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The stage of development of insurance sector in Poland compared to insurance institutions in the EU area as well as in the Czech Republic and Hungary

Introduction

The insurance sector forms a very important segment of financial system in market economy, one that mainly serves to fill such functions as provision of tools protecting against any kinds of risk, accumulation and allocation of capital as well as collection and processing of information. In most developed and developing countries insurance institutions have occupied second place in financial sector in terms of level of their assets, next only to banks. Due to intensification of consolidation trends that has taken place during the Nineties, insurance companies have become one of the main links of emerging financial conglomerates. Therefore, the problem of further development of this sector is an important issue, in particular in economies undergoing transformation where insurance sectors truly and fully basing upon market principles have not been well developed yet.

It is the purpose of this article to identify the level of development of Polish insurance sector seen at the background of insurance institutions of the European Union Member States on the one hand and those in the EU applicant countries, namely the Czech Republic and Hungary, on the other hand. Once a present level of development of the insurance market in Poland is established, one can attempt to define a current level of competitiveness of insurance companies that have provided services in the territory of our country, in relation to similar institutions operating in the EU Member States.

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1. Methodology and the scope of research

The study was carried out in the years 1993-1998 on a sample of 13 EU Member States[1] as well as Poland, Czech Republic and Hungary. Insurance sectors in those countries were analysed with consideration given to their division into two categories: life insurance (section I) and property and other types of personal insurance (section II). Appropriate measuring factors were selected, defining size and levels of activity, effectiveness and competitiveness of insurance institutions operating in the insurance market. Measuring factors used were as follows:

- **the number of insurance companies**,
- the value of assets of insurance institutions (**assets** – define the size of the insurance sector),
- ***per capita* gross premium** (defines activity of insurance companies),
- costs of insurance companies in relation to the value of insurance premiums collected by them – **costs/gross premium** (this measure defines the insurance sector effectiveness),
- commission earned by the insurance companies in relation to the value of gross premiums collected thereby (**commission/gross premium**), meant as the factor defining the level of competitiveness in the sector.

Additionally, due to specific features of countries undergoing economic transformation (including Poland) it was decided to present the **structure of investors in the insurance sector** with division into domestic and foreign ones.

Of the above-mentioned measures three were chosen, those that **define the size, effectiveness** and **activity of insurance institutions** (namely, they included the level of assets, costs/gross premium ratio and *per capita* gross premium). Then an **index of development of life insurance sector (Insurance 1)** as well as an **index of development of property and personal insurance sector (Insurance 2)** were prepared for each country. The indexes were constructed in the following way:

Let's assume that X (i,j) equals to an average value (within a given period) of a variable j for the country *i*, and, at the same time, X (j) is an average value of a variable *j* for all the countries under analysis. Then the value of the variable *j* for the country *i*, taking into account sizes for all the countries of the sample is defined as x (i,j), where:

$$x\ (i, j) = [X\ (i,j) - X\ (j)]/\ X\ (j).$$

Then, each index of development of a given sector will be calculated as an arithmetic average from x (i, j).

[1] Ireland and Spain have been excluded from the study due to the lack of appropriate data.

The variable j are the above-mentioned: **assets, costs/gross premium** as well as ***per capita* gross premium**. Indexes of development of the insurance sector in the analysed countries, constructed using the above-described method, reveal the average situation during the years 1993-1998. In order to show development of insurance institutions over time, also **partial indexes for particular years** were calculated, in a similar way as the average indexes, however, with the X (j) value replaced by an initial size (that of 1993).

2. Development of the insurance sector in Poland seen against the background of selected countries

The insurance sector in Poland has still been underdeveloped compared to insurance institutions operating on the territory of the European Union. This opinion is confirmed by data included in Table 1. Countries having the largest insurance services market in Europe are Luxembourg, United Kingdom and Ireland. It should be mentioned, in this respect, that the latter market owes its rapid development during the recent years to dynamic economic growth in Ireland during the Nineties and to a significant increase of the level of people's income, as a direct effect of that. A high level of development of life insurance sector is basically reflected in equally high level of development of other types of insurance. In highly industrialised countries *per capita* gross premium collected by institutions operating in life insurance market is usually either higher or at least comparable to the size of premiums collected by insurance companies active in section II. This means that both households and enterprises have not only availed themselves of basic services, *i.e.* of insurance instruments protecting from various types of risk, but have also treated insurance as means of their investment for the future. Such a situation, however, may be achieved only under condition that people earn sufficient income, enabling or even encouraging them to make use of this sort of financial services, regarded in economics as luxury goods.

Unfortunately, in the analysed countries undergoing systemic transformation quite an opposite trend is observed: that the level of premiums for property and personal insurance is much higher than that of premiums collected by life insurance companies. This is mainly the effect of a low *per capita* income, compared to that in the highly industrialised countries. Even more importantly, the total level of insurance premiums in the countries under transformation is very modest in comparison to that observed in well-developed countries. Poland, Czech Republic and Hungary have occupied last places in terms of amounts earmarked by people for insurance purposes.

Among the EU Member States relatively weakest stage of development of the insurance markets is found in Spain, Portugal and Greece. Greek institutions have collected, at the end of 1998, total premium that was over one hundred times lower than that in Luxembourg (the country that has been ranked at the first place), although Spanish insurance market is still more than three times as large as that in Poland.

Table 1. The level of the insurance premium collected by insurance companies *per capita* in 1993 and in 1998 (in US$)

	Life insurance			Property and personal insurance		
	1993	1998	Change (%)	1993	1998	Change (%)
Luxembourg	420	11151	2555.0	895	1758	96.4
United Kingdom	1224	2065	68.7	904	963	6.5
Ireland	674	1900	181.9	540	846	56.7
Netherlands	815	1371	68.2	814	995	22.2
Denmark	700	1442	106.0	684	820	19.9
France	996	1235	24.0	661	713	7.9
Germany	597	739	23.8	878	956	8.9
Belgium	389	903	132.1	702	687	-2.1
Sweden	623	1068	71.4	681	513	-24.7
Austria	432	563	30.3	825	837	1.5
Italy	169	521	208.3	392	483	23.2
Finland	97	498	413.4	377	480	27.3
Spain	177	347	96.0	350	382	9.1
Portugal	104	301	189.4	227	283	24.7
Greece	68	109	60.3	73	103	41.1
Czech Republic	20	45	125.0	57	120	110.5
Hungary	16	42	162.5	61	71	16.4
Poland	13	34	161.5	20	81	305.0
Average for the EU Member States	499	1614.2		600.2	721.3	

Source: The Authors' own calculation, basing on: *Statistical Compendium,* OECD, 2001.

Also the total number of insurance companies may serve to indicate a level of both development of the insurance sector and its competitiveness. In terms of number of insurance institutions United Kingdom goes to the forefront, although in the remaining EU Member States the number of insurance companies is more than considerable as well (see: Table 2). Interestingly, in spite of the principle of freedom of provision of financial services, adopted in the area of the Financial Single Market, in most Community Member States the insurance market has largely remained in hands of domestic investors. Facing that, the issue of share of foreign investors in local financial services markets, raised here, seems most important for the group of post-communist countries where such markets have only been emerging at present and this takes place under conditions of an acute shortage of domestic capital. In Hungary the insurance sector was almost wholly taken over by foreign institutions; while in Czech Republic and in Poland foreign companies were, at the end of in 1998, still in minority. In our country this situation was influenced, to a significant degree, by the dominant market share enjoyed by two Polish institutions: PZU and Warta.

Table 2. The number of insurance companies and the share of foreign capital in domestic market at the end of 1998

	The number of insurance companies, including:			Share of insurance companies in domestic market (%), including:	
	Total	Domestic	Foreign	Life insurance	Property and personal insurance
United Kingdom	870	709	161	26	40
Germany	684	617	67	8	12
France	466	450	16	7*	18*
Netherlands	402	320	82	22**	24**
Luxembourg	348	49	299	85	26
Spain	334	275	59	29	27
Italy	252	120	132	nd	nd
Denmark	238	208	30	6	30
Finland	173	171	2	nd	nd
Sweden	158	154	4	nd	nd
Ireland	157	119	38	nd	nd
Belgium	154	148	6	nd	nd
Greece	132	91	41	nd	nd
Portugal	98	35	63	15	26
Austria	61	37	24	32	51
Hungary	57	40	17	89	92
Poland	55	30	25	38	12
Czech Republic	41	19	22	32	28

* as of the end of 1992.
** as of the end of 1997.

Source: The Authors' own calculation, basing on: *Statistical Compendium,* OECD, 2001.

2.1. Life insurance (section I)

Most active life insurance markets among the economies under analysis can be found in Luxembourg, United Kingdom, and France. Those countries have been ranked in three leading places in terms of *per capita* gross premium (see: Table 3). In Greece, Portugal and in Italy we have to deal with the least active insurance institutions among the Community Member States. The last three places in this respect have gone to Poland, Czech Republic and Hungary. From the study of the level of market size, expressed through the level of assets of the insurance companies, a similar situation appears. Most assets are owned by insurance institutions in the United Kingdom, France and Germany, while those in Greece, Portugal and Finland have the lowest level of assets.

Table 3. Structure of life insurance in the EU Member States and in Poland, Czech Republic and Hungary in the years 1993-1998 (medium values)

Country	Gross premium *per capita* (in US$)	Rank*	Assets of insurance companies (in US$ Billion)	Rank	Costs/ Gross premium	Rank	Commission/ Gross premium	Rank
Austria	551	9	44.7	9	0.16	11	0.067	11
Belgium	622	8	55.8	8	0.13	9	0.047	6
Denmark	1,110	5	63.1	7	0.06	3	0.005	1
Finland	332	10	8.0	11	0.07	4	0.013	2
France	1,327	3	495.0	2	0.04	1	0.047	7
Greece	90	13	2.5	13	0.59	16	0.147	14
Netherlands	1,135	4	196.5	4	0.13	10	0.057	10
Luxembourg	6 803	1	11.3	10	0.10	7	0.051	9
Germany	716	7	460.5	3	0.20	13	0.078	12
Portugal	206	12	6.6	12	0.07	5	0.023	4
Sweden	882	6	99.7	5	0.09	6	0.034	5
United Kingdom	1,477	2	910.7	1	0.10	8	0.048	8
Italy	301	11	96.5	6	0.04	2	0.111	13
Czech Republic	34	14	0.1	14	0.25	15	0.016	3
Poland	21	16	1.4	16	0.22	14	0.159	15
Hungary	29	15	0.9	15	0.17	12	0.221	16
Average	977		169.3		0.15		0.070	

* Rank means the place in the ranking occupied by a given country with respect to a given variable. For: *per capita* gross premium, gross premium/GDP and assets of life insurance companies the countries have been put in order from the highest value do the lowest one, while for the remaining variables the opposite order has been adopted.

Source: The Authors' own calculation, basing on: *Statistical Compendium,* OECD, 2001, IFS, IMF, 2002.

The relation of costs borne by insurance companies to the amount of gross premium collected by them is a measure that indicates the level of effectiveness of these institutions. In theory, the lower the value of that measure, the more effective the market should be. In practice, however, it is not as simple as that. Due to growing competition from both domestic and foreign financial institutions, insurance companies have been forced to undertake efforts aimed at just maintaining the market position they achieved before, rather than to extend their activities. Such steps always require significant capital outlays, which, in turn, influences the size of the measure of the sector effectiveness we attempt to describe here. Facing that, one should not be surprised by a worse result of German insurance institutions in this respect, as their 13th place has been a result of their rapid expansion undertaken in international markets.

Table 4. The level of development of life insurance sector in the years 1993-1998

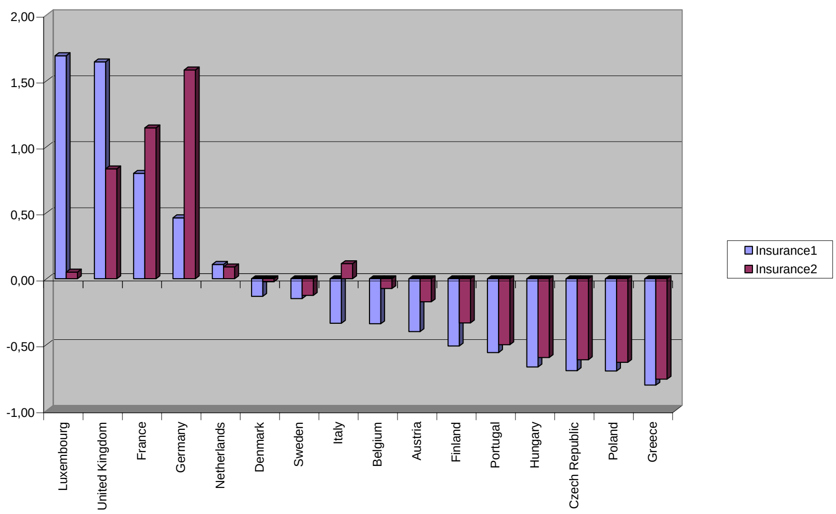
Country	Size 1[1]	Activity1[2]	Effectiveness 1[3]	Insurance Index 1[4]
Luxembourg	-0.93	5.96	0.04	1.69
United Kingdom	4.38	0.51	0.04	1.64
France	1.92	0.36	0.11	0.80
Germany	1.72	-0.27	-0.07	0.46
Netherlands	0.16	0.16	0.00	0.11
Denmark	-0.63	0.14	0.09	-0.13
Sweden	-0.41	-0.10	0.06	-0.15
Italy	-0.43	-0.69	0.11	-0.34
Belgium	-0.67	-0.36	0.01	-0.34
Austria	-0.74	-0.44	-0.03	-0.40
Finland	-0.95	-0.66	0.08	-0.51
Portugal	-0.96	-0.79	0.07	-0.56
Hungary	-0.99	-0.97	-0.04	-0.67
Czech Republic	-1.00	-0.97	-0.13	-0.70
Poland	-0.99	-0.98	-0.13	-0.70
Greece	-0.99	-0.91	-0.53	-0.81

1 - Calculated for the value of assets of insurance institutions.
2 - Calculated for *per capita* gross premium.
3 - Calculated for value [1 – (costs/ gross premium)].
4 - The index of development of life insurance sector constructed using the method described in Paragraph 1.

Source: The Authors' own calculation.

The last measure presented in Table 3 (commission/gross premium) relates to the level of competitiveness on a given market. However, high position occupied by the Czech Republic in this category may be the evidence of weak condition of institutions involved in life insurance sector and low demand for this sort of services rather than of an intense competition in that sector. As a result of such situation, those institutions have been unable to earn sufficient income and the amount of gross premium they have collected remains at a modest level.

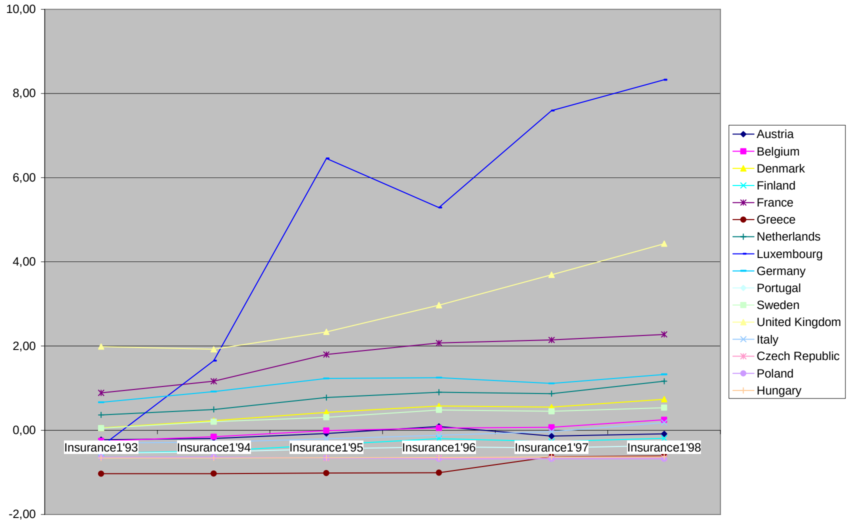
Diagram 1. Index of development of life insurance (Insurance 1) as well as of property and personal insurance (Insurance 2) in the years 1993-1998



The Table 4 and the Diagram 1 sum up the analysis of life insurance sector hitherto made. The index of development calculated for that sector (Insurance 1) ranks Poland on a last-but-one place, behind Hungary and Czech Republic, prior only to Greece. Best-developed insurance institutions in the I section are found in Luxembourg, United Kingdom, France, Germany and Netherlands, but, admittedly, the position of the two last-mentioned countries has been quite remote from the group of the EU strict leaders. Luxembourg owes its prime position to a very intense activity of its insurance institutions, while the level of their assets is relatively insignificant. In most cases, however, there is a distinct correlation between size, level of activity and that of effectiveness of insurance companies. Usually, where insurance companies feature a high level of value of their assets, also the level of premiums and that of effectiveness is high.

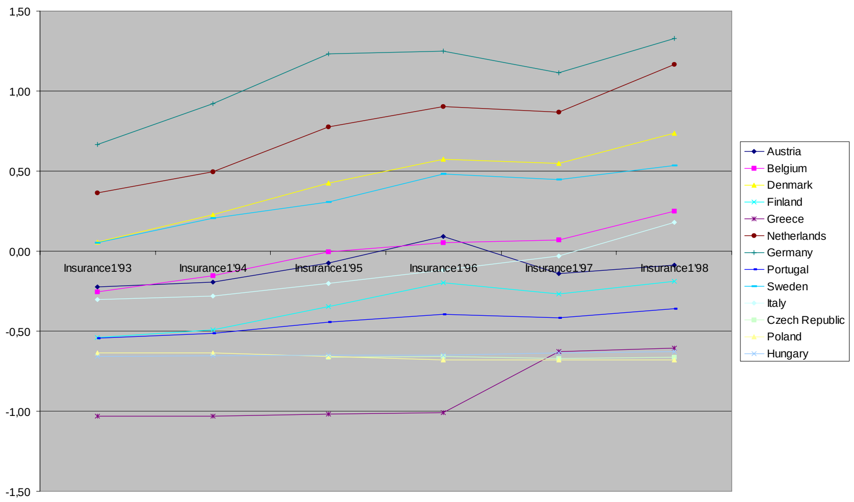
The level of development of life insurance is still better visible if analysed with division into particular years, starting in 1993. An annual analysis has been presented in Diagrams 2 and 3. The last Diagram does not include countries that have recorded highest growth (*i.e.* Luxembourg, United Kingdom and France) – in order to better emphasise differences between the remaining countries.

Diagram 2. Index of development of life insurance in the years 1993-1998



Source: The Authors' own diagram.

Diagram 3. Index of development of life insurance in the years 1993-1998 without France, United Kingdom and Luxembourg



Source: The Authors' own diagram.

Considering the year-to-year development of the sector under analysis, the highest growth in the years 1993-1998 was seen in Luxembourg, United Kingdom (Diagram 2), Denmark, Netherlands and Germany (Diagram 3). On the other hand, Poland, Czech Republic and Hungary reveal no significant changes in relation to the beginning of the examined period.

What is clearly shown in the Diagrams is that economic situation in the sector of life insurance was on a decline in the middle of the Nineties in most EU economies. This is especially evident in the case of Luxembourg, Germany, Netherlands, Austria and Sweden.

2.2. Property and personal insurance (section II)

The sector of property and personal insurance has been analysed in the same way as that of life insurance. The results of the study have been presented in Tables 5 and 6.

Data collected in relation to the two groups reveal that, in both cases, we have to deal with the same group of leaders. Most effective insurance markets in the areas of property and personal insurance are found, during the period under examination, in Luxembourg (although in this case that goes in pair with relatively low level of assets owned by insurance companies), Germany, Netherlands and United Kingdom. At the other end insurance markets of Greece, Portugal and Italy are situated. Poland, Czech Republic and Hungary have occupied last couple of places. Insurance companies in Germany and France, while not ranked among most active ones, belong to the largest in the group of countries under consideration. The value of assets of German property and personal insurance institutions is as much as five times higher than the average for 16 countries. Smallest, in terms of level of their assets, are insurance institutions operating in the territories of Luxembourg, Greece and Austria. Also, insurance sectors of the two last-mentioned countries are the least effective ones among the group of the EU Member States, while most effective in this respect are those in Italy, Denmark and France. Sectors of property insurance in Finland, Sweden and Czech Republic feature relatively low income earned on their fundamental activities in relation to the level of insurance premiums collected, which gives evidence to their high level of competitiveness, although, in the case of the last-mentioned country (in a similar way as it was in the case of life insurance) such a positive result may be misleading.

Table 5. Structure of property and life insurance in the EU Member States as well as in Poland, Czech Republic and Hungary in the years 1993-1998 (medium values)

Country	Gross premium *per capita* (in US$)	Rank*	Assets of insurance companies (in US$ Billion)	Rank	Costs/ gross premium	Rank	Commission/ Gross premium	Rank
Austria	899	5	3.94	11	0.36	15	0.09	7
Belgium	737	8	22.01	7	0.25	12	0.14	10
Denmark	800	6	15.46	8	0.09	2	nd	
Finland	451	10	7.33	9	0.20	6	0.01	1
France	739	7	162.93	2	0.13	3	0.13	9
Greece	92	14	2.02	12	0.61	16	0.16	12
Netherlands	974	3	24.10	6	0.23	8	0.08	5
Luxembourg	1 222	1	1.71	13	0.22	7	0.15	11
Germany	1 004	2	207.81	1	0.32	14	0.10	8
Portugal	264	12	3.97	10	0.27	13	0.08	6
Sweden	571	9	26.03	5	0.23	10	0.04	2
United Kingdom	933	4	114.87	3	0.19	5	nd	nd
Italy	433	11	56.14	4	0.07	1	0.19	14
Czech Republic	92	13	0.04	16	0.23	9	0.07	3
Poland	48	16	1.22	14	0.24	11	0.07	4
Hungary	66	15	0.61	16	0.17	4	0.17	13
Average	583		41.50		0.24		0.11	

* Rank means the place in the ranking occupied by a given country with respect to a given variable. For: *per capita* gross premium, gross premium/GDP and assets of property and personal insurance companies the countries have been put in order from the highest value do the lowest one, while for the remaining variables the opposite order has been adopted.

Source: The Authors' own calculation, basing on: *Statistical Compendium,* OECD, 2001, IFS, IMF, 2002.

Table 6. The level of development of property and personal insurance sector in the years 1993-1998

Country	Size 2[1]	Activity 2[2]	Effectiveness 2[3]	Insurance Index 2[4]
Germany	4.14	0.72	-0.12	1.58
France	3.03	0.27	0.13	1.14
United Kingdom	1.84	0.60	0.05	0.83
Italy	0.39	-0.26	0.21	0.11
Netherlands	-0.40	0.67	0.00	0.09
Luxembourg	-0.96	1.10	0.01	0.05
Denmark	-0.62	0.37	0.18	-0.02
Belgium	-0.46	0.26	-0.03	-0.07
Sweden	-0.36	-0.02	0.00	-0.13
Austria	-0.90	0.54	-0.17	-0.18
Finland	-0.82	-0.23	0.04	-0.34
Portugal	-0.90	-0.55	-0.05	-0.50
Hungary	-0.98	-0.89	0.08	-0.60
Czech Republic	-1.00	-0.84	0.00	-0.61
Poland	-0.97	-0.92	-0.02	-0.63
Greece	-0.95	-0.84	-0.49	-0.76

1 - Calculated for the value of assets of insurance institutions.
2 - Calculated for *per capita* gross premium.
3 - Calculated for value [1 – (costs/ gross premium)].
4 - The index of development of property and personal insurance sector constructed using the method described in Paragraph 1.

Source: The Authors' own diagram.

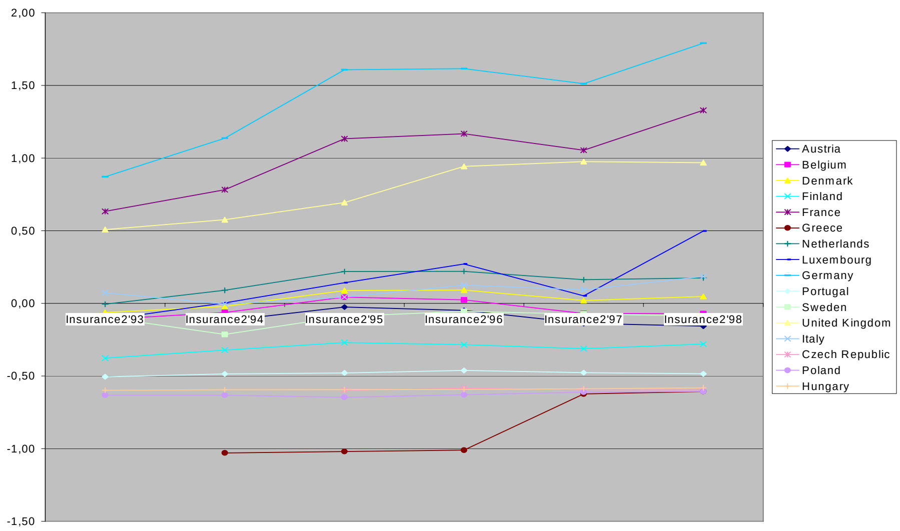
It occurs that the highest level of development of the insurance sector included in section II, represented by the index Insurance 2 taking its size, level of activity and that of effectiveness into account, is found in Germany, France, United Kingdom, Italy and Netherlands, with the first three of those countries ranking much higher that the rest of those under consideration (see: Table 4 and Diagram 1). On the other hand, the lowest level of development of insurance institutions, during the analysed period between 1993 and 1998 among the EC Member States was that in Greece. Furthermore, the studies reveal that Greek market was even weaker than those in post-communist economies, also included in the analysis, in spite of the fact of significant expansion of Greek insurance sector during late nineties (Diagrams 4 and 5).

It should be stressed that there have been considerable differences among the best-developed countries in terms of two insurance categories selected as the subject of the study. This relates most of all to Luxembourg and United

Kingdom, where we have to deal with development of life insurance much above the average and, at the same time, much less developed markets of property and personal insurance (Diagram 1). Interestingly, in another couple of best-developed countries, *i.e.* France and Germany, an opposite disproportion can be seen, with the insurance sector marked as section II is dominant.

In a way similar to the formerly-discussed case of life insurance, the Diagrams showing annual changes taking place in the analysed sector year after year, a temporary decline of its position in the second half of the nineties is visible (Diagram 4 and 5).

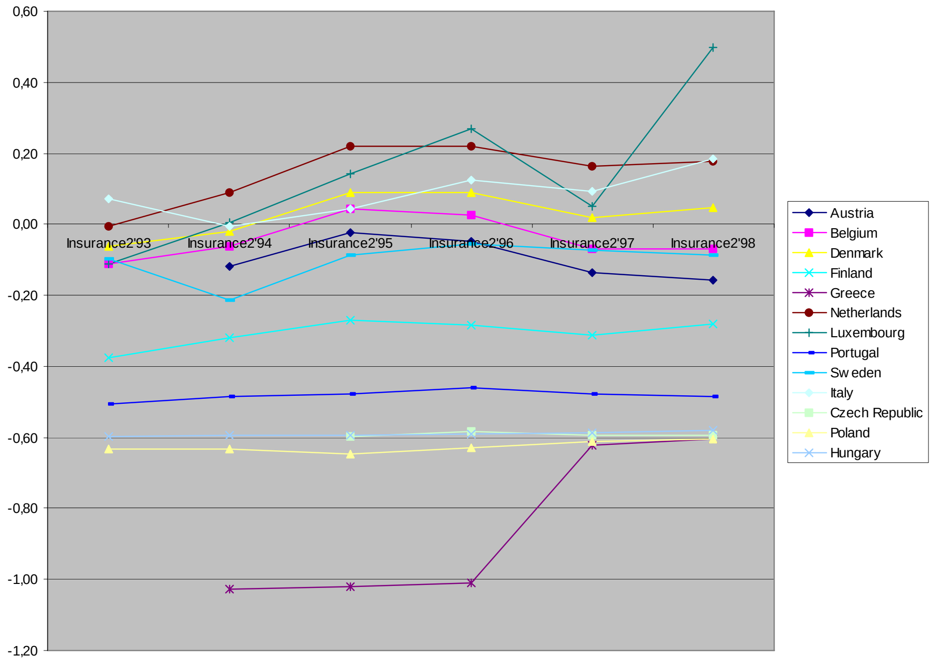
Diagram 4. Developent of property and personal insurance in the years 1993-1998



Source: The Authors' own diagram.

Poland was ranked, in terms of level of development of property and personal insurance companies in a last-but-one position, behind Czech Republic and Hungary. No important changes can be seen in the way of operation of the whole sector in question during the whole period under study (Diagrams 4 and 5). The level of development of that sector over a span of several years has not changed in any significant way. This means that Polish insurance companies have not been competitive in relation to their counterparts operating on the territory of the Single Financial Market. However, in the light of Poland's imminent membership in the European Union, it is necessary that the level of development of that sector in our country be adjusted up to the standards prevailing in this area in the EU markets. It may be concluded from the analysis made, that while changes taking place in the insurance sector since the early nineties should be appreciated, still, nevertheless, very much needs to be done in the area.

Diagram 5. Development of property and personal insurance in the years 1993-1998 without Germany, United Kingdom and France



Source: The Authors' own diagram.

3. Directions of transformation in Polish insurance sector during the recent years

Poland was the first post-communist country to have carried out the reform of insurance sector and established legal fundaments for modern and sound insurance market. The Insurance Activity Act, adopted in 1990, together with its later amendments made in June 1995, provided a necessary base for **demonopolisation** and **privatisation** of Polish insurance market. The Act has eliminated the former situation of monopoly in insurance, thus enabling private entrepreneurs to establish insurance companies (either basing upon domestic capital or with participation of foreign capital). Under new, advantageous conditions, rapid quantitative development of insurance market has taken place:

from just 4 insurance companies operating in 1989 through 27 in 1992, 47 early in 1997 and as many as 69 late in the year 2000, out of which 35 were life insurance and 34 property insurance companies.

It should be observed that legal fundaments for development of insurance sector in Poland according to free market economy conditions were established following standards that had been well-proven in the European Union Member States, as it was assumed that our country's accession to the EU was the superior strategic objective that required **harmonisation of Polish legislation with that of the European Union**. Positions taken by the Polish party in negotiation on accession have been included in the areas: "Freedom of provision of services" and "Free movement of capital". The Polish party has declared general consistency of Polish legal standards with the *acquis communautaire*, closing the process of negotiation in the former of the above-mentioned areas as soon as on 14 November 2000, while negotiation in the area of "Free movement of capital" have remained uncompleted.

Polish insurance market features regular growth of a level of activity of **foreign capital** that has been the principal driving factor of changes taking place in the insurance sector. The turning point happened in 1999, when the 50 per cent threshold of share of investors from abroad in stock capital of insurance companies operating in our domestic market was exceeded. Among foreign investors, financial institutions from the EU area have prevailed (see: Table 7).

Foreign capital - apart from more and more intense competition, manifesting itself in amounts of insurance premiums, quality of products in offer, lowering of operating costs and significant improvement in quality of consumer service - has brought with itself a whole scope of innovation in the area of new products. Involvement of foreign investors active in the field of insurance in Polish insurance companies contributed to emergence of new types of policies in our market.

According to presidents of insurance companies, most important benefits arising out of participation of foreign investors, beside general reinforcement in terms of capital, have consisted in introduction of new products, innovative technologies of liquidation of damages, new mechanisms of control of insurance contracts made and, finally, in opportunities to train employees of Polish companies abroad. Moreover, they have been able to extend their sales networks thanks to new investments.[2]

[2] See: "*Rzeczpospolita*", 20.12.1999.

Table 7. Direct foreign investment in the insurance sector as of the end of the year 2000

The country of origin of capital	The structure of foreign investment (%)	The share in basic capital of the sector (%)
European Union, including:	79.27	46.84
Germany	43.98	25.98
Finland	8.32	4.92
Netherlands	6.19	3.66
United Kingdom	5.39	3.18
Austria	4.68	2.77
Belgium	4.16	2.46
Sweden	2.29	1.35
Denmark	2.05	1.21
France	1.13	0.67
Italy	1.08	0.64
The remaining countries, including:	20.73	12.24
Switzerland	10.58	6.25
USA	8.16	4.82
EBRD	1.99	1.17
Total	100.00	59.08

Source: The Authors' own calculation, basing on: PUNU (National Office of Insurance Sector Supervision).

Assistance provided to Polish insurance sector as a component of foreign investments has also covered a number of technical issues, such as techniques of calculation of insurance premiums and of risk assessment. Representatives of companies, to which investors from abroad active in the insurance sector have entered, have also underlined the fact that their foreign partners haven't attempted to simply emulate in Poland terms of insurance they had adopted in their respective countries.

Thanks to computerisation of companies their operating costs may be decreased to a certain degree and as well as prospects are gained to raise the volume of sales made via Internet that has recently become an increasingly popular form of acquiring customers, in a similar way as it's been the case in the field of banking. This form of accessing their customers were selected by such companies as Hestia Insurance, Compensa, Samopomoc and Amplico Life.[3]

[3] *Ubezpieczenia przez Internet* (*Insurance Over the Internet*), "*Gazeta Finansowa*", 17-22.01.2000.

This way, the offer of Polish insurance market has gradually approximated, in terms of its offer, the global level. Whilst traditional types of products have still prevailed (such as transport-related insurance, *casco* for motor cars, civil responsibility related to possession and use of motor vehicles as well as insurance against damages caused by natural calamities and, mainly, by fire), new and more specialised types of insurance policies have recently also been offered.

The latter offer includes a range of financial insurance (for example, against a loss of profit,[4] insurance of leasing or of factoring), insurance against the so-called product recall, insurance of credit, of redemption of securities in case of an unsuccessful public issue, *i.e.* products addressed principally to corporate sector. One may also insure oneself against a loss of data, damages suffered during transport or against breakdown of machinery and electronic equipment. It should nevertheless be added that such policies, despite competition in the insurance market, have still been very expensive.

Another type of insurance to have appeared recently is addressed to units of public administration. Communities, apart from usual insurance of their property against theft with burglary and robbery (including devastation) may also acquire policies delivering them from risk of any damages and breakdowns as well as from that of consequences of improper state of maintenance of communal roads or from risk of effects of them either making wrong decisions or even incorrectly implementing decisions made by others.

It seems, however, that a single most important innovation in Polish insurance market is the offer of life insurance policies combined with investment funds. Polish insurance companies, considering serious problems they face with their own operation, would probably prove unable to organise and finance separate entities to manage investment funds.[5] Lack of sufficient capital would be a hindrance to activities of such an institution that should be capable of managing its funds also in foreign markets. Without having a strategic investor in its field of operation, an insurance company would have to learn principles, according to which both domestic and foreign stock and bond markets operate, from scratch. In the year 2000 insurance combined with investment funds were already offered by almost all insurance companies.[6] Thanks to their status of

[4] A manufacturing company usually acquires an insurance policy protecting it from fire and other natural calamities. If, at the same time, it also purchases a policy of insurance against the loss of profit, it is in the interest of an insurance company to proceed as promptly as feasible with liquidation of damages to enable the customer to restart its manufacturing activity in a shortest time possible.

[5] This way, for example, the capital of Nationale Nederlanden have been managed by ING BSK Asset Management.

[6] M.Dygas, *Ubezpieczenia 2000* (*Insurance 2000*), "*Gazeta Ubezpieczeniowa*", 17.01.2001 and 24.01.2001.

large and serious institutions, they have capabilities to invest in types of assets that are inaccessible to average individuals, such as in treasury bonds, real estates, municipal bonds, debentures guaranteed by the State Treasury or bank deposits with interest subject to negotiation.

Therefore, as one could observe, the product offer has been smartly adapted to changes that take place in the market. New types of property insurance have been introduced, mainly in the field of civil responsibility, addressed to particular (read: wealthy) professional groups, such as managers of private doctors. Market niches have begun to be looked for and used, such as aerial, navigation or railroad insurance, as well as health insurance. Some societies begin to involve in specialised activities, such as TU Europa (financial risk insurance), Heros, Energo-Asekuracja, Polonia (insurance guarantees for businesses), Cigna (carrier and cargo transport insurance), Cigna, Inter Poland (personal insurance), Zurich (general civil responsibility insurance), AIG, CU, Zurich, Gerling (high risk), Gerling (tourism).[7] New offer also covers guarantees (financial insurance), that in most cases consist in increasingly popular mortgage credit insurance.

Interestingly, an opposite trend can also be observed: insurers have begun to give up low-profit types of insurance. This mainly relates to *auto casco* and civil responsibility insurance in road transport. Moreover, there have been some negative changes taking place in those groups of insurance, such as a decreasing share of more expensive and voluntary *auto casco* insurance with, at the same time, an increase observed in the field of cheaper, obligatory civil responsibility insurance.

Conclusion

The above-discussed analysis suggests that Polish insurance sector has still been underdeveloped compared to equivalent sectors in the European Union Member States. Although a forecast made by National Office of Insurance Sector Supervision in 2002 assumed relatively rapid rate of development of attributed gross premium (to reach 5.9, 8.5 and 9.9 per cent in 2002, 2003 and 2004 respectively), it nevertheless seems that in this case we have to deal with excessively optimistic assumptions.

Both in Poland and in other countries that have undergone systemic transformation, such factors as a low level of income in society, translating into weak economic condition of businesses and low income of most households, are going to form a serious barrier to development of insurance market. Additionally, acquisition of insurance is positively correlated with property that

[7] M.Jaworski, *Ubezpieczenia komunikacyjne trzymają się mocno* (*Road Transport Insurance Keeps On*), "*Gazeta Ubezpieczeniowa*", 8.11.2000.

one intends to insure. In Poland most customers of insurance companies are big companies enjoying firm market position. Accordingly, it is big companies that more and more extensive and new offer of property insurance is addressed to. On the other hand, a great number of small and medium-size enterprises, in spite of being incapable of overcoming potential losses caused, for example, by natural calamities (such as fire or flood) should they happen, cannot afford to insure their activity. It may be expected that if they are successful to grow up over time, they will become insurance companies' customers. Similarly, it may be expected in general that a growth in a level of income of society will go in pair with an increase of demand for civil responsibility and other property insurance and, as a counterpart to that trend, a complementary extension of insurance offer in this area. As mentioned above, the process has already begun, although it involves, as yet, just top-income professional groups, such as managers and private doctors who have become a target of insurance companies' interest.

Development of insurance market has also been influenced by such factors as different habits and needs in the field of insurance and different personal evaluation of necessity to insure one's life and property in Polish society compared to societies of well-developed countries, as well as distrust, common in our society, in insurance institutions (and in particular negative opinion on the way the State-owned insurers functioned in the past communist rule period).

Another problem is caused by an incertitude as to prospects for economic condition of the country. Customers' trust in insurance on the one hand, and stability of insurance institutions on the other hand have largely depended upon the current inflation rate. If inflation is high, real value of insurance premiums, policies and compensation tends to decrease over time. For example, potential seasonal (periodic) nature of insurance payments (with constant rate of inflow of premiums), may cause either losses suffered by insurers or a decline of value of insurance indemnities, which is also unfavourable to the insured. Therefore, a high rate of inflation may prove potentially unadvantageous for all the interested parties which has to negatively affect the market development. In general, growing incertitude regarding systemic transformation in our country may result in mistakes being made in risk assessment and, in consequence, in low demand for insurance services.

In spite of those fears a growing scope of activities of investors from both Western Europe and the United States[8] may be observed, not just in Poland but in insurance markets of other post-communist countries as well. They probably perceive those markets as prospective ones in a long-term scale.

[8] *E.g.* AIG has been extensively involved in insurance activity in Poland, Czech Republic, Estonia, Romania, Russia, Uzbekistan as well as in Hungary and Lithuania.

One may expect that emergence of insurance-banking groups may occur an important factor to support development of insurance market in Poland. Such groups might seem a reasonable solution as they possess resources necessary to cover initial costs of insurance activities start-up and to finance introduction of new, cost-reducing methods of distribution, for example *via* Internet or by phone. This, however, requires serious financial outlays on their part as well as a good deal of patience in waiting for profits out of this sort of activity.

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