

The insurance companies and the crisis

[Economics](#), [Insurance](#)



In developed countries the size of the insurance market is about eight to twelve percent of the GDP. In the United States the assets managed by the insurance sector are higher than the assets of the banking sector. This is one of the most important pillar of the economy and financial system. At the macroeconomic point of view, level of insurance increases the financial stability of the economy, reduce uncertainty by enabling effective risk management, and support economic activity and stimulate savings and investment. Insurance sector will also increase the efficiency of the entire financial sector by reducing transaction costs, creating liquidity and economies of scale.

A modern, well-functioning insurance sector is essential for achieving sustainable economic growth. With the advent of the global financial crisis, the economy is experiencing a very hard time. The insurance industry as well did not avoid the problems. Lack of access to deposited funds in the banks, insurance premium reduction or increase in number of claims, forced the insurance companies to a very difficult challenge - how to carry out current activities and pay due compensation? Many insurers began to lose its liquidity. Insurance industry as one of the few propped the financial crisis at the beginning. Insurers constantly were expanding their offer - not only just for individuals but also for business companies, and were continuing decreasing the prices for life insurance. However, it does not apply to all types of the services provided by insurance companies to entrepreneurs.

Finally end of 2007 and 2008 have been rich in events associated with insurance sector. Fall in the stock market, the limitations and difficulties in accessing foreign funding, weakening the financial situation of enterprises

caused rapid deterioration of the global economy and have had an impact on the financial performance of the insurance sector. Any disturbances in the banking sector directly affected the financial results of the insurers.

Insurance companies seek to ensure that activities are safe, profitable, and enable timely payment of obligations. Insurers do not give up the cash investments into shares quoted on a regulated market, which can provide significantly higher returns than investments into safe securities. On the background of European insurers' investment exposure in 2007 and 2008 can be generalized that the most important source of losses for the insurers have proved their investments in debt securities CDOs SPV securitization companies, which face insolvency. These companies has completely lost its value and the guarantee of the solvency.

After the collapse of SPV companies, liabilities took over the insurance sector. The situation of the insurance sector in 2008 were gradually deteriorating as well as the solvency ratios of individual insurance company. As an example of big problems on insurance market during crisis I would like to use IG case. The rapid fall in the share price and unsatisfactory liquidity led to lower ratings of AIG by the four major rating agencies including Standard & Poor's and Moody's Investors Service. Standard & Poor's lowered scores for two levels because of less flexibility in raising funds for additional collateral for the loans, and concerns about the growing losses. Similarly, preserved Moody agency, which downgraded AIG for 2 degrees as well. It is clear that the company has liquidity problems.

In the first three quarters of 2008, AIG Group lost 18.5 billion of dollars. Poor results and poor ratings of AIG could cause problems to raise the capital needed to rescue the company. The company asked Central Bank for help. Finally, the government and the Fed did not committed to the downfall of a company in which millions of Americans are insured and agreed to give to AIG financial assistance. The transaction for a two-year revolving credit for 85 billion dollars to ensure the liquidity of the AIG company in exchange for a nearly 80 percent. shares has been approved in September 2008.

In case of problems with the implementation of the obligations of the insurer, a domino effect could embrace the whole world, AIG bankruptcy would affect banks and investment funds, which are the main holders of debt securities. In addition, AIG was a major seller of credit default swaps. Bankruptcy of the AIG could force financial institutions in the USA, Europe and Asia (that bought these swaps) to accounting losses. Fed's decision made was based on the law given to it by the passed bill about the Federal Reserve. It allows the central bank to lend money to companies outside the banking sector under unusual and urgent circumstances. In the agreement, Treasury Secretary Henry Paulson forced resignation of current AIG President Robert Willumstada, which was replaced by Edward Libby. In case of Poland, Insurance market were rapidly growing for few years before the crisis.

The history of life insurance in Poland cover a period of about 130 years. The development of life insurance in the first place was associated with an increase in wealth of the society. With the increase in GDP, which is a key determinant of economic status of the country, increased the expenditure on

life insurance. In Polish conditions the development of insurance occurred in the nineteenth century. The first Polish insurance company was established in the Austrian partition and it was a Krakow Mutual Insurance Society founded in 1868 in Krakow (as the name suggests), which a year later began conducting life insurance business. It functioned on principles similar to today's mutual insurance companies. In Poland we could observe the dynamic growth on the insurance market during last years, both in terms of the companies range of products offered and collected contributions.

Privatization, further market openings, the adjustment process of the integration with the European Union, and above all the impact of the launched in 1999 pension reform, the insurance sector are making one of the most promising sectors of the Polish economy. During recent crisis in Poland for example, were noted some main decision-making direction changes in investment policy insurance:

- * Repeat " opening up" of Life Insurance Companies to invest funds in real estate.
- * Abandonment invest their assets in investment certificates other than in the open and closed funds
- * Disposal of all bonds of the institutions belonging to countries outside the European Union (For Life Insurance Companies).

In the current crisis in financial markets, insurance sales, as well as other products and services, has become much more difficult than before. Customers are afraid to invest in financial products and very carefully take the decision of purchasing. There is growing consensus that this crisis will survive only the best sellers. The best sellers are those who see long-term benefits of building and maintaining lasting relationships between insurer and customer.

Such a relationship should be based primarily on mutual trust and benefit for both parties. It is crucial to continuously monitor changes in customer needs and proposing solutions to it, which will bring real benefits to it. The today's internal problem of insurance companies is that insurance companies reward their brokers primarily for acquiring new customers. In life insurance commissions for the following years of the contract are much lower than thus for the first year. This is obviously the most reasonable in today's market situation, but the other side is that such system makes that the agent is much more absorbed in gaining new customers and does not think about them in the category of long-term relationships. This carries a risk of decline in the quality of sales and customer satisfaction. Another issue is the differences in the rates of commission between the products.

If the agent is concentrated primarily in the fact to sell a particular product, which has a better profit, it is likely that the actual identification of customer needs in this area is not a priority for him. Usually it will try to persuade the customer to buy through the pressure and the use of different types of manipulation. But do not forget that the customer who bought life insurance, trust bestowed on both the agent and the company and the contracts are renewable every year. The customer is also a source of new contacts. The customer is more satisfied with the purchase and maintenance, including a greater number of friends to recommend an agent and company. An interesting issue in my opinion is that in Poland close to thirteen thousand of entrepreneurs in the 2008 has opted to temporarily withdraw from the movement of the vehicle. * ' For many of us is the only chance of surviving the crisis' - explains Jan Kazulski, Wroclaw Transport Association The

government not only allowed to the use of temporary de-registration of the car on a larger scale, but released from the obligation to pay by this time a full OC.

This is the way how they are trying to deal with the crisis. At the adopted amendments will lose more probably insurance companies. Government explains that option of a refund of contributions for the period in which the vehicle is temporarily withdrawn from service, is already operating in several countries in Europe. The insurance sector in the economy plays a very important role, apart from this obvious, that is protective, contributes to the accumulation of capital in the economy. Accumulation of capital in most concerns life insurance. In case of Poland, despite the current financial crisis, the insurance market in Poland will grow. The pace of growth will be slower than in the past years, and customer requirements in terms of quality sales and after-sales services will increase considerably.

Summing up, the financial crisis had a significant impact on insurers. For example the insurance on Polish market has declined for about 22.33 percent. Its value has declined by almost 9 billion zlotys - from 39 billion zlotys in 2008 to slightly over 30 billion zlotys at the end of 2009. The record level of disbursements included both property insurance and life insurance policies. Bibliography: * Gazeta Ubezpieczeniowa (Articles from Jan and Feb 2009) * Gazeta Wyborcza ' Rekordowa strata AIG', ToP, AFP, 2009-03-02 * [http://www. quotes-r-us.](http://www.quotes-r-us.org/home-insurance/current-financial-crisis-and-insurance-companies)

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