

ROMANIA

Key characteristics of the insurance market



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1 Introduction

1.1 General

At the end of 2017 (2017 Q4), 30 insurance companies¹ in Romania submitted their Solvency II related reporting package to the Romanian National Supervisory Authority (NSA). These companies accounted for 0,038% of Total assets of insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in Romania by insurance activities and the importance of the country within the EU, based on Total assets.

Table 1 - Insurance reporting submissions

Insurance reporting submissions	#
Life undertakings	8
Non-Life undertakings	16
Reinsurance undertakings	0
Composite undertakings	6
Total	30
Total assets RO / Total assets EU %	0,038%
Ranking RO based on Total assets EU	23

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), Romania was the number 23 country in the EU insurance market in terms of assets held with an amount of 4 281 million EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, Romania ranked number 23 in terms of absolute amount with 732 million EUR invested in this category. However, with 17,1% of Total assets of this category, Romania was significantly below the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 11,2% of the total balance sheet relates to the life business (i.e. non index-linked and unit-linked business), while 32,9% represented non-life obligations.

Table 2 - Solvency II balance sheet (S.02.01) and EU comparison (solo)

in Mio EUR	RO			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Investments, deposits, cash and cash equivalents	2 721	24	63,6%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	732	23	17,1%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	828	19	19,3%	8,1%	8,4%	2,1%	19,5%	4,9%
Total assets	4 281	23	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%
Technical provisions - life	480	22	11,2%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	1 408	18	32,9%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	718	23	16,8%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	588	20	13,7%	8,9%	9,0%	4,0%	21,3%	3,9%
Total liabilities	3 195	23	74,6%	86,9%	77,6%	49,1%	92,7%	11,1%
Excess of assets over liabilities	1 086	25	25,4%	13,1%	22,4%	7,3%	50,9%	11,1%
Total liabilities + Excess of assets over liabilities	4 281	23	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

¹ In the report, the term 'insurance companies' indicates both direct insurance and reinsurance companies. The insurance market covered in this factsheet therefore refers to insurers and reinsurers.



The balance sheet items Investments, deposits, cash and cash equivalents will be further detailed in section 3, while section 2 will focus on Assets held for index-linked and unit-linked contracts.

1.3 Solvency II ratios

At the end of 2017 (2017 Q4), the Romanian insurance market as a whole had available own funds that were significantly above the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio amounted to 173% and is significantly below the EU which amounted to 237% at year-end 2017. Out of the 28 EU Member States, Romania is ranked at the 26th position in terms of the reported SCR ratios.

Table 3 - Solvency II own funds and SCR (S.23.01) and EU comparison (solo)

in Mio EUR	RO		EU				
	Amount	Rank	%	Avg	Min	Max	StD
Total available own funds to meet the SCR	1 112	25	-	-	-	-	-
SCR	641	23	-	-	-	-	-
Surplus available own funds	471	25	-	-	-	-	-
Ratio of Eligible own funds to SCR	173%	26	237%	225%	135%	361%	52%
Ratio of Eligible own funds to SCR (10th percentile)	125%	23	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	143%	23	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	193%	16	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	284%	13	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	372%	19	457%	396%	173%	643%	99%
Ratio of Eligible own funds to MCR	399%	27	640%	613%	282%	933%	170%

Source: EIOPA statistics and Deloitte-CEPS analysis

EIOPA's report on long-term guarantees measures and measures on equity risk published on 18 December 2018 mentions the average impact of the use of LTG and transitional measures. According to that report, at year-end 2017, Romanian participants reported an SCR ratio of 178% including the application of LTGs and transitionals. Removing the measures caused no impact on the SCR ratio.²

² https://eiopa.europa.eu/Publications/Reports/2018-12-18%20_LTG%20AnnualReport2018.pdf

2 Investments, deposits, cash and cash equivalents

2.1 Scope

The asset allocation of Romanian insurance undertakings is mainly analysed through the reported Solvency II Exposure List (S.06.02). The classification of the Solvency II Balance Sheet (S.02.01) follows the legal nature of the assets in terms of classification that can differ from the exposures reporting.

Based upon the comparative view below, we note that amounts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01) do not differ.

Table 4 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list RO		Solvency II balance sheet RO		Difference
	#	%	#	%	#
Life undertakings	8	26,7%	8	26,7%	0
Non-Life undertakings	16	53,3%	16	53,3%	0
Reinsurance undertakings	0	0,0%	0	0,0%	0
Undertakings pursuing both life and non-life insurance activity	6	20,0%	6	20,0%	0
Total	30	100,0%	30	100,0%	0

in Mio EUR	Exposure list RO		Solvency II balance sheet RO		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl. participations and equities	204	7,5%	204	7,5%	0,0%
Holdings in related undertakings, including participations	n/a	n/a	182	6,7%	n/a
Equities	n/a	n/a	22	0,8%	n/a
Equities - listed	n/a	n/a	9	0,3%	n/a
Equities - unlisted	n/a	n/a	13	0,5%	n/a
Collective Investments Undertakings	41	1,5%	41	1,5%	0,0%
Bonds	1 997	73,4%	1 997	73,4%	0,0%
Loans and mortgages	28	1,0%	29	1,1%	0,0%
Property	145	5,3%	147	5,4%	0,0%
Deposits	133	4,9%	133	4,9%	0,0%
Cash and cash equivalents	170	6,2%	170	6,2%	0,0%
Other investments	0	0,0%	0	0,0%	0,0%
Total	2 721	100,0%	2 721	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

2.1.1 Listed and unlisted equity

The distinction between listed and unlisted equity is made based upon the reported Solvency II Balance Sheet (S.02.01). Table 5 compares the listed and unlisted equity, whereby Holdings in related undertakings (including participations) are excluded.

Table 5 - Listed and unlisted equity exposure based upon Solvency II balance sheet (S.02.01)

in Mio EUR	RO			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	9	24	39,4%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	13	21	60,6%	16,3%	25,0%	0,4%	87,0%	21,1%
Total equities	22	24	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the quarterly reporting as of Q4 2017, Romanian insurers invested 39,4% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 24 million EUR, Romania ranked number 24 in the EU.

With an invested amount of 13 million EUR, unlisted equity constituted a significant portion of the equity investment category of the directly-held equity investments, i.e. 60,6%. This placed Romania as the number 21 in the EU.

2.2 Asset exposure

From an asset exposure perspective, the insurance market in Romania mainly invested in Government bonds and Corporate bonds (in total 73,3% of Total Investments, deposits, cash and cash equivalents), Cash and cash equivalents (6,2%), and Equity (7,5%).

Within the bond categories, the insurance market was much more exposed to government securities (67,5%) than corporate debt (5,8%), categories for which Romania ranked number 23 and number 25 in the EU, respectively. Comparing the different assets classes, we note that the government bonds asset class shows the highest standard deviation of 18,9%.

The category of Collective Investment Undertakings was the fifth most important for the Romanian insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Debt funds, Equity funds, and Asset allocation funds for which Romania ranked respectively number 28, number 26, and number 22 in the EU.

Equity was the second category to which the Romanian insurers had the most exposure. Common equity constitutes 7,4% within the 7,5% of the total equity exposure.

Table 6 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	RO			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	204	24	7,5%	12,0%	9,5%	1,1%	28,1%	6,5%
Common equity	202	23	7,4%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	0	-	0,0%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	3	22	0,1%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings	41	28	1,5%	19,2%	12,8%	1,5%	41,6%	9,3%
Equity funds	10	26	0,4%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	24	28	0,9%	7,8%	5,6%	0,8%	18,0%	4,9%
Money market funds	0	-	0,0%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	5	22	0,2%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	0	-	0,0%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	0	-	0,0%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	0	-	0,0%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	3	21	0,1%	2,0%	0,9%	0,0%	7,2%	1,7%
Government bonds	1 838	23	67,5%	28,7%	39,7%	10,0%	77,0%	18,9%
Corporate bonds	157	25	5,8%	26,9%	21,6%	1,8%	47,3%	11,2%
Structured notes	2	26	0,1%	1,3%	0,5%	0,0%	2,5%	0,6%
Collateralised securities	0	-	0,0%	0,6%	0,6%	0,0%	9,3%	1,8%
Mortgages and loans	28	24	1,0%	4,8%	3,8%	0,3%	26,3%	5,2%
Property	145	24	5,3%	2,0%	3,5%	0,8%	11,6%	2,6%
Deposits	133	21	4,9%	2,8%	3,6%	0,2%	16,6%	3,6%
Cash and cash equivalents	170	21	6,2%	1,4%	4,3%	0,5%	16,6%	3,5%
Other investments	0	-	0,0%	0,1%	0,1%	0,0%	0,9%	0,3%
Not reported	3	9	0,1%	0,0%	0,0%	0,0%	0,3%	0,1%
Total Investments, deposits, cash and cash equivalents	2 721	24	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis



2.2.1 Asset exposures between Life, Non-Life and Composite insurance undertakings, and reinsurers

Table 7, based upon the Asset Exposure reporting (S.06.02) of Q4 2017, gives further insight into the investment behaviour of Life, Non-Life and Composite insurance companies, and reinsurers in Romania.

Table 7 - Asset exposures based upon Solvency II exposure list (S.06.02) for Life, Non-Life and Composite insurance undertakings, and reinsurers

in %	RO			EU		
	Life	Non-life	Composite and reinsurance	Life	Non-life	Composite and reinsurance
Equity	2,6%	5,7%	10,9%	6,6%	18,3%	16,5%
Common equity	2,6%	5,4%	10,9%	5,0%	16,2%	14,9%
Equity of real estate related corporation	0,0%	0,0%	0,0%	1,0%	0,8%	1,2%
Other equity	0,0%	0,3%	0,0%	0,6%	1,3%	0,4%
Collective Investment Undertakings	3,2%	0,8%	1,2%	22,4%	22,3%	13,8%
Equity funds	0,0%	0,0%	0,7%	3,7%	2,9%	2,7%
Private equity funds	0,0%	0,0%	0,0%	0,5%	0,5%	0,5%
Debt funds	3,1%	0,3%	0,2%	9,7%	9,7%	4,7%
Money market funds	0,0%	0,0%	0,0%	2,8%	1,4%	2,0%
Asset allocation funds	0,0%	0,1%	0,3%	1,3%	1,2%	0,9%
Real estate funds	0,0%	0,0%	0,0%	1,6%	1,8%	1,4%
Alternative funds	0,0%	0,0%	0,0%	0,3%	0,3%	0,5%
Infrastructure funds	0,0%	0,0%	0,0%	0,2%	0,2%	0,3%
Other	0,0%	0,3%	0,0%	2,3%	4,3%	0,8%
Government bonds	78,7%	55,1%	70,0%	28,1%	19,1%	33,4%
Corporate bonds	4,6%	5,7%	6,3%	29,2%	29,3%	22,9%
Structured notes	0,3%	0,0%	0,0%	1,4%	0,6%	1,5%
Collateralised securities	0,0%	0,0%	0,0%	0,8%	0,6%	0,5%
Mortgages and loans	0,0%	3,0%	0,3%	7,4%	3,2%	2,3%
Property	1,0%	7,6%	6,0%	2,0%	2,5%	1,7%
Deposits	6,6%	6,3%	3,2%	0,8%	1,6%	5,8%
Cash and cash equivalents	2,8%	15,4%	2,2%	1,0%	2,5%	1,4%
Other investments	0,0%	0,0%	0,0%	0,2%	0,0%	0,1%
Not reported	0,0%	0,4%	0,0%	0,0%	0,0%	0,0%
Total Investments, deposits, cash and cash equivalents	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

At EU level we note that Non-Life insurers invested a significantly higher portion of their Investments in Equity (18,3% equity investments) in comparison to pure Life insurers (6,6% equity investments). In Romania this difference was not apparent, as we note that Composite insurers invested 2 to 3 times more of their assets into this category than their Non-Life and Life counterparts.

On the other hand, at EU level, pure Life insurers and also Composite insurers allocated a larger share of their investments to government bonds as compared to Non-Life insurers. A noteworthy observation was the contrast in behaviour between Romanian Non-life insurers and their counterpart at EU level with regard to the Collective Investment Undertakings: Romanian Non-life insurers reported 0,8% of their investments in this category, in sharp contrast to the EU level which amounted to 21,5%.

2.3 Equity exposure

Based upon the information included in the Solvency II Exposure List (S.06.02) and Balance Sheet (S.02.01), equity exposures can be calculated and presented in different ways:

- Equity exposure as the sum of Equity (Common equity, Equity of real estate related corporation and Other equity), Equity and Private equity funds, and Equity risk included in structured notes;
- Equity of real estate related corporation could be seen as a property exposure. Therefore equity exposures are presented including and excluding Equity of real estate related corporation;
- The equity amounts of the Solvency II Exposure List does not provide further details whether the equity exposures relate to listed or unlisted equity positions. In addition, the Solvency II Exposure List does not mention whether the equity relates to Holdings in related undertakings, including participations;
- Therefore, the listed and unlisted share amounts reported in the Solvency II Balance Sheet are considered and integrated as an equity exposure indicator. A rescaling is performed in case a difference is noted between the two Solvency II information sets (Exposure List versus Balance Sheet). The adjusted equity exposure stemming from this analysis excludes the Equity exposure coming from Holdings in related undertakings, including participations. These holdings can potentially be important within insurance groups.

Table 8 - Equity exposure based upon Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02)

in Mio EUR	RO			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	204	24	7,5%	12,0%	9,5%	1,1%	28,1%	6,5%
Common equity	202	23	7,4%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	0	-	0,0%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	3	22	0,1%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings - Equity funds	10	28	0,4%	3,8%	3,2%	0,4%	14,7%	3,5%
Equity funds	10	26	0,4%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
Structured notes - Equity risk	2	15	0,1%	0,2%	0,1%	0,0%	0,6%	0,1%
Total Equity exposure	216	25	7,9%	16,0%	12,7%	2,5%	37,4%	8,4%
Equity without Equity of real estate related corporation	204	23	7,5%	11,0%	8,4%	1,1%	24,1%	6,1%
Equity exposure without Equity of real estate related corporation	216	25	7,9%	15,0%	11,7%	2,4%	33,3%	7,9%
Equities market value balance sheet (rescaled to CIC scope)	22	24	0,8%	3,6%	3,2%	0,1%	20,6%	4,0%
Equities - listed (rescaled to CIC scope)	9	24	0,3%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	13	21	0,5%	0,6%	0,6%	0,0%	5,2%	1,0%
Equity exposure based upon (Un)Listed equities (rescaled)	34	25	1,3%	7,6%	6,5%	1,2%	29,8%	6,7%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The observed standard deviations at EU level are relatively high given the asset allocation in percentage between the different asset classes at EU level.

In Romania, we note that equity exposures coming from Collective Investment Undertakings amount to 0,4% and are lower than the listed and unlisted equity exposures which in total amount to 0,8%. Hereby the listed and unlisted equities in Romania are not similar to the asset allocation at EU level.



2.3.1 Direct and indirect equity exposure

Table 9 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	RO			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	204	24	94,5%	75,2%	73,4%	39,2%	94,5%	15,9%
Common equity	202	23	93,3%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	0	-	0,0%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	3	22	1,2%	3,9%	5,7%	0,0%	35,3%	8,8%
Indirect equity	12	26	5,5%	24,8%	26,6%	5,5%	60,8%	15,9%
Collective Investment Undertakings - Equity funds	10	26	4,6%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	10	26	4,6%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	0	-	0,0%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	2	15	0,9%	1,3%	0,7%	0,0%	4,0%	1,0%
Total Equity exposure	216	25	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, the insurance market in Romania was mainly invested in Direct equity (94,5% of Total equity) than in Indirect equity (5,5% of Total equity).

In terms of direct equity exposure, Romania ranked number 23 in the EU, concerning the exposure amount to Common equity.

Within the Indirect equity category, Equity funds constituted the bulk of investments with 4,6% of Total equity.

2.3.2 Equity by location

Table 10 - Equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	RO			
	EU home	EU other	outside EU (1)	Total
Equity	168	36	0	204
Common equity	165	36	0	202
Equity of real estate related corporation	0	0	0	0
Other	3	0	0	3
Collective Investment Undertakings - Equity funds	3	7	0	10
Equity funds	3	7	0	10
Private equity funds	0	0	0	0
Structured notes - Equity risk	1	1	0	2
Total Equity exposure	172	44	0	216

in %	RO			
	EU home	EU other	outside EU (1)	Total
Equity	82,2%	17,8%	0,0%	100,0%
Common equity	82,0%	18,0%	0,0%	100,0%
Equity of real estate related corporation	0,0%	100,0%	0,0%	100,0%
Other	100,0%	0,0%	0,0%	100,0%
Collective Investment Undertakings - Equity funds	31,6%	68,4%	0,0%	100,0%
Equity funds	31,6%	68,4%	0,0%	100,0%
Private equity funds	-	-	-	-
Structured notes - Equity risk	69,2%	30,8%	0,0%	100,0%
Total Equity exposure	79,8%	20,2%	0,0%	100,0%

(1) The following countries are included in the class 'outside EU': IS, LI, NO, AU, CA, JP, US, CH and countries grouped under the caption 'Rest of World'. In addition some investments are not assigned to an individual country and are also included in this class.

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the Q4 2017 reporting with regards to the location of equity investments, insurers established in Romania favoured domestic investments to a large extent,



dedicating to these 82,2% of their direct equity investments, and 31,6% of their indirect investments.

Table 10 also indicates that besides the home market, Romanian insurers invested all in equity of other EU Member States, with a preference for Bulgaria (17,7%).

Table 11 - Direct equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	RO	
	Amount	%
Home country	168	82,2%
RO	168	82,2%
Top 5 countries (outside home country)	36	17,8%
BG	36	17,7%
GR	0	0,0%
FR	0	0,0%
Rest of World and unassigned	0	0,0%
AU	0	0,0%
Home + Top 5 countries (outside home country)	204	100,0%
Total Direct equity exposure (with real estate corporation)	204	100,0%

in Mio EUR	RO	
	Amount	%
Home country	168	82,2%
RO	168	82,2%
Top 5 countries (outside home country)	36	17,8%
BG	36	17,7%
FR	0	0,0%
Rest of World and unassigned	0	0,0%
AU	0	0,0%
-	-	-
Home + Top 5 countries (outside home country)	204	100,0%
Total Direct equity exposure (without real estate corporation)	204	100,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3 Index-linked and unit-linked investments

3.1 Scope

Based upon the comparative view below, we note no difference with respect to the Assets held for index-linked and unit-linked contracts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01).

Table 12 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list RO		Solvency II balance sheet RO		Difference
	#	%	#	%	#
Life undertakings	8	26,7%	8	26,7%	0
Non-Life undertakings	16	53,3%	16	53,3%	0
Reinsurance undertakings	0	0,0%	0	0,0%	0
Undertakings pursuing both life and non-life insurance activity	6	20,0%	6	20,0%	0
Total	30	100,0%	30	100,0%	0

in Mio EUR	Exposure list RO		Solvency II balance sheet RO		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	732	100,0%	732	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3.2 Asset exposure

Table 13 depicts a more detailed view of the Assets held for index-linked and unit-linked contracts, based upon the Solvency II exposure list (S.06.02).

Table 13 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	RO			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	8	22	1,1%	19,3%	4,5%	0,0%	30,1%	7,1%
Common equity	8	22	1,1%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	0	-	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	0	-	0,0%	0,4%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings	574	23	78,4%	63,2%	73,1%	30,1%	97,5%	16,3%
Equity funds	187	25	25,5%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
Debt funds	347	18	47,5%	12,1%	19,0%	4,8%	47,5%	11,4%
Money market funds	0	-	0,1%	2,2%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	37	24	5,1%	14,8%	13,1%	0,4%	30,5%	7,7%
Real estate funds	0	-	0,0%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	0	-	0,0%	1,6%	2,4%	0,0%	16,3%	3,8%
Infrastructure funds	0	-	0,0%	0,0%	0,1%	0,0%	2,4%	0,5%
Other	2	25	0,3%	4,6%	6,9%	0,0%	44,3%	10,0%
Government bonds	16	22	2,1%	6,4%	6,9%	0,0%	31,4%	8,4%
Corporate bonds	48	21	6,6%	3,9%	6,0%	0,0%	22,7%	6,9%
Structured notes	81	18	11,0%	1,6%	4,1%	0,0%	18,9%	4,9%
Collateralised securities	0	-	0,0%	0,1%	0,1%	0,0%	0,9%	0,2%
Mortgages and loans	0	-	0,0%	0,2%	0,2%	-3,7%	2,5%	1,0%
Property	0	-	0,0%	1,3%	0,6%	0,0%	7,6%	1,5%
Deposits	5	17	0,7%	1,2%	2,0%	-0,3%	14,5%	3,3%
Cash and cash equivalents	1	26	0,1%	1,2%	2,2%	0,0%	8,5%	2,5%
Other investments	0	-	0,0%	0,4%	0,3%	0,0%	8,1%	1,5%
Not reported	0	-	0,0%	1,2%	0,1%	0,0%	2,3%	0,4%
Total Investments, deposits, cash and cash equivalents	732	23	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The Collective Investment Undertakings (78,4%) and the Structured notes (11,0%) represent the most important asset classes of the index-linked and unit-linked investments. Overall, we note a significantly different asset exposure allocation in comparison to the

asset exposure for non index-linked and unit-linked investments. Hereby we refer to section 2 for further details.

Relatively to the EU average, we observe a significant large difference between the portion of index-linked and unit-linked related assets that were invested in Debt funds, 47,5% in Romania compared to 19,0% in the EU.

3.3 Equity exposure

The Solvency II balance sheet (S.02.01) does not include a further split in different asset classes for the Assets held for index-linked and unit-linked contracts. Hence the rescaling exercise as presented in section 2 cannot be performed here.

Table 14 - Equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	RO			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	8	22	1,1%	19,3%	4,5%	0,0%	30,1%	7,1%
Common equity	8	22	1,1%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	0	-	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	0	-	0,0%	0,4%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings - Equity funds	187	25	25,5%	26,5%	29,3%	11,2%	57,5%	10,4%
Equity funds	187	25	25,5%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
Structured notes - Equity risk	53	16	7,2%	1,2%	2,7%	0,0%	15,0%	3,5%
Total Equity exposure	247	25	33,8%	47,1%	36,5%	11,7%	58,6%	10,9%
Equity without Equity of real estate related corporation	8	23	1,1%	16,0%	4,2%	0,0%	29,2%	6,8%
Equity exposure without Equity of real estate related corporation	247	25	33,8%	40,0%	36,2%	11,7%	58,6%	10,8%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In Romania, we note that total equity exposures related to index-linked and unit-linked contracts (33,8%) are significantly higher in comparison to non index-linked and unit-linked contracts (7,9%). Equity funds are the main contributors to the total equity exposures.

3.3.1 Direct and indirect equity exposure

Table 15 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	RO			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	8	22	3,2%	38,3%	11,1%	0,0%	54,2%	15,2%
Common equity	8	22	3,2%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	0	-	0,0%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	0	-	0,0%	1,3%	0,8%	0,0%	9,7%	2,2%
Indirect equity	240	25	96,8%	61,7%	88,9%	45,8%	100,0%	15,2%
Collective Investment Undertakings - Equity funds	187	25	75,4%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	187	25	75,4%	58,6%	81,0%	44,9%	100,0%	16,0%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,4%
Structured notes - Equity risk	53	16	21,4%	2,6%	7,4%	0,0%	35,8%	9,6%
Total Equity exposure	247	25	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, Romanian insurers invested almost all of their Assets held for index-linked and unit-linked contracts in Indirect equity (96,8% of Total equity), with Direct equity constituting the remaining 3,2% of Total equity.

In terms of direct equity exposure, Romania ranked number 22 EU, with regard to the exposure amount to Common equity.



Within the Indirect equity category, Equity funds constituted the bulk of investments, amounting to 75,4% of Total equity whereas allocation to Private equity funds were negligible.

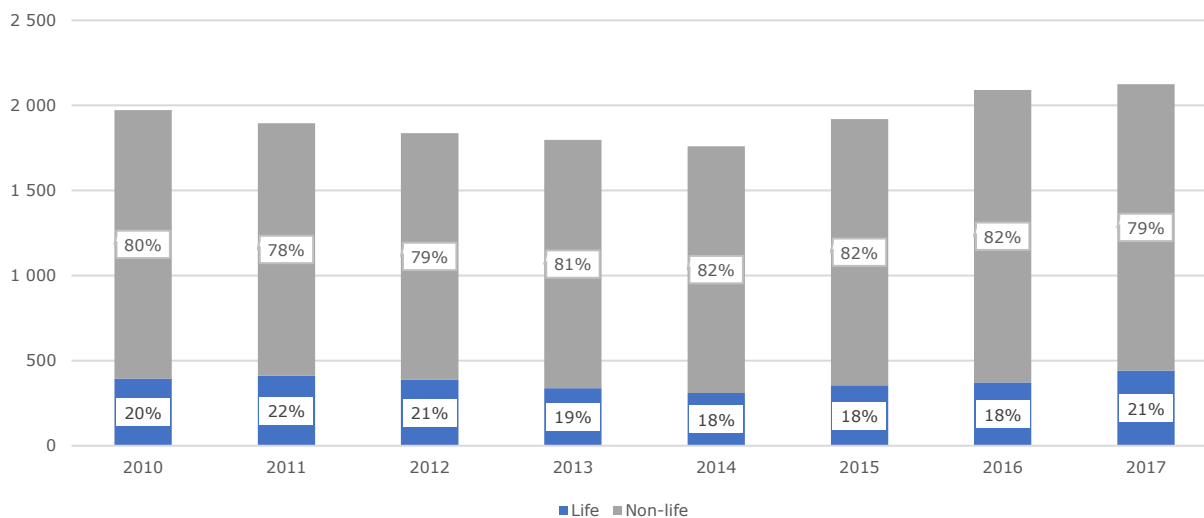
4 Insurance products

4.1 Overview

This section covers the most important insurance products offered in Romania and the volume of the market. Data reported in this section obtained from the Romanian Financial Supervisory Authority (ASF)³.

From 2010 to 2014 the Romanian insurance market decreased by 10,7% to 1 750 million EUR. The following three years, 2015-2017, the market not only reversed the decreasing trend, but also surpassed the high of 2008, just before the economy entered the recession period. In 2017, the volume of gross written premiums stood at 2 125 million EUR, up by 1,6% to 2016. The positive evolution was influenced by developments in the life insurance market, which registered an increase of 18,8% to 442 million EUR, and represented 21% of the total insurance market.

Graph 1 - Gross written premiums (in Mio EUR)



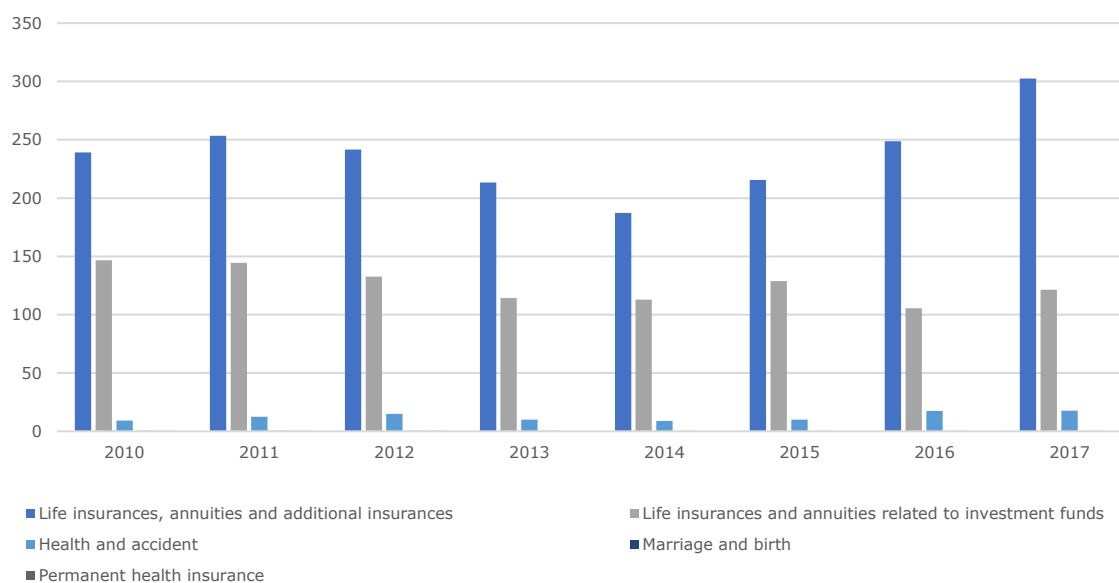
Source: ASF

³ Available at <https://asfromania.ro/en/>.

4.2 Life insurance products

Despite the fact that the life insurance market represents one-fifth of the Romanian insurance market, its development since 2014. Gross written premiums increased at a yearly average rate of 12,7% and increased from 309 million EUR to 442 million EUR. Looking at the different life products, the highest weights are held by classes "life insurance, annuities and additional life insurance" and "life insurance and annuities, unit-linked", respectively. Their combined percentages add up to 96% of the total gross written premiums for life insurance. In particular, "life insurance, annuities and additional life insurance" increased in absolute terms by 54 million EUR and in relative values by 21,7% compared to 2016, while "life insurance and annuities, unit-linked" by 14,9% to 121 million EUR. As for the other insurance classes, which collectively represent 4% of the market, health and accident premiums increased marginally by 1,8% (to 18 million EUR) while marriage and birth premiums fell by 23,9%.

Graph 2 - Gross written premiums for life insurance products (in Mio EUR)



Source: ASF



4.3 Non-Life insurance products

Unlike the European insurance market, dominated by the life insurance segment, in Romania the market being dominated by non-life insurances, representing roughly 80% of the gross written premiums. After two years in which premium income rose by 7,8% (2015) and 9,8% (2016), in 2017 the total volume went down by 2,1% to 1 683 million EUR.

4.3.1 Motor

The most important class of the non-life insurance which represents 74,4% of the market, is related to motor. Gross written premiums linked to insurance for land means of transportation other than rail transport (class III) and motor third party liability (class X), totalled 5 718 million EUR at the end of 2017 (down by 3% to 2016). Class X accounted for 66,8% of the total underwritings or 3 823 million EUR.

4.3.2 Fire and other damage to property

In 2017, class VIII, insurance against fire and other damage to property, represented 15,2% of all non-life business. Premiums recorded a growth of 6,0% and stood at 1 171 million EUR.

4.3.3 General Liability

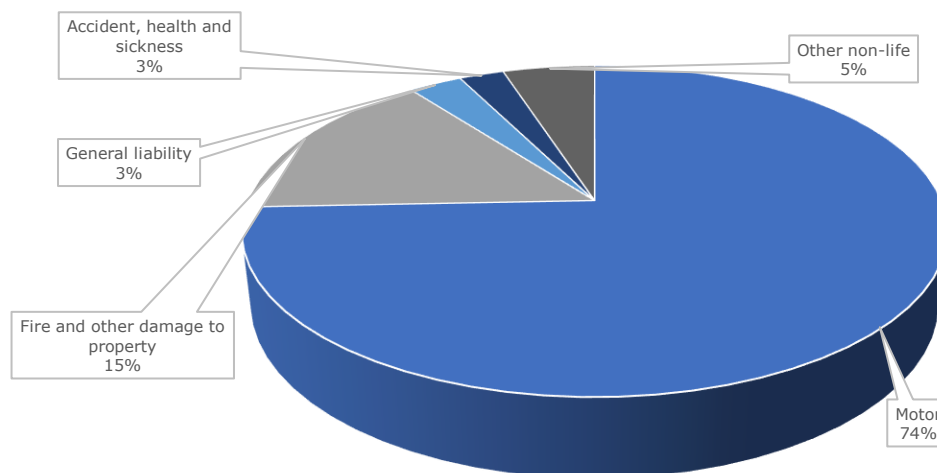
General liability, the third largest non-life insurance business line, accounts for 3% of non-life premiums. In 2017, premium income remained at the same level as the year ago, to 225 million EUR.

4.3.4 Accident and sickness

Total gross premiums written in accident and sickness insurance business amounted to 188 million EUR, exhibiting a growth rate of 11,7% to 2016.

4.3.5 Other non-life

Premiums for other non-life insurance business, such as credit and suretyship, legal protection, financial loss, assistance, as well as marine, aviation and transport, increased by 22,3% in 2017 to 386 million EUR.

Graph 3 - Allocation of gross written premiums for non-life insurance products (in %)

Note: Motor includes land vehicle insurance and motor liability. Other non-life insurance includes credit and suretyship, legal protection, financial loss, assistance, as well as marine, aviation and transport.

Source: ASF

4.4 Average duration

In 2016, EIOPA published their Insurance Stress Test Report⁴, which resulted in the following conclusions for Romania:

- The approximate effective duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 5,06;
- The Macaulay duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 11,71.

In comparison, the approximate effective duration and Macaulay duration for the TP life for all lines of business for the EU/EEA are 8,23 and 13,97, respectively.

⁴ EIOPA, 2016, 2016 EIOPA Insurance Stress Test Report. <https://eiopa.europa.eu/publications/surveys/eiopa-bos-16-302%20insurance%20stress%20test%202016%20report.pdf>



5 Accounting & Tax framework

5.1 Accounting framework

The EU has introduced rules, as laid down in Directive 2013/34/EU, to promote the convergence of accounting standards at global level and to ensure consistent and comparable financial reporting across the EU. Regulation 1606/2002/EC requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards, the so-called IFRS.⁵

1. Applicable GAAP at consolidated level: IFRS required for all companies⁶;
2. Applicable GAAP at statutory level: IFRS required for all companies⁶;
3. Prudential regulatory framework: Solvency II for the calculation of the Solvency Capital Requirement.

5.2 Tax framework

5.2.1 Capital gains on shares

Capital gains derived from the disposal of shares may be exempt from corporate income tax under the same conditions as dividends.

If one or more of the conditions is not complied with, capital gains are fully taxable at the standard corporate income tax rate of 16%

A tax credit for the taxes paid abroad may be obtained.

5.2.2 Capital losses on shares

As a general rule, two types of losses may be recorded by a company and are deductible: fiscal losses and accounting losses.

5.2.3 Taxation of dividends

A 100% exemption applies on dividends received by resident corporate shareholders from resident and non-resident corporations if the following conditions are met:

1. A holding requirement: minimum participation of 10%;
2. A holding period requirement: participation should be held uninterruptedly for at least one year;
3. A residency requirement: dividends are received from a type of company listed in the EU parent subsidiary directive or a non-resident company resident outside the EU and with whom a relevant tax treaty has been concluded;
4. A taxation requirement: the Romanian recipient should be subject to Romanian corporate income tax.

If one or more of the above conditions is not met, foreign dividends taxed at the ordinary tax rate. Furthermore, domestic dividends are subject to 5% withholding tax.

Romanian source dividends paid to a non-resident corporation are subject to 5% withholding tax (WHT), unless a tax treaty provides for a lower rate or the EU parent-subsidiary directive applies.

⁵ https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en
⁶ <https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/romania-ifrs-profile.pdf>



Foreign tax paid may be credited against Romanian tax, but the credit is limited to the amount of Romanian tax payable on the foreign income and provided that the taxpayer can evidence the amount of foreign tax paid. Furthermore, the relevant tax treaty should provide the possibility to obtain a foreign tax credit.

6 Historical data

The following section contains historical overviews of Solvency I, Solvency II and ECB data in order to provide insights on possible short and long-term trends.

6.1 Index-linked and unit-linked investments in comparison to total assets

Based upon the Solvency I and Solvency II (S.02.01) historical information, the evolution of the index-linked and unit-linked investments in comparison to total assets of Romania is compared to the EU. The break in Graph 4 shows the transition from the Solvency I to the Solvency II regulatory framework. Under Solvency II assets are presented based upon their market value.

Graph 4 - Evolution of index-linked and unit-linked investments based upon Solvency I and Solvency II



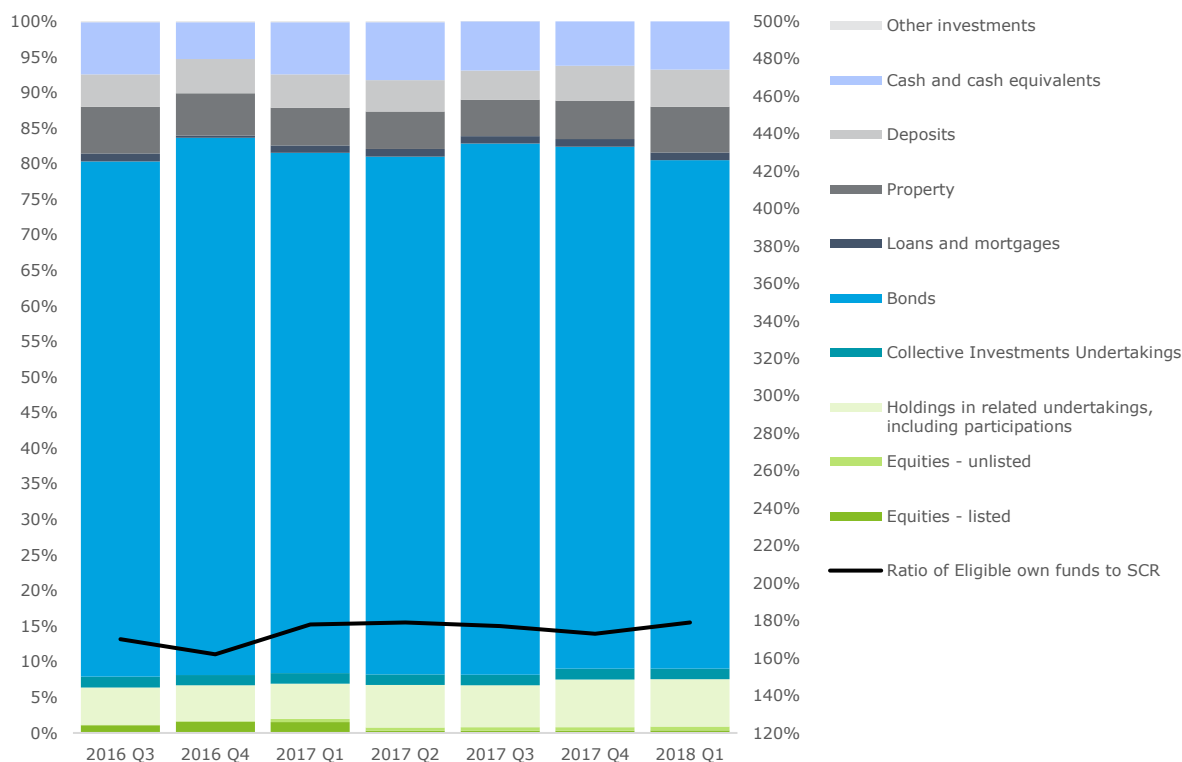
Source: EIOPA Solvency I and Solvency II statistics and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets increases heavily as from 2008. Note that the graph for the EU shows a relatively stable behaviour over the observation period, with a slightly increasing trend as from 2011.

6.2 Solvency II – excluding index-linked and unit-linked investments

Based upon the Solvency II (S.02.01) quarterly data from 2016 Q3 until 2018 Q1, the evolution of the different asset categories is depicted in Graph 5. Furthermore, the evolution of the SCR ratio is shown over the seven quarters.

Graph 5 - Evolution Solvency II balance sheet (S.02.01) items (Total Investments, deposits, cash and cash equivalents) and SCR ratio



Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The composition of the Romanian insurers' balance sheet has remained relatively stable over the quarters since the introduction of Solvency II on 1 January 2016⁷. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds, Collective Investment Undertakings and Holdings in related undertakings (including participations) do not suggest a clear trend whether it be downwards or upwards.

Bonds have constituted the major part of the Romanian insurers' balance sheet since the introduction of Solvency II.

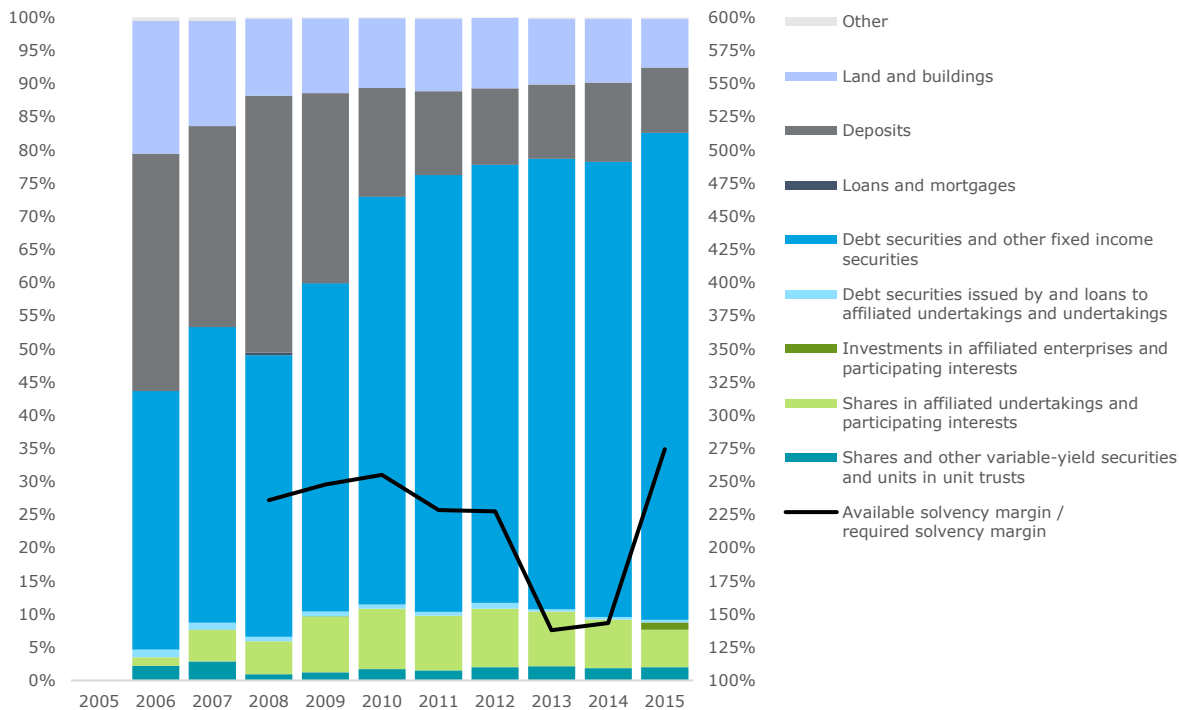
For Romania, the SCR ratio shows a decreasing trend as from 2016 Q4. Overall, this trend has not resulted into significant changes in the asset allocation of the overall Romanian insurance market.

⁷ Day one reporting, 2016 Q1 and Q2 are not publicly available

6.3 Solvency I – excluding index-linked and unit-linked assets

Based upon the Solvency I yearly data from 2005 until 2015, the evolution of the different investment asset categories is depicted in Graph 6. Furthermore, the evolution of the solvency ratio is shown over the history.

Graph 6 - Evolution Solvency I balance sheet items (Total Investments, deposits, cash and cash equivalents)

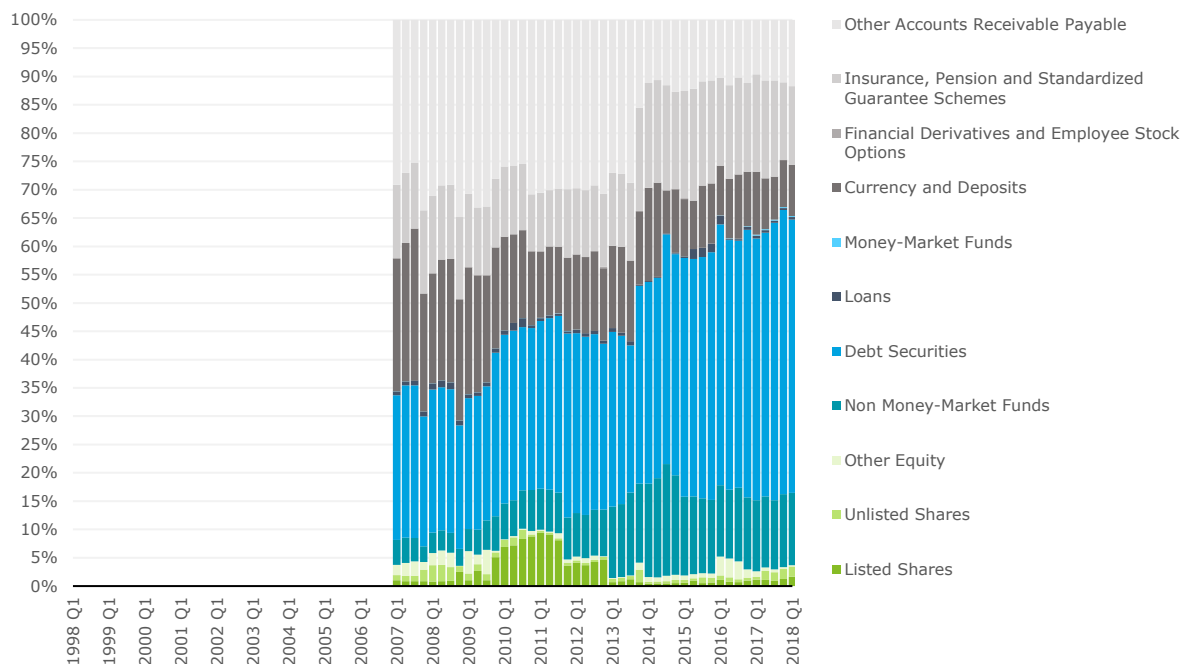


Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

Graph 6, which relates to Solvency I figures suggests the following observations. The dominance of Bonds that we observed under the rules of Solvency II has been a characteristic of the Romanian insurers' balance sheet since 2010.

6.4 European Central Bank – including index-linked and unit-linked assets

Graph 7 - Evolution ECB balance sheet items (asset categories)



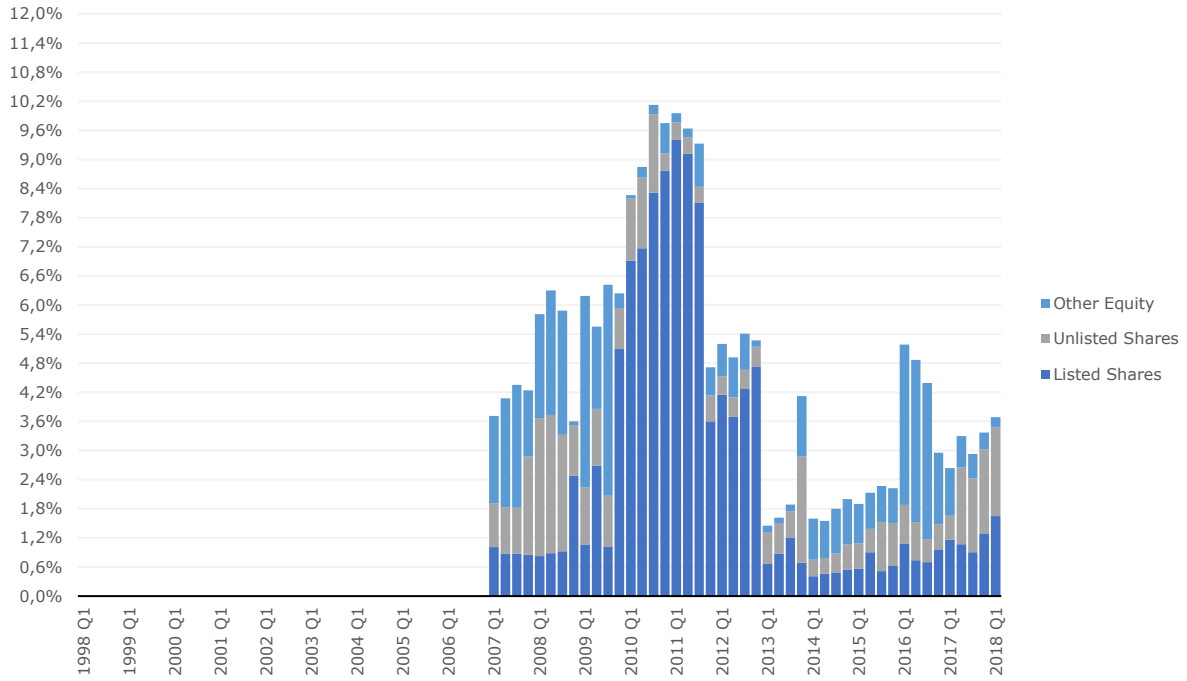
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 7 relates to figures of investments by Romanian Insurers since 2007 Q1 as reported by the ECB. It can be observed that the dominance of bonds in the investments, which is observed in Solvency I, and II (see graphs above) is confirmed as a long-standing characteristic of Romanian insurers. However, over the last years, there is an increasing importance of the Non Money-Market Funds.

On the next page, the Equity asset classes are presented in a more detailed view. Furthermore, the evolution of the listed shares (normalised to a start value of 100) of Romania is plotted against the aggregated EU data.

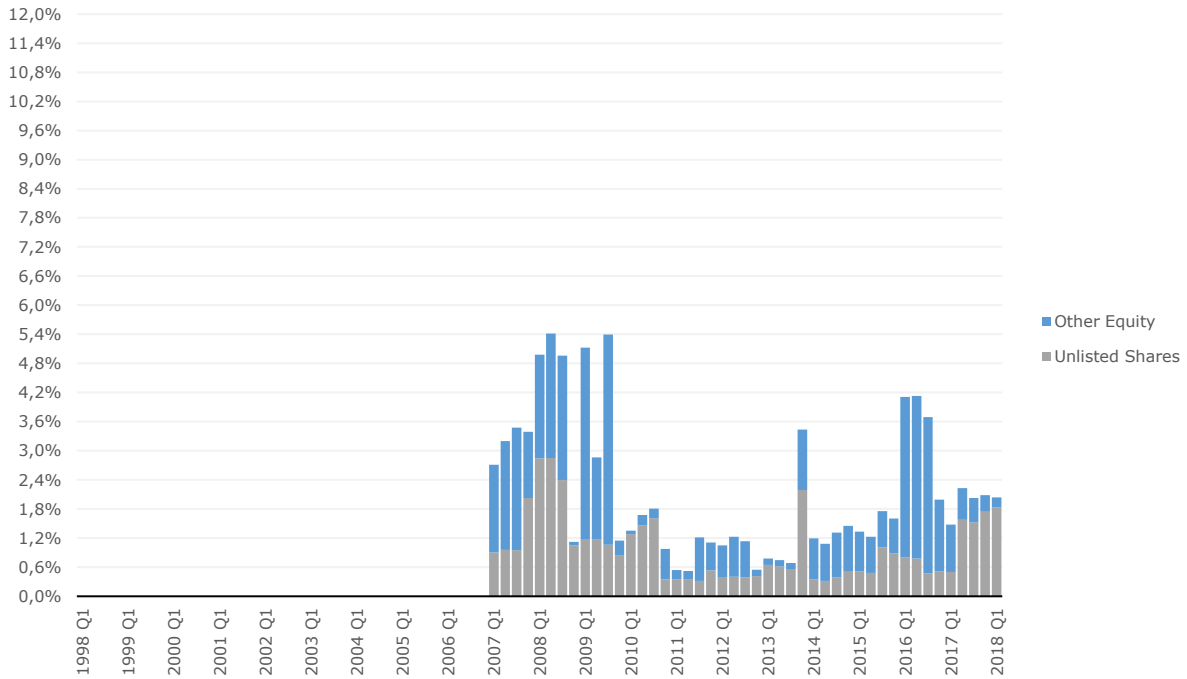
We remark that these graphs include index-linked and unit-linked assets, which cannot be individualised from the figures published by the ECB.

Graph 8 - Evolution ECB balance sheet items (equity categories)

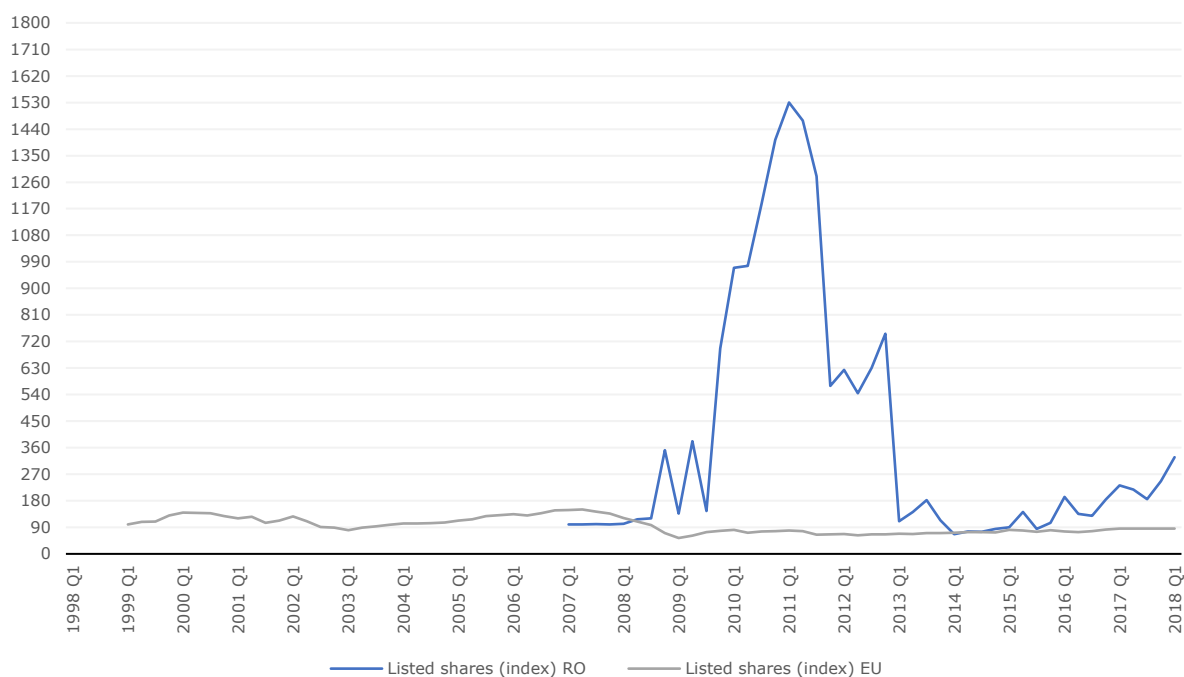


Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

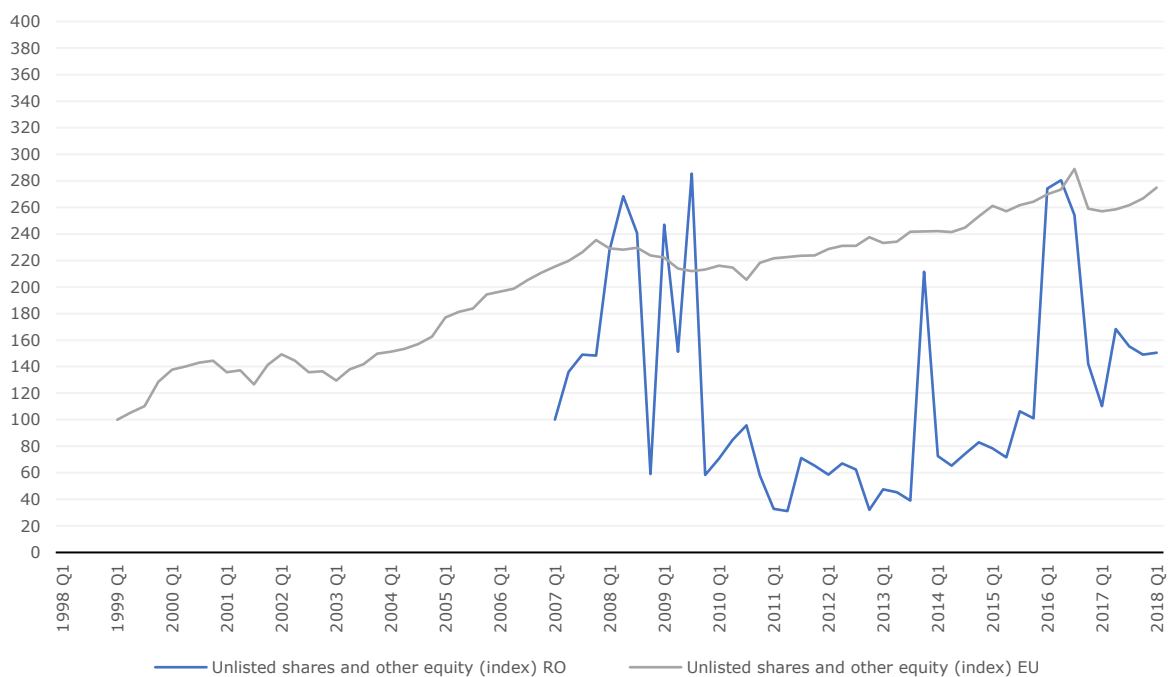
Graph 9 - Evolution ECB balance sheet items (Unlisted Shares and Other Equity)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 10 - Evolution ECB listed shares RO and EU (as index)

Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 11 - Evolution ECB unlisted shares and other equity RO and EU (as index)

Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

6.5 Trends in Equity Investments

This section provides a trend analysis of the equity investments of insurers in Romania using the balance sheet data of the insurance sector from the ECB Statistical Data Warehouse. Given the availability of the equity split in the ECB database, the analysis focuses on investments in listed shares and investments in unlisted shares and other equity.

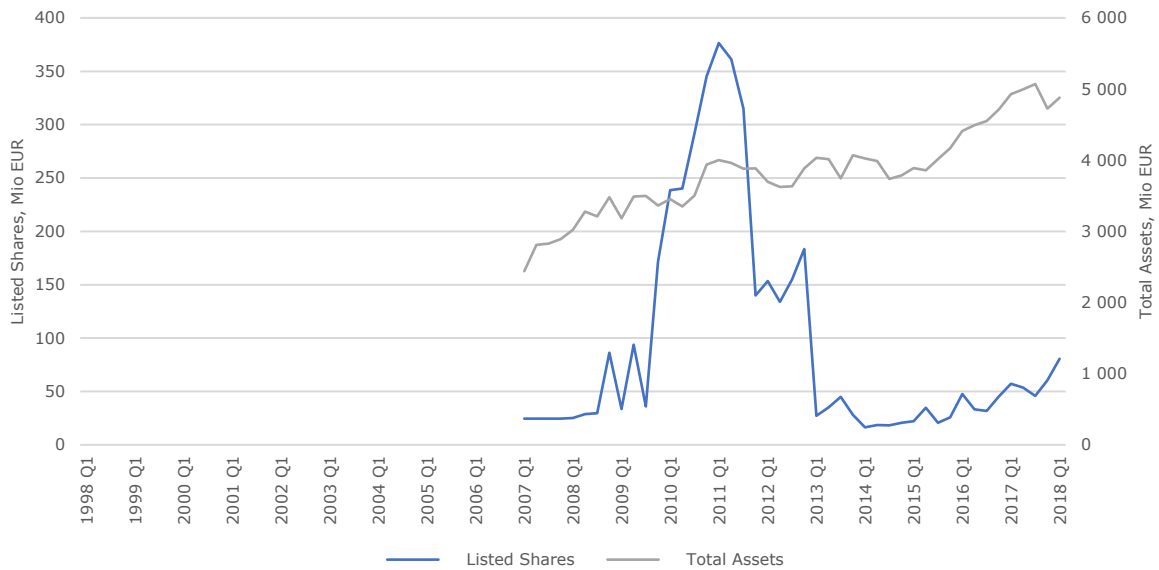
6.5.1 Listed Shares

In the analysis below, the listed shares of insurance corporations are plotted against the total assets in the industry both in amounts and in indexed values. The aim of this comparative analysis is to understand the evolution of listed shares in the overall insurance market. Similarity of the growth patterns in the listed shares and total assets can be considered as an indication of the extent to which the equity investments are driven by a good (or bad) economic environment in the industry at a certain point in time. A presentation of the variables only in amounts might dilute the magnitude of the growths for countries with large assets because in such a representation, the listed shares will be overstated. Therefore, we also plot each series as indexed to the initial point in their available history.

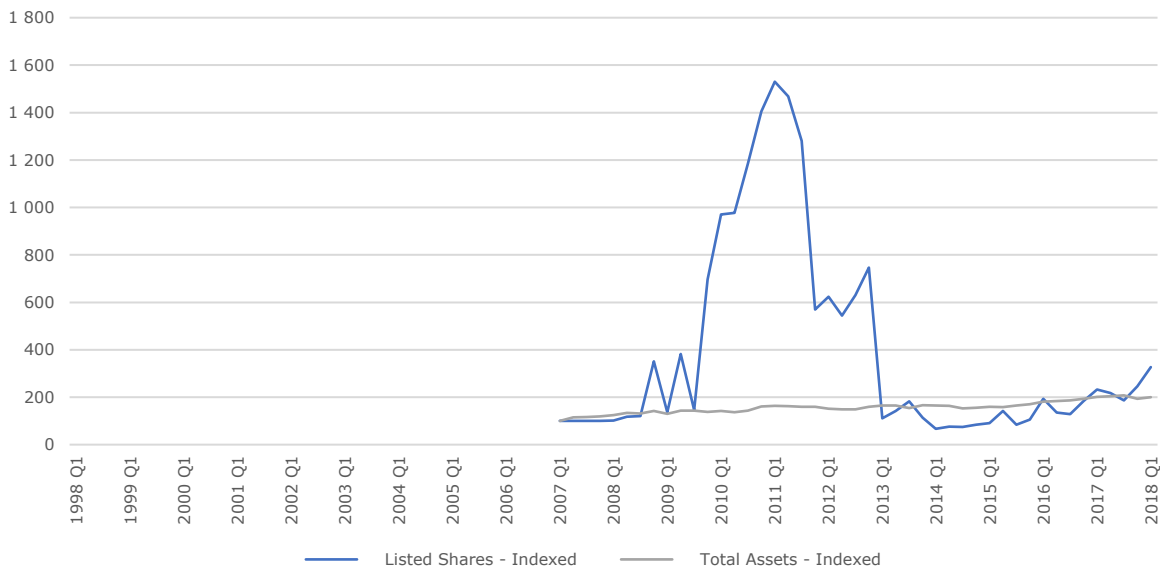
In the next step, we focus on the relationship with the listed shares and stock market indices. The ECB QSA balance sheet items are valued at market prices at the end of each quarter. Therefore, it is plausible to assume that the changes in the stock prices are reflected on the amounts held in listed shares. In order to remove this “price effect” from the observed amounts of listed shares and approximate the “real” amounts held in shares, we consider adjusting the observed amounts in listed shares. Even though we observe high correlations with listed shares and several stock indices, since the exact destinations of the portfolio invested in listed shares at each period is not observable, we build a “Weighted Equity Index” similar to the EIOPA Equity Dampener.

Amounts invested in listed shares and the total amount of assets of the insurance sector are plotted in Graph 12 while the indexed values of the series are presented in Graph 13. Between 2009 Q3 and 2013 Q1, investments in listed shares display a large peak, which reaches its highest point of 376 million EUR during the first quarter of 2011. The periods before and after peak fluctuate around 38 million EUR. In the first quarter of 2018, Listed Shares accumulate to 81 million EUR.

On the indexed values of total assets and investments in listed shares, differences in the growth pattern of these two series can be better observed. Over the period of 2007 Q1 – 2018 Q1, indexed value of total assets increases by 100%, while indexed value of listed shares increase by 227% of their initial values.

Graph 12 - Evolution of Listed Shares and Total Assets (in Mio EUR)

Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

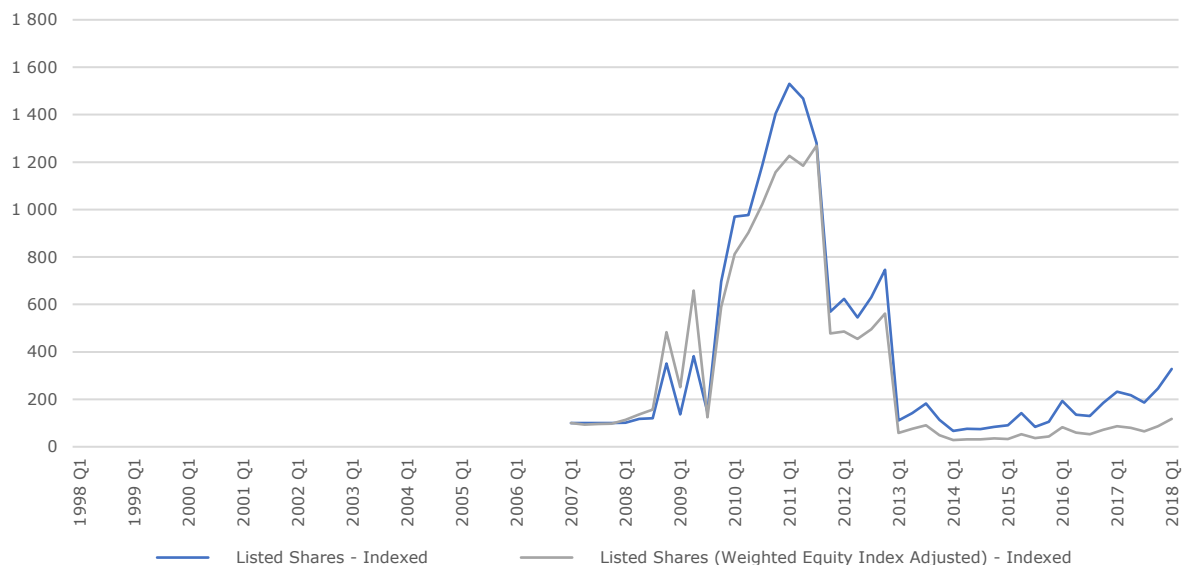
Graph 13 - Evolution of Listed Shares and Total Assets (indexed values)

Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 14 presents the indexed values of the amounts invested in listed shares against its Weighted Equity Index adjusted counterpart. Overall, adjusted and unadjusted series display a similar pattern. However, we observe periods in which unadjusted values are much larger than the adjusted values (i.e. for the periods of 2009 Q4 – 2012 Q4 and 2016 Q1 – 2018 Q1). This in turn points to a market price effect being present, inflating

the amount of listed shares. The peak for the adjusted series hints at a change in investment behaviour of Romanian insurers. Meaning that during the increasing period of the peak, Romanian insurers started investing more in Listed Shares.

Graph 14 - Evolution of Listed Shares – Indexed (Weighted Equity Index Adjusted)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

6.5.2 Unlisted Shares

Graph 15 depicts the amounts invested in unlisted shares and other equity plotted against the total assets in the insurance markets of while Graph 16 presents the indexed values of the series for an easier comparison of the movements in these two series. Investments in unlisted shares and other equity display a volatile pattern with an average quarterly growth of 21,44% and a standard deviation of 92,71%.

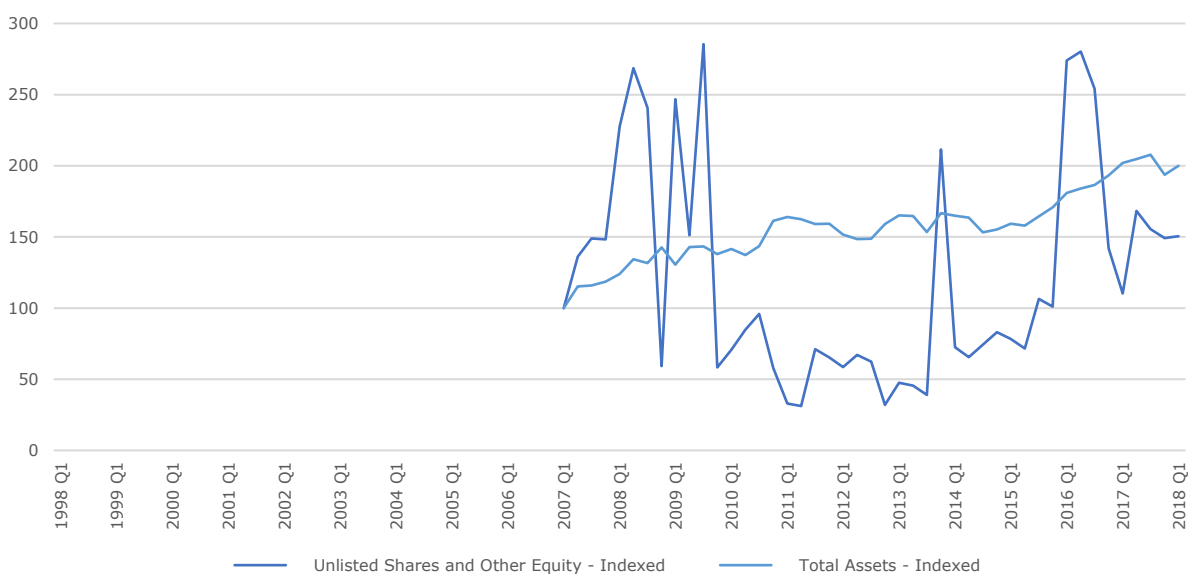
The growth patterns of total assets and unlisted shares and other equity can be compared on the indexed amounts. Over the period of 2007 Q1 – 2018 Q1, indexed value of total assets reach 200 while indexed value of unlisted shares and other equity increases to 151.

Graph 15 - Evolution of Total Unlisted Shares and Other Equity and Total Assets (in Mio EUR)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 16 - Evolution of Unlisted Shares and Other Equity (indexed values)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis