ACCOUNTING AND FINANCE

THE CAUSES AND PATTERNS OF INSURANCE COMPANY BANKRUPTCIES

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Abstract: *This study examines the bankruptcy trends of 10 insurance companies—5 from Romania and 5 from the European Union (EU)—during 2019–2024, using data extracted from annual reports, regulatory filings, and supervisory authority assessments. The research identifies key causes of insolvency, including solvency ratio breaches, governance failures, and economic shocks. By comparing real financial data, the analysis reveals significant systemic weaknesses and recurring trends, providing novel insights into the role of regulatory frameworks, such as Solvency II, in preventing insolvencies. The findings highlight the need for proactive oversight, stronger risk management systems, and reforms tailored to emerging markets like Romania.*
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INTRODUCTION

The insurance sector is a cornerstone of economic stability, providing risk protection for businesses, individuals, and governments while supporting capital flows within financial systems. Despite its critical role, the period between 2019 and 2024 witnessed the collapse of several prominent insurance companies across both Romania and the European Union (EU). These insolvencies have exposed significant systemic vulnerabilities, including chronic undercapitalization, persistent misreporting of solvency ratios, and governance deficiencies. Such failures not only destabilize national insurance markets but also erode trust among policyholders and stakeholders, creating ripple effects throughout the broader economy.

This article conducts a rigorous analysis of financial data extracted from annual reports of 10 insurance companies—5 based in Romania and 5 operating within the EU. The study identifies common trends and root causes of insolvency while emphasizing regulatory and governance weaknesses.

Romanian insurers, such as *City Insurance* and *Euroins*, exemplify how insufficient oversight and financial misreporting accelerated market collapses. Comparatively, EU-based firms like *OneLife Insurance* (Luxembourg) and *AdmiralDirekt* (Germany) illustrate challenges despite adherence to regulatory frameworks like *Solvency II*. By examining financial indicators and governance failures, this study provides a comprehensive and data-driven perspective on insolvency drivers and highlights critical gaps in regulatory enforcement and risk management practices.

RESULTS

Table 1: Romanian Insurance Companies – Financial Indicators and Solvency Ratios

Company	Year	Reported Solvency Ratio (%)	Actual Solvency Ratio (%)	Capital Shortfall (€ Million)	Governance Issues
City Insurance	2021	180%	62%	400	Misrepresentation of liabilities
Euroins	2022	145%	70%	250	Non-compliance with solvency rules
Carpatica Asig	2019	130%	50%	150	Fraudulent reporting practices
Astra Asigurări	2019	120%	40%	120	Lack of capital reserves
CertAsig	2020	110%	55%	80	Poor internal controls

Source: *ASF Annual Reports (2019–2023), Romanian Insurance Company Financial Disclosures*

Table 1 examines the financial instability of five Romanian insurance companies (*City Insurance, Euroins, Carpatica Asig, Astra Asigurări,* and *CertAsig*). The table highlights discrepancies between reported and actual solvency ratios, revealing severe misrepresentations of financial health. For instance, *City Insurance* reported a solvency ratio of 180% in 2021, while the actual figure was only 62%. This pattern is repeated across the companies, with actual ratios significantly lower than reported ones. Additionally, the table identifies capital shortfalls ranging from €80 million

(CertAsig) to €400 million (City Insurance), reflecting chronic undercapitalization. Governance failures, including misrepresentation of liabilities, fraudulent reporting, and poor internal controls, are consistently noted.

Table 1 underscores common governance failures include fraudulent reporting practices (*Carpatica Asig*), weak internal controls (*CertAsig*), and failure to maintain capital reserves (*Astra Asigurări*). These cases underscore systemic regulatory inefficiencies and delayed enforcement by Romanian supervisory authorities.

Table 2: European Union Insurance Companies – Financial Indicators and Solvency Ratios

Company	Year	Reported Solvency Ratio (%)	Actual Solvency Ratio (%)	Capital Shortfall (€ Million)	Governance Issues
OneLife Insurance	2022	150%	60%	350	Solvency II non-compliance
AdmiralDirekt	2022	140%	65%	200	Liquidity mismanagement
Gable Insurance	2020	135%	55%	180	Overexposure to risky investments
Elite Insurance	2019	125%	45%	130	Poor asset allocation
Alpha Insurance	2019	115%	50%	100	Governance lapses and delayed audits

Source: *EIOPA Reports (2019–2023), Company Annual Reports*

Table 2 assesses five EU insurers (*OneLife Insurance, AdmiralDirekt, Gable Insurance, Elite Insurance,* and *Alpha Insurance*). Similar to Table 1, discrepancies between reported and actual solvency ratios are evident, with actual figures often below 70%. Capital shortfalls range between €100–350 million, reflecting undercapitalization and liquidity crises. Governance issues include Solvency II non-compliance and risky asset allocations. The Solvency II framework provides tools for risk-based monitoring, but enforcement challenges at national levels remain apparent.

Table 2 highlights that while the EU benefits from stronger regulatory frameworks, enforcement gaps and external economic pressures (e.g., COVID-19) exposed vulnerabilities. EU insurers, though better regulated, still face governance and solvency challenges.

The analysis of the two tables highlights key financial indicators that reflect the financial stability of insurance companies in Romania and the European Union. These indicators are critical for assessing insolvency risks, significantly influencing the ability of companies to meet their long-term financial obligations.

SOLVENCY RATIO

The solvency ratio is a critical indicator of a company's financial strength, measuring the relationship between equity and total liabilities. It signifies the company's capacity to withstand potential economic or financial shocks. Ideally, the solvency ratio should exceed the 100% threshold, indicating sufficient financial resources to cover liabilities. However, for Romanian companies under analysis, a significant discrepancy was observed between the reported and actual values of this indicator.

For instance, City Insurance reported a solvency ratio of 180% in 2021, while the actual figure was only 62%, highlighting acute undercapitalization and exposing a misleading appearance of financial stability. Such a stark difference underscores fundamental shortcomings in financial reporting and regulatory oversight within Romania's insurance sector.

In the European Union, despite the stricter financial reporting framework imposed by Solvency II, notable discrepancies between reported and actual solvency ratios have also been identified. In some cases, these values fell below the 70% threshold, reflecting persistent challenges in financial risk management and compliance with regulatory standards.

CAPITAL DEFICIT

Another essential indicator of insolvency risk is the capital deficit, which measures the gap between a company's available capital and the capital required to meet its financial obligations. A significant capital deficit signals undercapitalization and a potential inability to fulfill regulatory solvency and stability requirements.

In Romania, the capital deficit varied significantly among the analyzed companies, with City Insurance registering a deficit of €400 million. This substantial shortfall illustrates the vulnerability of such companies and their inability to attract sufficient capital to support their operations. Similarly, in the European Union, companies like OneLife Insurance reported comparable capital deficits of approximately €350 million, reflecting persistent undercapitalization exacerbated by external financial market volatility and major economic challenges, such as the COVID-19 pandemic.

IDEAL THRESHOLDS FOR FINANCIAL INDICATORS

- **Solvency Ratio:** This ratio should consistently remain above the 100% threshold, indicating sufficient capital reserves to ensure a company's financial stability. Values below this threshold are alarming, signaling severe financial instability and an inability to manage unforeseen economic risks.
- **Capital Deficit:** Capital deficits should be minimized, as substantial deficits, often in the tens or hundreds of millions of euros, are a clear indicator of undercapitalization that can lead to bankruptcy. Large capital deficits must be addressed through recapitalization strategies and sound financial management to avoid financial crises.

Companies with solvency ratios below 100% and significant capital deficits are at high risk of insolvency. Prompt intervention by regulatory authorities is essential to prevent their collapse. Deficiencies in financial reporting processes, combined with ineffective oversight of financial activities, are critical factors accelerating financial crises. These issues must be addressed through immediate corrective measures to ensure the stability of the insurance market.

KEY FINDINGS

The analysis of the tables reveals three critical findings that highlight systemic challenges within both Romanian and European Union (EU) insurance markets.

First, **widening solvency gaps** were evident across both regions, with actual solvency ratios consistently falling short of reported figures. Romanian insurers exhibited particularly severe discrepancies, with average solvency gaps exceeding 60%. Similarly, EU insurers faced gaps ranging from 55% to 70%. This significant divergence underscores widespread financial misreporting and weak regulatory oversight, which failed to detect or prevent the manipulation of solvency data.

Second, **chronic capital shortfalls** were a recurring issue for all analyzed companies. Romanian insurer *City Insurance* recorded the most severe deficit, with a €400 million shortfall at the time of its collapse. In the EU, *OneLife Insurance* reported a comparable shortfall of €350 million. These capital deficits highlight persistent undercapitalization, exacerbated by rising liabilities and an inability to build sufficient capital reserves to meet solvency requirements.

Finally, **governance and risk management failures** emerged as a key factor contributing to insolvency. Issues such as fraudulent financial reporting, weak internal controls, and imprudent asset management were prevalent across both regions. Romanian insurers were particularly vulnerable due to insufficient regulatory enforcement, while EU insurers, despite operating under the *Solvency II* framework, still encountered challenges in maintaining compliance and effective risk governance.

DISCUSSION

The collapse of *City Insurance* and *Euroins* underscores significant systemic vulnerabilities within Romania's insurance sector, primarily stemming from regulatory inefficiencies and poor risk management practices. The Romanian Financial Supervisory Authority (ASF) only intervened when these companies were on the brink of insolvency, revealing a reactive rather than proactive regulatory approach. This delayed response highlights deficiencies in Romania's supervisory mechanisms, which failed to identify warning signs—such as persistent capital shortfalls and misrepresented liabilities—early enough to prevent financial collapse. Effective regulatory oversight requires real-time solvency monitoring and enforcement of reporting standards, areas where Romania's insurance framework remains underdeveloped.

In addition to regulatory shortcomings, poor internal risk management contributed to the downfall of these insurers. Companies such as *City Insurance* significantly overstated their solvency ratios and concealed liabilities, creating a misleading perception of financial stability. Similarly, *Euroins* failed to maintain sufficient capital buffers, exposing the firm to liquidity crises when claims surged. These failures reflect systemic weaknesses in governance, where internal controls and risk assessment frameworks were either inadequate or inconsistently implemented.

In contrast, the European Union's adoption of the *Solvency II* regulatory framework provides insurers with a structured, risk-based approach to capital management. However, the insolvencies of companies such as *OneLife Insurance* in Luxembourg and *Gable Insurance* in the UK highlight enforcement challenges. While *Solvency II* establishes clear solvency requirements and reporting standards, its effectiveness depends on rigorous enforcement by national regulators. In these cases, regulatory bodies failed to detect non-compliance or poor asset management practices early enough to prevent insolvency.

Nevertheless, the EU insurance sector benefits from more sophisticated early warning systems and greater market diversification. By spreading risks across a broader range of financial instruments and geographies, EU insurers are generally better equipped to withstand economic shocks. These structural advantages, when combined with proactive enforcement, reduce systemic vulnerabilities relative to emerging markets like Romania.

CONCLUSIONS

The comparative analysis of 10 insurance companies reveals systemic deficiencies in solvency management, governance, and regulatory oversight, contributing to insolvencies across both Romania and the European Union (EU). One of the most prominent issues identified is the misreporting of solvency ratios. Companies frequently overstated their financial stability, creating a false sense of security for regulators and stakeholders. In Romania, insurers such as *City Insurance* and *Euroins* significantly inflated their solvency ratios while masking growing liabilities and capital gaps. Similarly, EU insurers like *OneLife Insurance* and *Gable Insurance* reported solvency levels that failed to reflect their actual financial positions, indicating broader challenges in enforcing accurate financial disclosures. These discrepancies undermined regulatory confidence and delayed critical interventions.

Chronic capital shortfalls further exacerbated financial instability in both regions. Romanian insurers, in particular, faced severe undercapitalization due to weaker regulatory oversight and insufficient enforcement of capital adequacy requirements. *City Insurance*, for example, had a capital deficit exceeding €400 million at the time of its collapse. In the EU, while insurers operate within the *Solvency II* framework, companies like *OneLife Insurance* still struggled to maintain sufficient reserves to meet their obligations. This highlights the persistent challenge of ensuring insurers retain adequate buffers to absorb economic shocks, even in more developed regulatory environments.

Governance failures also played a critical role in the examined insolvencies. Poor internal controls, risk mismanagement, and delayed financial audits were common contributors to the collapse of insurance firms. Romanian insurers suffered particularly from governance gaps, where fraudulent reporting practices and inadequate oversight mechanisms enabled financial instability to escalate unchecked. Similarly, EU firms faced governance lapses, including imprudent asset allocation and failure to comply with risk management protocols. These findings underscore the need for enhanced governance frameworks and proactive enforcement to safeguard the financial health of insurers and restore trust within the sector.

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