Impact of Economic Crisis on Credit Insurance Market in Romania

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Bank Insurance phenomenon can not be attributed primarily or banks or insurance institutions. Near the two sectors was due to mutations occurring in supply and demand for financial services. Convergence bankers and insurers are determined by common platform for each country of local influence by supervisors and reforms at the central level. Credit insurance has emerged as a necessity stemming from the fact that most trade agreements concluded in circumstances in which payment is partially or completely after delivery of the goods or services covered by the agreement, so the payment delayed or selling on credit.

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1. Introduction

Significant risk analysis demonstrates that credit risk is the main risk facing banks and for this reason, banking strategy on lending through the efficiency-risk report shall include without limitation, at least the following objectives:

a) category of loan that the bank wishes to promote, exposure type, economic sector, ownership, residency, geographical area, currency, length and estimated profitability;
b) identify markets that want to act and characterization loan portfolio (including the degree of diversification and concentration).

Under these circumstances, management, credit risk transfer and brokering have become constants of contemporary banking and the adoption of techniques and highly complex mathematical tools such as value analysis of risk, risk analysis Adjusted return on capital (RAROC), stimulating the development proceeds of a loan or loan portfolio, loan portfolio trading by specialized companies or credit insurance are just some of the modern techniques of credit risk management. [1]

Thus, in the current world financial and banking affairs, credit insurance, appear as an objective necessity due to their particular.

Conditions for the development of banking risks are determined by the manifestation of a complex of factors that depend on: the general development of the economy, changes related to the organization of the bank, taking financial decisions, political and economic conditions and banking risks producing results and profits decrease income shareholders or, ultimately, the bank out of business or by taking her to a stronger bank or by bankruptcy, according to banking theory typology differentiating the intensity risks of action and the consequences they generate.

The risk today is banking business center. Risk management is a key feature of modern banks focused on market activity. Bank failures now no longer limited just spectacular cases, such as those related to bank Herstatt, Ambrosiano and Barings; it may call into question the stability of the entire banking system even in countries where the supervisory process is well developed.

Modern bank risk management includes the following elements:

- identification of risks takes into account inventory positions that you can affect the outcome of the bank;
- quantifying risk-quantification of expression involves the possible effects of producing a risk on bank profits;
- develop a suitable risk management policy application specific tools; risk-control necessary to verify that banking regulations are followed and that management tools are corrected;
- performance measurement, performance evaluation requires further cover their exposure.

Given the objectives of the research focuses on the methods of measurement and credit risk management, Basel II proposed. The agreement deals with large banks credit risk and offers a wide range of options for calculating capital requirements according to typologies exposures. Three methods can be used for this purpose: the standard approach, the basic approach and advanced approach using internal rating models.
Banks wishing to implement this approach must seek approval and validation of internal models of the supervisory institution. In the present context, performance management requires managers to weigh well what to make compromises between growth, yield, and risk. 

Credit insurance is indemnity insurance, as it involves compensation paid policyholders for losses suffered as a result of insolvency or default of the insured customer, not an event "physical" as the other insurance. Therefore it is a pecuniary insurance, and no material financial loss. [2] Responsibility for repayment is the borrower and guarantor liability (insurer) is on the second, being responsible only if the first fails to fulfill the obligation of payment for reasons contained in the insurance contract.

2. Economic Crisis and Insurance Market

The world economy is in these moments through the severest economic crisis in the last 50 years, a crisis that is felt in all areas affecting long-term stability of many countries.

In Romania the crisis were translated into huge deficits at both the state budget and state social insurance budget and a record unemployment rate. Government measures have focused primarily on reducing budget deficit and secondary prevention plan to increase / reduce unemployment.

Although the financial crisis in Romania entered relatively late, only after the second half of 2008, unlike other countries, it was felt immediately. The most affected sectors were industry, construction and lending. Crisis in these sectors negatively affected GDP. In the first quarter of 2009, GDP decreased by 2.6% from the previous quarter and by 6.4% compared to the same period in 2008. Fourth quarter of 2008 also registered a decline in GDP of 3.4% from the previous trimester while in the second quarter of 2009; GDP fell by 1.1% in the first quarter and 8.8% over the same period of 2008. [6] GDP decreased Romania into recession, which has had repercussions on the entire economy leading to increased budget deficit and unemployment. Thus, if in 2008 the budget deficit was around 4.8% of GDP, or 24.655 billion lei, which rose in 2009 to 7.3% of GDP, about 36 billion. In 2010 there was a slight decrease in the deficit to 6.58% of GDP. [11]

Today we know that the insurance market sales have not increased and will not increase dramatically and customers are not and will not be the same, for consecutive declines in revenue in recent years, forced to think otherwise.

The insurance industry is far from operating in a closed system, and individual decisions of each company hardly mitigate the effects of context. In addition, a slight growth in 2012 would produce latent insurance anyway, stimulated perhaps minimal regaining confidence.

Past growth of the field was a mixture of what we call potential and favorable elements of context. Now the environment is unfavorable and uncontrollably. The only things that insurers can achieve only by themselves are product offerings, along with increased communication with customers and potential customers.

Essentially, year after year, it seems that the industry takes the same set of opportunities, while threats are diverse background and hopes for recovery or a subtle change in the store.

3. Aggregated indicators on credit insurance institutions

In the following I will present a comparison between 2011 and 2012 in particular will show aggregate indicators on credit institutions during this period rate loans increased 16.76% in June 2012 compared to June 2011 which was 13.35 % as well as credit risk rate from 21.89% to 26.06%.

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Below I present the calculation of aggregate indicators on credit institutions:

- **Active private institutions (% of total assets)** - Total net assets of credit institutions with majority private capital (including foreign banks) / Total assets
- **Active institutions with foreign capital (% of total assets)** - Total net assets of credit institutions with majority foreign capital (including foreign banks) / Total assets
- **Leverage (%)** - Tier 1 / Total average assets
- **Overdue and doubtful loans (% of total loans)** - Overdue and doubtful loans / total loans portfolio (net)
- **Overdue and doubtful receivables (% of total assets)** - Overdue and doubtful loans / Total assets (net)
- **Return on core business (%)** - operating income / operating expenses
- **Loans / Deposits (%)** - Loans to customers (gross) / Deposits from customers
- **Credit risk (%)** - Gross exposure related to non-bank loans and interest classified as doubtful and loss loans / Total loans and interest, non-bank loans
- **NPL ratio (%)** - Gross exposure related to non-bank loans and interest classified in category 2 of lost, where debt service> 90 days and / or where judicial proceedings have been initiated against operation or to debtor / Total loans and interest, non-bank loans.

When considering applicants for credit economic situation, to quantify and reduce lending, Romanian banks are able to consult files constituted by the Central Credit Register (CCR) of the National Bank of Romania, containing data on the volume of loans, including outstanding on a particular applicant has committed it to other banks.

CCR is an intermediary who manages the center on behalf NBR credit risk information (granting loans and commitments assumed by banks on behalf of debtor) pentru user goals, while maintaining secrecy.

Any unit may require CIB bank, through their reporting persons, risk information on any individual or legal resident non-bank, requesting the prior written consent of the person concerned. [3]

Information which may be required by banks are: information on overall risk recorded in the last month on behalf of the person enumerated, information on outstanding loans made to the entire banking system within 2 years (after two years of credit risk to archive information). This information helps banks in their analysis on the vocation of a customer to receive credit as obvious that a CCR registered customer with outstanding loans have very low chances of receiving loans from any bank in Romania.

4. The Evolution of Credit Insurance and Bank Arrears

The evolution of bank lending and arrears is done by commenting the 6 indicators, the 6 indicators with the information from the year 2010 to 2011. According to the monthly bulletin published by the central bank in December, the number of debtors has decreased; the amount of provisions set up by banks fell slightly, while demand for loans has reached the last seven years and a half minimum.

1. **Number debts and debtors**

In late December, the number of individuals recorded overdue more than 30 days to pay rates was 689,906, down 10,000 from November and December 2010 compared with 31,000. For the first time in the last 22 months the number falls below 700,000. In the debtors arrears, their number reached 977,434, down 24,000 compared to November, and by 74,000 compared to December 2010. Basically, a debtor has an average of 1.4 loans outstanding, the outstanding amount of 10,900 RON. [11]
2. Overdue: population versus companies

A loan outstanding at the end of last year was 19.36 billion lei: 7.5 billion population arrears and arrears £ 11.9 billion business. In the last year, arrears population increased by 2 billion, or 36.5%, and corporate arrears of 2.8 billion, or 31%. If the population shares of overdue loans in total loan balance is 7.2% and in the case of companies, the share of overdue loans is 10%.

3. Portfolio structure

The total balance of loans totaling USD 219.5 billion, the amount of which they only 101.6 billion (46.3%) is the standard credits, and without problems. The share of loans in observation of 19.5%, substandard credits reached 10.9%, the proportion whose recovery is doubtful loans is 4.7%, while 18.6% of the total loan (almost 41 billion) was written off.

4. Evolution banks established provisions

In December, the bank established provisions to cover potential losses from lending activities was USD 30.66 billion, down by 400 million from November, but up by 7.1 billion compared with December 2010. The first month drop since June 2009.

5. Demand for loans

In December, the number of database queries CCR was only 78,351, which is the lowest level in the last seven years and a half, respectively 2004.0 August bank when you want to know their creditworthiness of a client or potential (or when a person wishes to contract a loan) to CRB checks it, so that changes in the number of queries shown in good measure interest development lending.
6. Number of credits in progress

Late last year, banks had a total of 1,491,690 ongoing loans with a value of more than 20,000 RON, with 4,100 fewer than in November, but 8800 more than in December 2010. In late 2008, the number of credits in progress was more than 1.6 millions. In the beginning of 2012, banks may grant loans in foreign currency harder, and how many consumer loans granted in the boom years from 2005 to 2008 will become due in 2012-2013, it is unlikely that banks may grant a new loan number is greater than the number of matured loans. [8]

Due to the particularities of credit insurance, the main categories of insured loans: loans buyer producing for export credits, export credit products backed by claims on foreign countries, consumer loans to individuals, including through credit cards. Depending on the type of loan insured risks for which protection is granted, where appropriate, commercial risks and / or political risks.

In credit insurance, the insurer's perception is different from other types of risks. This is influenced by five factors:

- Nature of business, influences due to differences seen in different types of activities
- The buyer, or to the solvency and creditworthiness, reputation enjoyed by the market earlier declaration of bankruptcy, the default
- Number and size of accounts
- History damage
- Credit policy and practice in the field of credit

The insurance contract lender will figure as the beneficiary of the insurance policy. If the compensation will exceed the loan amount remaining to be paid and other amounts owed to the lender,
the difference is due to the beneficiary or heirs loan. Insurance premiums will be paid by the borrower, with repayment rates on loans received.

5. Conclusions

Credit insurance has emerged as a necessity stemming from the fact that most trade agreements concluded in circumstances in which payment is partially or completely after delivery of the goods or services covered by the agreement, so the payment delayed or selling on credit.

Such credit insurance can not eliminate fear seller on the buyer paying the amounts due to him providing protection for the risk of default. The reason may be the financial situation of the buyer or if the sale takes place in a country other than that in which the seller, causes related to the situation of the importing country.

Credit insurance is therefore a direct protection against the risk of not collecting vendors and at the same time, as a guarantee to the bank, is also a possibility of access to finance.

In other words, to secure credit is to protect against financial loss resulting from default, insolvency or insolvency buyers who purchased goods on credit or insolvency of credit beneficiaries. The credit insurance contracts are substantially protected venues from trading in terms of not collecting on the insurance risk transfer and consequently can increase turnover.

Insurance credit insurance is considered a luxury; it is operating under optimal conditions feature and the market economy with a stable and well-developed credit. Investigation begins when credit risk and requires knowledge listing status debtor, periodically checking its payment capacity.

This is done by the underwriter. Supervision takes place after issuance policy by supporting the insured to recover and administration delayed payment amounts, even for initiating legal procedures necessary for recovery, if any. In this regard, there is considerable professional solidarity by Berne Union and the Credit Alliance.

Need for it can be considered as a risk management measure, since it limits the repetition of similar situations other insured for the same customers.

References
[4] CEA Statistics N°44: European Insurance in Figures