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RESEARCH ON THE BANKRUPTCY RISK OF ROMANIAN INSURANCE COMPANIES BASED ON FINANCIAL INDICATORS FROM FINANCIAL STATEMENTS

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Abstract
The purpose of this paper is to show whether the information available to the general public, provided by the Ministry of Finance, is sufficient to form an opinion on the economic and financial background of an insurance company and whether it can protect us from the unpleasantness of taking out an insurance policy with a company that will go bankrupt in the near future. Clearly, we also aim to provide an understanding of the risks faced by insurance companies, to assess the effectiveness of regulations and supervisory bodies, and to propose solutions to prevent bankruptcies and protect future customers. In these contexts, the objectives set focus on analyzing the indicators in the annual financial statements that may or may not signal a future bankruptcy and whether this information can protect potential customers. The research methodology is based on techniques such as documentary synthesis on insurance, risk in insurance, analysis of financial statements on several indicators (solvency ratio, equity, return on equity (ROE), return on total assets (ROA), overall leverage ratio) in order to identify the risks that the main users of information provided by the financial statements of insurance companies are taking.

Keywords: *bankruptcy risk; insurance market; solvency ratio; return on equity; return on total assets*

JEL Classification: G33, M10

INTRODUCTION

The global financial and economic crisis of 2008 highlighted the scale of losses from unforeseen events, while measures to prevent systemic risks proved insufficient. Moreover, the crisis has brought back to the forefront the need for more in-depth studies of the risks to which companies are exposed, with a much more rigorous and detailed categorization of risks, allowing their complexity and diversity to be taken into account in an integrated approach to prevent systemic risks.

Insurance companies are fundamental to maintaining financial and economic stability, protecting both individuals and economic entities against risks, particularly in an era where risk and uncertainty are constant features of economic activity. By assuming the risks of economic activities, insurers contribute to the smooth functioning of economic processes and finance actions to prevent and combat damaging events, thus helping to maintain economic resilience. The modelling of decisional problems in this context increasingly relies on artificial intelligence techniques, which not only enhance the efficiency of risk assessment and management but also strengthen cybersecurity measures, ensuring robust protection against emerging threats in a digitalized economy. (Dragomir, 2017). Moreover, insurance companies finance actions to prevent and combat damaging events, thus helping to maintain the integrity of property and stimulate domestic and international tourism through their forms of liability and personal insurance.

Research on the bankruptcy risk of Romanian insurance companies, based on financial indicators from financial statements, has become increasingly important in the context of globalization and the lessons learned from the 2008 financial and economic crisis. These events have exposed the existence of complex and systemic risks in the insurance market, exacerbating the conditions for company failures and amplifying the challenges posed by interconnected markets. To address these vulnerabilities, identifying methods to adapt the behavior of cash flows to variations in relevant financial-economic indicators under multiple crisis conditions is essential (Grosu & Tanasoaia, 2022). Furthermore, integrating ESG principles not only supports sustainable asset management and the growth of the green bond market but also enhances the resilience of insurance systems to navigate these compounded risks effectively (Chelba & Cosmulese, 2024)

It is therefore more effective to take preventive measures by strengthening supervisory systems and developing effective risk management. This involves improving regulatory systems, developing methods and tools for preventing and reducing risks, applying alternative methods for assessing and forecasting the risk of

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bankruptcy, and leveraging applications of artificial intelligence to inform decision-making by enhancing the accuracy of risk analysis, optimizing resource allocation, and identifying early warning signs of financial distress (Dragomir & Alexandrescu, 2017).

It is a worrying fact that in the insurance sector in Romania, in the last 10 years, six out of the total of 19 insurance companies operating on the market have gone bankrupt (currently only 13 companies are still active).

I. LITERATURE REVIEW

The development of insurance companies and their capacity to adjust to new regulations are ongoing subjects of research in the insurance literature. The elements affecting their business can either positively or negatively impact it, as is the case in any field. There are authors who believe that financial analysis of a dynamic nature are essential elements in understanding the operation of companies whose main business is UK general insurance (Shiu, 2011; Macovei et al., 2024). For instance, Shiu (2011), concluded that the indicators that provide valuable information about this type of business are liquidity, interest rate levels, inflation generated by unpredictable developments or profits. Another study using financial information from 2017-2018 showed that the value of technical efficiency positively influenced the performance of Indonesian companies in this sector. Moreover, the cost ratio has considerable impact in the process of achieving efficiency compared to the rate of investment which does not have the same effect (Abdin, 2022). Because the market is constantly changing, some authors consider it important for insurance companies to adapt to digital trends. Thus, in order to retain or attract as many customers as possible, the design tinkering methodology, the continuous search for new, innovative solutions or prototyping could bring long-lasting benefits (Pisconi, 2021).

Referring to the Italian companies, the same author that internal innovation can create much more advantageous connections between customers and the insurance company. In the same vein, there are authors who consider the degree of understanding of the sales process and the level of achievement of results by the agents as an important aspect for performance (Rachmad et al., 2024; Andreev et al., 2022).

They considered it useful to create an application that aimed to analyze in the shortest possible time the potential customers, creating the profile, and after the interviews, they found that this method could contribute to a great extent to the increase in performance. In a study conducted for the period 2018-2022 on 7 firms in Turkey whose main activity is insurance, it was found that financial performance has a great influence on the risk of bankruptcy, determined in this case using the Altman-Z Score model, but factors should not be excluded (Karavar & Yaman, 2024). Financial obstacles are a serious issue for the continuation or not of any company.

For Jordanian and Palestinian insurance companies the degree of profitability, the size of the entity as well as the capital adequacy could have a good significance and could diminish the possibility of the firm facing various financial problems. At the same time, loss ratio may mitigate the degree of facing financial difficulties (Asmar & Farhood, 2024). Regarding the influence on the return on assets (ROA), the authors of the study on the financial analysis of the performance of Jordanian insurance companies, believe that for the 13 sample firms, the ability to achieve a profitable return as a result of asset utilization is healthy, and this indicator is important for understanding the stage of development of the firm and assessing the financial status for both managers and investors (Rasyid, 2023).

There are opinions that elements such as the expense ratio as well as the claims ratio of an insurance company do not have a positive influence on the performance outcome (Mazviona et al., 2017). The same effect would affect the size of the firm and indicators such as leverage, or liquidity have favorable effects when analyzing financial performance. The same authors propose insurance companies to apply different practices that could decrease operational costs, one example proposed would be the use of automated systems, although their implementation sometimes requires substantial financial resources. Particularly in light of growing demands for sustainable practices, the bankruptcy risk of Romanian insurance companies as determined by financial indicators from financial statements offers important insights into their resilience and stability. These businesses can improve their risk management tactics, follow more general banking trends like the expansion of the green bond market, and support sustainable asset management while guaranteeing long-term economic and environmental resilience by incorporating the fundamentals of ESG (Environmental, Social, and Governance) principles (Buboi (Danaila) & Cosmulese, 2024).

Another hypothesis confirmed by specialists is that the variability of the ROE of life insurance companies is determined by the market share, which in turn is calculated through the gross written premium (Bukowski, 2021).

The evolution of insurance companies in Romania, according to a study carried out on this type of market, are also influenced by legislative regulations, which in recent times are closely linked to the political aspect, consumer needs or economic conditions that are also fluctuating (Burca & Batrînca, 2014). If we refer strictly to the analysis of the performance then according to the same authors, the greatest influences on these companies are

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the specific financial leverage, the size of the entity, and the uncertainty related to underwriting. Equally important is the ability of the entity to keep its solvency at an optimal level or the ability to control the risk retention rate.

A more realistic management of companies, a stronger capacity to adapt, could reduce the risks of bankruptcy, but this is not enough. External influences are difficult to control. It is not possible to determine the probabilities of activation of companies for an unlimited period, although an insurance entity that has been active for a long period of time and that records a substantial surplus, resulting from the difference in assets and liabilities that have a connection with policyholders, is supposed to always be alive (Courtois & Randrianarivivony, 2013).

Given that the insurance sector in Europe holds assets equivalent to two-thirds of European GDP, being one of the most important institutional investors. In this context, knowledge of the risks of the insurance system and the ability to estimate bankruptcy risks before they occur becomes a necessity. The stability of the insurance sector has a direct impact on the economy and society. By preventing bankruptcies and protecting the interests of customers, the paper contributes to increasing confidence in the insurance system.

II. RESEARCH METHODOLOGY

To achieve the purpose of this study, we will investigate the main indicators in the annual financial statements over a five-year period to determine if we can identify early warning signals of bankruptcy. Therefore, the main indicators taken into the analysis refer to the general solvency ratio, equity, return on equity (ROE), return on total assets (ROA) and the debt ratio. Regarding the general solvency ratio, this is a financial indicator that measures the ability of a company to cover all its debts (short and long term) using total assets, it is calculated as the ratio of total assets to total liabilities (Nexus, 2023). It provides an overview of the financial stability and insolvency risk of a company. The solvency ratio indicates that a company with a solvency lower than 1 is insolvent or on the verge of insolvency (Anghel, 2013). A general solvency ratio greater than 1 indicates that the company's total assets exceed its total liabilities, suggesting that the company is able to cover its debts. The higher this value, the better the company's solvency.

The general solvency ratio is essential for investors and creditors because it provides a clear assessment of the company's ability to meet its financial obligations. A high general solvency ratio can attract investment and facilitate access to external financing because it indicates a low risk of insolvency. Conversely, a low ratio can signal financial problems and a higher risk for investors and creditors. The modelling of decisional problems plays a crucial role in assessing the impact of solvency on strategic financial planning, enabling organizations to evaluate various scenarios, optimize resource allocation, and mitigate potential risks (Dragomir, 2017; Bores, 2023a).

Equity, also known as a company’s net worth, is the value remaining after all of a company’s debts have been deducted from its total assets (Chirilov, 2018). Basically, equity reflects the share that goes to shareholders after all obligations have been paid. Positive equity indicates a solid asset base that can support the company’s activity and development. A negative value indicates that the company’s debts exceed its assets, suggesting possible insolvency and major financial problems. A high level of equity indicates greater financial stability, which can lead to greater confidence from creditors and investors. Companies with solid equity have a greater capacity to invest in new projects, research and development, and expansion. Equity can act as a buffer against unforeseen losses, thus protecting the business during difficult times. Strong equity reduces the company’s dependence on external financing and improves the company’s negotiating position with creditors. Investors are more likely to invest in a company with strong equity, as it indicates lower risk. Banks and other lenders prefer to lend to companies with high equity because it provides a better guarantee of debt repayment. Equity is an essential element in the financial analysis of a company, providing a clear picture of its stability and ability to meet long-term financial obligations.

ROE, also known as Return on Equity, is an essential financial indicator that measures a company's profitability in relation to its equity (Oltean, 2024). It reflects the efficiency of management in using its own funds to generate profit. The calculation formula for ROE is given by the ratio between net profit and equity. A high ROE indicates that the company's management uses equity efficiently to generate profit, thus being a positive and attractive sign for investors. Conversely, a low ROE may suggest inefficiency in managing equity or the existence of business problems. ROE is important for evaluating management performance and allows investors to compare the profitability of different companies in the same sector. It helps identify the most efficient and profitable investments. However, ROE also has limitations. It does not take into account the capital structure and can be influenced by the company's level of debt. Also, short-term profitability does not guarantee long-term performance, and direct comparisons between companies in different industries may be less relevant. Thus, although ROE is a powerful tool for assessing a company's profitability and efficiency, it must be used in conjunction with other financial indicators to get a complete picture of a company's health and performance.

ROA (Return on Assets) is a financial indicator that measures a company's efficiency in using its assets to generate profit. It is essential to assess how well management is using the company's total resources to produce

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revenue. The calculation formula for ROA is given by the ratio of net profit to total assets, multiplied by 100. A high ROA indicates that a company is able to efficiently use assets to generate revenue, which suggests efficient resource management (Gomoi, 2021). ROA provides investors and creditors with insight into how efficiently a company uses assets to generate profits. However, like any other financial indicator, ROA has its limitations. For example, it can be influenced by the company's different accounting policies. ROA rates can also vary significantly across industries, making direct comparisons less relevant (Pop, 2012). ROA is a valuable tool for assessing a company's operational efficiency and performance, but it should be used in the context of other indicators and the specific industry to get a complete and accurate picture of the company's financial health.

The leverage ratio, also known as financial leverage, is an essential indicator to assess a company's capital structure and the degree of risk associated with its financing. This indicator measures the proportion of debt in the total capital used by the company to finance its activities. The calculation formula for the leverage ratio is the ratio of total debt to equity (Mironiuc, 2018).

A high leverage ratio indicates that a company uses a high level of debt to finance its activity, which may suggest increased financial risk, as the company has higher payment obligations. Conversely, a low leverage ratio suggests that a company relies more on equity for financing, which may indicate greater financial stability and lower risk. Financial leverage can be beneficial when the company obtains a return on assets higher than the cost of debt, thus maximizing the return on equity. Thus, the leverage ratio is an important tool for investors, creditors and managers, providing insight into the capital structure and financial risk of a company (Babii, 2015; Bores, 2023b).

Therefore, for this study we chose four insurance companies, namely: Omniasig Vienna Insurance Group S.A., Groupama Asigurări S.A., Euroins România Asigurare-Reasigurare S.A., Societatea de Asigurare-Reasigurare City Insurance S.A. The latter, Euroins and City Insurance, went bankrupt in 2023 and 2022, respectively, while the first two continue to operate.

Omniasig Vienna Insurance Group S.A. is one of the largest insurance companies in Romania, part of the international Vienna Insurance Group (VIG), which operates in several countries in Central and Eastern Europe. The company offers a wide range of insurance products, including life insurance, health insurance, general insurance (auto, home, property, etc.) and business insurance. It was founded in 1995 and has consolidated its position on the Romanian insurance market through various strategies to expand and diversify its product portfolio. It is known for its high-quality services and adaptability to the diverse needs of its customers. In addition, as part of the Vienna Insurance Group, Omniasig benefits from the expertise and support of a strong and internationally well-established financial group, which contributes to customer confidence and stability on the Romanian insurance market (Omniasig Vienna Insurance Group, 2024).

Groupama Asigurări S.A. is an insurance company based in Romania, part of the international Groupama group. The Groupama group is present in several countries in Europe and is known for its wide range of insurance products and financial services. In Romania, Groupama Asigurări offers a variety of insurance products, including life insurance, general insurance (auto, home, property, etc.), health insurance and business insurance. The company has built its reputation on the Romanian market through quality services, adaptability to customer needs and an active presence in the development of modern insurance solutions (Groupama, 2022). Groupama is the new leader in the RCA insurance policy market, after the resounding bankruptcy of Euroins, however, there is talk of a possible bankruptcy, as it was targeted by the ASF and was sanctioned for several irregularities. Also, the increase in the number of customers has led to increased dissatisfaction among them (Matache, 2024).

Euroins Romania was founded in 2005 and became part of Euroins Insurance Group in the same year. This group is one of the largest independent insurers in the Eastern European region. Euroins was a leader in the Romanian insurance market, which had the largest share in the RCA insurance market (35% in 2021). In March 2023, Euroins was left without an operating authorization, having been withdrawn by ASF, because it no longer met the solvency capital requirement as of June 30, 2022, a situation that has not been corrected. Euroins began to be subject to an extensive control action by ASF in February 2020, during which irregularities were discovered and many sanctions were applied. On June 9, 2023, the court issued the decision to open bankruptcy proceedings for Societatea Euroins Asigurare-Reasigurare S.A (ASF, 2023).

City Insurance was founded in 2005 and quickly became one of the largest insurance companies in Romania, known for its competitive policies and extensive customer base. City Insurance is considered one of the largest insurance companies in Romania in terms of premiums written and number of customers. However, in recent years there have been some challenges and discussions regarding solvency and risk management, and the company has been involved in regulatory and monitoring processes by the competent authorities. However, after several fines received from supervisory bodies, various takeover and recovery attempts, ASF withdraws the operating authorization on September 17, 2021 and requests the opening of bankruptcy proceedings, which are decided in court on February 9, 2022 (ASF, 2024).

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For Omniasig and Groupama, the study is based on the period 2018-2023, and for the other two, on the period 2018 and the year before the bankruptcy, to observe if there were signals indicating the resounding bankruptcies that were to follow. We will follow if there are similarities and differences between the course of these companies in recent years of activity.

III. RESULTS AND DISCUSSIONS

The results of our empirical analysis are reported in this section. Therefore, in table no. 1 the evolution of the general solvency ratio for the companies taken into the analysis for the period 2018-2023 is presented.

Table 1. Evolution of the general solvency ratio in the period 2018-2023

No.	Company	Financial year	Balance sheet items		General solvency ratio (lei) Gsr=Ta/Td	Indicators (%)		
			Total assets (lei)	Total debts (lei)		Ta	Td	Gsr
1.	Omniasig Vienna Insurance Group S.A.	2023	4.206.911.364	374.844.484	11,22	116,52	113,74	102,44
2.	Omniasig Vienna Insurance Group S.A.	2022	3.610.497.487	329.553.022	10,96	122,29	124,19	98,47
3.	Omniasig Vienna Insurance Group S.A.	2021	2.952.384.401	265.361.952	11,13	107,68	101,35	106,25
4.	Omniasig Vienna Insurance Group S.A.	2020	2.741.725.816	261.827.380	10,47	104,64	86,58	120,86
5.	Omniasig Vienna Insurance Group S.A.	2019	2.620.142.997	302.400.176	8,66	102,98	156,70	65,71
6.	Omniasig Vienna Insurance Group S.A.	2018	2.544.308.894	192.984.602	13,18	100,00	100,00	100,00
7.	Groupama Asigurări S.A.	2023	6.149.425.405	610.165.304	10,08	123,01	49,75	247,23
8.	Groupama Asigurări S.A.	2022	4.999.285.734	1.226.363.736	4,08	179,40	200,00	89,70
9.	Groupama Asigurări S.A.	2021	2.786.664.922	613.172.960	4,54	172,50	613,91	28,10
10.	Groupama Asigurări S.A.	2020	1.615.445.155	99.879.612	16,17	108,09	105,86	102,11
11.	Groupama Asigurări S.A.	2019	1.494.499.255	94.348.577	15,84	103,84	121,59	85,39
12.	Groupama Asigurări S.A.	2018	1.439.301.259	77.592.742	18,55	100,00	100,00	100,00
13.	Euroins România Asigurare-Reasigurare S.A.	2022	2.719.809.259	228.040.517	11,93	86,27	73,63	117,16
14.	Euroins România Asigurare-Reasigurare S.A.	2021	3.152.658.151	309.701.152	10,18	198,46	232,88	85,22
15.	Euroins România Asigurare-Reasigurare S.A.	2020	1.588.599.793	132.986.438	11,95	99,64	196,39	50,74
16.	Euroins România Asigurare-Reasigurare S.A.	2019	1.594.335.152	67.715.877	23,54	107,81	118,67	90,86
17.	Euroins România Asigurare-Reasigurare S.A.	2018	1.478.776.993	57.064.498	25,91	100,00	100,00	100,00

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18.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2020	3.817.640.064	642.479.968	5,94	125,19	78,03	160,43
19.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2019	3.049.452.034	823.332.297	3,70	163,26	422,83	38,61
20.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2018	1.867.900.579	194.721.741	9,59	100,00	100,00	100,00

Source: Own processing based on information from the annual financial statements of insurance companies available at *https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi*

Based on Table 1 we can see that the general solvency ratio exceeds the value of 1 for all the companies analyzed, which means that they do not pose a risk to their creditors and investors and that they are solvency in the analyzed period. The results obtained show us that these companies have the capacity to pay their obligations by transforming assets into liquidity.

At Omniasig, the general solvency ratio has been increasing in the last 5 years from year to year, only in 2022 it has a small decrease, which is generated by the faster growth of the company's total debts by 24.19%, compared to the growth of total assets of only 22.29% compared to the previous year. However, the company is in a good balance, the analyzed elements grow evenly and organically in the analyzed period, which we can see in Figure 1.a and Figure 1.b, where we can also see the smooth growth.

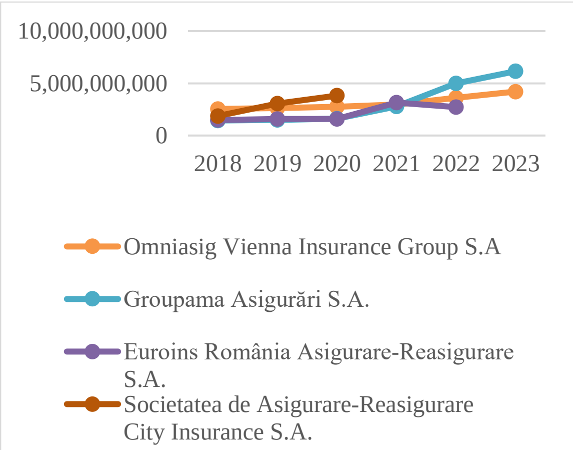

Figure 1.a Evolution of total assets in the period 2018-2023

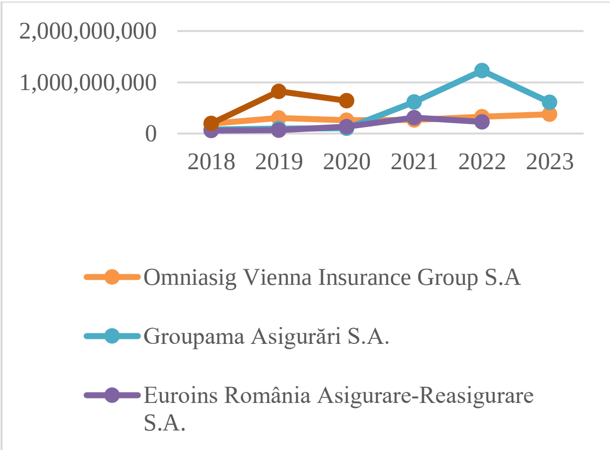

Figure 1.b Evolution of total liabilities in the period 2018-2023

Source: Own processing based on information from the annual financial statements of insurance companies available at *https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi*

Although Groupama has a general solvency ratio higher than 1, we can see that the company is somewhat unstable. In 2021, the general solvency ratio drops from 16.17 to 4.54, i.e. by 71.90% (a sharp drop, which is also evident in Figure 2.), because total liabilities increased more than six times compared to 2020, while total assets increased by only 72.50%. The following year, the solvency ratio remains at a similar value, recording a slight decrease of 10.30%, but total assets and total liabilities almost doubled, with assets growing at a slower pace than total liabilities. In 2023, we observe an increase in total assets of 23.01% and a huge decrease in total liabilities of 50.25%, which causes the solvency ratio to increase by almost 2.5 times. These sudden increases in balance sheet items in the last three years analyzed could be an alarm signal about the way economic activity is being managed and its instability.

Euroins presents at the beginning of the analyzed period moderate increases in the balance sheet elements, highlighted in Figure 1.a and Figure 1.b, and some stability until 2020, when it doubles its total liabilities and total assets suffer a small decrease, which causes the solvency ratio to decrease by half, reaching the value of 11.95. Furthermore, in the following year this indicator decreases by 14.78%, because the two elements do not grow at the same pace, however they register significant increases, total assets increase by 98.46%, and total liabilities by 132.88%. These fluctuations could have been an alarm signal for those interested in the fact that the company does not present stability.

Regarding the last analyzed company, City Insurance, the fluctuations are much more evident. In 2019 total liabilities increased 4 times compared to the previous year, and total assets increased only 0.63 times, which leads

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to a decrease in the general solvency ratio of 61.39%. However, it maintains a value higher than 1, which, analyzed separately and not in comparison, could not raise any alarm signals. Then, in 2020, it seems that the company is trying to recover and to present balance, which does not foreshadow the bankruptcy that was to come.

As seen in the previous figures and now in Figure 2, Omniasig has a smooth path in the analyzed period. On the other hand, the other three companies (the two bankrupt ones and Groupama, which is rumored to be bankrupt in the next period) have a tortuous path, maintaining their balance for short periods, then having notable increases or decreases. Therefore, the solvency ratio may arouse suspicion that something is wrong with the activity carried out by some insurance companies, but it is not definitive and bankruptcy may come from many other factors independent of the company. An overall look at the elements in the balance sheet can be a reflection of the health of these companies and can reflect the balance of the activity.

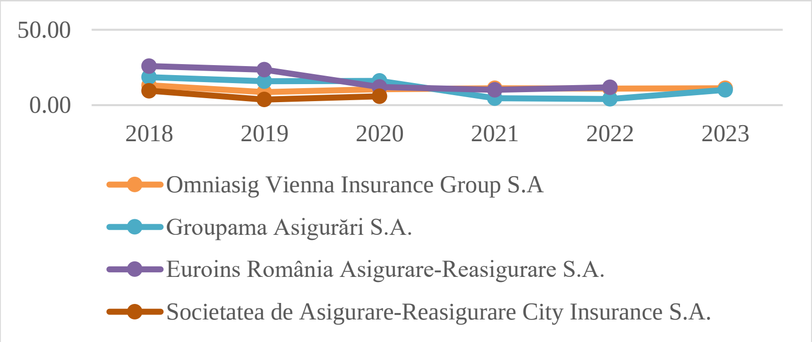

Figure 3. Evolution of the general solvency ratio in the period 2018-2023

Source: Own processing based on information from the annual financial statements of insurance companies available at https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi

Another important indicator taken into account in the analysis is Equity, and in Table 2 its evolution in the period 2018-2023 for the entities taken into the analysis can be observed.

Table 2. Evolution of equity during the period 2018-2023

No.	Company	Financial year	Balance sheet items		Equity (lei) E=Ta - Td	Indicators (%)		
			Total assets (lei)	Total debts (lei)		Ta	Td	E
1.	Omniasig Vienna Insurance Group S.A.	2023	4.206.911.364	374.844.484	3.832.066.880	116,52	113,74	116,80
2.	Omniasig Vienna Insurance Group S.A.	2022	3.610.497.487	329.553.022	3.280.944.465	122,29	124,19	122,10
3.	Omniasig Vienna Insurance Group S.A.	2021	2.952.384.401	265.361.952	2.687.022.449	107,68	101,35	108,35
4.	Omniasig Vienna Insurance Group S.A.	2020	2.741.725.816	261.827.380	2.479.898.436	104,64	86,58	107,00
5.	Omniasig Vienna Insurance Group S.A.	2019	2.620.142.997	302.400.176	2.317.742.821	102,98	156,70	98,57
6.	Omniasig Vienna Insurance Group S.A.	2018	2.544.308.894	192.984.602	2.351.324.292	100,00	100,00	100,00
7.	Groupama Asigurări S.A.	2023	6.149.425.405	610.165.304	5.539.260.101	123,01	49,75	146,82
8.	Groupama Asigurări S.A.	2022	4.999.285.734	1.226.363.736	3.772.921.998	179,40	200,00	173,59
9.	Groupama Asigurări S.A.	2021	2.786.664.922	613.172.960	2.173.491.962	172,50	613,91	143,41

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10.	Groupama Asigurări S.A.	2020	1.615.445.155	99.879.612	1.515.565.543	108,09	105,86	108,24
11.	Groupama Asigurări S.A.	2019	1.494.499.255	94.348.577	1.400.150.678	103,84	121,59	102,82
12.	Groupama Asigurări S.A.	2018	1.439.301.259	77.592.742	1.361.708.517	100,00	100,00	100,00
13.	Euroins România Asigurare-Reasigurare S.A.	2022	2.719.809.259	228.040.517	2.491.768.742	86,27	73,63	87,65
14.	Euroins România Asigurare-Reasigurare S.A.	2021	3.152.658.151	309.701.152	2.842.956.999	198,46	232,88	195,31
15.	Euroins România Asigurare-Reasigurare S.A.	2020	1.588.599.793	132.986.438	1.455.613.355	99,64	196,39	95,35
16.	Euroins România Asigurare-Reasigurare S.A.	2019	1.594.335.152	67.715.877	1.526.619.275	107,81	118,67	107,38
17.	Euroins România Asigurare-Reasigurare S.A.	2018	1.478.776.993	57.064.498	1.421.712.495	100,00	100,00	100,00
18.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2020	3.817.640.064	642.479.968	3.175.160.096	125,19	78,03	142,63
19.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2019	3.049.452.034	823.332.297	2.226.119.737	163,26	422,83	133,05
20.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2018	1.867.900.579	194.721.741	1.673.178.838	100,00	100,00	100,00

Source: Own processing based on information from the annual financial statements of insurance companies available at https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi

In Table 2 we can observe the evolution of equity in the four insurance companies analyzed, and in most cases it had a positive evolution, even if the elements with which it is determined did not have a similar evolution. During the analyzed period, equity had in most cases a positive value, which can inspire confidence in third parties interested in these companies.

The only decreases in equity during the analyzed period are present at Euroins in 2020 and 2022, which we can also see in Figure 3. In 2020, equity decreases due to the fact that total assets remain almost unchanged, and total liabilities double, so equity suffers a decrease of 4.65% compared to the previous year, and in 2022 it decreases by 12.35% compared to 2021, because total assets suffer a decrease of 432,848,892 lei, and total liabilities by 81,660,635 lei. These fluctuations may predict bankruptcy, but they are not definitive.

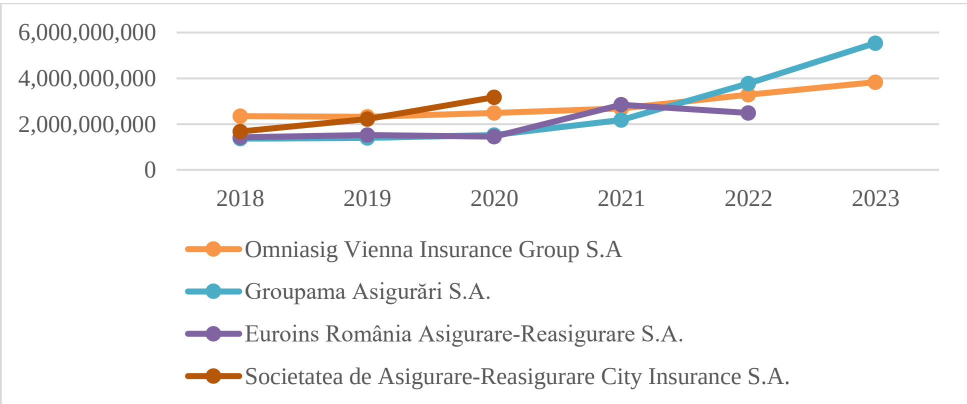

Figure 3. Evolution of equity in the period 2018-2023

Source: Own processing based on information from the annual financial statements of insurance companies available at https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi

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The net situation of the insurance companies analyzed did not provide us with a clear picture of their bankruptcy risk and no foundation that could help us with future assumptions, although Euroins and City Insurance are on the verge of bankruptcy in the analyzed period, this indicator does not show us this fact. These companies record positive equity values, which are a solid asset base that can support the company's activity and development.

The evolution of the return on equity (ROE) is reflected in Table 3, as follows:

Table 3. ROE evolution during 2018-2023

No.	Company	Financial year	Balance sheet items		ROE (%)	Indicators (%)		
			Net profit (lei)	Equity (lei)		Net profit	Equity	ROE
1.	Omniasig Vienna Insurance Group S.A.	2023	27.977.642	3.832.066.880	0,73	100,09	116,80	85,69
2.	Omniasig Vienna Insurance Group S.A.	2022	27.953.581	3.280.944.465	0,85	312,33	122,10	255,79
3.	Omniasig Vienna Insurance Group S.A.	2021	8.950.134	2.687.022.449	0,33	33,72	108,35	31,12
4.	Omniasig Vienna Insurance Group S.A.	2020	26.546.170	2.479.898.436	1,07	-336,18	107,00	100,00
5.	Omniasig Vienna Insurance Group S.A.	2019	-7.896.303	2.317.742.821	-	32,45	98,57	-
6.	Omniasig Vienna Insurance Group S.A.	2018	-24.332.854	2.351.324.292	-	100,00	100,00	-
7.	Groupama Asigurări S.A.	2023	217.756.675	5.539.260.101	3,93	165,97	146,82	113,04
8.	Groupama Asigurări S.A.	2022	131.205.108	3.772.921.998	3,48	621,82	173,59	358,22
9.	Groupama Asigurări S.A.	2021	21.100.095	2.173.491.962	0,97	122,24	143,41	85,24
10.	Groupama Asigurări S.A.	2020	17.260.886	1.515.565.543	1,14	-28,56	108,24	100,00
11.	Groupama Asigurări S.A.	2019	-60.436.206	1.400.150.678	-	909,62	102,82	-
12.	Groupama Asigurări S.A	2018	-6.644.081	1.361.708.517	-	100,00	100,00	-
13.	Euroins România Asigurare-Reasigurare S.A.	2022	-959.567.710	2.491.768.742	-	2.863,03	87,65	-
14.	Euroins România Asigurare-Reasigurare S.A.	2021	-33.515.860	2.842.956.999	-	15,02	195,31	-
15.	Euroins România Asigurare-Reasigurare S.A.	2020	-223.159.833	1.455.613.355	-	511,44	95,35	-
16.	Euroins România Asigurare-Reasigurare S.A.	2019	-43.633.431	1.526.619.275	-	-138,41	107,38	-
17.	Euroins România Asigurare-Reasigurare S.A.	2018	31.523.846	1.421.712.495	2,22	100,00	100,00	100,00
18.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2020	-23.694.238	3.175.160.096	-	-56,51	142,63	-

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19.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2019	41.930.751	2.226.119.737	1,88	82,37	133,05	61,91
20.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2018	50.908.289	1.673.178.838	3,04	100,00	100,00	100,00

Source: Own processing based on information from the annual financial statements of insurance companies available at https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi

We can see in Table 3 that insurance companies that continue to operate today, during the analyzed period, generate profit, and if they had a loss in one year, they recovered slightly, as is the case with Groupama.

Euroins recorded losses in the period 2019-2022, and after this period it went bankrupt, which leads us to believe that repeated unprofitability is clearly an alarm signal that tells us that the financial health of the company can no longer be repaired. In Figure 4, the only ROE indicator for Euroins during the analyzed period is represented.

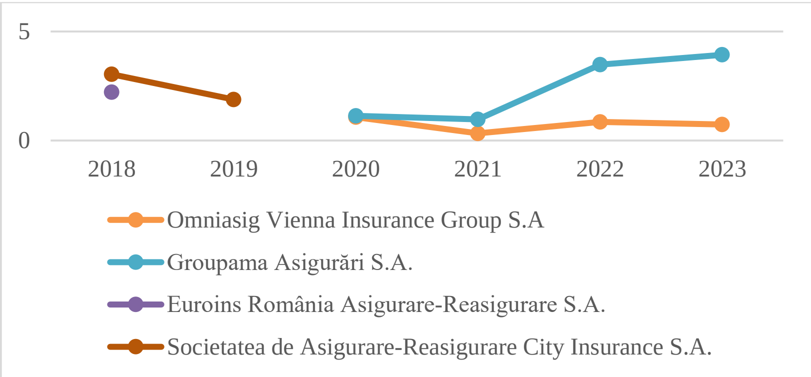

Figure 4. ROE evolution during 2018-2023

Source: Own processing based on information from the annual financial statements of insurance companies available at https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi

Comparing ROE, we can notice that it is quite different from one company to another. In the case of Omniasig, the indicator values are close to 1% (for every 100 lei invested in equity, the company generates a net profit of 1 lei). Meanwhile, in the case of the other companies, where applicable and no loss was recorded, the indicator reaches even close to 4% (for every 100 lei invested in equity, the company generates a net profit of 4 lei). This makes us wonder how such a difference is possible in the same field and whether these sudden increases, as in the case of Groupama in 2022 when ROE increased from 0.97% to 3.48%, with an increase of 258.22%, are not a bad thing that signals a dysfunction, or something overlooked.

We observe on Chart no. 5 that both companies that went bankrupt had at some point a return on equity double or triple that of Omniasig, which maintained its financial balance throughout the period analyzed. Groupama reaches in 2023 the ROE value of 3.93%, the highest value in this analysis of the four companies and this may be a consequence of the bankruptcy of Euroins and the migration of customers from this company to the new leader on the RCA policy market, Groupama. It remains to be seen whether Groupama will know how to manage the scale of the sudden development and whether it will be able to support so many new contracts, not having a linear growth.

With the help of Table 4 we can analyze the evolution of the return on total assets (ROA) for the period 2018-2023:

Table 4. ROA evolution during 2018-2023

No.	Company	Financial year	Balance sheet items		ROA (%)	Indicators (%)		
			Net profit (lei)	Total asset (lei)		Net profit	Ta	ROA
1.	Omniasig Vienna Insurance Group S.A.	2023	27.977.642	4.206.911.364	0,67	100,09	116,52	85,90
2.	Omniasig Vienna Insurance Group S.A.	2022	27.953.581	3.610.497.487	0,77	312,33	122,29	255,40

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3.	Omniasig Vienna Insurance Group S.A.	2021	8.950.134	2.952.384.401	0,30	33,72	107,68	31,31
4.	Omniasig Vienna Insurance Group S.A.	2020	26.546.170	2.741.725.816	0,97	-336,18	104,64	100,00
5.	Omniasig Vienna Insurance Group S.A.	2019	-7.896.303	2.620.142.997	-	32,45	102,98	-
6.	Omniasig Vienna Insurance Group S.A.	2018	-24.332.854	2.544.308.894	-	100,00	100,00	-
7.	Groupama Asigurări S.A.	2023	217.756.675	6.149.425.405	3,54	165,97	123,01	134,93
8.	Groupama Asigurări S.A.	2022	131.205.108	4.999.285.734	2,62	621,82	179,40	346,61
9.	Groupama Asigurări S.A.	2021	21.100.095	2.786.664.922	0,76	122,24	172,50	70,86
10.	Groupama Asigurări S.A.	2020	17.260.886	1.615.445.155	1,07	-28,56	108,09	100,00
11.	Groupama Asigurări S.A.	2019	-60.436.206	1.494.499.255	-	909,62	103,84	-
12.	Groupama Asigurări S.A.	2018	-6.644.081	1.439.301.259	-	100,00	100,00	-
13.	Euroins România Asigurare-Reasigurare S.A.	2022	-959.567.710	2.719.809.259	-	2.863,03	86,27	-
14.	Euroins România Asigurare-Reasigurare S.A.	2021	-33.515.860	3.152.658.151	-	15,02	198,46	-
15.	Euroins România Asigurare-Reasigurare S.A.	2020	-223.159.833	1.588.599.793	-	511,44	99,64	-
16.	Euroins România Asigurare-Reasigurare S.A.	2019	-43.633.431	1.594.335.152	-	-138,41	107,81	-
17.	Euroins România Asigurare-Reasigurare S.A.	2018	31.523.846	1.478.776.993	2,13	100,00	100,00	100,00
18.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2020	-23.694.238	3.817.640.064	-	-56,51	125,19	-
19.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2019	41.930.751	3.049.452.034	1,38	82,37	163,26	50,45
20.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2018	50.908.289	1.867.900.579	2,73	100,00	100,00	100,00

Source: Own processing based on information from the annual financial statements of insurance companies available at https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi

Table 4 presents the evolution of the ROA indicator for the four companies analyzed. We can see that this coefficient does not reach the value of 1% at the Omniasig company during the period 2019-2023 but registers large variations. That is, in 2020 it reaches the highest value (0.97 - for every 100 lei invested in total assets, the company generates a net profit of 0.97 lei), after the previous year when this company was at a loss, and in 2021 it decreases by 68.69% because the net profit obtained this year is lower by 66.28% than in 2020. The last two years analyzed can be characterized by balance, ROA registers values of 0.77% in 2022 and 0.67% in 2023, the company maintaining its profit at the same level in 2023 but having a slight increase in total assets by 16.52% compared to 2022.

Groupama has a significant increase in return on assets in the analyzed period, from a loss in 2019 to an ROA of 1.07% in 2020. In 2021, the indicator drops to 0.76%, because total assets have a higher increase than net

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profit. The increases continue in the following year and are much more spectacular, the net profit recorded by Groupama in 2022 increases 6 times compared to 2021 and also the total assets increase by 79.40%, which results in an ROA equal to 2.62%. Groupama is in continuous growth and development, and in this indicator it records the highest value in the analysis of the four companies in the analyzed period. In 2023, the value of the return on total assets of 3.54% means that for every 100 lei invested in total assets, the company generates a net profit of 3.54 lei. High returns attract investors, but what is the price of a high return, a possible bankruptcy?

In the two companies that went bankrupt, we notice in the years when they do not have losses that they have higher values of the return on total assets than Omniasig. In 2018, City Insurance has a fairly good return of 2.73%, which means that for every 100 lei invested in total assets, the company generates a net profit of 2.73 lei. The following year, the return decreases because the company has an increase in total assets by 63.26% compared to the previous year and a decrease in profit by 17.63%.

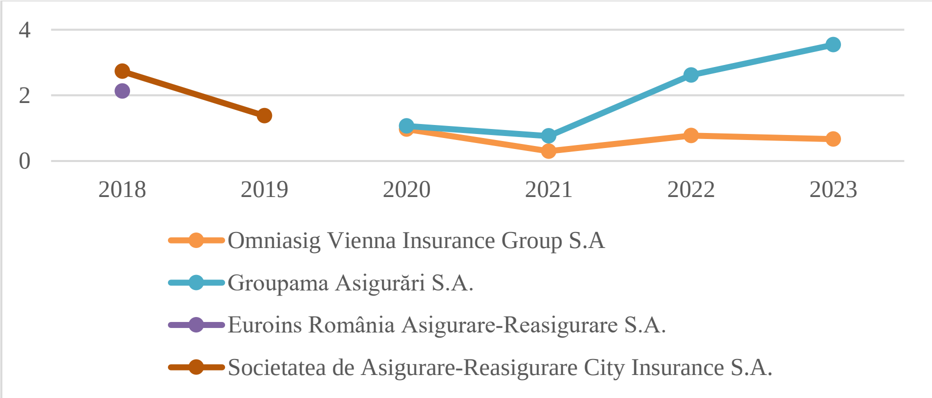

Figure 5. ROA evolution during 2018-2023

Source: Own processing based on information from the annual financial statements of insurance companies available at https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi

It is very clear from Chart no. 6 that the companies that continue their activity today, Omniasig and Groupama, obtained profit from 2020 to 2023, with a representation of the ROA indicator on the chart, and those that went bankrupt went into loss, with no representation of the indicator on the chart starting with 2019 City Insurance and 2020 Euroins. We also observe how strongly the profitability and yield of Groupama increased compared to Omniasig, starting in 2020 from a similar level of return on total assets.

A final indicator analyzed in this study is the leverage ratio, and its evolution can be observed in Table 5:

Table 5. Evolution of the leverage ratio in the period 2018-2023

No.	Company	Financial year	Balance sheet items		Leverage ratio	Indicators (%)		
			Total debts (lei)	Equity (lei)		TD	E	Lr
1.	Omniasig Vienna Insurance Group S.A.	2023	374.844.484	3.832.066.880	0,10	113,74	116,80	97,38
2.	Omniasig Vienna Insurance Group S.A.	2022	329.553.022	3.280.944.465	0,10	124,19	122,10	101,71
3.	Omniasig Vienna Insurance Group S.A.	2021	265.361.952	2.687.022.449	0,10	101,35	108,35	93,54
4.	Omniasig Vienna Insurance Group S.A.	2020	261.827.380	2.479.898.436	0,11	86,58	107,00	80,92
5.	Omniasig Vienna Insurance Group S.A.	2019	302.400.176	2.317.742.821	0,13	156,70	98,57	162,50
6.	Omniasig Vienna Insurance Group S.A.	2018	192.984.602	2.351.324.292	0,08	100,00	100,00	100,00

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7.	Groupama Asigurări S.A.	2023	610.165.304	5.539.260.101	0,11	49,75	146,82	33,89
8.	Groupama Asigurări S.A.	2022	1.226.363.736	3.772.921.998	0,33	200,00	173,59	115,22
9.	Groupama Asigurări S.A.	2021	613.172.960	2.173.491.962	0,28	613,91	143,41	428,08
10.	Groupama Asigurări S.A.	2020	99.879.612	1.515.565.543	0,07	105,86	108,24	97,80
11.	Groupama Asigurări S.A.	2019	94.348.577	1.400.150.678	0,07	121,59	102,82	116,67
12.	Groupama Asigurări S.A.	2018	77.592.742	1.361.708.517	0,06	100,00	100,00	100,00
13.	Euroins România Asigurare-Reasigurare S.A.	2022	228.040.517	2.491.768.742	0,09	73,63	87,65	84,01
14.	Euroins România Asigurare-Reasigurare S.A.	2021	309.701.152	2.842.956.999	0,11	232,88	195,31	119,24
15.	Euroins România Asigurare-Reasigurare S.A.	2020	132.986.438	1.455.613.355	0,09	196,39	95,35	205,97
16.	Euroins România Asigurare-Reasigurare S.A.	2019	67.715.877	1.526.619.275	0,04	118,67	107,38	110,51
17.	Euroins România Asigurare-Reasigurare S.A.	2018	57.064.498	1.421.712.495	0,04	100,00	100,00	100,00
18.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2020	642.479.968	3.175.160.096	0,20	78,03	142,63	54,71
19.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2019	823.332.297	2.226.119.737	0,37	422,83	133,05	317,80
20.	Societatea de Asigurare-Reasigurare City Insurance S.A.	2018	194.721.741	1.673.178.838	0,12	100,00	100,00	100,00

Source: Own processing based on information from the annual financial statements of insurance companies available at https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi

In Table 5, the values calculated for the leverage ratio for these companies in the analyzed period are below the banking limit of 2, which means that the companies have debt capacity. This capacity is quite high and means that the companies mainly use their own resources to carry out their activities and achieve their objectives in a financial year. In this sense, Omniasig has small variations in the leverage ratio in the period 2019-2023, the total debts and equity of the insurance company grow at about the same pace. The value of the financial leverage in 2023 is 0.10, which means that total debts represent 10% of equity.

Groupama has the same leverage ratio in the period 2019-2020, because total debts and equity have similar percentage increases. In 2021, the leverage ratio increases 4 times compared to the previous year, even if it is still well below the limit of 2 imposed by the specialized literature, this major increase is due to the increase in total debts 6 times compared to 2020, when they were only 99,879,612 lei. This leverage ratio continues to increase in the following year to 0.33, because Groupama this year doubled its total debts from 613,172,960 lei to 1,226,363,736 lei, and its equity increases by only 73.59%. In 2023, the company repays half of its debts and increases its equity value by 46.82% compared to 2022, which leads to a decrease in financial leverage from 0.33 to 0.11, i.e. total debts represent 11% of its equity.

Euroins has leverage ratio values between 0.04 and 0.11 in the period 2018-2022, the values are low, below 2, which means that it could not be an indicator that would help predict the bankruptcy that followed.

City Insurance has a financial leverage evolution similar to that of Groupama. In 2018, the leverage ratio was 0.12, which means that total debts represent 12% of equity. In 2019, total debts increase 4 times, from 194,721,741 lei to 823,332,297 lei, while equity increases by only a third, which causes the financial leverage

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value to triple, reaching the highest value in the entire analysis of companies, 0.37 (total debts represent 37% of equity).

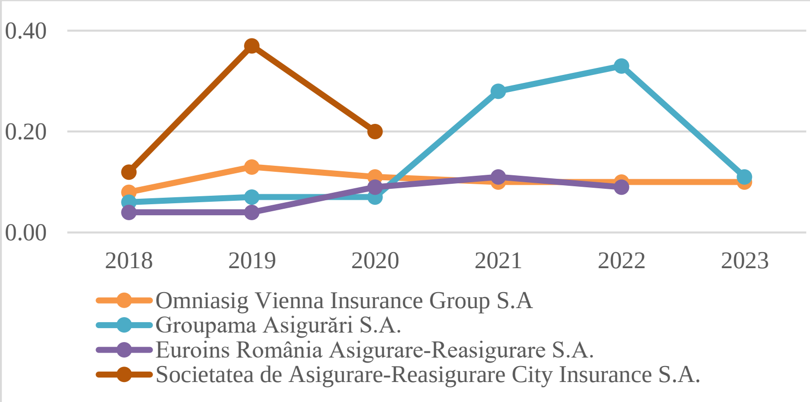

Figure 6. Evolution of the leverage ratio during the period 2018-2023

Source: Own processing based on information from the annual financial statements of insurance companies available at https://mfinante.gov.ro/persoane-juridice/informatii-fiscale-si-bilanturi

Looking at Figure 6 we can see a similarity between the trajectory of Omniasig and Euroins and between Groupama and City Insurance and we can conclude that there is no perfect recipe for managing financial resources in a company and this is not decisive for predicting a possible bankruptcy.

V. CONCLUSION

Our research has shown us that, based only on an analysis of certain indicators and balance sheet items, we cannot predict the imminence of bankruptcy, even though they belonged to the financial years preceding the bankruptcy. There were clear signals that City Insurance could go bankrupt before this officially happened. These signals appeared over several years and were observed by both the authorities and the market, such as significant delays in paying compensation to policyholders. This generated dissatisfaction among customers and led to an increase in the number of complaints and litigation against the company, which led to additional costs and loss of customer confidence.

City Insurance had a large part of its insurance portfolio in the RCA area (mandatory motor insurance). This is a market with low profit margins and high risk, which negatively affected the company's financial stability. Intense competition on the RCA market led to an aggressive pricing policy, where the premiums collected were not enough to cover claims and administrative expenses.

All these signals indicated a constant deterioration in the financial situation of City Insurance and ultimately led to the bankruptcy decision. This situation had a significant impact on the Romanian insurance market, underlining the importance of strict supervision and prudent risk management in the insurance sector.

On the other hand, Euroins, one of the largest insurance companies in Romania, encountered numerous problems similar to those that led to the bankruptcy of City Insurance. The ASF constantly and closely supervised the activity of Euroins. Euroins was sanctioned in July 2022 for failing to submit financial statements within the legal deadline. Four months after the expiry of the legal deadline, the company submitted audited financial statements, but the auditor issued a qualified opinion, stating that it did not obtain sufficient evidence to certify that Euroins met solvency requirements. And in November, the ASF identified further deviations regarding the improper establishment of technical reserves under the national regime and incorrect and incomplete reporting of the litigation situation.

The problems at City Insurance and Euroins reflect the major challenges in the Romanian insurance sector, highlighting the need for strict supervision, prudent risk management and increased financial transparency. ASF interventions and corrective measures are essential to ensure stability and confidence in the insurance market, while protecting the interests of policyholders. Despite recovery efforts, the persistence of these problems has led to bankruptcies, which further underlines the importance of rigorous supervision and effective risk management in this sector.

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