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INSURANCE MARKET COMPETITION AND ITS DEVELOPMENT PERSPECTIVES

Introduction

Insurance market in Poland is most often seen as insurance services in bulk, and the market itself is being categorised as, so called, financial services market. It is hardly possible to make any precise development prognosis when the insurance market is perceived this way. Only through past years analyses made so far it is feasible to present the situation as it is now and to indicate potential directions of change - in other words to point to threats that hinder development and to factors that affect it in a positive way.

Modern insurance sector that operates in an efficient manner is crucial for sustainable economic growth. Insurance sector in Poland encompasses 2% of GDP whereas in developed countries the size of insurance market amounts to 8-12%.

In recent years a dynamic growth of the market has been observed which results from enlarging range of the products offered, new players, innovative distribution channels and from premium collected. **It is commonly acknowledged that the insurance market is one of the most promising sectors of Polish economy** (Plichta, 2003). Charts 1 and 2 present market growth measured by means of gross written premium.

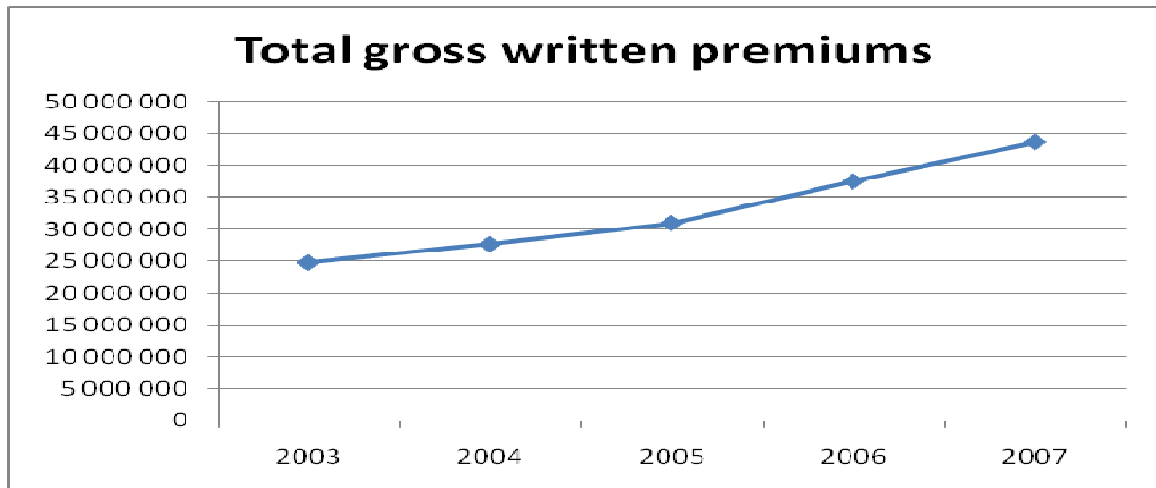


Chart 1. Gross premium written of the whole insurance market in Poland, in thousand PLN
 Source: Annual Bulletin. Insurance market 2003, 2004, 2005, 2006, 2007, Aggregated Financial Reports, Polish Financial Supervision Authority, http://www.knf.gov.pl/rynek_ubezpieczen/Dane_o_rynku/index.html

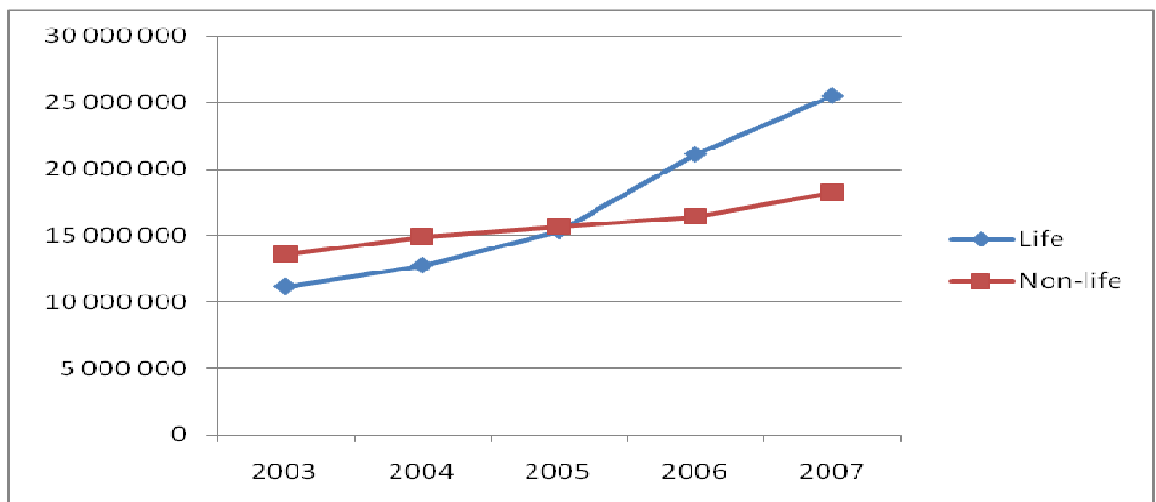


Chart 2. Gross premium written of the insurance market in Poland, by life and nonlife, in thousand PLN
 Source: Annual Bulletin. Insurance market 2003, 2004, 2005, 2006, 2007, Aggregated Financial Reports, Polish Financial Supervision Authority, http://www.knf.gov.pl/rynek_ubezpieczen/Dane_o_rynku/index.html

The charts indicate clearly that the market has been developing rapidly over the past few years. At the same time, life insurance has reached much faster development pace since 2005

than non-life sector. Such development rate has been caused by privatization effect, further opening of the market, adjusting processes connected with integration into the EU.

Genesis of the competition on Polish insurance market

Historically, it was mainly affected by old age pension system reform that started in 1999. As regards the composition of the market, it should be stated that from historical point of view the number of insurance companies has fallen in recent years. The numbers of companies is presented on chart 3.

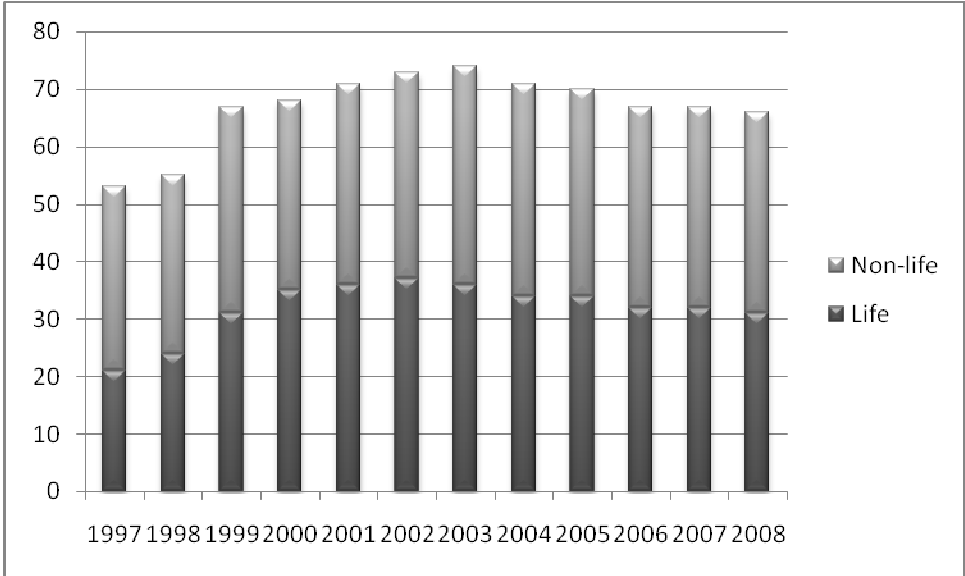


Chart 3. Development of the competition on the Polish labour market, years 1997-2008

Source: own calculation based on Yearly Reports and Quarterly Bulletin, Polish Financial Supervision Authority, www.knf.gov.pl

Chart one presents number of insurers operated on both market parts: life and non-life. As it is indicated number of companied has increased up to 2003. Since the time it has been decreasing. The main reasons was withdrawing firms and consolidations. Insurers has been gone out the market because of bad financial outcomes and perspectives. Mergers and acquisitions has been done as well. After 2000 year 10 M&A processes has finished. It has influenced the number of companies.

However, it must be highlighted that, despite low penetration of the market in comparison to Europe, Poland has fairly many insurance companies (Pajewska, 2003). For comparison, there are twice as many of them as in Hungary, and over two times more than in Czech

Republic, Lithuania and Latvia. However, when contrasted against countries with longer history of free market, Poland has more registered companies than Austria or Portugal (Jaworski and Lisowski, 2003). **It should be expected that the downwards trend in number of companies will continue in the long turn** with regard to increasing competitiveness of the market that enforces having adequately large customer database, to effective sale channels and to forthcoming, far-reaching changes in the attitude towards capital requirements and to consolidation of the sector that results from merger and acquisition processes (M&A).

It is worth underlining, that the ownership structure in the Polish market is dominated, in great majority, by foreign entities whose share in the structure of initial capitals of insurance companies amounts to 75% on the average. It signifies considerable openness of the market and legislation towards foreign capital. Thus, in absolute values, most of the foreign capital involved in life insurance originates from the Netherlands (AEGON, ING). German and Austrian capital own the greatest portion of companies from the Polish market.

Second biggest life insurance company after PZU, CU Polska TunŻ S.A., is British in 90%. As regards capital from outside Europe, only the USA has 100% shares in three companies (Amplico, Metlife, Pramerica). In nonlife insurance, German and Austrian capital is the dominating one. An increase in foreign entities share is expected, which is connected to systematic loss of concentration – giving away of the market by PZU related entities. Changes in the dominant entities market shares are presented in Table 1.

Table 1. Market share of PZU group entities in the period 2003-2007

Year	2003	2004	2005	2006	2007
PZU Życie	45,9	43,0	40,4	36,0	28,5
PZU S.A.	53,1	50,3	55,9	54,0	50,7

Source: own calculation based on Annual Reports of PZU Group, www.pzu.pl

As presented in Table 1 the dominant entities market share has decreased significantly, with faster downturn pace noted for PZU Życie. Market concentration is therefore significantly weaker for life insurance. Non life group experienced a lower decrease (in the last 3 years). However, further fall in the dominant entities share is expected.

As presented above, insurance market in Poland is one of the most dynamically developing sectors. Analyzing gross written premiums share in the gross domestic product, it should be observed that an increase occurred from an exceptionally low level amounting to 1,8% in the 90's to 3,7% in the year 2007. Satisfying in terms of Polish market, the result is not impressive when compared to the EU countries – for the latter it is almost three times higher on the average, as presented in Tables 1 and 2. .

Table 1. Insurance penetration: premiums in % of GDP in 2007 - Poland provisional

	Ranking	Country	Total business	Life business	Non-life business
	36	Poland	3,7	1,9	1,8
Europe		Total	8,0	5,0	3,0

Source: Swiss Re sigma no3/2008 World insurance in 2007: emerging markets leading the way [[:] d901cb004a24e38e9426d71e1ecc54e8-sigma3_2008_e_rev

Table 2. Insurance penetration total business: premiums in % of GDP in 2007 - Poland provisional

Year	2003	2004	2005	2006	2007
Insurance penetration:					
Poland	3,02	3,07	3,16	3,5	3,7
Average Europe	7,89	7,89	7,78	8,3	8,0

Source: Swiss Re sigma

(<http://www.swissre.com/pws/research%20publications/sigma%20ins.%20research/sigma%20insurance%20research.html>) :

1. Sigma 3/2008, World insurance in 2007: emerging markets leading the way with the statistical appendix update December 2008.
2. Sigma 4/2007, World insurance in 2006: premiums came back to "life" with the statistical appendix update December 2007.
3. Sigma 5/2006, World insurance in 2005: moderate premium growth, attractive profitability.
4. Sigma 2/2005, World insurance in 2004: growing premiums and stronger balance sheets.
5. Sigma 3/2004, World insurance in 2003: insurance industry on the road to recovery

It should be emphasised that Poland landed the 36th position in 2007 out of 88 countries encompassed by the research, and the results achieved are far beyond the European average. Along with the European experience, the situation confirms that only considerable economic growth results in an increase in insurance expenses.

Nonetheless, the rate of insurance penetration reveals fine development possibilities for the market. When combined with extraordinary increase in the Polish economic growth pace, it seems certain that the market will keep on developing rapidly.

However, should the situation be examined academically, the conclusion is as follows: increase in demand for property insurance appears in the wake of increase in the society's wealth. On the other hand, marginal demand for property insurance should decrease together with increasing prosperity - prosperity which for Polish society is still far beyond the level of Western Europe. Nonetheless, comparing the dynamics of property insurance premium, there appears a small difference - in Poland it amounts to 5% over the past years whereas in the EU it oscillates between 1-4%. Raising insurance awareness has been an undeniable factor that affected growth of this insurance sector.

Structure of the insurance market

The Polish Chamber of Insurance calculated that the total of premium written of all insurance companies from Polish market amounted to 59,35 billion PLN at the end of 2008 (increase by 36%).

Record result for 2008 can be attributed mainly to life insurance premium increased by 52,8%, whereby life insurance written premium amounted to 38,98 billion PLN. Property insurance written premium amounted on the other hand to 20,3 billion PLN which is by 12,7% more than at the end of 2007.

As regards life policies it is important to highlight an unprecedented dynamics of bancassurance market with a simultaneous withdrawal of clients from investment policies connected to capital funds. The value of investment products premium decreased by ca. 47%.

In property insurance premium written was equal to 20,3 billion PLN, which is a 12,7% increase in year to year relation. Corresponding increase applied to indemnities and benefits paid. Satisfactory rise of the premium growth rate in property insurance can be accounted for mainly by bank loans boom. Financial risks insurance premium went up by

almost 21%. Property market was also affected by a large number of new and used cars imported to Poland. Liability premium grew by 14%, with casco by almost 11%. One must not forget that until the end of 2008 so called Religa tax was in force, which also contributed to liability premium increase. The tax covered medical treatment of accident victims caused by mechanical land vehicles (Sarnowska, 2009).

Insurance products share in the Polish market according to the level of gross written premium in the year 2008 is presented in Chart 3 (for life insurance) and Chart 4 (for property insurance).

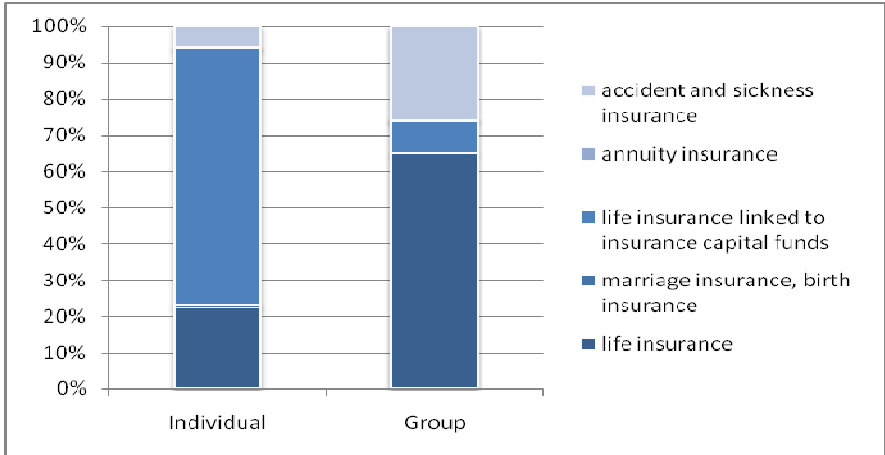


Chart 4. Structure of the life market in Poland, 2007

Source: Annual Bulletin. Insurance market 2007, Market Review, Polish Financial Supervision Authority,

http://www.knf.gov.pl/rynek_ubezpieczen/Dane_o_rynku/Dane_roczne/index.html

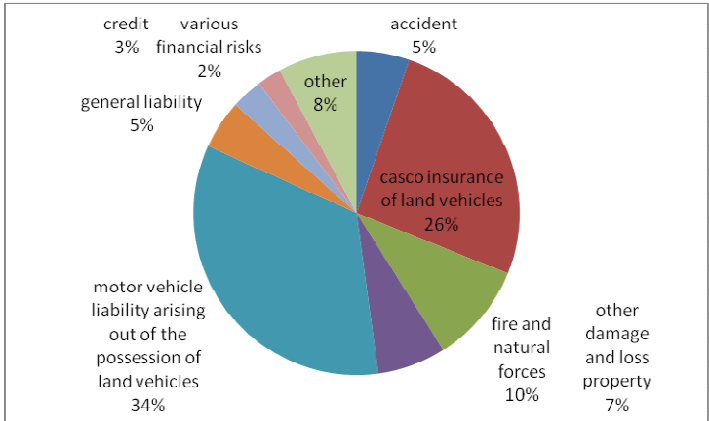


Chart 5. Structure of the non-life market in Poland, 2007

Source: Annual Bulletin. Insurance market 2007, Market Review, Polish Financial Supervision Authority

As presented in Charts 4 and 5, Polish insurance market is diverse in terms of sales of particular product groups. In the life insurance sector the dominating type are life policies with capital fund whereas in non life sector policies related to vehicles: motor liability and casco. Distribution channels are also diversified. Insurance products sale was usually concluded by means of traditional methods. This is presented in Chart 6.

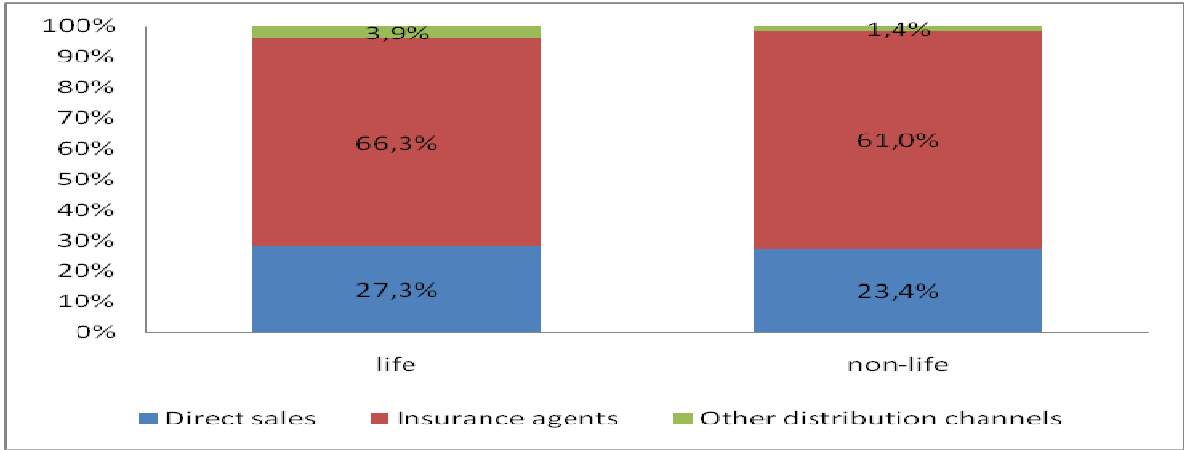


Chart 6. Distribution channel in Polish insurance market in 2008, Life and non life market

Source: Quarterly Bulletin. Insurance Market IV / 2008, Polish Financial Supervision Authority,
http://www.knf.gov.pl/rynek_ubezpieczen/publikacje/Biuletyny_Kwartalne/index.html

As shown in chart 6. the main channel of insurance sales Poland in 2008 (and in preceding years) were insurance agents. It is interesting to notice that in life sector bank sales amounted to 23,4% of total sales whereas in non-life only to 1,4%.

Sharp increase in the gross written premium in life insurance was not accompanied by similar profit increase. This can be justified by the fact that the sales increase was based mostly on low-margin bank policies, commonly referred to as “antybelki” (the deposits are not taxed for income and are a better solution than traditional deposits or investment funds).

For this reason, as regards life policies, gross written premium ceased to be a reliable indicator of insurance companies’ standing. A far more accurate assessment tool, especially in the times of economic downturn, are safety indicators of the companies and healthy structure of their assets. Allowing for a generally positive trend over the last 5 years, it must be stated that in 2008 no significant changes took place as regards solvency indicators. **Insurance**

sector is financially stable. Moreover, financial balance of the whole insurance sector for 2008 (5 953,56 M PLN) is at its second best position since 1991.

Increase in their companies' value is what Polish insurers declare to be their strategic goal. It is possible at the same time to observe similarity of views on integration processes and sector consolidation with a long-term objective of increasing company's value. All insurers share one objective i.e. to combine and group many individual risks with an aim of redistribution of incurred loss costs from those who suffered the loss onto the whole group. Additionally, life insurance is often combined with investment and capital accumulation. In developed countries bank and insurance markets took advantage of benefit possibilities arising from mergers and acquisitions. The situation is predicted to continue over the next years which will result in local markets consolidation. Insurers perceive mergers and acquisitions to stem from globalisation that allows insurance sector in Poland to grow. They also claim them to be a profitable investment for integrating companies. In recent years Polish insurance entities have mainly been dropping out of the market, have been acquired by foreign entities or merged with existing companies.

Forecast of the market development

Diversity of activity as well as product diversity are most hoped for by the insurers. Products offered in the Polish market have already attained world standards both in terms of quantity as well as quality. Competing with investment funds insurance companies are most likely to win due to well developed sales network. Most significant factors that affect development of insurance market comprise the following (Karmańska at all, 2005):

- substitute instruments development – capital instruments, stock exchange turnover, investment funds,
- increase in the society's wealth,
- increase in insurance awareness,
- tax exemptions – this factor is of the strongest potential influence on actual increase of life insurance significance; lack of exemptions for life policies investors is a severe hindrance to life insurance development.

Products that are most promising for the future comprise **health insurance, certain property insurance, group life insurance, large scale industry insurance, medical and**

craftsmen, mortgage holders' insurance, old age pension insurance (III sector) etc (Herbich, 2007).

Some insurers voice a need of specialization and indicate market segments to be competed over in order to gain leadership with respect to particular risks. Bancassurance, among others, is a promising development direction together with restructuring of sectors, introducing incentives etc. Technological development, and in particular implementing modern platform and ICT solutions, are often seen as a desired means to increase efficiency. Customer service will be handed over to electronic systems to a continuously growing extent.

The least prosperous future seems to relate to motor insurance, professional liability insurance and insurance combined with investment fund.

Most concerns are evoked by restructuring of sectors, discontinuing incentives, increase in claims for professional liability. When enumerating the fears, a revolving one is a problem or great risks, catastrophes etc.

Insurance market in Poland is also linked to activity of support institutions. Three agencies are involved to the greatest extent in supporting the development of insurance business and market: Polska Izba Ubezpieczeń (The Polish Chamber of Insurance), Spokesperson of the Insured and Komisja Nadzoru Finansowego (The Polish Financial Supervision Authority). First position is taken by Polska Izba Ubezpieczeń, who has gained most appreciation and trust on the part of the insurers.

Current legislation for insurance market stems from Insurance Activity Act from 1990. Together with regulations in the area of bank and capital markets as well as the one relating to free competition, the Act gave formal grounds to actual demonopolisation of the market and to forming of a modern insurance market. Further significant legislation changes took place in 1995. With regard to their scope, they are referred to as "new insurance law". They were a basis for establishment (isolation) of an insurance supervision body i.e. Państwowy Urząd Nadzoru Ubezpieczeń (State Office of Insurance Supervision), adjustment of regulations in the area of financial economy and insurer's solvency to the EU norms.

In the period 1998-2000 rules of entering Polish market by foreign capital were liberalised, together with regulations of insurance company financial management. Since 2003 the market has been regulated by a package of four insurance acts, which provided modern legislation that enables integration of Polish market to the single European one.

The acts allow foreign entities to freely invest in the market and thus defined anti-stable foundation of the market enable functioning in a less risky environment.

In 2007 a poll research with insurance companies was conducted. The aim was to provide answers on market development prospects. Assessment of Polish market capacity and its further potential growth differed among the group of insurers. Half of the respondents estimate growth capacity of Polish market for more than 25 years and none of them intends to withdraw from the market. A pessimistic value of less than 5 years of further growth is envisaged by more than one third of respondents. This pessimistic outlook does not however compel any of them to withdraw from Poland. Respondent who see Polish market growth capacity for another 25 years amount to 16% of all responses obtained. Similarly, neither this group plans to withdraw from the market.

Summary

Summing up, it should be stated that Polish insurance market displays growth capacity that will allow to survive and development of new entities. On one hand, this is confirmed by statistical data regarding its development, increase in wealth of the society or growth of the economy in general. On the other hand, insurance companies themselves acknowledge the positive prospects for the future. However, one must not forget about consequences of current economic recession that affects, to a great extent, financial services sector including insurers. This situation is already visible in lowered development ratios from the beginning of 2009 as regards insurance market.

Comprehension check

1. Describe genesis of the Polish insurance market development.
2. Answer the question: is Polish Insurance industry develop towards competition or rather towards concentration? Justify your answer.
3. How big is Polish insurance market in comparison to World markets? Is it an opportunity to further development or obstacle?
4. How legislation in Poland and EU influence competition development on the regulated market?

Recommended readings

- INSURANCE MARKET IN POLAND 2009–2011, CEE INSURANCE SERIES
<http://www.intelace.com/pdf/00079.pdf>
- Annual Bulletin. Insurance market 2003, 2004, 2005, 2006, 2007, Aggregated Financial Reports, Polish Financial Supervision Authority,
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