

In order to achieve such a goal it is very important the "insurance" of a higher level of information transparency from insurance companies.

In this respect our paper has established the objective of building and applying a rating algorithm of Romanian insurers with scores provided for the 14 criteria for assessing the degree of information transparency, actually the minimum information that has to be published annually by insurers according to Order No. 113119/2006 and the corresponding rules based on a uniform, standard reporting model proposed by us under existing regulations.

Keywords: information, insurance, protection, rating, transparency;

JEL Classification: G22

Introduction

Our paper has set the target of building and applying a rating algorithm of insurance companies based on the assessment of the information transparency degree. According to Order No. 113119/2006 for the implementation of the Rules on the minimum information that has to be published annually by insurers, published in the Official Journal of Romania, Part I, No. 630 of 21 July 2006, the insurers should publish annually a report that contains the minimum information asked by the Insurance Supervisory Commission, today the Financial Supervisory Authority, through Annexe to the Order.

Based on the analysis of annual reports published by the insurance companies, we gave scores for each of the 14 information criteria, to finally obtain the rating of the insurers. The purpose of this research was to establish which were the most transparent insurance companies in Romania. The second part of the paper contains the case study and the last part is represented by conclusions.

Case study: Evaluation of the Romanian insurance companies' degree of information transparency

In this research we have built and applied a rating model to quantify the degree of information transparency for the Romanian insurance companies, analysing their annual reports for 2014. During 2014 there were 37 insurers running their business. From our analysis 6 insurers have been removed, because they did not publish an annual report in accordance with Order No. 113119/2006, but only the Financial Statements, the Directors' Report or the Auditor's Report.

In our analysis we gave a score of 10 for each of the 14 information criteria. Thus, the maximum score that could be obtained by a company is 140. For ease and correctness of establishing the rating, some criteria have been divided into subcategories. The tables below show the set scores for each criterion.

- a) The name of insurer and legal form: 10,00 points.

Table 1 **Score for the name of insurer and legal form**

Evaluation criteria	The name of insurer	Legal form	Capital origin / Agreement (type) of administration
Score	5,00	3,00	2,00

(Source: Authors' processing)

- b) Number of registration in the Registry of insurers-reinsurers, and in the Registry of insurance and/or reinsurance brokers: 10,00 points.

Table 2 **Score for the number of registration in the Registry of insurers-reinsurers**

Evaluation criteria	Number of registration	Date of registration dd/mm/yyyy	Observations: Incomplete date
Score	5,00	5,00	2,50

(Source: Authors' processing)

We mention that by incomplete date we mean that at least one of the elements from the date format dd/mm/yyyy is missing, namely the day, month or year of registration.

- c) Registered office address of the insurer: 10,00 points.

Table 3 Score for the registered office address of the insurer

Evaluation criteria	Locality, street, number, postcode	Telephone	Fax	Website	Electronic address	Call - Centre
Score	5,00	1,00	1,00	1,00	1,00	1,00

(Source: Authors' processing)

d) Presentation of the insurers shareholding and management structure together with the short Administrators' Report: 10,00 points.

d1) Shareholding structure: 4,00 points.

Table 4 Score for shareholding structure

Evaluation criteria	Share capital subscribed	Paid-up share capital subscribed	Number of issued shares	Nominal value of the share	Shareholders name
Score	0,50	0,50	1,00	1,00	1,00

(Source: Authors' processing)

d2) Management structure: 3,00 points.

Table 5 Score for management structure

Evaluation criteria	Board of Directors	Board of Administration	Executive Board	Regional Directors	Branch Directors
Score	0,60	0,60	0,60	0,60	0,60

(Source: Authors' processing)

The score of each criterion of the management structure has been adjusted, according to the information provided by each company, as follows:

- 1) Presentation of all members, with names, exercise duration and contact details
 $(1,00 \times 0,60 = 0,60)$
- 2) Presentation of all members, with names, exercise duration and without contact details
 $(0,75 \times 0,60 = 0,45)$
- 3) Presentation of all members with names, without exercise duration and contact details
 $(0,50 \times 0,60 = 0,30)$
- 4) Members are not named, but the components of the management structure are mentioned
 $(0,25 \times 0,60 = 0,15)$

d3) Short Administrators' Report: 3,00 points.

Table 6 Score for short Administrators' Report

Evaluation criteria	General overview and organization (underwriting activity)					Indicators of financial security		
	Year of the market entry and operation		Categories of practiced insurance			M _S	C _L	g _a ^{Rz}
Score	0,30		0,30			0,20	0,20	0,20
Evaluation criteria	Taxes	Risk management				Primary indicators		
		R _a	R _m	R _d	R _L	P _a	D _a	A _B
Score	0,60	0,15	0,15	0,15	0,15	0,20	0,20	0,20

(Source: Authors' processing)

M_S – Solvency margin (includes required solvency margin, solvency margin and the degree of solvency)

C_L – Liquidity coefficient

g_a^{Rz} – The degree of coverage of technical reserves with admitted assets

Risk management includes

- Risk related to the insurance activity (R_a)
- Economic environment risk (R_m)
- Interest rate risk (R_d)
- Liquidity risk (R_L).

Primary indicators include:

- Gross written premiums, gross premiums earned and premiums ceded to reinsurance (P_a)
(0,20 = 0,10 + 0,05 + 0,05)
- Gross paid claims, claims expenses, net of reinsurance and regresses (D_a)
(0,20 = 0,10 + 0,05 + 0,05)
- Balance sheet assets, investments (A_B) (0,20 = 0,10 + 0,10)

e) Presentation of undertaken categories and classes of insurance: 10,00 points.

Table 7 Presentation of undertaken categories and classes of insurance

Evaluation criteria	Correct and complete naming of the classes – according to the law, with specification*	Observations: incomplete or incorrect name**
Score	10,00	5,00

(Source: Authors' processing)

*classification of the insurance products based on the legal categories, with full and correct name
 **further explanations: incomplete name means only the mentioning of the legal categories or classes, without indicating the products underwritten to the respective class

f) General information on insurance products and deductions provided by tax legislation that apply to insurance contracts: 10,00 points.

f1) General information about insurance products: 7,00 points.

Table 8 Score for general information about insurance products

Evaluation criteria	Products presentation - listing	Insured presentation	Indication of risks / insured events	Methods of payment of insurance premiums	Insurance beneficiaries/ protection
Score	3,00	1,00	1,00	1,00	1,00

(Source: Authors' processing)

f2) Deductions provided by tax legislation that apply to insurance contracts: 3,00 points.

Table 9 Score for deductions provided by tax legislation

Evaluation criteria	1) Category of deductibility – legal system: 1.1) legal entities; 1.2) authorized physical persons. 2) Character: 2.1) as contractor – beneficiary; 2.2) as beneficiary, the employer being the contractor.	Categories of insurance	Amounts versus legal regulations
Score	1,00	1,00	1,00

(Source: Authors' processing)

Tax deductions are those which the insurance companies apply according to Art. 21, para. (3) of the Tax Code. These are deductible from corporate tax, the amount representing the health insurance premium within the equivalent in lei of 250 euros in a fiscal year per employee.

g) Presentation of the network and distribution channels for practiced insurance products: 10,00 points.

Table 10 Score for presentation of the network and distribution channels

Evaluation criteria	Distribution channels (listing, presentation)	Working units	Territorial presence (regions, areas, localities)			Numerical dimension (number of units, personnel, percentages)
			regions	areas	localities	
Score	2,00	2,00	0,50	0,50	2,00	3,00

(Source: Authors' processing)

- h) Presentation of the representative offices for damages, of the network support and of the adjusted annual statements in accordance with the Balance Sheet in the case of insurers that practice class no. 10 letter B of Annex 1 of Law No. 32/2000, with subsequent amendments, exclusive carrier's liability and class no. 18 "Insurance assistance to persons in difficulties while traveling or while away from home or from their permanent residence": 10,00 points.

Regarding the adjusted financial statements the insurers must present at least the gross written premiums for classes 10 and/or 18.

Table 11 Score for the insurers that practice the classes 10 and 18

Evaluation criteria	Representative offices for damages	Network support	Adjusted annual statements for class 10	Adjusted annual statements for class 18
Score	2,50	2,50	2,50	2,50

(Source: Authors' processing)

Table 12 Score for the insurers that do not practice the classes 10 and 18

Evaluation criteria	Representative offices for damages	Network support
Score	5,00	5,00

(Source: Authors' processing)

Table 13 Score for the insurers that practice the class 10 or 18

Evaluation criteria	Representative offices for damages	Network support	Adjusted annual statements for class 10 / 18
Score	2,50	2,50	5,00

(Source: Authors' processing)

- i) The short form of the external financial Auditors' Report: 10,00 points.

Table 14 Score for the short form of the external financial Auditors' Report

Evaluation criteria	Report on summarized financial statements	Management's responsibility for the summarized financial statements	Auditor's responsibility	Auditor's opinion	Emphasising particular, special aspects
Score	2,00	2,00	2,00	2,00	2,00

(Source: Authors' processing)

- j) General information on: assets, obligations, incomes, expenses, insurance portfolio, number of contracts, reinsurance activity, claims payable and paid, the insurer's exposure to risks of natural disasters and the reinsurance program: 10,00 points.

The score for this criterion was given based on the underwriting catastrophe risks of the insurance companies.

Table 15 Score for insurers that present risks of natural disasters

Evaluation criteria	Assets	Obligations	Incomes	Expenses	Insurance portfolio
Score	1,50 (0,3 x 5)	1,50 (0,25 x 6)	1,50 (0,21 x 7)	1,50 (0,3 x 5)	0,50
Evaluation criteria	Number of contracts	Reinsurance activity	Claimspayable and paid	Insurer's exposure to risks of natural disasters	Reinsurance program for natural disasters
Score	0,50	1,00 (0,33 x 3)	0,50 (0,25 x 2)	0,50	1,00 (0,33 x 3)

(Source: Authors' processing)

Table 16 Score for insurers that do not present risks of natural disasters

Evaluation criteria	Assets	Obligations	Incomes	Expenses
Score	1,75 (0,35 x 5)	1,75 (0,29 x 6)	1,75 (0,25 x 7)	1,75 (0,35 x 5)
Evaluation criteria	Insurance portfolio	Number of contracts	Reinsurance activity	Claimspayable and paid
Score	0,50	0,50	1,50 (0,5 x 3)	0,50 (0,25 x 2)

(Source: Authors' processing)

Criterion "Assets" include:

- 1) Intangible assets
- 2) Available funds in current accounts and cash on hand, unencumbered bank deposits
- 3) Investments, of which:
 - 3.1.) Investments in tangibles assets and in progress
 - 3.2.) Securities issued by local government
 - 3.3.) Securities issued by central government
 - 3.4.) Securities traded on a regulated market
- 4) Receivables related to gross written premiums
- 5) Others.

The obligations include

- 1) Premium reserve

- 2) Outstanding claims reserve
- 3) Incurred but not reported claims reserve
- 4) Expired risk reserve
- 5) Equalization reserve
- 6) Catastrophe reserve.

Criterion “Incomes” includes:

- 1) Gross written premiums – from direct insurance
– from receipt of reinsurance
- 2) Gross earned premiums
- 3) Gross written premiums cancelled
- 4) Gross written premiums mediated by brokers
- 5) Income from commissions for premiums ceded to reinsurance
- 6) Income net of reinsurance recoveries and regresses
- 7) Financial income.

Criterion “Expenses” includes:

- 1) Gross claims expenditure – claims for direct insurance
– claims for reinsurance reception
- 2) Net claims expenditure
- 3) Acquisition costs
 - 3.1.) Expenses with commissions from insurance activity
 - 3.2.) Expenditure on advertising and publicity
- 4) Administrative costs
- 5) Financial expenses.

For the reinsurance activity the reinsurers with the corresponding rating should be mentioned, together with the forms of reinsurance practiced for the legal categories of insurance or insurance products and the indication of retention and the coverage limits through reinsurance contracts.

- k) Investments and return of investments, noting that for the category of life insurance, they will be presented for each class of insurance practiced with accurate and detailed information related to the country where they are located, the issuer, the stock market on which they are traded, the market value etc.:10,00 points.

Table 17 Score for investments

Evaluation criteria	Investments categories	Maturities	Currency	At least two exercises	Fructification rate, yield, average interest rate	Indication if they are free of charges
Score	5,00	1,00	0,50	1,00	2,00	0,50

(Source: Authors' processing)

l) Short form of annual financial statements: 10,00 points.

Insurance companies with a composite activity are those that practice both general insurance (AG) and life insurance (AV).

Table 18 Score for short form of annual financial statements – insurers with composite activity

Evaluation criteria	Balance Sheet	Technical Account AG	Technical Account AV	Non-technical Account
Score	2,50	2,50	2,50	2,50

(Source: Authors' processing)

Table 19 Score for short form of annual financial statements – insurers that practice one category of insurance

Evaluation criteria	Balance Sheet	Technical Account AG/AV	Non-technical Account
Score	3,33	3,33	3,34

(Source: Authors' processing)

m) The law applicable to the insurance contract: 10,00 points.

Table 20 Score for the law applicable to the insurance contract

Evaluation criteria	Law No. 136/1995 on insurance and reinsurance in Romania	Law No. 32/2000 on insurance undertakings and insurance supervision	Law No. 571/2003 regarding the Fiscal Code	Law No. 287/2009 regarding the Civil Code (Chapter XVI: "Insurance contract")	Orders and Rules issued by CSA and ASF and Community Directives
Score	2,00	2,00	2,00	2,00	2,00

(Source: Authors' processing)

n) Strategies and development perspectives of the insurer's activity: 10,00 points.

Table 21 Score for strategies and development perspectives of the insurer's activity

Evaluation criteria	Underwriting component or the technical component		Financial component
	Portfolio of clients – SMEs, corporate	Portfolio of products	
Score	1,00	1,00	2,00
	Indicators for monitoring the activity		

Evaluation criteria	Sales component, distribution network and post-sales component			Settlement of damage cases – indicators		
	Increase in turnover, gross written premiums	Market share – brokers, banks, leasing companies, auto dealers, auto service, healthcare service providers		The average duration of solving damage cases on insurance categories	The number of notifications and complaints	Number of cases of litigation-lawsuits
Score	1,00	1,00		0,67	0,67	0,66
	Degree of intermediation	Loss ratio – loss ratio control	Evolution of costs – component of combined ratio	Degree of satisfaction/non-satisfaction of policyholders	Profitability of products	Efficiency of administrative expenses
Score	0,33	0,34	0,33	0,33	0,34	0,33

(Source: Authors' processing)

After applying the rating algorithm the insurance company with the highest score (103,41 out of 140 points), meaning the greatest degree of information transparency, was Groupama Asigurări SA. The table below contains the first five Romanian insurers with the highest degree of information transparency in 2014.

Table 22 The first five transparent insurers in 2014

Insurance company	Rating
GROUPAMA ASIGURĂRI SA	103,41
BCR ASIGURĂRI DE VIAȚĂ VIENNA INSURANCE GROUP SA	97,67

ABC ASIGURĂRI - REASIGURĂRI SA	95,22
AXA LIFE INSURANCE SA	94,99
SIGNAL IDUNA ASIGURARE REASIGURARE SA	91,87

(Source: Authors' processing)

On the opposite side is the insurance company Asigurare Reasigurare Asimed SA which obtained a score of 64,60, being the insurer with the lowest degree of transparency. The less transparent insurance companies in Romania in 2014 are listed in the table below.

Table 23 The last five transparent insurers in 2014

Insurance company	Rating
EUROLIFE ERB ASIGURĂRI GENERALE SA	71,58
GERMAN ROMANIAN ASSURANCE SA	71,26
GARANTA ASIGURĂRI SA	70,81
ASITO KAPITAL SA	66,05
ASIGURARE REASIGURARE ASIMED SA	64,60

(Source: Authors' processing)

Conclusions and future research

The objective of our paper was to build and apply a rating algorithm for the Romanian insurance companies to assess their degree of information transparency. According to Order No. 113119/2006 for the implementation of the Rules on the minimum information that has to be published annually by insurers, published in the Official Journal of Romania, Part I, No. 630 of 21 July 2006, the insurance companies should publish annually a report that contains the minimum information asked by the Insurance Supervisory Commission, today the Financial Supervisory Authority, through Annexe to the Order.

In our analysis we gave scores for each of the 14 information criteria, to finally obtain the rating of the insurance companies. The analysis included 31 insurers who performed their activity in 2014 and published an annual report according to Order No. 113119/2006.

For each of the 14 criteria we established a score of 10. The insurance company with the highest degree of transparency was in 2014 Groupama Asigurări SA. The insurance company with the lowest degree of transparency was Asigurare Reasigurare Asimed SA.

As a result of the construction and application of our algorithm, to each company analyzed it can be provided a report with recommendations on issues that have to be improved in order to achieve a maximum degree of information transparency.

In the future we plan to extend this analysis for 2013-2015 for the Romanian insurers and to build the structure of a model report created according to Order No. 113119/2006 that insures a maximum degree of information transparency.

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