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Romania Insurance Market Review

A Market in Transition

➤ Benfield Industry Analysis and Research

Angelo Unson

T: +44 (0) 20 7578 7172

F: +44 (0) 20 816 1600

E: angelo.unson@benfieldgroup.com

IAR

T: +44 (0)20 7578 7000

F: +44(0) 20 816 7071

E: IAR@Benfieldgroup.com

BENFIELD GROUP LIMITED 55 Bishopsgate, London, EC2N 3BD, United Kingdom www.benfieldgroup.com

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A market in transition

A developing market

Romania's transition from a planned to a market economy has not been easy. GDP has advanced but incomes for the Romanian population remain low relative to the region. The legacy of state provision for all social welfare together with low incomes has held back the development of insurance.

EU candidate

Romania is engaged in accession negotiations with the European Union (EU) as a candidate to join in the 2007 accession round, having missed the May 2004 deadline. EU membership imposes a deadline for passing insurance laws which should strengthen the insurance market.

Strong growth

In recent years the insurance sector has grown rapidly, albeit from a small base, with total gross insurance premiums increasing by 27% p.a. since 1999. Non-life, as in many markets in the region, dominates the sector accounting for 77% of all 2003 premiums.

Low penetration

Despite this growth the insurance market remains highly under-developed on any measure. The sector is characterised by its small size and limited offering of insurance products. It suffers from lack of transparency and limited consumer knowledge about the role of insurance. The penetration rate, at 1.5% of GDP, is low and the per capita spend of USD36 gives scope for substantial growth when compared with the developed market of the EU15 at an average spend of USD2,590.

Market structure

The top five companies account for 68% of the non-life market with Allianz-Tiriac and Asiom the clear market leaders. ING Nederlanden has pole position in the life market with a market share of 44%. New insurance legislation which is due to be passed before the end of 2004 will require the companies to split their life and non-life operations into separate legal entities. There are no professional reinsurers in Romania, although direct insurers can write inwards reinsurance without specific authorisation.

Motor market

The motor market has been one of the fastest growing sectors and currently accounts for 67% of Romania's non-life market. In 2003 motor premiums rose 72% to USD402mn. Growth has reflected the progressive increase in Motor Third Party Liability (MTPL) rates, expansion of car ownership, and the increasing productivity of the car industry. The availability of car finance has provided additional impetus.

Framework for insurance

Romania's communist regime was overthrown in 1989. The new regime has done much to establish and consolidate institutions guaranteeing democracy and the rule of law. However, the pace of economic reform has been slower than in most Central and Eastern European countries and this has affected the development of the insurance market. Romania was not included in the May 2004 EU expansion but is a candidate for the next EU enlargement scheduled for 2007.

Transition

Romania's transition from a planned to a market economy has not been easy. GDP has advanced but incomes for the Romanian population remain low relative to the region. The legacy of state provision for all social welfare and low incomes has held back the development of insurance.

Romania has failed to gain EU endorsement as a "functioning market economy" (FME)¹. The report highlighted four key areas of concern:

- The accumulation of arrears in the budget and in the energy sector
- The limitation of bankruptcy procedure and failure to liquidate loss-making state-owned companies;
- The failure to establish natural gas prices that reflect short and long-term costs, and;
- The restructuring and privatisation of key sectors such as energy, mining and transport

Since some of these issues also apply to some of the successful candidates of the EU8 suggests that Romania's lack of FME status may be influenced both by political and economic factors. While the country has made considerable progress in meeting the requirements of EU membership there are no definitive criteria for achieving FME status.

EU accession

If the goal of accession in 2007 is to be achieved, Romania must achieve FME status by October/November 2004 in time for the relevant EU report. The last report stated that Romania would have to undertake "vigorous implementation of structural reforms" to remove institutional obstacles that act as barriers to the creation of an FME. These are demanding targets and there is a possibility that the country will not be judged suitable for accession by the 2007 deadline. Postponement of membership until 2010 has been mooted among government members and Romanian business leaders. Brussels has already indicated that Romania's membership could be delayed if it does not accelerate the pace of judicial and administrative reform.²

Romania began accession negotiations at a relatively lower level of development compared to the members of the EU8. Some of the EU laws and regulations may not be appropriate for Romania's development. There is a view that Romania's limited administrative resources may be better focused on facilitating growth instead of implementing a raft of cumbersome EU regulations.³ Romania's preparations for membership are likely to be more closely scrutinised and EU

¹ 2003 Regular Report on Romania's progress towards accession, November 2003

² Romania politics: Political outlook, Country Briefing, EIU, 9 August 2004

³ Romania economy: Waiting gains? Country Briefing, EIU, 28 May 2004.

conditions on implementing EU related legislation are likely to be tougher than they were for the EU 8 candidates.

Postponement of the accession date, however, is not without risks, as delay could slow the reform drive. The tight timetable for completing accession negotiations has, in recent years, impelled Romania's government to push past domestic resistance. In addition there is no guarantee that the door will remain open in 2010.⁴

EU membership imposes a deadline for passing insurance laws which will implement all the EU Insurance Directives except for 'freedom of establishment' and 'freedom of services'. The most significant omissions from Romania's current insurance legislation are the Non-life Insurance Directive, provisions for insurance group supervision and the separation of life and non-life operations.

Insurance

The Romanian insurance market has developed slowly against the backdrop of the country's transition from a planned to a market economy. The piecemeal approach to reforms and erratic implementation over the past decade has left Romania behind the EU8. The sector is characterised by its small size and limited offering of insurance products. It suffers from lack of transparency and limited consumer knowledge about the role of insurance. A weak legal and institutional environment, particularly in terms of enforcement, has provided additional challenges. Factors inhibiting growth may be summarised as follows:

- **The State:** State-owned industrial assets and most of the country's housing market are largely uninsured with any losses being made good from a dedicated government fund. The only exception is where property has been pledged as collateral for a bank loan, but in this instance sums insured are based on book values;
- **Tax:** There are no tax incentives for companies and consumers to buy insurance;
- **Enforcement:** Only 40%-60% of car owners buy compulsory MTPL,
- **Marketing:** Mass marketing of insurance is in its infancy. Direct selling of insurance is not a feature of the Romanian market. Awareness of the concept of insurance remains minimal amongst much of the population, particularly the rural areas. Romania is a predominantly cash economy and premiums therefore cannot be paid except by visiting an insurer's office. 15% of the population has a motor hull policy and 5% buy household lines.
- **Consumer confidence:** Lack of consumer confidence has been cited as a problem by foreign insurers with mistrust of domestic companies cited as a prime reason;
- **Cultural barriers:** The Romanian construction industry has traditionally worked without insurance. Cover is only usually purchased at the insistence of foreign investors.

The privatisation of Romanian industry has been slow. The sale of the large state utility SNP Petrom (July 2004) is, however, a positive development and other privatisations of large state owned companies (SOE) are scheduled in 2004/5. This suggests growth potential since these insurers and, for that matter, many other state owned assets (including state housing) are either not insured or underinsured.

⁴ Romania economy: Waiting gains? Country Briefing, EIU., 28 May 2004.

Authorities have struggled to implement some of the new insurance legislation, for example, the EU Non-life Insurance Directive, which encompasses insurance group supervision and the separation of life and non-life operations. Under the Directive, composites are required to separate their life and non-life accounts but this has proven difficult to administer. Disputes have arisen, for example, over the acceptability of subsidising life losses from non-life profits rather than re-capitalising the life business.

Skill shortages exist in most areas of the Romanian insurance industry including product development, financial management, general management, actuarial skills and technology. Personnel shortages have been exacerbated by competition from foreign firms, which are prepared to provide generous packages to local professionals.⁵ To maintain staff loyalty, domestic companies are offering career development based on training, motivation and performance.

Market concentration

Non-life insurance dominates the Romanian insurance market and accounted for 77% of total premiums in 2003. Non-life prevalence is a common feature of other Eastern European countries and in contrast to the developed markets in Western Europe, where non-life represents typically well under 50% of premium income. There has been a gradual shift from non-life to life in the past decade and this trend has escalated in the last five years. Table 1 shows the recent record. The 2003 reversal of recent trends reflected the marked increase in credit growth and associated non-life insurance products.

Table 1

Romanian life and non-life premiums

CSA

	No of insurance companies	Premiums			%Split	
		Total ROLbn	Non-life ROLbn	Life ROLbn	Non-life	Life
1999	72	4,274	3,768	506	88%	12%
2000	73	6,739	5,672	1,067	84%	16%
2001	47	10,015	7,900	2,115	79%	21%
2002	45	16,460	12,315	4,145	75%	25%
2003	51	26,417	20,217	6,200	77%	23%

Former state owned companies have lost market share to the competition which has been helped by foreign capital and expertise. Such erosion of market position has been a common feature within Eastern European countries.

In 2003, the top ten companies accounted for 82% of the market as shown in Table 2. Asirom's market share has fallen from 47% to 20% following the loss of motor third party liability (MTPL) monopoly in 1997. Astra, following the loss of its monopoly in marine and aviation business, has diversified into motor lines. Allianz Tiriac and Omnisig, have both benefited from the liberalisation of the insurance market and have aggressively pursued market share since being taken over by Allianz and TBIH Financial Services respectively. Some of the smaller insurance companies writing less than ROL200mn are quasi-captives owned by enterprises and industry groups. Lukoil Asito,

⁵ Romania risk: Labour market risk, Country Briefing, The Economist Intelligence Unit, 3 February 2004.

for example, is ultimately owned by the Russian Lukoil group, Asitrans is 28.7% owned by the National Union of Road Hauliers (UNTRR), whilst Ceccar Romas is owned by the accountants' union (CECCAR).

Table 2

Top ten insurance companies

CSA, PRIMM

	Companies	Type	Premiums		Market Share
			2003 ROLbn	2003 USDmn	
1	Allianz-Tiriac	Composite	5,132	154.3	19.4%
2	Asirom	Composite	4,965	149.3	18.8%
3	ING Nederlanden	Life	2,749	82.7	10.4%
4	Omniasig	Non-life	2,122	63.8	8.0%
5	Asiban	Composite	1,436	43.2	5.4%
6	Astra	Composite	1,272	38.3	4.8%
7	Unita	Composite	1,318	39.6	5.0%
8	Ardaf	Composite	1,090	32.8	4.1%
9	Generali	Composite	826	24.8	3.1%
10	BCR Asigurari	Composite	764	23	2.9%
	Total		21,674	651.8	82.0%

There is relatively little specialisation in the market but the few exceptions include Asitrans (transport), Agras-Grupul Wiener Staedtische (agriculture) and Asiban (credit). Eximbank, the only state-owned company active in the insurance field, concentrates on export credit insurance. It is now subject to a special law (Law No. 96/2000) and is no longer registered as an insurance company. There are no Romanian domiciled reinsurers, although direct insurers are allowed to write inwards reinsurance without specific authorisation. In 2003 Romanian insurers ceded premiums of ROL6.149bn (USD185mn), equivalent to 30% of total premium income. Inward reinsurance represented only 1.6% of the total market at ROL321.4bn (USD9.7mn).

Ownership

Table 3

Foreign ownership

UN SAR

Company	Key foreign shareholder	% stake
AGI Romania	Arab German Insurance Co	41.2%
AIG Romania	AIG	99.6%
Allianz Tiriac	Allianz	51.5%
AVIVA	CGNU	100.0%
Garanta	Ethniki	68.8%
	International Finance Corporation	10.0%
Generali	Generali Holding, Vienna AG	72.9%
Grawe	Grazer Wechselseitige Versicherung AG	99.8%
ING Nederlanden	ING Continental Europe Holding BV	99.9%
Interamerican	Interamerican Hellenic Life Insurance Co	99.2%
Lukoil Asito	SC Norcross Insurance Co. Ltd (UK)	99.9%
Omniasig	TBIH Financial Services Group NV*	68.9%
Omniasig Addenda	Omniasig	65.0%
	Addenda**	35.0%
Sara Merkur	Merkur Versicherungs	94.3%
	Merkur Zavarovalnica	5.0%
Unita	Wiener Staedtische Allgemeine	99.9%

*owned by Deutsche Bank, the European Bank for Reconstruction & Development and the Israeli Talladium Kardan Group
 **partly owned by General Cologne Re)

Foreign companies accounted for 51% (2002: 55%) of total premiums in 2003. Companies with significant foreign participation are shown in Table 3. Despite CSA requirements for shareholder information, the ownership structure of some companies is not available. Almost all major commercial banks have formed insurance companies but bank shareholdings are limited to a maximum of 20% in any one insurance company. Key Table 4 shows key bank shareholdings.

Table 4

Key bank shareholdings

UN SAR and www.Iasig.ro

Company	Bank	% stake
Allianz Tiriac	Banca Tiriac	n.a.
Agras	Raiffeisen Bank	19.0%
Alpha	Alpha Bank	20.0%
Ardaf	Eurom Bank	15.2%
Asiban	BCR, BRD-GSG, CEC, Banca Transilvania, S.C. ISAF SA	20% each
Asitrans	Banca Romaneasca	19.9%
BCR	Banca Comerciala Romana	20.0%
Garanta	Banc Post SA	19.0%
Omniasig	Banca Comerciala Romana Group	21.8%
Provitass	International Bank of Religions	19.0%
SAR Transilvania	Banca Transilvania	20.0%

CSA accreditation

The liberalisation of the Romanian insurance industry began shortly after the fall of the Ceausescu regime in 1989. The new government passed a number of laws which dissolved the state monopoly, ADAS (Administratia Asigurarilor de Stat) and allowed the formation of private insurance companies and intermediaries. It also established an insurance supervisory authority, Supervisory Office of Insurance and Reinsurance Activities (SOIRA). Further legislation enacted in 1990, divided ADAS into three autonomous state-owned joint stock companies. Asirom (Asigurarea Romaneasca), currently the second largest domestic insurer took over all ADAS assets and liabilities relating to life and other domestic insurances, including compulsory classes. Astra inherited all assets and liabilities relating to international insurance and reinsurance activities and Carom assumed the claims assessments and settlements, mainly in respect of international motor accidents. SOIRA was superseded by the Comisia de Supraveghere Asigurarilor (CSA) in 2001.

Law no. 32/2000 led to the formation of the CSA and subsequent amendments strengthened its powers of enforcement and intervention. Prior to 2001, insurance supervision was relatively weak, and few companies' licences were withdrawn. Part of CSA's remit is to develop and strengthen the insurance market and ensure fair competition but also to facilitate insurance industry reform in line with EU legislation.

Consolidation of the market began in 2001, following the requirement of all insurers to be accredited by the newly formed CSA. Documentation required for this process included the company's articles of incorporation and shareholder list. Companies had to be compliant with minimum capital requirements and reinsurance coverage. 53 of the 73 insurance companies trading at the end of 2000 successfully submitted the required documentation but only 47 were authorised to trade in that year. Eighteen ceased trading whilst five companies merged and the remaining three were granted a license to trade in 2001. The number of insurance companies is likely to diminish further as a consequence of the annual increase in the minimum capital requirement, solvency, technical reserves and the introduction of a guarantee fund in 2004.

46 of the 51 insurance companies authorised to trade in 2003 complied with CSA requirements in terms of disclosure. These comprised 18 composites, 25 non-life companies and 3 life companies. New companies may only be authorised for life or non-life business in compliance with the EU Non-life Insurance Directive, however, at present composite companies are allowed to trade provided separate accounts for the life and non-life operations are maintained.

Solvency

New solvency regulations came into effect in 2003 which included the implementation of an early warning system and a strengthening of the CSA's intervention powers. This should encourage further consolidation of the market and greater transparency. Table 5 shows the range of solvency levels with 1.0 as the threshold of insolvency. The system calculates the ratio between an insurance company's minimum statutory solvency and its actual solvency (for example, a company with a solvency ratio below one is insolvent, whilst a company with a solvency ratio between one and 1.5 is required to implement a financial recovery plan). However this is not in compliance with the EU Insurance Directives. The system is scheduled to be replaced prior to EU accession in 2007.

Table 5

Solvency	Under 1.0	Insolvent
CSA	1.0	Threshold of insolvency
	1.0-1.5	High risk of insolvency
	1.5-2.0	Low risk of insolvency
	Above 2.0	No risk of insolvency

Out of the 46 companies operating in the market in 2003, five recorded a level of solvency of less than 1, indicating insolvency. These companies are Anglo-Romana, Metropol, Croma and Asigurari Global. AGI Romania had a capitalisation issue in June 2003 and its solvency level increased from 0.60 to 1.41. Out of the 21 companies writing life, only Asirag was classified as insolvent.

Subsequent amendments to the solvency regulations which incorporate the EU Solvency I Directive are in the pipeline in 2004. This would mean a higher solvency requirement and the establishment of a guarantee fund equal to one-third of the solvency margin and subject to a minimum of EUR3mn for insurers writing non-life and EUR2mn for other classes in addition to the minimum capital requirement. The application of the EU solvency and minimum capital requirements will accelerate the process of consolidation in the life and non-life markets. Almost 50% of companies failed to meet the minimum premium requirement in 2003.

Some smaller players may find it difficult to raise capital on the small amounts of premiums written and thus be faced with the prospect of merger or closure. Medium sized operations may be attracted to write new lines of business but this will require capital. Mergers or some sort of joint venture proposals are alternatives. The number of insurance companies that have come under close scrutiny by the CSA has grown from just 4 companies in 2001 to 25 companies in 2003. Insurance companies have been fined for among other things, insufficient reserves, non-payment of claims and under capitalisation. Such escalation may be taken as evidence of effective stewardship although some may attribute it to an industry struggling to adopt the changes needed by the EU. Four companies failed to comply with new minimum capital requirements in March 2003, whilst a further two companies were put into liquidation.⁶

Reserves

In 2003 gross non-life technical reserves increased 54% to ROL12,220bn (USD367.5mn). Table 6 shows the development of technical reserves over the period 2001-2003. The marked increase in technical reserves in 2003 resulted from companies complying with new reserving regulations issued by the CSA requiring company's to increase total reserves in line with increases in indemnity limits. The low level of claims reserves reflects the fact that majority of Romanians are unaware of their legal rights which were restricted during the communist era. The relevant civil code which confers a general right to sue has now been amended. Litigation has been rare except in the context of motor accident. Personal injury claims, outside the context of motor accident, are extremely unusual. Litigation costs are paid by the claimant. Public liability policies are mainly purchased by foreign-invested enterprises. Legislative changes have now increased the number of professions which are required to buy professional indemnity insurance.

⁶ 2003 Annual Report of the Romanian Supervisory Commission

		2001	2002	2003
Table 6				
<i>Gross technical reserves</i>				
CSA	Gross technical reserves ROLmn	3,001	7,945	12,220
	Of which %			
	Unearned premiums	37%	50%	57%
	Claims reserves	50%	32%	28%
	Catastrophe reserves	9%	11%	9%
	IBNR reserves	2%	7%	6%
	Other	2%	0%	1%
	Total	100%	100%	100%
	As % of gross premiums	38%	65%	59%

Market Potential

Romania has the potential to become one of the largest markets in Central and Eastern Europe. With a population of 22mn it is the second most populous country in Eastern Europe after Poland and generated a total market premium of USD795mn at YE2003. Total expenditure on insurance is low and market penetration limited. The potential for economic growth combined with an improving legislative framework and the strengthening capitalisation of the major insurers provides scope for growth in the insurance market.

Economic growth

GDP growth is forecast to increase marginally from 4.9% at YE2003 to just over 5% in 2004/2005.⁷ It should be noted, however, that the GDP of countries such as Romania could be understated because it does not capture the full impact of the informal economy (IE). The difficulty in measuring the true level of national output and current living standards (e.g. in terms of income), is a common feature of transition economies. The National Institute of Romania estimates the size of the IE to be in the region of 18% of GNP, however, the EBRD estimates Romania's IE to be as high as 35% of GNP.⁸ There are ongoing efforts to simplify the tax regime, reduce the tax burden and curtail red tape in order to stimulate investment and reduce cost differentials between the legal and grey economies.⁹

The current government has been more successful than its predecessors in pushing ahead with reforms, but slippages in crucial areas such as privatisation, state sector wages, arrears accumulation, and redundancies are contributing to the instability of the Romania's economy.¹⁰ As a result, Romania's ability to attract foreign direct investment (FDI) has lagged far behind its potential, and is dwarfed by the amount absorbed by leading transition economies.¹¹ Many of the necessary reforms are difficult to implement since they will be burdensome on a population that has already seen living standards fall sharply over the last decade. In addition growth is likely to be constrained by continuance of relatively tight macroeconomic policies under the country's IMF agreement.

The privatisation of one of Romania's largest oil company, SNP Petrom in 2004 should, however be helpful. The sizeable proceeds from the sale will be a valuable source of income to fund government debt. Such an initiative is likely to be viewed positively by the EU.

Strong growth record

The insurance sector has continued to grow rapidly with total gross insurance premiums collected in 2003 increasing 61% to USD795mn or ROL26.4bn with an average growth in the last five years of 27%p.a. As shown in Chart 1, life premiums have been the driver of this growth in the last five years and have increased at an average rate of 54% p.a. Non-life premiums rose 23% p.a during the period to USD608mn (ROL20.2bn) spurred by rising property ownership, and motor vehicle

⁷ Romania: 5 year forecast table, County Review, EIU, 11 May 2004

⁸ Strategy for Romania, EBRD, 25th November 2003

⁹ Romania risk: Macroeconomic risk, Country Review, 14 July 2004

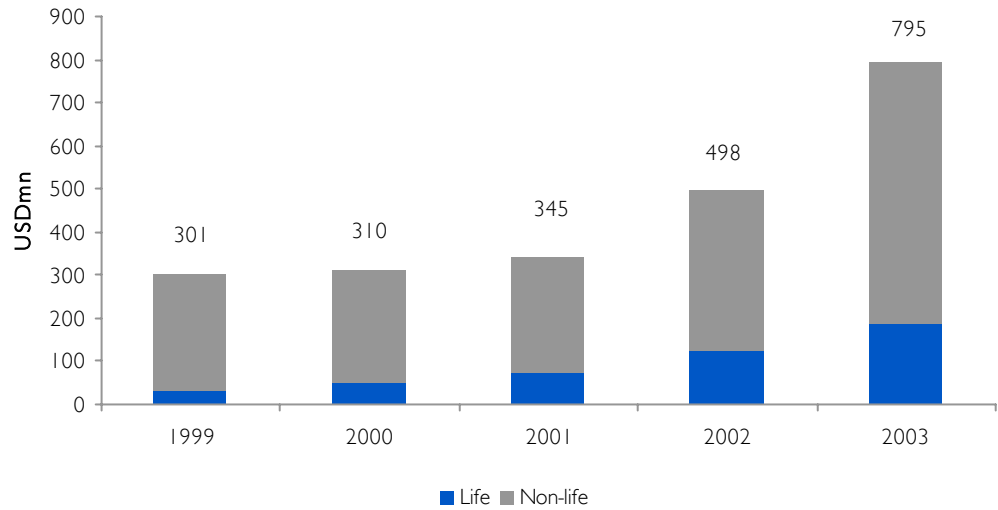
¹⁰ Romania risk: Macroeconomic risk, Country Briefing, Economist Intelligent Unit, 20 April 2004

¹¹ Romania: FDI outlook, Country Briefing, Economist Intelligent Unit, 9 June 2004

sales on the back of growth of consumer credit and leasing. MTPL rates also increased. This sector now accounts for 67% of the total non-life.

Chart 1

Premium income 1996-2003
CSA

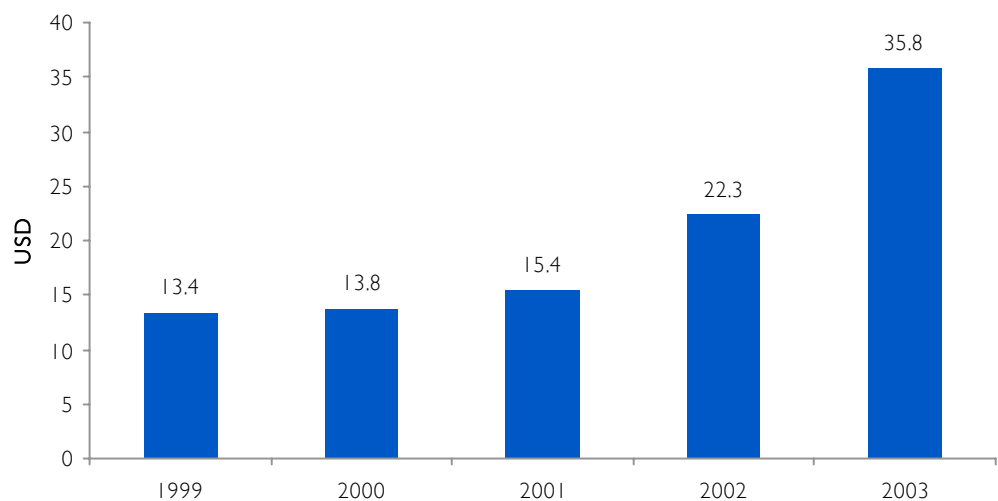


In the first quarter of 2004, gross premium collected increased by 24% to USD269mn. The CSA has projected this trend and forecasts 2005 premium income in excess of USD1bn in 2005.¹²

Market penetration and density

Chart 2

Insurance density, per capita premiums
Swiss Re Sigma World Insurance Reports



¹² Romania Q1 Insurance Market Up 24 Pct Y/Y, South East Europe Newswire, 24 May 2004

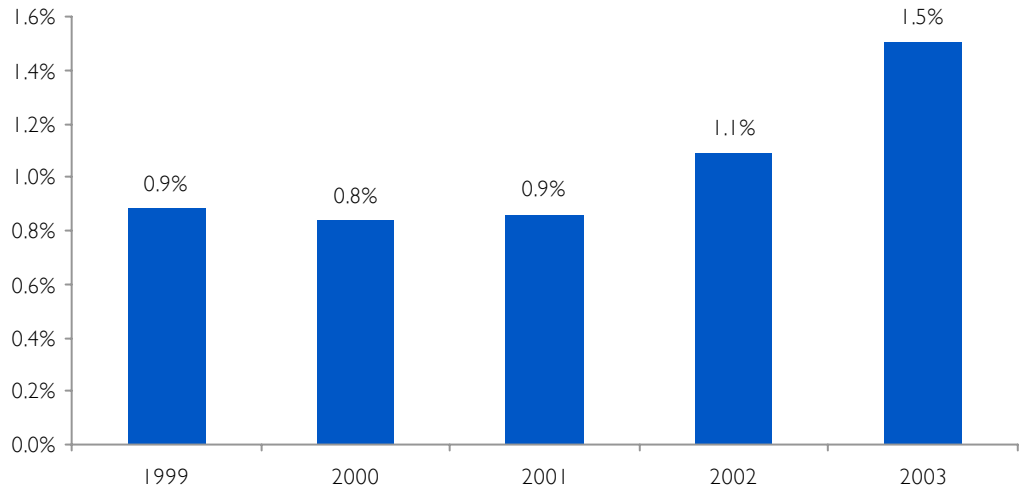
Romania's insurance per capita insurance spend and market penetration rate development from years 1999 to 2003 are shown in Charts 2 and 3. The per capita spend on insurance in 2003 totalled USD36 which is in stark contrast to that of the developed markets in Western Europe (EU15) at USD2,590 and is also much lower than the USD212 recorded by the developing markets of the EU8

Romania's insurance industry is still a small part of the overall economy at just 1.5% of GDP in 2003. Penetration rates should however increase reflecting GDP growth estimates. MTPL rates increases, reflecting the annual increase in indemnity limits, will also help. There is still a considerable gap to close, with the EU8 and EU15 recording penetration ratios of 3.3% and 9.3% respectively in 2003.

7 Chart 3

Market penetration rates (Total premiums/GDP)

Swiss Re Sigma World Insurance Reports



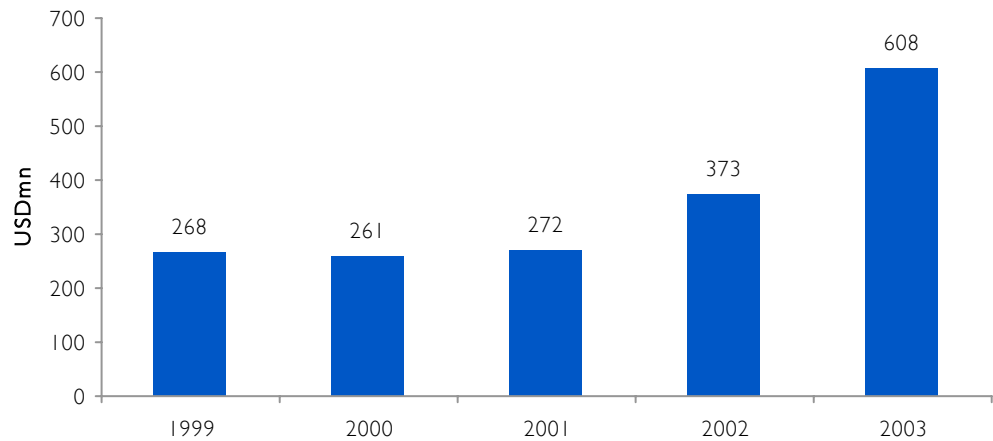
Non-life insurance industry

Motor accounted for 67% of the non-life market in 2003 and property a further 17% of the total. Progressive increases in MTPL rates to cover rises in indemnity limits, increasing car and home ownership and foreign investment suggest that growth in these segments are well underpinned.

The non-life market is underdeveloped and was, until recently, dominated by state insurance companies. Allianz-Tiriac is now the largest non-life operator overtaking Asirom in 2002. As shown in Chart 4, the non-life market experienced extremely strong growth in 2003, increasing 63% to ROL20.2 bn (USD608 mn).

7 Chart 4

Romanian non-life premium
CSA



Asirom's market share has fallen rapidly since this ex-state insurance company lost its monopoly of MTPL business in 1997. The main gainers have been Allianz Tiriac (ATI) and Omnisig, the latter owes its market position to its control of the Daewoo Motors lease credit and casco scheme. ATI has been an aggressive competitor since 2001 when Allianz AG bought a stake

ATI's non-life premium income increased 75% to USD608mn (2002: USD373mn) and increased its market share from 24% to 25% in 2003. Omnisig, majority owned by Israeli financial services company TBI Holding, is the third largest non-life insurer in the market and wrote USD63.8mn and had a market share of 11%. Table 7 shows the top ten non-life companies and their respective market shares in the last five years.

7 Table 7

Major non-life insurance companies' market share
CSA

	1999	2000	2001	2002	2003
Allianz-Tiriac	9.2%	12.0%	17.1%	23.7%	24.5%
Asirom	35.9%	26.5%	24.2%	21.6%	20.6%
Omniasig	7.6%	12.6%	13.3%	12.6%	10.5%
Astra	11.3%	9.0%	7.0%	6.8%	6.2%
Unita-Group WS	3.5%	2.7%	3.1%	3.7%	5.9%
Asiban	2.7%	3.0%	3.9%	3.7%	5.2%
Ardaf	6.6%	6.3%	6.1%	5.5%	5.2%
BCR Asigurari	n.a.	n.a.	n.a.	1.3%	3.7%
Generali	2.4%	2.8%	4.0%	4.8%	3.7%
AIG Romania	2.5%	2.6%	2.4%	3.8%	2.5%
Total top 10(ROLbn)	3,079	4,396	6,405	10,775	17,710
Total top 10	81.7%	77.5%	81.1%	87.5%	87.6%

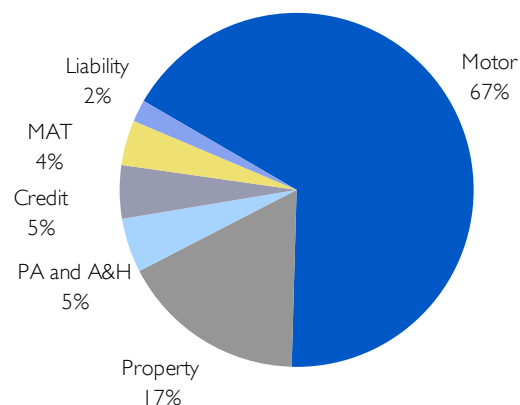
Insurance companies with a banking affiliation have benefited most from the rise in MTPL and the credit boom. The companies that posted the largest growth in terms of premium income were Asiban, BCR Asigurari, Garanta and Agras. Other companies with bank ownerships also experienced marked increases in business were Garanta and Agras. BCR Asigurari, the newcomer, but already the second largest credit insurer after Asiban is making rapid progress in the rankings.

Chart 5 shows the business line split for the non-life line market. Motor is the largest class accounting for 67% of the total non-life premiums followed by property insurance at 17%.

7 Chart 5

2003 non-life business split
CSA

2003 Non-life premium income ROL608bn

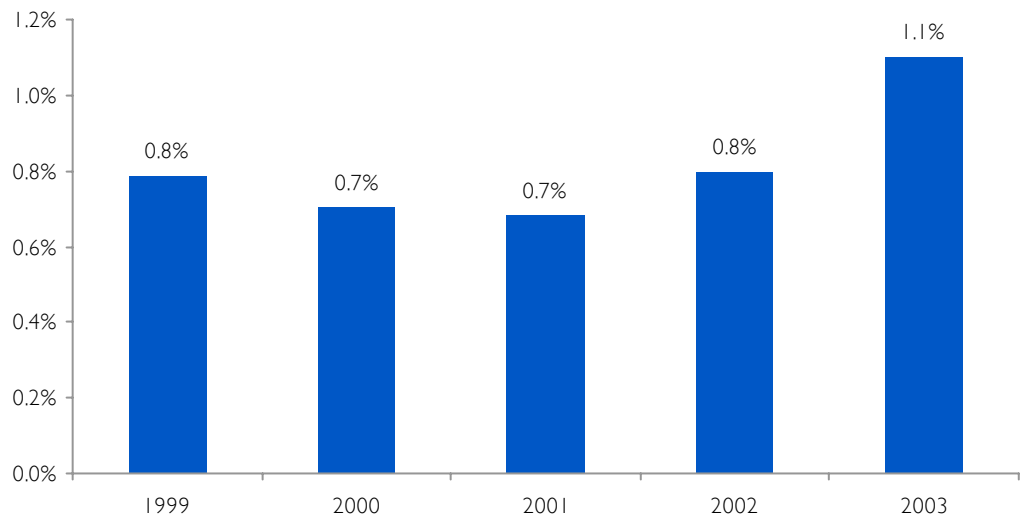


Non- life penetration

As noted earlier state owned assets and most of the housing market are largely uninsured. It is estimated that only 5%-7% of property in Romania is insured. There is virtually no household insurance, and most state-owned enterprises are only insured to the extent required by their bank loans. The non-life penetration rate development is shown in Chart 6. The most developed part of the market is foreign-invested risks. Romania's non-life market penetration rate is one of the lowest in Eastern European countries and the CIS. Compared to other EU accession candidates, it is lower than Bulgaria but comparable to Turkey at 1.1%.

7 Chart 6

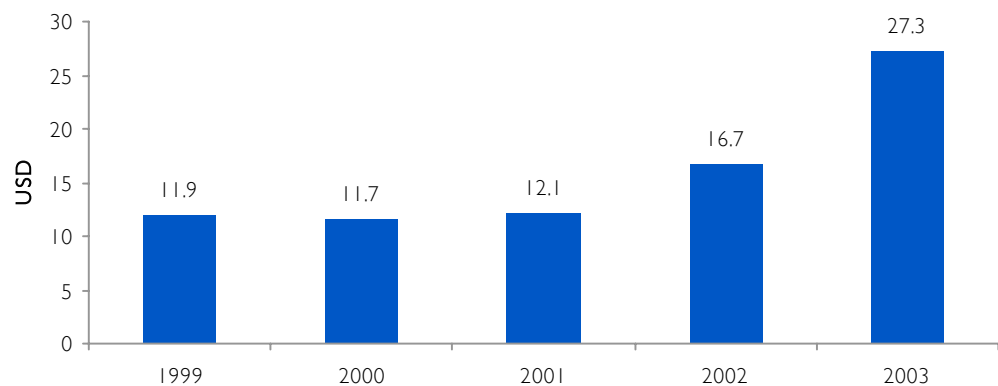
Non-life penetration rates
CSA



The Romanian non-life per capita spend at USD27.3 is one of the lowest in the region. Chart 7 shows the insurance per capita development for Romania from 1999 to 2003. Per capita spend for the non-life market, as for the total insurance market, is influenced by regional diversity. The underdeveloped rural regions offset the much higher spend in the Bucharest region.

7 Chart 7

Non-life insurance density
CSA



Motor market

The motor sector has been one of the fastest-growing in recent years. In 2003 motor premiums increased 72% to ROL13,380bn (USD402.4mn), equivalent to 67% (2002: 63%) of the non-life market total. Increases in MPTL rates plus the popularity of leasing and car financing were behind this increase. Table 8 shows recent growth in the motor market and the component parts. In 2003, 15 insurance companies were licensed to sell MTPL; three less than in 2002. Croma, Metropol and Grup AS ceased trading in 2003.

Table 8

Motor business
CSA

ROLbn	2001	2002	%ch	2003	%ch
Motor Hull	2,987	4,331	45%	7,839	81%
Compulsory MTPL	1,999	2,470	24%	3,871	57%
Green card	277	844	205%	1,528	81%
Voluntary MTPL	18	151	739%	142	-6%
Total	5,281	7,795	48%	13,380	72%
%split					
Motor Hull	57%	56%		59%	
Compulsory MTPL	38%	32%		29%	
Green card	5%	11%		11%	
Voluntary MTPL	0%	2%		1%	
Total	100%	100%		100%	

Car ownership in Romania has risen rapidly, increasing from 56 cars per 1,000 population in 1990 to 149 per 1000 in 2002. Estimates of future trends are shown in Table 9. New passenger cars are forecast to increase by 5% p.a. between 2002 and 2007. Car ownership is still low relative to other countries in the region. Passenger-car ownership in Slovakia stood at an estimated 268 per 1,000 population in 2002. Slightly higher than the car-ownership rate in Hungary (estimated at 247 per 1,000 population in 2002). Romanian car ownership is well below the rate in the Czech Republic at 371, and far below the rates of 400-500 per 1,000 inhabitants recorded in the developed countries of the EU15¹³.

Table 9

Passenger car per 1000
inhabitants
EIU

	2002	2003	2004	2005	2006	2007
New passenger car registrations ('000)	149	128	141	161	188	174
Stock of passenger cars (per 1,000 pop.)	156	164	172	182	192	203

¹³ Romania: Automotive background, Executive Briefing, EIU, December 2003.

Romanian new passenger car registrations are expected to grow by 8% p.a. between 2003-07; about twice as fast as the world annual average growth rate in car sales over the same period. Based on the latest data ¹⁴ available, the number of registered vehicles rose 3% to just over 4 mn. These comprised 3,225,512 cars, 456,324 commercial vehicles, 277,210 motorbikes and 47,724 buses. Total motor insurance policy sales in 2003 are expected to reach ROL3.3 tln (USD98.5 mn).¹⁵

Motor third party liability insurance

Compulsory MTPL premium income grew 57% ROL3,871bn and the number of contracts increased 23% to 4,245,678 in 2003. Romania's motor third party liability (MTPL) legislation and practice must conform to the relevant EU directives by 2007. Statutory indemnity limits have been increased each year since 2002, but compliance with the proposed Fifth Motor Insurance Directive will require step changes far in excess of the incremental increases so far adopted. The current directive requires statutory indemnity limits as high as EUR1mn (USD1.2mn) for personal injury plus an option for Member States to apply a minimum amount of EUR5mn per accident (as requested by the European Parliament) and a minimum of EUR1.0mn (USD1.2mn) for property damage. A transition period of 5 years has been awarded to members.¹⁶

From 2005 Romania will extend the coverage of compulsory third-party liability to include travelling to EU states. And from 2007, if they meet conditions, Romanian insurers may sell insurance abroad. A number of legislative changes are in the pipeline, some of which may be implemented in 2004. These include:

- Unification of domestic and international MTPL insurance so that all MTPL insurers may issue green cards;
- Establishment of comparative databases of registered and insured vehicles. This will facilitate the introduction of a bonus/malus system;
- Abolition of the current requirement for all MTPL policies to renew on 1 January;
- Abolition of the dispensation whereby MTPL premiums can be paid in two instalments, with the option to change insurer at the mid-point of the year;
- Abolition of the MTPL premium tariff.

All MTPL policies expire on 31 December and at present premiums can be paid in two instalments, one for the period 1 January to 31 May and the second for the period 1 June to 31 December. From 2005, insurers licensed to sell MTPL policies could extend the policy period from the standard 1 year contract. The CSA is in the process of creating a database containing the number of registered vehicles with RCA policies which would be linked to the police authority's databases to prevent fraud and to ensure drivers buy MTPL cover.

Evasion of the compulsory insurance requirement is a problem and may well worsen with the anticipated steep increases needed in motor premiums to cover the hikes in indemnity limits. The estimated number of vehicles without MTPL policies range from 40% to as much as 50% of the

¹⁴ Ibid

¹⁵ Romanian Statistical Yearbook 2002

¹⁶ Insurance: Commission welcomes Council agreement on modernising Motor Insurance Directives, 28th November 2003. Reference IP/03/1615.

total vehicles on the road but there are virtually no claims against the victims' protection fund.¹⁷ Enforcement issues plus amendment to legislation covering compensation limits to victims of uninsured drivers are scheduled to be resolved in 2004. Table 10 shows the top five MTPL insurers and their respective market shares over the period 1999-2003.

7 Table 10

Top 5 MTPL insurers
CSA, AXCO

Company	1999	2000	2001	2002	2003
Asirom	51.6%	39.8%	34.7%	35.3%	28.3%
Allianz Tiriac	n.a.	6.9%	7.4%	12.6%	13.6%
Astra	14.3%	14.8%	10.1%	12.6%	12.7%
Omniasig	5.5%	n.a.	13.1%	9.9%	10.8%
Unita	6.8%	n.a.	6.6%	6.6%	11.1%
Top 5 total (ROLbn)	762	901	1,649	2,668	4,239
Top 5 total	78.2%	61.5%	71.9%	77.0%	76.5%

Includes Compulsory and voluntary MTPL as well as Green card.

Market concentration in the MTPL and motor hull markets has been stable amongst the top 5 over the period although there has been a significant change in the individual shares. Allianz-Tiriac is the market leader in motor hull insurance, having taken over the lead position from Asirom in 2002

7 Table 11

Top five motor hull insurers
CSA, AXCO

Company	1999	2000	2001	2002	2003
Allianz Tiriac	9.0%	13.6%	23.1%	31.2%	37.1%
Asirom	43.4%	30.7%	25.1%	21.5%	22.3%
Omniasig	6.4%	16.2%	14.3%	10.2%	8.5%
Generali	n.a.	n.a.	6.1%	7.9%	4.8%
Ardaf	6.0%	6.2%	6.0%	5.4%	4.2%
Top 5 total (ROLbn)	778	1,289	2,228	3,300	6,028
Top 5 total	64.8%	66.7%	74.6%	76.2%	76.9%

Green Card

Premium income from green card insurance increased 81% to ROL1,528bn and the number of contracts rose 14% to 305,079 in 2003. Romania has yet to unify its domestic and international motor liability markets, thus companies may be authorised for domestic MTPL without necessarily being able to issue green cards. Romania is a member of the International Council of Bureaux, where it is represented by the Romanian Motor Insurers' Bureau (BAAR). The CSA and BAAR have authorised 10 insurance companies to issue green card insurance¹⁸. Table 12 shows the top five green card insurers. Unita moved up from 8th place in 2001 to second place in 2003. Omniasig, was just outside the top 5 in 2003 and placed 6th in 2003 with a market share of 7.1%. but in 2001 was the third largest with a market share of 14%, Astra, Ardaf and Asirom have also lost market share to Unita. Grup AS and Metropol's green card licenses have been revoked because of persistent failure to pay green card claims.

¹⁷ Romanian Insurers Pay ROL33.4 mn Euro Damages on RCA Policies Jan-Sept 2003, Romanian News Digest, 29 October 2003

¹⁸ Allianz Tiriac, Asirom, Astra, Omniasig, Ardaf, Asirag, AGI Romania, Unita, Asitrans and Atlassib

7 Table 12

Top five green card insurers
CSA, AXCO

Company	2001	2002	2003
Allianz Tiriac	16.1%	23.1%	22.6%
Unita	4.6%	7.0%	16.6%
Asirom	12.7%	12.8%	11.6%
Astra	16.2%	12.5%	11.3%
Ardaf	10.2%	12.0%	9.6%
Top 5 total (ROLbn)	271	569	1,096
Top 5 total	59.8%	67.4%	71.7%

Data included in Table 10

Property

Property insurance is the second largest non-life segment which showed exceptionally strong growth in 2003, in part reflecting the rapid expansion in bank lending. Falling interest rates and longer maturities (20 to 25 yrs) have propelled the Romanian mortgage loan market in the past two years. Much of the success of mortgages can be attributed to the European Bank for Reconstruction and Development (EBRD), which has continued to support Romania's burgeoning mortgage sector, and has recently signed several more financing agreements.¹⁹ Domestic credit in the form of mortgages and other type of consumer lending increased 50.4% to ROL301,060bn²⁰. In 2003, property insurance grew 59% (2002: 66%) to ROL3494bn (USD105mn). The privatisation of state-owned enterprises (SOE) in 2004 and infrastructure projects related to EU accession requirements and continued increase in credit related products, including leasing and ownership of property, should keep demand for property insurance buoyant in 2004. Table 13 shows the top five property insurers.

7 Table 13

2003 Top five property
underwriters
CSA and UNSAR

Company	1999	2000	2001	2002	2003
Allianz Tiriac	18.0%	19.6%	19.8%	24.3%	23.1%
AIG Romania	10.4%	11.4%	9.3%	17.1%	11.9%
Asirom	17.5%	3.4%	13.8%	12.2%	10.0%
Generali	8.0%	9.0%	7.7%	8.4%	9.1%
Omniasig	n.a	7.5%	11.1%	8.0%	10.2%
Top 5 total (ROLbn)	317	429	816	1,539	2,247
Top 5 total	53.9%	50.9%	61.7%	70.0%	64.3%

¹⁹ Romania: 5 year forecast table, Country View, EIU, 26 May 2004.

²⁰ Ibid

Main companies

Allianz Tiriac Insurance (ATI)

The company was established in 1994 as Ion Tiriac Insurance. In 2001, Allianz AG Group acquired 51.6% majority stake in the same year adopted the Allianz brand as part of its trading name. The remaining shares are held Vesanio Trading Ltd. 44% and management 4.4%. The company's portfolio is 97% general non-life insurance with the balance in life insurance. The 2003 non-life split is motor 74%, property 16% and credit & warranty business 10%. ATI is the non life market leader with a 2003 market share of 25%. It is the leader in the domestic property, liability and motor markets sectors with a market share of 23%, 22% and 31% respectively.

Table 14

Key 2003 data

CSA

	ROLbn	USDmn
Premium income	5132	154
Net profit	325.2	9.8
Share capital	270.3	8.1
Solvency ratio	3.6%	

Asirom

When Asirom was established in 1991, 70% of its equity was allocated to the State Ownership Fund (SOF) and 30% to its employees. The company underwent a quasi-privatisation in March 1999 and the share capital was increased to ROL29.1 bn (USD1.8 mn) through the private placement of 19 mn new shares with four Romanian institutions (Banca Agricola, the Interagro, the Astra oil refinery and investment fund SIF Oltenia, each taking a 15.4% stake. The SOF stake was reduced to 26.8% and the employee shareholding to 11.5%. Further financial transactions reduced the SOF share to 6.4%. Asirom is now under the effective control of Loan Nicolae, whose company Interagro Bucharest owns 38.1% of the equity. Asirom is quoted on the over-the-counter RASDAQ exchange. It has 47 branches, 83 representative offices and 89 insurance agencies in Romania.

Table 15

Key 2003 data

CSA

	ROLbn	USDmn
Premium income	4965	149
Net profit	176.1	5
Share capital	637.9	19.1
Solvency ratio	2.0%	

Astra

Astra was established in 1991. The State Ownership Fund was the largest shareholder with a 76% stake. The privatisation process began in 1999 but only completed in August 2002 due to procedural delays. The SOF stake was sold to Nova Trade which is, a real estate and services group, controlled by a Romanian businessman. At YE2003, Astra's other shareholders were S.I.F. Banat-Crisana 5.7%, S.I.F. Moldova 5.7%, S.I.F. Transilvania 5.7%, S.I.F. Muntenia 5.7%, Persoane fizice: 1.5%. Astra's market share has fallen steadily from a peak of 11% in 1999 to just 6% in 2003.

Table 16

Key 2003 data
CSA

	ROLbn	USDmn
Premium income	1257	38
Net profit	5.5	0.2
Share capital	344.7	10.4
Solvency ratio	9.2%	

Omniasig

Omniasig was formed in 1994 and is majority 70.7% owned by the Israeli financial services company TBI Holdings. Romanian Commercial Bank Group has 22%. At YE2003, it was the third largest non-life insurer and fourth largest MTPL insurer with a market share of 10.9% and 10.8% respectively.

Table 17

Key 2003 data
CSA

	ROLbn	USDmn
Premium income	2122	64
Net profit	64	1.9
Share capital	250	7.5
Solvency ratio	2.0%	

Life insurance

Life insurance accounted for 23% of total premium income in 2003 and has experienced strong growth in recent years. However Romania has one of the lowest life insurance spends per capita in Eastern Europe. A variety of insurance products are sold but those with savings characteristics are most popular. The government is reforming the social security and healthcare systems and this should open up new markets in the pensions and health arenas. Foreign operators should provide additional expertise in these markets.

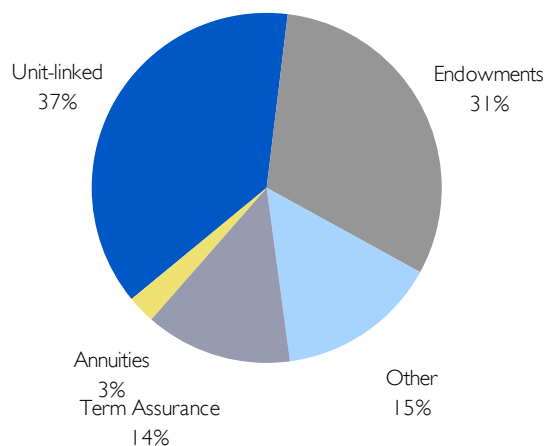
The life insurance market is immature but growth, albeit from a small base, has been rapid. A variety of insurance products are sold but those with savings characteristics are the most popular. Unit-linked business is the largest class, accounting for 37% of the 2003 total as shown in Chart 8.

Chart 8

2003 Life insurance business line split

CSA

2003 Premium income ROL6200bn



Endowments, which often include additional coverage for health and personal accident, are the second largest class. With-profit policies pay dividends on surplus revenues as well as guaranteed basic returns set by the government. Term assurance including single premium life assurance grew 141% to ROL 1,057.8bn. and accounts for 13% of the total life premium income. The number of new life policies written increased 37% to 1.2mn.

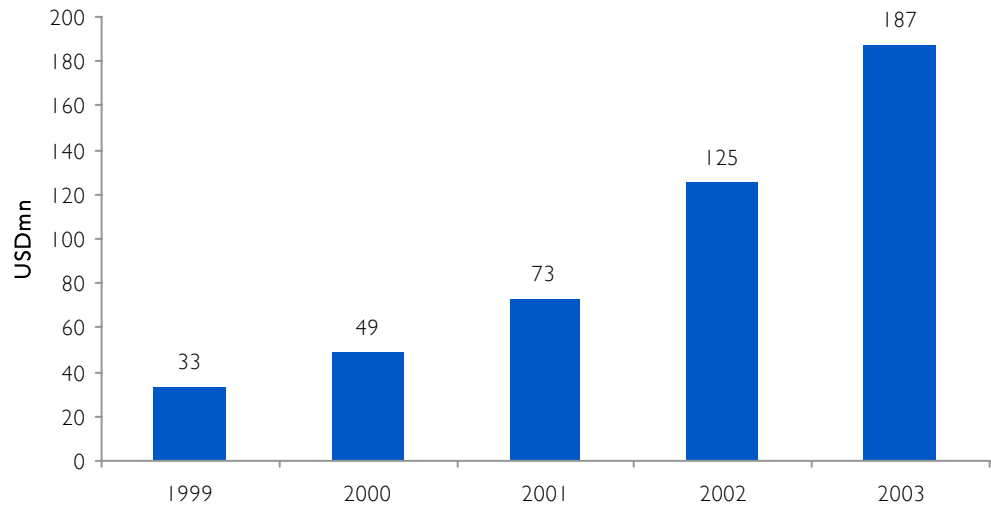
Private pension schemes and other investment products are not widely sold but the influx of foreign companies is likely to encourage development in this area. Some reform of the state pension scheme took effect in 2004 including fiscal incentives for occupational private pensions.²¹ A percentage of premiums paid by both individuals and corporations will be tax deductible

Life premiums have increased at 54%p.a. since 1999. Chart 9 shows the life premium development between 1999 and 2003.

²¹ PRIMM Quarterly Review, Profil Asigurari, May 2004

Chart 9

Life premium development
CSA



ING Nederlanden is the market leader with a premium income of ROL2,721bn (USD81.8mn) followed by Asirom at ROL793bn (USD24mn). The latter held pole position until 1999 when ING began selling unit linked products. Asirom has also lost market share to AIG Life and AVIVA who set up in 1998 and 1999 respectively. The top ten accounted for 94% of the market in 2003, as shown in Table 18, with the top five representing 80%.

Table 18

Major life insurance companies' market share
CSA

	2001	2002	2003
ING Nederlanden	52%	58%	44%
Asirom	17%	12%	13%
Omniasig Life	1%	4%	9%
AIG Life	9%	7%	8%
Asiban	2%	1%	6%
AVIVA	2%	4%	4%
Interamerican	2%	2%	3%
Allianz-Tiriac	0%	1%	3%
Unita	4%	2%	2%
Lukoil Asito	6%	3%	2%
Top 10 total (ROLbn)	1,990	3,929	5,809
Top 10 total %	94%	95%	94%

Five insurance companies have been recently approved to begin marketing health insurance policies. Interamerican intends to focus on this segment, while also developing its own network of private health care facilities.

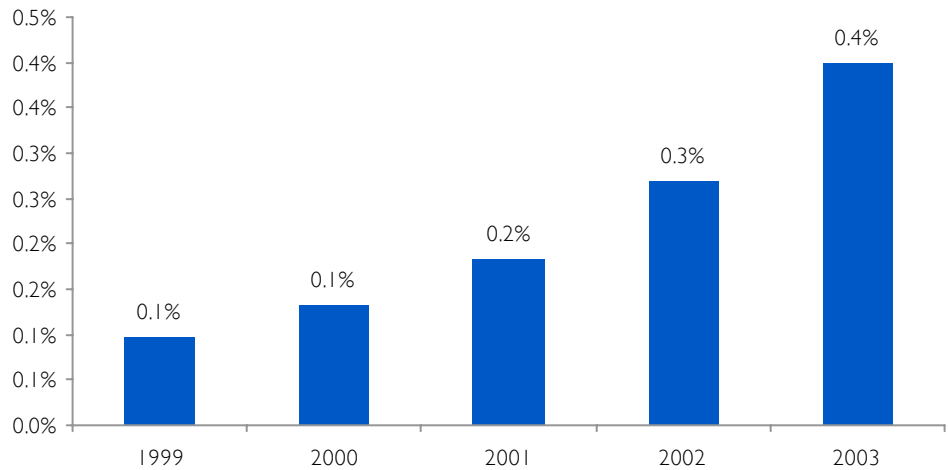
The life industry is undergoing major reform. The public system of pensions and other social security rights were highlighted by the 2003 report by the European Commission on Romania’s progress towards EU accession and by the International Monetary Fund (IMF) as a pre-condition for approval of a further stand-by agreement to fund wide-ranging structural reforms.²²

Life market density

As shown in Chart 10, 2003 expenditure on life insurance relative to GDP was only 0.4%. This is in contrast to the developed markets of Western Europe (EU15:5.1%). Low disposable incomes, limited knowledge of insurance and cultural resistance have all restricted growth. In theory the credit market provides opportunities to sell life insurance but so far the credit boom that has helped the non-life sector has not impacted life.

7 Chart 10

Life penetration rate
development
CSA

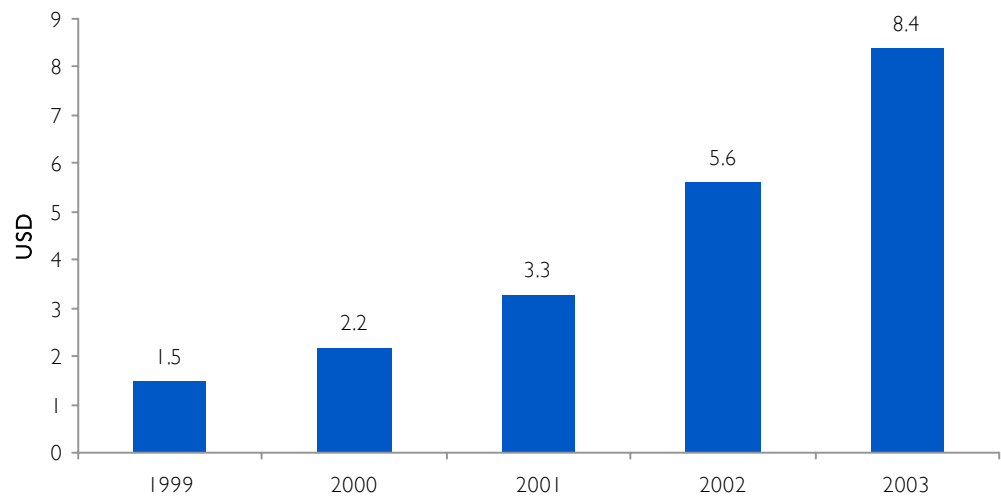


Despite recent growth in life premiums from a very low base, Romania still has one of the lowest life insurance spends per capita in Eastern Europe. However it is significantly higher than the countries of the CIS with the exception of Russia. Romania’s life insurance spend is comparable with Turkey and is higher than Bulgaria at USD5.4 and USD8.4 respectively. Chart 11 shows the insurance spend development in the last five years.

²² Romania finance: A new deal with the IMF, Country Briefing, EIU, 9 August 2004.

Chart 11

Life insurance density
CSA



Reform of the social security system

Labour costs remain high despite changes to the law on social security and pension contributions in April 2001. Employer contributions can total up to 51% of gross salaries (assuming tax rates and regulations in force in November 2001). Social security contributions range from 23-33% of gross salaries (previously the range was 30-40%). On top of this, employers pay 5% of gross salary into an unemployment fund; 7% into a health insurance fund; 3% into a disabled persons' fund; 2% into a national education fund; and 0.25-0.75% to the Labour Chamber, depending on who keeps the work books. In addition to income tax rates (18-40%, with the latter starting at taxable income above ROL8.4mn), employees pay total contributions of 19.7% maximum. This includes a social insurance contribution of 11.7% of gross salary, an unemployment insurance fund contribution of 1% and a health fund contribution of 7%.²³

Pensions

Reform of the pension system is one of the key challenges facing the Government. The impact of deficits created by state owned companies within the state pension fund and demographic trends calls for the fund to be heavily subsidised from state budgets. The Ministry of Labour and Social Protection is formulating a market for private pensions, based on the Chilean model, which was adopted in Croatia and Poland (with modifications). This will provide (I) a basic state-guaranteed pension (II) an obligatory, privately managed, contributory pension and (III) a voluntary privately managed top-up pension. State regulatory authorities will establish criteria for companies to operate the various pension funds, regulate the re-investment of contributions and oversee a national guarantee fund that will provide protection for pensioners should investment growth fail to meet minimum targets.

²³ Romania risk: Labour market risk, Country Briefing, 14 July 2004.

Main companies

ING Nederlanden Life Insurances (ING)

The company was formed in 1996 as ING Nederlanden Life Insurances. ING made an inaugural net profit in 2002. The company has 68 offices and over 200 permanent employees in addition to 2,400 consultants. It has a market share of 44% in 2003.

7 Table 19

Key 2003 data

CSA

	ROLbn	USDmn
Premium income	2749	83
Net profit	81	2.4
Share capital	450.4	13.5
Solvency ratio	1.5%	

AIG Life Asigurari Romania (AIG Life)

AIG Life was formed in 1998. The majority stockholder of the company is AIG CE&CIS, which controls 99.96% of the share capital. It increased its capital by ROL69 bn in 2003, to finance development of its distribution network, and the group reported a profit of ROL420 bn in the first half of 2004.

7 Table 20

Key 2003 data

CSA

	ROLbn	USDmn
Premium income	520.4	15.7
Net loss	4.5	0.13
Share capital	264.2	7.9
Solvency ratio	2.5%	

Omniasig Viata

Omniasig Viata was formed in 1994 and is majority owned by Israeli financial services company TBI Holdings. As at YE2003, it was the fourth largest life insurer. It has a very strong solvency ratio.

7 Table 21

Key 2003 data

CSA

	ROLbn	USDmn
Premium income	2122	64
Net Loss	64	1.9
Share capital	53	1.6
Solvency ratio	10.7%	

Asiban S.A Asigurare – Reasigurare (Asiban)

Asiban was formed in 1996 and is owned by five domestic banks with 20% shareholding each. The company is a specialist credit insurer and is the 6th largest non-life and 5th largest life insurer writing ROL1,050.7bn (2002: ROL449.4bn) and ROL385.5bn (2002: ROL52.6bn) in premiums respectively. 2003. Business is split between motor (25.7%), property (12.4%), credit (28.3%), life (25.3%) and other (8.3%).

7 Table 22

Key 2003 data

CSA

	ROLbn	USDmn
Premium income(total)	1436.6	43.2
Net loss	145	4.4
Share capital	105	3.2
Solvency ratio (life)	1.7%	
Solvency ratio (non-life)	2.7%	

Appendix I: Regulatory issues

Main supervisory bodies

The Insurance Supervisory Commission or Comisa de Supraveghere a Asigurarilor (CSA) is the insurance supervisory authority. It was established in April 2000 and took over from the Supervisory Office and Reinsurance Activity (SOIRA) which had been acting as insurance supervisor since February 1992. The CSA is an autonomous entity and is managed by a five-member council comprising of a president, a vice-president and three other members. Council members are appointed by parliament for a five-year term and must have at least five years' previous experience in insurance or finance. Its functions and responsibilities are described below:

- Oversees insurance companies and brokers;
- Formulates and enforces related laws and regulations;
- Oversees insurance business operations;
- Protects the interests of policy holders;
- Develops and strengthen the insurance market and ensure fair competition;
- Facilitates insurance industry reform in line with acquis communautaire and restructuring;
- Sets up a risk evaluation and advance warning system to minimize insurance risk.

Romania has two insurance associations, the National Union of Insurance and Reinsurance Companies of Romania (UNSAR) and the Association of Professional Insurance Companies of Romania (APAR). UNSAR was formed in June 1994 as a non-governmental, non-political, independent, non-profit organisation comprising of 20 members and accounts for 70.2% of the non-life market. Its function is to act as the main communication channel between CSA and its members. Its roles include mediation, increasing public awareness of insurance, training and technical support. APAR was established in 2003 by three insurance companies, AIG Romania, Asiom and Omnisig. The three founding members account for 33.6% of the total non-life market.

Non-admitted insurance

This is strictly prohibited unless cover is not available from a Romanian carrier. Insurance can only be placed with a company licensed to conduct business in Romania.

There are no restrictions on non-admitted reinsurance. Foreign reinsurers do not have to be approved or put up deposits, and there are no deductions from reinsurance premiums ceded abroad.

Fronting

Fronting is not prohibited and there is no need to obtain supervisory approval for non-standard policies such as global programmes. There is no requirement for minimum local market retention and no supervisory control over rating levels. The main fronting companies are Allianz Tiriac, Astra, Asiom, Generali and Asiban. Fronting commission ranges from 3% to 10%.

Coinsurance

The maximum number of companies on a coinsurance schedule is four. The main coinsurers are AIG Romania, Allianz Tiriac and Generali. Coinsurance is more common in provincial markets.

Ownership structure and license

Following the change in foreign ownership legislation in April 2000, foreign entities can invest in the Romanian market without shareholding restrictions when acquiring domestic companies or setting up wholly owned subsidiaries or branches. Foreign insurers must have at least five years experience in their country of origin before they can apply for authorisation to trade in Romania. Foreign subsidiaries and branches are subject to the same solvency and reserving requirements as domestic companies

Insurance business may only be conducted by joint stock companies or mutual insurance associations. Shareholders owning more than 5% of the equity of a joint stock company must be approved by the CSA. Individual bank shareholdings are limited to a maximum of 20% of the equity. Cross-shareholdings between insurance companies and insurance brokers are prohibited.

Insurers are currently allowed to operate as composites provided there is financial separation between the two branches. A new insurance law due to be enacted in 2004 will require the companies to split their operations into to separate legal entities i.e. into life and non-life companies. Non-life insurance is divided into 17 classes following the EU model and insurers must be separately authorised for each line. Insurers wishing to underwrite MTPL insurance must be re-authorised for the class each year.

Capital requirements

There is no statutory distinction between insurance and reinsurance companies. Current minimum capital requirements, effective from 15 March 2003, are as follows:

- Non-life including the compulsory classes ROL30bn (USD907,578)
- Non-life excluding the compulsory classes ROL15bn (USD453,789)
- Life class ROL21bn (USD635,304)
- Brokers ROL150mn (USD4,367).

Insurers wishing to write compulsory MTPL must apply to the CSA for specific authorisation each year. The minimum capital requirement above must be represented by liquid assets. In order to qualify for a licence, MTPL insurers are also required to have at least one branch in each county and one in Bucharest.

Solvency margin

The minimum solvency margin implemented at the beginning of 2002 is the greater of the following calculations:

- 18% of gross written premiums (GPW) in the previous year up to EUR5mn and 16% of GPW above this figure, subject to a maximum ceded reinsurance of 50%, or
- 26% of the average of three years' gross incurred claims up to EUR3mn and 23% of claims above this figure, subject to a maximum ceded reinsurance of 50%.

The CSA introduced new solvency regulations in 2003 which employs an early warning system whereby the ratio between an insurance company's minimum statutory solvency and its actual solvency should be greater than 1.6. A company with a solvency ratio between 1 and 1.5 is

required to implement a financial recovery plan whilst a solvency of less than one is considered insolvent.

Statutory reserves

Non-life companies are required to establish technical reserves in the form of the following:

- Loss reserves must be established on a gross basis and may not be discounted. All companies are required to allocate a prescribed percentage of their post-tax profits to a statutory accumulation fund which is akin to a contingency reserve and can also be capitalised to strengthen the capital base. There does not appear to be a requirement for non-life technical reserves to be certified by an actuary.
- Unearned premium reserves
- IBNR reserves
- Catastrophe reserve funded from a 5% charged of net premium written in respect of catastrophe risks until reserves reaches the company's own retention.
- Unexpired risk reserve
- Equalisation reserve

Insurers writing hard currency risks must establish separate unearned premium and loss reserves in hard currency.

Investments

Strict investment rules apply. The CSA has promulgated certain specific regulations governing different types of investments, including:

- No restrictions apply for government bonds
- Bank deposits cannot exceed 60% of the company's total asset value
- Investments in local authority bonds on a cost basis cannot exceed 20% of the insurance company's total asset value
- Real estate investments cannot exceed 10% any one building (a maximum of 40% in total) of the company's total asset value
- The balance of corporate bonds of all corporate bond investments made by an insurance company on a cost basis cannot exceed 20% of the insurance company's total asset value
- All other investments held by an insurance company on a cost basis cannot exceed 20% of the company's total asset value
- At least 60% of insurance funds must be held in liquid assets.

Alternative dispute resolution

There is no insurance ombudsman or insurance body with the power to make awards against insurers. The CSA provides an arbitration service; however, it has no authority to make binding awards against insurers.

Statute of limitations

The limitation period for most bodily injury claims is two years from the date of the incident for making an insurance claim.

Annual returns

Insurers are required to submit audited accounts broadly in accordance with International Accounting Standards and the relevant EU Directives. The CSA also requires six-monthly, and monthly returns giving various details such as premiums and claims etc. In addition, business reports, financial reports and related statements must be submitted within four months after the end of the fiscal year.

Insolvency regulation

Insolvent companies are subject to immediate bankruptcy proceedings. The CSA has a wide range of powers for intervening in the affairs of companies with solvency ratios between 1.0 and 1.5. These include restricting premium income, stopping companies from writing certain lines of business, imposing certain investments restrictions, requiring companies to increase capital and the implementation of a financial recovery plan. If these prove ineffective, the CSA can apply to the courts for the appointment of a special administrator who can assume control of the company for the purpose of preventing its actual insolvency.

Romania is unusual in having a policyholders' protection fund (PPF) which applies to both individual and corporate direct insurance policyholders. The fund was established as part of the state budget under the terms of Law No.32/2000 but was only properly constituted when it was taken over by the CSA on 1 January 2003. As far as non-life insurance is concerned, the fund pays 50% of outstanding claims as at the date bankruptcy proceedings are initiated, reduced to 25% in the case of credit and guarantee and financial loss.

Policyholders' claims against insolvent insurers take precedence over those of all other creditors. The PPF is only liable for claims which cannot be met from the bankrupt insurer's assets and only comes into play once bankruptcy proceedings have been concluded.

Appendix 2: Non-life coverage information

Policy terms & condition issues

Compulsory insurance

- Professional Indemnity for doctors, nurses, hospitals, lawyers, insurance brokers, administrators, liquidators and accountants;
- Motor Third Party Liability (MTPL);
- Nuclear Liability;
- Aviation and third party liability;
- Tour Operator's bonds;
- Personal accident and occupational disease insurance for employees in the fire brigade.

Policy wordings & rates /tariffs controlled

New standard-form non-life policies must be submitted to the Insurance Supervisory Commission (CSA) for approval prior to use. Standard form policies may be freely endorsed without further reference to the CSA. There is no need to obtain supervisory approval for non-standard policies such as global programme wordings. There are no unusual market exclusions.

Policy language

Policies issued to Romanian policyholders are normally written in Romanian. There appears to be no legal objection to foreign language wordings, and some insurers routinely issue English language policies for foreign-invested enterprises. Others issue parallel texts in either English/Romanian or French/Romanian. It is not clear, which text would take precedence in case of legal dispute.

Types of insurance restricted to government institutions

None

Policy currency

ROL: Coverage for foreign investment risks are denominated in US Dollars or in Euros. Recent banking regulations inhibit enterprises from conducting domestic transactions in foreign currency, and premiums and claims are therefore payable in lei with foreign currency amounts converted at the exchange rate prevailing on the day of settlement.

Romania is in the process of moving from a US dollar to a euro dominated economy. As a result of this trend, most insurers are changing the denomination and settlement currency of their treaties from US dollars to euros.

Policy period:

Annual but project-type insurance can be written for longer periods.

Cancellation and renewal

Romanian policies may be cancelled as a result of non-payment of premium or by mutual agreement. However, if a Romanian insurer is using a foreign wording, either directly or in translation, the foreign market cancellation provisions will apply. There are no automatic renewal provisions and renewal is subject to offer and acceptance of terms at each policy anniversary.

Premium payment terms

Romanian insurance companies do not assume risk until either the full premium or the first instalment of premium has been received. Foreign-invested enterprises normally pay their premiums cash in advance, Romanian enterprises in four quarterly instalments. It is quite common for policyholders to default on instalments of premium. Since it is impossible to recover premium debts, insurers are often forced to cancel in mid-term. This helps to explain why most insurers only record collected premiums as opposed to gross written premiums. Policyholders can change insurer at the mid-point of the year.

Premium tax etc. paid by insured

There are no insurance premium taxes. Insurance companies are subject to a policyholders' protection fund levy of 1.5% number of levies on their annual gross collected premium income and a supervisory levy of 0.3%. There is also a 0.9% motor victims' protection fund levy on compulsory motor third party liability premiums.

Inflation

Index-linking is comparatively rare. Some commercial policyholders pay their premiums and adjust their sums insured on a quarterly basis. The majority, however, have fixed sums insured which they review, if at all, at renewal. The real value of property and motor hull policies can be maintained by denominating them in hard currency with premiums and claims payable in lei at the exchange rate prevailing on the day of settlement.

Brokerage commissions

Negotiable - Brokers should look for reinsurance commissions.

Broker of record letters:

Becoming understood and recognized. Most insurers require a formal contract with the broker.

Reinsurance:

The law states that outwards reinsurance is only allowed if it cannot be placed locally. In practical terms, buying reinsurance from abroad is relatively unrestricted, due to limited local capacity. Most local companies keep a small portion and reinsure the balance (anything to avoid looking like a pure 'fronting' company). No strict rules on what constitutes acceptable security. Reinsurance commissions due to foreign companies ceding business to Romanian companies are subject to 18% VAT.

Local natural hazards:

Earthquake, Flood and Windstorm. There are 26 authorised catastrophe insurers, all of which are required to buy catastrophe protections. The CSA requires quarterly declarations of accumulations, PMLs, net retentions and catastrophe reserves for property, cargo and motor hull and insists on companies having appropriate reinsurance cover.

Currency restrictions / exchange controls:

Foreign exchange controls in respect of current account transactions controls were lifted in February 1997. Official permission is not required to make remittances abroad. Insurers are allowed to receive domestic premiums in hard currency, however, a recent change in regulations require domestic transactions to be conducted in local currency. Individual life premiums can still

be paid in hard currency. Capital account transactions were liberalised on 1 January 2003, allowing hard currency unit-linked reserves to be invested abroad without permission from the National Bank of Romania.

Policy period

Annual but short term available. Please also refer to Automobile/motor section.

Cancellation provisions

The insured may cancel at any time, receiving a return premium calculated at short terms: the insurer may cancel at 30 days notice, giving a pro rata return of premium.

Captives/Risk retention groups/Pools

There are thought to be no captives or alternative risk transfer arrangements in Romania. The Nuclear Pool is led by Generali.

Insurance product information**Property insurance**

Fire: Standard fire perils include - volcanic eruption, subsidence, windstorm and flood. Some usual perils are excluded from normal cover such as riot / civil commotion but can be provided for using foreign market wordings. Standard forms use Munich Re wordings.

All risk: Coverage is available using Munich Re policy wordings.

Coinsurance: Available for large risks.

Blanket insurance: Not available.

Business interruption: Coverage is available in conjunction with property cover. Loss of profits insurance seems only to be written for foreign-invested enterprises. Where loss of profits is insured the wording is normally derived from the national market of the policyholder in question, with the German wording being the most common.

Replacement cost: Available.

Discount for fire protection equipment / systems: Unusual but always negotiable.

Boiler & machinery / Machinery breakdown / Engineering

Coverage is available. Local machinery breakdown policies cover sudden and unforeseen damage, excluding fire department perils. Statutory inspections of lifts, pressure vessels etc. are carried out by a government agency

General / Public liability

A number of insurers write general third party liability, but these seem to be purchased exclusively by western joint ventures as part of their standard global programmes. Typical local policy limits are USD50,000 to USD100,000 in the aggregate for local companies. Multinationals may purchase limits of up to USD1mn. Product liability does not seem to be recognised as a concept under Romanian law. There is no strict liability.

Automobile / Motor

Motor third party liability is compulsory. Motor premiums are set each year by the Insurance Supervisory Commission. Statutory motor third party liability limits are being increased each year to achieve eventual harmonisation with EU standards. The bodily injury limit for 2004 has been increased by 350% to ROL700mn (USD21,053) per person/ROL3.5bn (USD105,263) per event, whilst the property damage limit has been increased by 250% to ROL 2.0bn (USD60,150). As a result, the MTPL tariff is rising by 30%-40% a year. MTPL insurance does not apply to persons who have a contractual relationship with the vehicle owner, and therefore excludes claims brought by passengers in buses, coaches and taxis. Claims are also excluded from drivers' spouses, children, parents and siblings.

Gross premiums for the year beginning 1 January are set by the CSA and are subject to annual adjustment, partly to account for Romania's high inflation rate, and partly to cover the progressive increase in statutory indemnity limits. There are separate tariffs for private individuals and companies, both of which are based only on engine capacity. Law No. 136/2000 established a road victims' protection fund to compensate the victims of uninsured or unidentified drivers. The fund is currently administered by the motor insurers' bureau BAAR but may be transferred to the jurisdiction of the CSA in 2004. Compensation is funded by a levy of 0.88% on the gross premiums of MTPL insurers.

Brokers' commissions are 8%-15% for motor hull and 10%-15% for most other classes. Compulsory motor third party liability commissions are limited to 5% for agents and 8% for brokers. Almost all business is placed on a commission rather than a fee basis. Agents, domestic brokers and insurance companies all rebate commission to key clients.

Romania Motor Insurers' Bureau (BAAR)

Romania is a member of the International Council of Bureaux, where it is represented by the motor insurers' bureau BAAR, to which all authorised green card issuers must belong. BAAR's membership includes Allianz Tiriac, Asiom, Astra, Omnisig, Ardaf, Asirag, AGI Romania, Unita, Asitrans and Atlassib. Members are required to make a security deposit of EUR225,000 (USD265,500) and to contribute 6% of their green card premium income to a guarantee fund. Some insurers offer excess MTPL policies providing cover up to USD1mn excess of the statutory limits.

Professional indemnity

Policies are often arranged on a collective basis by relevant professional association. Profession Indemnity Limits are:

- Insurance Brokers: a minimum indemnity limit of EUR200,000 per event and EUR500,000 in the aggregate
- Lawyers: a minimum of USD3,000 and senior lawyers for USD6,000
- Medical staff: There are separate mandatory schemes organised by the relevant professional associations for (1) general practitioners and nurses USD35,400, (2) specialists and dentists USD118,000, (3) surgeons USD100,000 and (4) hospitals USD500,000
- Accountants: The accountants' union (CECCAR) requires professional indemnity insurance as a condition of membership. The profession is divided into three categories, effectively self-employed consultants, bookkeepers and accountancy firms. Each is required to insure

for a different limit. There are 25,000 members of the accountants' union, the majority of who are employed by companies but are not covered under the company insurance scheme. Typically indemnity limits: USD15,000-USD25,000. The profession has established its own insurance company called CECCAR-Romas to carry its members' PI risks

- D&O policies comprised of directors' liability and corporate reimbursement sections. Policies are written on a claims made basis with aggregate, costs-inclusive indemnity limits. The normal indemnity limit is USD1mn-USD2mn.
- Other Professions: Policies are available for most other professions, including pharmacists, freight-forwarders, tour operators, security guards, real estate assessors, architects and consulting engineers.

Workers' Compensation

There are no State Schemes. Court awards being small mean and demand for this coverage is negligible. Employer's Liability is rarely written and then usually only for foreign companies operating in Romania.

Construction All Risks/EAR

Major insurers offer both CAR and EAR policies based on Munich Re wording. Most CAR policies are written on an all risk basis and may include a separate contractors' liability section.

Marine, Aviation and Transport (MAT):

Wording: London Institute Clauses and Institute Hull Clauses.

Surety, Bonds and Credit:

Consumer credit and lease credit policies written for banks dominate the market. Policies are normally written without deductibles and are triggered after the borrower or lessee has defaulted on three monthly instalments. The leading export credit insurer is the state-owned Eximbank.

Crime:

Coverage: Theft and Burglary forms available - each company has its own conditions. Fidelity and Surety are not used much in this market. Strikes, riots, civil commotion and malicious damage are all freely underwritten, but insurers report little interest except from foreign-invested companies which buy full perils cover as a matter of course

Terrorism

Terrorism was excluded from most property treaties with effect from 1 January 2002. The main exception was Allianz Tiriac, which gave free terrorism cover for property sums insured up to EUR10mn (USD11.8mn) and had total terrorism capacity of EUR 50mn (USD59mn). However, this facility was due to be withdrawn with effect from 31 December 2003.

Appendix C: Market statistics

Non-life insurance statistics

➤ Table 23		1998	1999	2000	2001	2002	2003
Property CSA	Premiums ROLbn	333	587	842	1323	2199	3494
	Growth	92%	77%	43%	57%	66%	59%
CSA	Premiums USDmn	37.5	38.3	38.8	45.5	66.5	105.1
	Growth	55%	2%	1%	17%	46%	58%
	Loss ratios	12.1%	19.1%	15.0%	18.8%	n.a.	n.a.

➤ Table 24		1998	1999	2000	2001	2002	2003
Motor (including MTPL) CSA	Premiums ROLbn	1,355	2,274	3,397	5,245	7,798	13,380
	Growth	115%	68%	49%	54%	49%	72%
CSA	Premiums USDmn	152.7	148.3	156.5	180.5	235.9	402.4
	Growth	73%	-3%	6%	15%	31%	71%
	Loss ratios	53.5%	57.4%	54.4%	55.3%	n.a.	n.a.

➤ Table 25		1998	1999	2000	2001	2002	2003
Liability CSA	Premiums ROLbn	132	268	439	160	236	403
	Growth	77%	104%	64%	-64%	47%	71%
CSA	Premiums USDmn	14.8	17.5	20.2	5.5	7.1	12.1
	Growth	43%	18%	16%	-73%	29%	70%
	Loss Ratios	30.8%	25.1%	21.1%	19.8%	n.a.	n.a.

➤ Table 26		1998	1999	2000	2001	2002	2003
Surety, Bonds and Credit CSA	Premiums ROLbn	87	179	244	310	414	1014
	Growth	121%	106%	36%	27%	33%	145%
CSA	Premiums USDmn	9.8	11.7	11.2	10.7	12.5	30.5
	Growth	78%	19%	-4%	-5%	17%	144%
	Loss ratios	104.4%	98.9%	71.9%	52.1%	n.a.	n.a.

➤ Table 27		1998	1999	2000	2001	2002	2003
Miscellaneous	Premiums ROLbn	60	77	27	30	56	84
CSA	Growth	-43%	28%	66%	-77%	87%	51%
	Premiums USDmn	6.8	5	5.9	1	1.7	2.5
	Growth	-54%	-26%	17%	-83%	65%	47%
	Loss ratios	19.7%	21.5%	23.2%	12.1%	n.a.	n.a.

➤ Table 28		1998	1999	2000	2001	2002	2003
Marine, Aviation and Transport	Premiums ROLbn	145	213	311	450	845	868
CSA	Growth	7%	47%	46%	45%	88%	3%
	Premiums USDmn	16.3	13.9	14.3	15.5	25.6	26.1
	Growth	-14%	-15%	3%	8%	65%	2%
	Loss ratios	46.7%	35.1%	20.5%	18.5%	n.a.	n.a.

➤ Table 29		1998	1999	2000	2001	2002	2003
Total Non-life (excluding Personal Accident and Accident & Health)	Premiums ROLbn	2,111	3,598	5,361	7,517	11,547	19,241
CSA	Growth	82%	70%	49%	40%	54%	67%
	Premiums USDmn	237.9	234.7	246.9	258.7	349.3	578.7
	Growth	47%	-1%	5%	5%	35%	66%

➤ Table 30		1998	1999	2000	2001	2002	2003
Total Personal Accident and Accident & Health written premiums	Premiums ROLbn	96	170	312	380	768	976
CSA	Growth	51%	77%	83%	22%	102%	27%
	Premiums USDmn	10.8	11.1	14.4	13.1	23.2	29.4
	Growth	22%	2%	30%	-9%	78%	27%
	Loss ratios	16%	13%	23%	16%	n.a.	n.a.

➤ Table 31		1998	1999	2000	2001	2002	2003
Total premium written (including PA and A&H)	Premiums ROLbn	2,208	3,768	5,672	7,898	12,315	20,217
CSA	Growth	81%	71%	51%	39%	56%	64%
	Premiums USDmn	248.7	245.8	261.3	271.8	372.5	608.0
	Growth	46%	-1%	6%	4%	37%	63%
	ROE to USD	8,876	15,333	21,709	29,061	33,055	33,250

Table 32

Non-life companies

CSA

			Written Premiums					
	Companies	Est.	2001 ROLbn	2002 ROLbn	2003 ROLbn	2003 USDmn	%ch	Mkt Sh
1	Allianz-Tiriac	1994	1,352	2,837	4,955	149.0	75%	24.5%
2	Asirom	1991	1,910	2,587	4,172	125.5	61%	20.6%
3	Omniasig	1994	1,049	1,506	2,122	63.8	41%	10.5%
4	Astra	1991	556	814	1,257	37.8	54%	6.2%
5	Unita	1991	244	445	1,195	35.9	168%	5.9%
6	Asiban	1996	307	449	1,051	31.6	134%	5.2%
7	Ardaf	1992	478	654	1,045	31.4	60%	5.2%
8	BCR Asigurari	2001	n.a.	151	747	22.5	397%	3.7%
9	Generali	1993	318	573	743	22.3	30%	3.7%
10	ALG Romania	1994	190	460	515	15.5	12%	2.5%
11	AGI Romania	1995	122	233	305	9.2	31%	1.5%
12	Atlassib	1996	38	173	284	8.5	64%	1.4%
13	Agras	1992	n.a.	139	259	7.8	86%	1.3%
14	SAR Transilvania	1994	56	127	222	6.7	75%	1.1%
15	Asirag	1997	71	152	214	6.4	41%	1.1%
16	Interamerican	1994	129	173	209	6.3	21%	1.0%
17	Garanta	1997	62	75	196	5.9	162%	1.0%
18	Asitrans	1993	78	146	193	5.8	32%	1.0%
19	RAI	1992	62	112	144	4.3	29%	0.7%
20	Lukoil Asito	1998	30	38	62	1.9	64%	0.3%
21	Petroas	1998	32	44	55	1.6	26%	0.3%
22	ALPHA	2002	n.a.	6	50	1.5	772%	0.2%
23	Ceccar-Romas	1998	11	18	44	1.3	153%	0.2%
24	ING Nederlanden	2001	0	0	28	0.8	-	0.1%
25	City Insurance	1998	2	19	26	0.8	37%	0.1%
26	ALG Life	1998	n.a.	20	23	0.7	13%	0.1%
27	Gerroma	1995	15	13	20	0.6	54%	0.1%
28	ABC Asigurari	1997	3	8	16	0.5	96%	0.1%
29	Mondial Assurances	1992	2	12	14	0.4	19%	0.1%
30	Certasig	1999	n.a.	1	14	0.4	977%	0.1%
31	Euroasig	2000	n.a.	7	12	0.4	70%	0.1%
32	Nationala	1993	12	9	10	0.3	14%	0.1%
33	Medas	1995	n.a.	1	7	0.2	667%	0.0%
34	Concordia Romana	1997	n.a.	5	5	0.1	4%	0.0%
35	Provitass	1995	2	2	4	0.1	58%	0.0%
36	Sara Merkur	1995	1	4	4	0.1	3%	0.0%
37	Others	n.a.	354	307	n.a.	n.a.	n.a.	n.a.
	Market Total		7,898	12,315	20,217	608.0	64%	100.0%

Table 33

Life companies

CSA

			2001	2002	2003	2003		Market
	Companies	Est.	ROLbn	ROLbn	ROLbn	USDmn	% ch	Share
1	ING Nederlanden	1996	1,089	2,401	2,721	81.8	13%	43.9%
2	Asirom	1991	362	478	793	23.9	66%	12.8%
3	Omniasig Life	1994	11	150	548	16.5	266%	8.8%
4	AIG Life	1998	191	308	520	15.7	69%	8.4%
5	Asiban	1996	37	53	386	11.6	633%	6.2%
6	AVIVA	1999	48	159	228	6.8	44%	3.7%
7	Interamerican	1994	41	90	198	5.9	119%	3.2%
8	Allianz-Tiriatic	1994	4	59	177	5.3	203%	2.9%
9	Unita	1991	75	99	123	3.7	25%	2.0%
10	Lukoil Asito	1998	130	139	115	3.4	-17%	1.8%
11	Grawe	1996	18	43	114	3.4	167%	1.8%
12	Sara Merkur	1995	69	81	94	2.8	16%	1.5%
13	Generali	1993	13	48	83	2.5	72%	1.3%
14	Ardaf	1992	5	12	45	1.4	265%	0.7%
15	BCR Asigurari	2001	0	0	17	0.5	-	0.3%
16	Astra	1991	3	7	15	0.5	113%	0.2%
17	Garanta	1997	3	5	13	0.4	182%	0.2%
18	SAR Transilvania	1994	4	6	10	0.3	82%	0.2%
19	Certasig	1999	0	0	1	0	-	0.0%
20	Medas	1995	0	0	1	0	67%	0.0%
21	Asirag	1997	1	0	0	0	0%	0.0%
22	Atlassib	1996	0	0	0	0	50%	0.0%
23	Metropol	1991	11	10	0	0	-	0.0%
	Market Total		2,115	4,145	6,200	186.5	50%	100.0%

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