

COMPARATIVE ANALYSIS OF THE MAIN CATEGORIES OF INSURANCE PRODUCTS WITH CAPITAL ACCUMULATION

*Oana Claudia IONESCU*¹

*Adriana Mihaela IONESCU*²

Abstract: *The evolution of global insurance business has demonstrated not only the opportunity for protection in relation to risk but especially the need of its transfer from individual to specialized insurance companies becoming not only a component of the financial market but also the economic market as a result of the transition from an autonomous activity, strictly specialized in one type of conglomerate, which combines various profiles with entities (insurance companies commercial banks etc).*

This paper aims to identify the main characteristics, trends and developments in life insurance products and their market, for the purpose of highlighting the interactions between the insurance sector, banks and financial markets and to identify some of the main elements of the demand for insurance. It also intends to carry out a comparative analysis of the life insurance products with capital accumulation and the mixed products of medium and long-term savings, in such a way that it becomes increasingly obvious that private financial planning alternatives tend to hold a primary role and should replace the public ones, increasingly outdated and unsustainable over time.

Key words : *insurance market, life insurance products with capital accumulation, life insurance products with guaranteed saving component or an investment component, insurance with saving, mixed life insurance, insurance of dowry or annuity for studies, unit linked insurance (UL.)*

Jel Code: J22- Insurance; Insurance Companies

INTRODUCTION

The Insurance Market from Romania, as well as any European market goes through difficult times and makes efforts of entering an upward trajectory of the business volume. A good management and capital planning is the main direction to strengthen the financial position of this industry. At the same time, the current economic situation represents an obstacle to the development of this industry and requires continuous adaptation of service quality demanded by customers and ensures a high degree of satisfaction of their needs. Also,

¹ Lecturer, PhD, Faculty of of Finances, Banks, Accountig and Business Administrations, "Titu Maiorescu" University of Bucharest (e-mail: oanaclaudia.ionescu @gmail.com);

² Lecturer, PhD, Faculty of Entrepreneurship, Business Engineering and Management, "Politehnica" University of Bucharest (e-mail: amihaela.ionescu@gmail.com)

reducing living standards and expectation regarding future trends in revenues, combined with limited trust of the individual in relation to the insurance products made the procedures oriented to sustainable development on the basis of this sector to face a number of difficulties, delaying the creation of favorable conditions for economic recovery in its entirety. Insurance companies' strategy aims at focusing attention to the products to give people protection and expanded opportunities, tailored to each individual. To this end, the insurance companies have developed a portfolio of life insurance products with capital accumulation, focusing either on guaranteed saving component or an investment component, whose risk belongs to the insured.

LIFE INSURANCE WITH CAPITAL ACCUMULATION-TYPE MIXED, WITH PROFIT -SHARING

- ***Insurance with saving*** can be an indefinitely insurance, study loan, dowry, or unit-linked or annuities. Insurance with saving are usually longer, may remain in force until maturity and does not cease unless the holder renounces to pay the corresponding bonuses. This type of insurance involves the constant deposit of figures that, over time, reducing the risk the insurers take in paying compensation in case of the event insured happening. The holder can gain access to the money, through different types of withdrawal or repurchase.

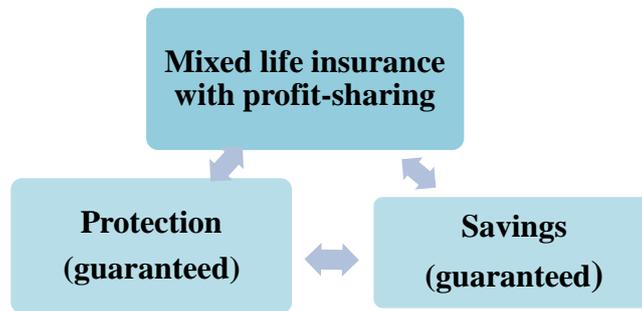
- ***Mixed life insurance*** allows the capitalization, covering not only the risk of death but also survival. Part of the protection policy guarantees an amount payable to the beneficiary named in the contract upon the death of the insured. On the other hand, if the insured does not die, the beneficiary receives the same amount plus the capitalization.

- ***Insurance of dowry or annuity for studies*** is a similar product made to accumulate a sum for the child, available at the time of marriage or of studies, to provide support for independent living. Through this type of contract the parents ensure that in the case of death, the child (beneficiary) will receive the sum insured at the time of marriage or fulfillment of a certain age, respectively, or the studies sum at a seeming age determined in the contract. The amount paid by the company is in the form of a single installment, in case of dowry and sequenced, in the case of annuity studies. If the beneficiary dies, then the policy turns into a mixed life-insurance.

The main advantages of these types of insurance are the death benefit guarantee and the guarantee of an amount when surviving. On the other hand, the premiums are inflexible, bigger than on short-term insurance, the amount of survival does not provide a proper pay line, the insured sum indexed to inflation.

The mixed life insurance allows the capitalization, covering not only the risk of death but also survival. Part of the protection policy guarantees an amount payable to the beneficiary named in the contract upon the death of the insured. On the other hand, if the insured person does not die, the beneficiary of survival receives the same insured amount and the capitalization. This product of life insurance provides, on one hand the possibility of family financial protection to the insured, by means of a guaranteed sum insured in case of death from any cause of the insured person as well as saving on medium and long term, and on the other hand, giving him the opportunity to obtain a contractor's insurance financial independence at the age of maturity of the policy, which could coincide with the retirement age.

Figure 1: Representation of components of a mixed type life insurance



Source: representation of its own

Advantages and benefits:

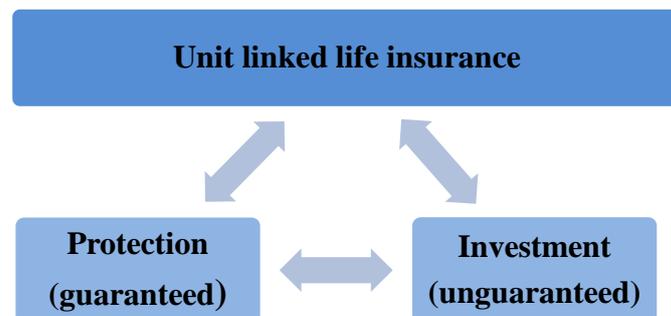
- participation in the profits of the company investment by providing a guaranteed annual interest rate and a percentage of 90% of the net operating surplus is obtained by the insurer;
 - obtain the maturity of the insurance contract has an added **loyalty bonus**, equal to the sum obtained by applying a percentage on the insured amount related to each year where the policy of insurance is in force. Thus, the maturity of the contract will be cash: a **maturity benefit** = insured amount guaranteed+ profit-sharing fund accumulated over the duration of the contract + Loyalty bonus
- The benefit of maturity can be:
- ✓ Whole amount;
 - ✓ Fixed rate/fixed period;
 - ✓ Annuity;
 - ✓ Annual payments over a specific period of time.
- Providing long-term financial protection for the family;
 - Represents a form of saving on medium and long term;
 - Provides a warranty of benefit at maturity;
 - Multiyear guaranteed interest, throughout the duration of the contract;
 - Provides the ability to ensure more hazards on the same policy, by attaching additional clauses;
 - To obtain premium discounts depending on the frequency of payment;
 - Increasing the benefit of maturity through a Loyalty Bonus;
 - Home insurance affordable, addressed the middle income economy;
 - The possibility of adapting the contract to current financial needs through interrupt options and variants of indexing the insurance premium;
 - Maximum age of entry into insurance submitted (mainly 65 years);
 - Guaranteeing an income in case of loss of a family member;
 - Creating an extra income for retirement period;
 - Obtaining one of the greatest benefits of maturity of the market, non-taxable;
 - Competitive report products market for life assurance, type between the size of insurance premiums, and benefits of the policy;
 - Choice of a large variety of forms, to the benefit of maturity;
 - Participation of the contractor to ensure the investment profits made by the company;
 - The policy of maintaining safety in difficult financial conditions;
 - One of the most secure forms of saving financial market.

LIFE INSURANCE WITH CAPITAL ACCUMULATION UNIT LINKED

Unit linked insurance (UL) is a relatively new product that covers part of the protection of life, but also offers the possibility of investment in the medium and long term. Thus the insured protects his family in the event of his death, but also the opportunity to get a win from what it saves and can receive a surplus versus what you submit. A portion of the insurance premium is used to cover costs related to the acquisition of risk of death of the insured person, and most of it is invested in units of insurer's investment programs, in accordance with the decision of the insured (holder). The investment accumulates into an account.. The signature policy the insured shall choose the type of the investment program that will be invest early, but over the course of the contract may change the selected program or programs. Component of protection implies the existence of a sum insured by the insurer guaranteed along the length of the contract, for the situation of the insured's death occurs. The advantage of investing through an insurance type is given by the fact that being on the medium and long term, the client can get a reasonable payoff.

Analysis of capital markets and financial instruments investment yields showed enlarging the variety of offers of insurance companies, including the low-risk investment for preservation of invested capital. The early expectations of individuals aimed at ensuring greater transparency in the allocation of the investment/insurance components but also to adapt the range of investment programs to the new placement possibilities. Thus, the supply of life-insurance unit linked to a powerful dynamic force adapted to the economic and financial conditions, so that insurance companies have adapted and have acted for the purpose of broadening the variety of offers and/or its adaptation to conditions where individual needs range from the need for saving on medium and long term and wish to take advantage of market opportunities with the aim of supplementing the incomes at the end of the contract which can be paired, most of the time, with the average age of retirement.

Figure 2: Representation of the components of a unit linked insurance



Source: representation of its own

➤ **Protection** refers to the insurance component of the product and covers the risk of death from any cause of insured person, thus providing protection for his family through financial compensation, made up of the sum insured, with predefined by the insurance contract in foreign currency or the equivalent in RON of the investment account value. In order to ensure protection for policyholders has at its disposal a wide range of additional clauses, which may increase financial protection to cover different situations of risk

➤ **Investment** refers to investment of insurance premium in a diversified range of financial instruments, via investment programs in euro or RON, made available to the contractor by the insurer, the insurance according to its option, characterized by an increased tolerance, medium or high relative to the risk investment and capital market preferred (domestic or international)

➤ **Maturity benefit** equal to the value of the account (number of investment units X selling price obtained at that time).

Tab. 1 Investment programs relating to the product representation of life assurance unit linked, Allianz Ţiriac Asigurări SA

Investment programs			
Risk	High	Medium	Low
Euro	World Equity: invests mainly in shares on international markets	World Plus: invests mainly in bonds on international markets	Protective: invests in European money market
	Europe Equity: invests mainly in shares markets in Europe	Euro Plus: invests mainly in bonds markets in Europe	
Ron	Leu Forte: invest in shares and bonds in the internal market	Leu Clasic: invest in shares and bonds in the domestic market	Leu Simplu: Invests in bonds and money market instruments within the internal market

Source: own representation on presentation of the investment tender for Allianz Ţiriac Asigurări SA

The advantages and benefits of the product unit linked:

- Ability to obtain financial gain superior over other types of long-term investment and the environment, but with significant fluctuations in the value of the account (positive or negative) the investment programs with high degree of risk, depending on economic and financial conditions in certain moments in the evolution of the insurance contract;
- Possibility of preservation of invested capital and obtain additional revenue if opting by a program with an investment of medium and low risk, but also some additional risk relating both to the evolution of the interest rates practiced in the financial market and financial creditworthiness of issuers;
- The possibility of carrying out transfers of amounts invested between investment programs offered by the insurer;
- The possibility of increasing the value of accumulated in the account of investments by increasing insurance premiums or through an additional intake of investment premiums (top-up);

- Protect your investment against inflation through optional indexation insurance premiums with a rate between 3% and includes 10%;
- Supplementing the financial protection offered by the Basic assurance through clauses;
- Obtaining a taxable income at contract maturity.

CONCLUSIONS:

The main opportunity represents a large capitalization growth potential amid the existence of a low level of protection and planning in Romania. Another priority is to further increase the level of professionalism of the personnel working in this industry, with the goal of providing quality services, which contribute to increasing the level of trust and awareness of the population on the necessity of insurance products. The ASF strategy for the period 2012-2016, indicate the need for initiatives that contribute to finding solutions as regards the deductibility for insurance on an amount of insurance premiums from life, which would lead to increased numbers of people insured but also to an increase in the profitability of the accumulation obtained from investing in these products.

As regards the categories of insurance products, the contractor of unit linked insurance may be involved actively in the evolution of its investment as a function of the movements arising from capital markets as well as changing its investment choices, the main feature of these investment products being *transparency and flexibility*. Unlike these, insurance products with bonus sums insured are guaranteed products with both death and survival, being a carrier of technical interest rates guaranteed, established at the level of different insurance companies, depending on market trends as its main market, monetary investment of these product categories.

Insurance-type products linked thus united to create a value premise of maturity superior to other alternative investment medium and long term as well as the total of the premiums paid, due to the mechanism of deduction of dues, fees and the number of their value. These are intended for "players", with a targeted risk profile that have the ability to get involved in the selection and to amend the investment structure of insurance product chosen, by accessing the programs offered by the insurance company and constantly tracking market trends, and mainly investment of capital. At the same time, joint insurance products addresses a client profile "conservative" security-oriented investment offered by the insurer, with no appetite for risk.

REFERENCES

1. Ciurel, Violeta, *“Asigurări și reasigurări. O perspectivă globală”* Editura Retrop&Straton, 2011;
2. Bistriceanu , Gheorghe(2010), *Asigurări și reasigurări în România*, Editura Universitară; București, 2010
3. Ionescu, Oana Claudia, *„Asigurarea mixtă de viață – Versus pensie privată. Concepte teoretice, cercetări și studii de caz”*, ISBN 978-606-28-0405-3, Editura Universitară, București, 2016,
4. Ionescu, Oana Claudia, *„Life Insurance Versus Private Pension”*, single author, in *Journal of Knowledge Management, Economics and Information Technology - Economical Essays*, ISSN 2247-7756, ISSN 2069-5934, august 2012, page 149-159
5. Ionescu, Oana Claudia, *Life Insurance- Their Characteristics, Importance and Actuality on the Romanian Market”*, single author, in the: *Journal of Knowledge of Management, Economics and Information Tehnology*, Volume II, Issue 4, e-book ISSN 2069-5934, printed with ISSN 2247-7756, ISSN 2285-4096, 2012, page 17- 32

6. Ionescu, Roxana, "Economia asigurărilor", Editura Universitară, Editura Universitară, București, 2012;
7. Preda, Marian (coord.). Doboș, Cristina și Grigoraș, Vlad. (2004). Sistemul de asigurări de pensii din România în perioada de tranziție: probleme majore și soluții. Iași: Editura Institutului European din România
8. Tănăsescu, Paul, Mariana Popa, Finanțe, Bănci și Asigurări, București, Periodic 2007.
9. Pfau W., Safe Savings: A New Approach to Retirement Planning over the Lifecycle, *Journal of Financial Planning* 24(5), 2011
10. Webb I., Grac, M.F, and HD Skipper, The Effect of Banking and Insurance, on the Growth of Capital and Output, Center for Risk Management and Insurance, Working Paper