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SURVEY ON INSURANCE MARKET IN SOUTH-EASTERN EUROPE

Dr. Safet Kozarević, Professor
Faculty of Economics, University of Tuzla

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INTRODUCTION

- Significant changes that can be observed from political, economic and demographic aspects
- Influence to the insurance sector
- The burden of the past and EU enlargement future
- Insurance sector of the region still lags behind the Western Europe
- Slow legal and institutional reform
- Diversity of sector development level
- Internal factors and macroeconomic issues

CHANGES IN LEGAL AND INSTITUTIONAL FRAMEWORK

- A challenge - New regulatory framework in Europe
- Only a few countries (EU members) followed the deadlines for Solvency II
- BiH – no serious preparation for Solvency II
- Croatia - legal framework has been adjusted to Solvency II
- Greece - Solvency II was transposed into national legislation
- Macedonia - not in accordance to Solvency II
- Montenegro - compliant with the Solvency I regime

- Serbia - new Law is a step towards Solvency II
- Slovenia - new Insurance Act and secondary insurance legislation are changed in accordance to Solvency II
- For non-members countries - underdeveloped markets that can not follow the rules existing in the developed EU (Fully implementation of Solvency II principles is planned by the moment of joining EU)
- Poor institutional infrastructure - focus on improving the methodology of insurers' reporting and the other aspects of market supervision
- Providing better regulation of MTPL insurance market and raising capital standards

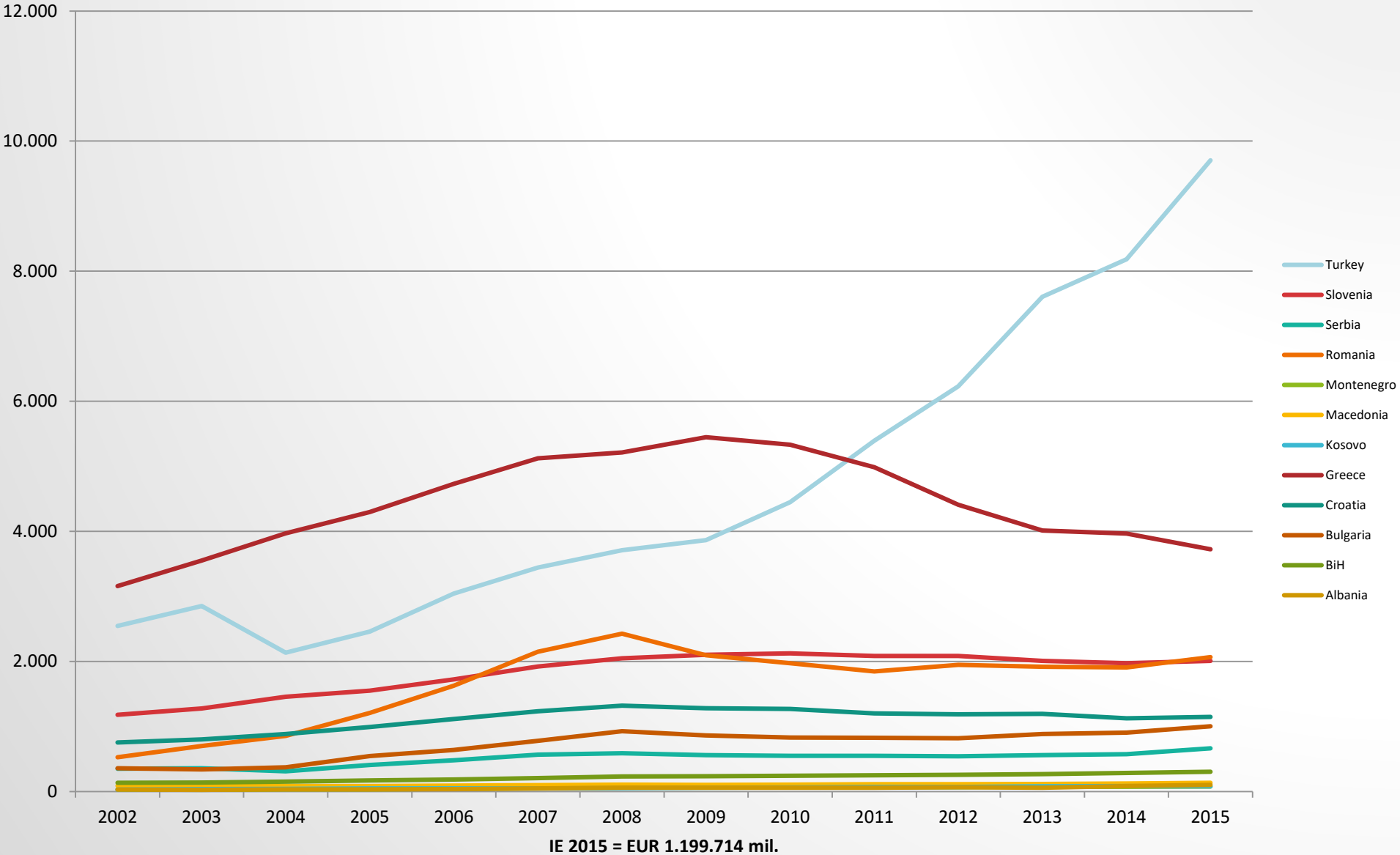
- Institutional framework is almost completely created in all countries
- Supervision institutions are organized in different ways
- Insurers associations are active in most of the countries and mostly focused on MTPL support and possibilities of its liberalisation
- Associations should be more active regarding cooperation on the country and regional level
- Bank-centric markets so that insurers are still not important subjects of interest of the governments' policies

SEE MARKET REVIEW

- Population cca 140 mil. (**3,5 times lower** than EU), GDP cca EUR 1.181 bil. (**12,5 times lower** than EU), GDP per capita EUR 8.244 (**3,5 times lower** than EU)
- Bank-centric markets with share of insurance companies in total assets between 4-7% (except in Slovenia)
- Lag behind Western Europe – below the average of IE
- Total premium of the SEE in 2015 reached the amount of EUR 21.018 mil. and that is **57 times lower than premium of IE** (cca. EUR 1.200 bil.)

- If we exclude data for Turkey, insurance premium of the region decreased by 10% in comparison to 2010
- A decrease of the premium was noticed in the region's most developed markets of Greece, Slovenia and Croatia and it was caused by financial crisis or by MTPL market liberalization (in Croatia)
- Slovenia and Croatia stopped recording negative trends and had an increase of premium in 2015
- A slight increase in the premium in the other countries
- Meanwhile, total insurance premium of the IE increased 4,2%

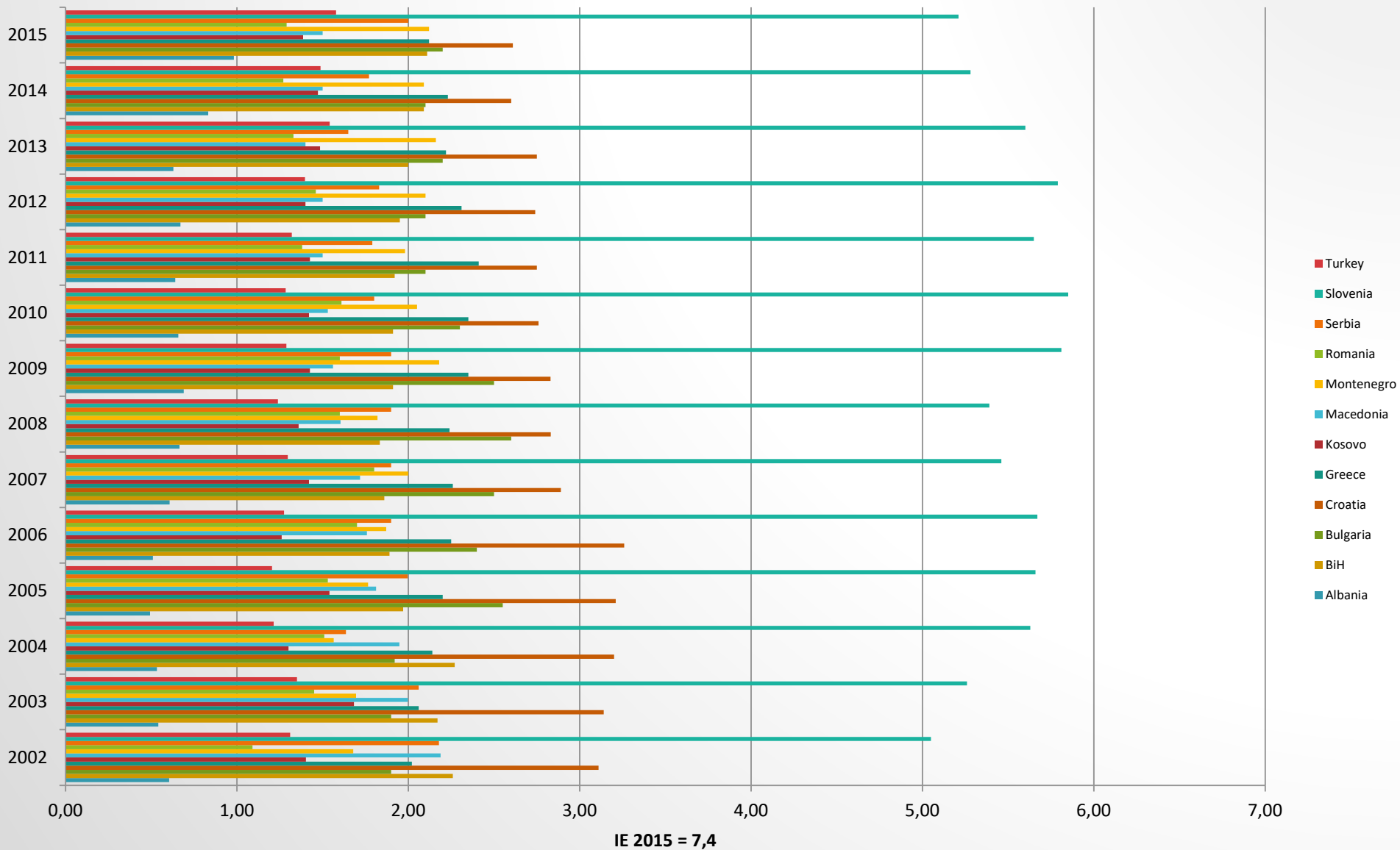
Total premium (mil. EUR)



IE 2015 = EUR 1.199.714 mil.

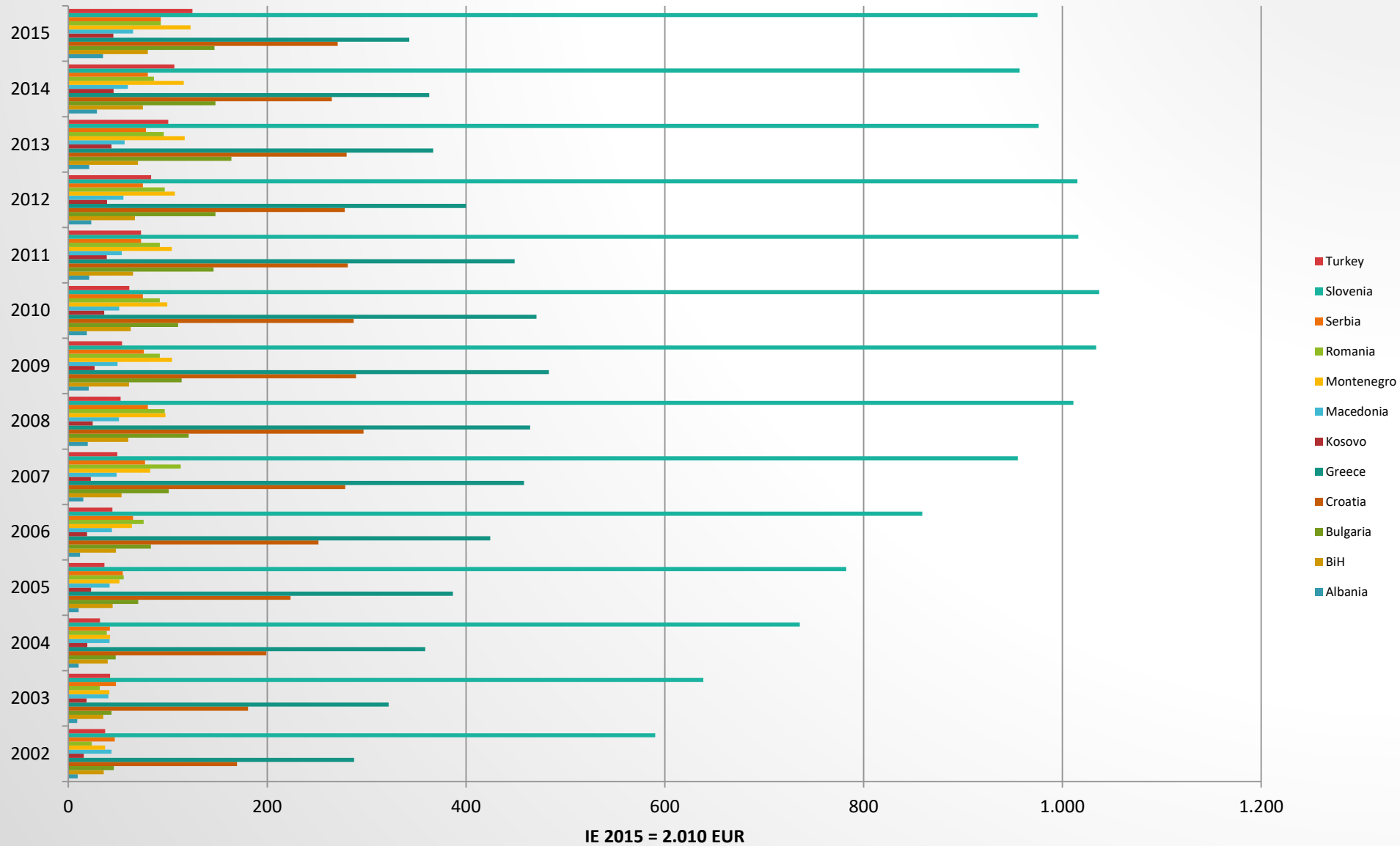
- The average insurance penetration for the SEE countries in 2015 was 1,78% and it decreased from 1,81% in 2010 (IE - 7,4% and it decreased from 8,9% in 2010).
- The average insurance density was EUR 146,35 and it increased by 3,7% in five years (EUR 141,15 in 2010), while in IE it was EUR 2.010 and it increased by 7,0% (EUR 1.879 in 2010)
- These data show that insurance penetration is **4,2** and insurance density **13,7 times below the IE** average for 2015
- The largest insurance density in 2015 was in Slovenia (EUR 975), Greece (EUR 343) and Croatia (EUR 271) while the other countries had density below EUR 150

Share of premium in GDP (%)



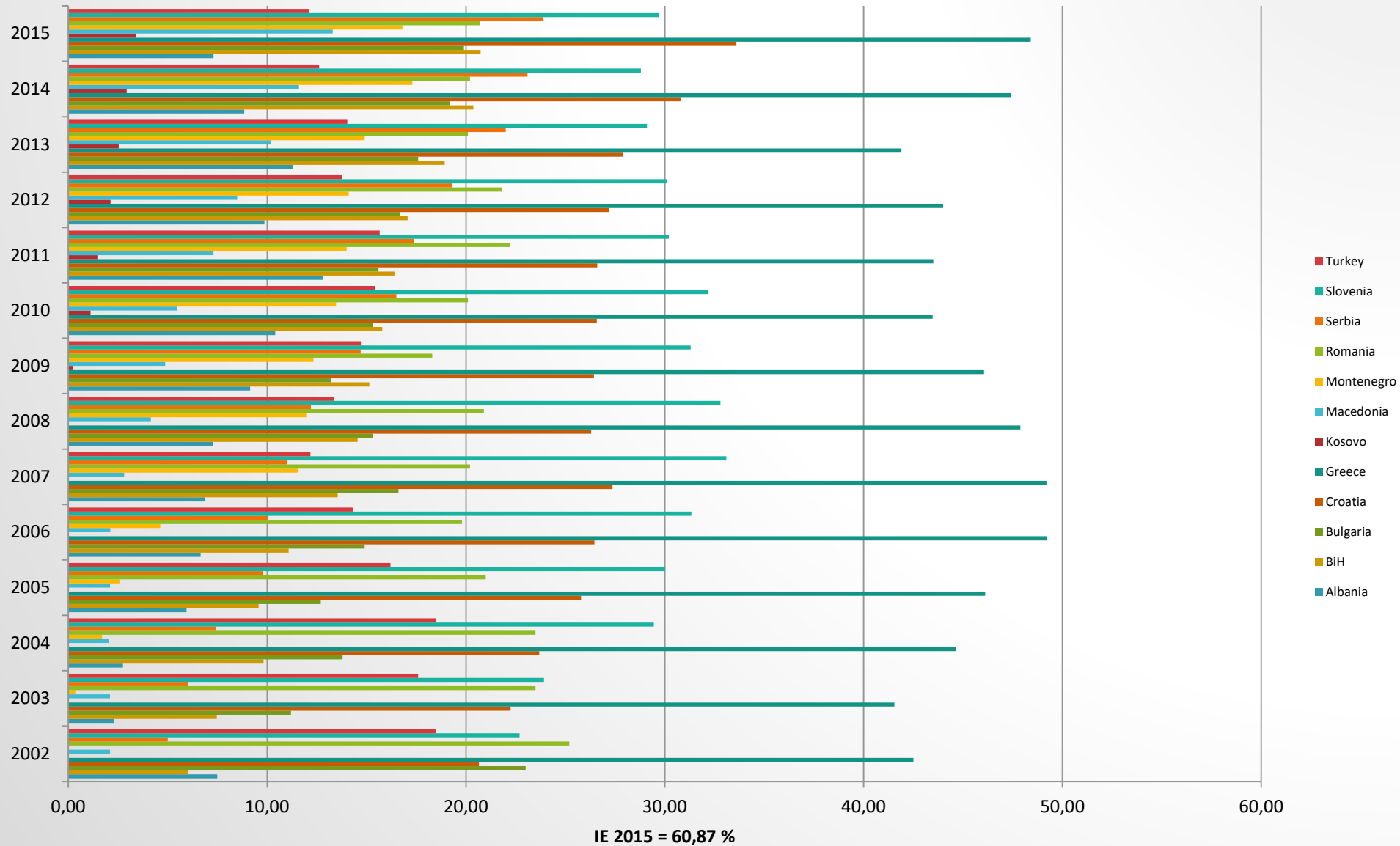
IE 2015 = 7,4

Premium per capita (EUR)



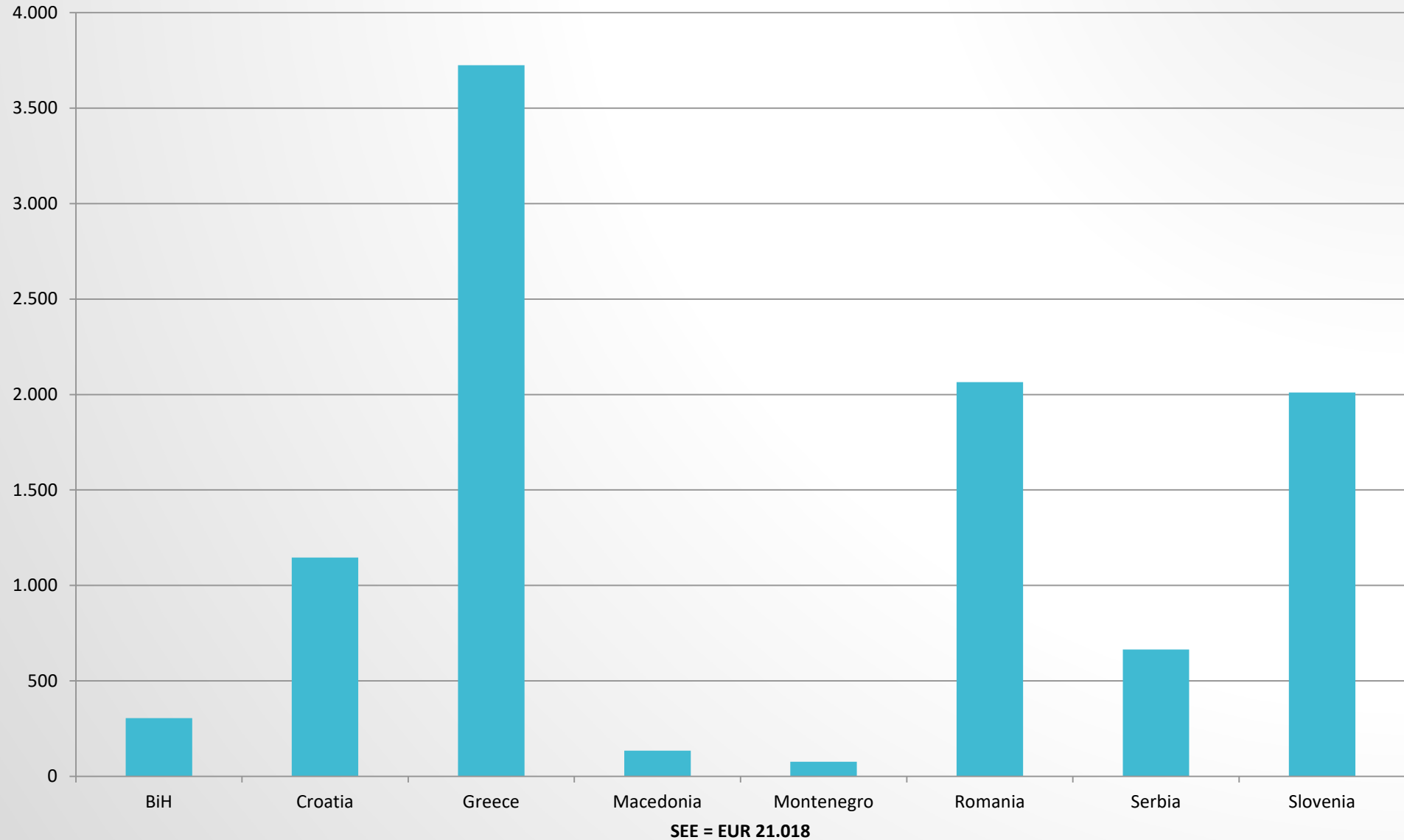
- A decrease of share of life insurance in total premium
- In 2015, the average share of life insurance in the region was 23,1% (25,8% in 2010) while in the IE members it was 60,9%
- There was not significant improvement of insurance culture because of macroeconomic instability, consumer unfamiliarity with financial transactions, and less sophistication of the insurance products offered
- The largest share of life insurance in 2015 was registered in Greece (48,4%), Croatia (33,6%) and Slovenia (29,7%), while the other countries had a share of life insurance below 25%

Share of life insurance in total premium (%)



- Market size in 2015 = EUR 21.018 million
- Considering population and economy size, Slovenia is the closest to the IE average
- A lot of variety for the other countries (8 countries included in review)
- Common for all countries is a high potential for the market growth

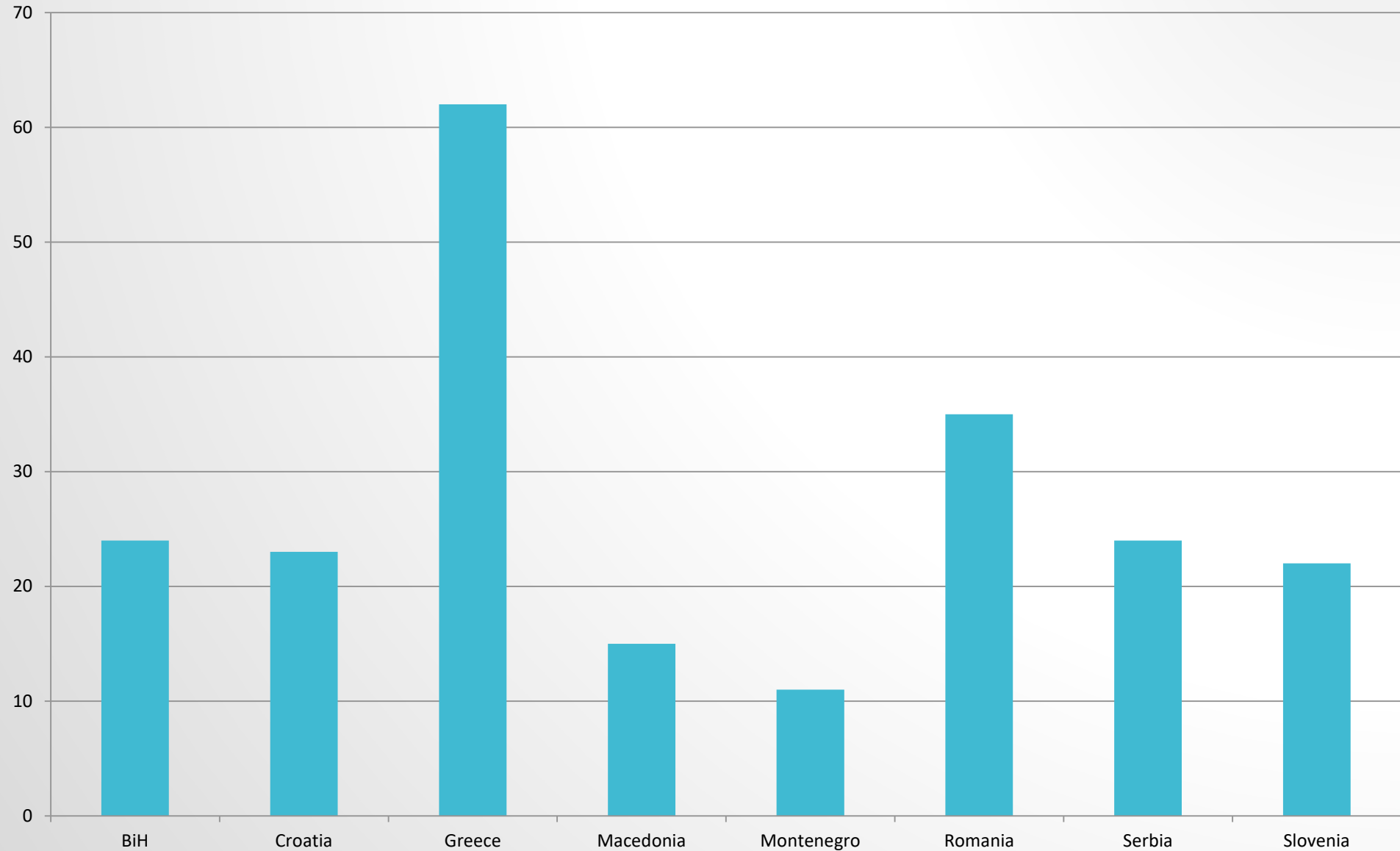
Total premium in 2015 (mil. EUR)



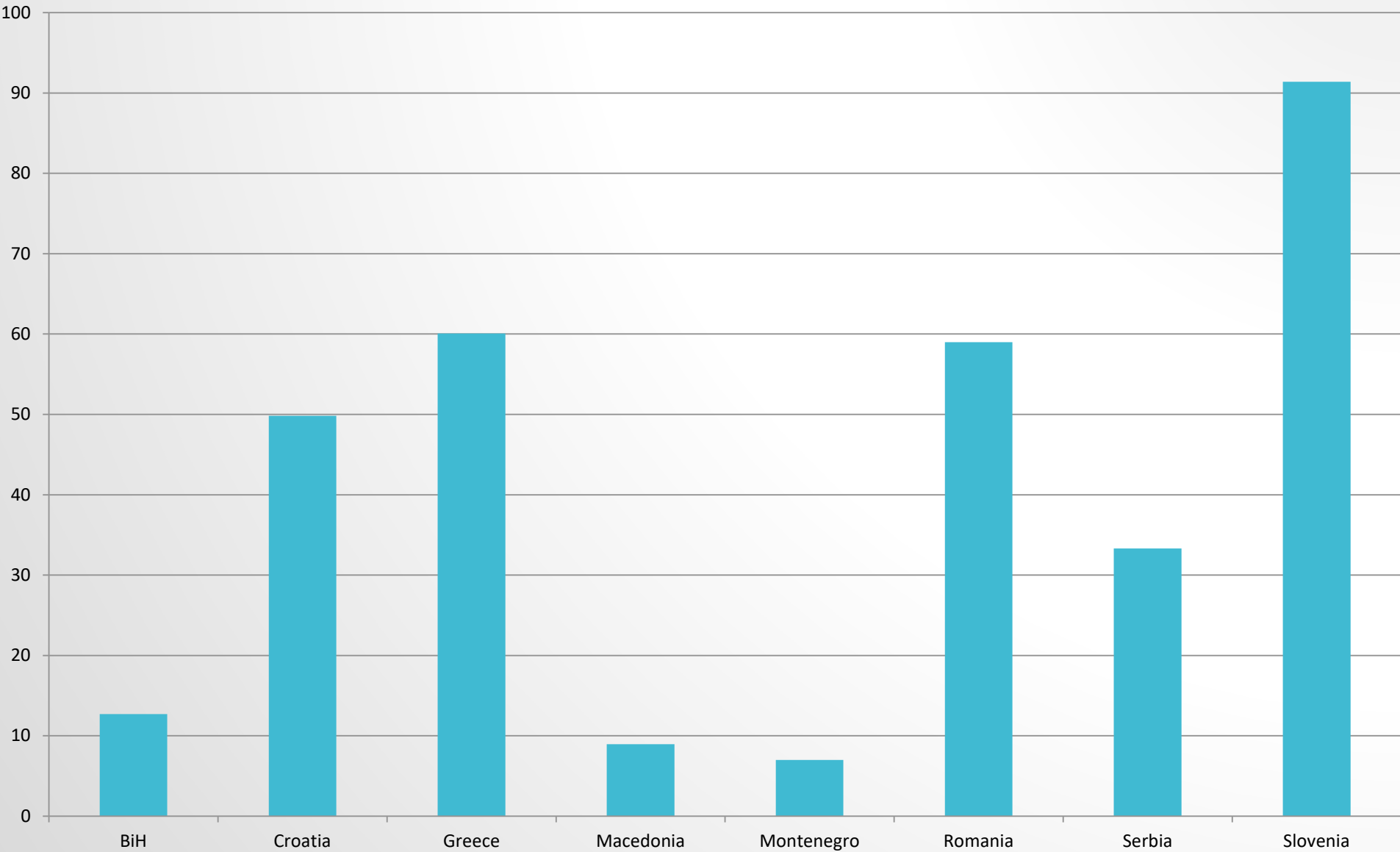
SEE MARKET CONCENTRATION IN 2015

- A slight decrease in the number of insurers in all countries except in Macedonia, Serbia and Slovenia (comparing these data with 2010)
- Some countries still have a disproportionately large number of companies in relation to market's premium (BiH, Macedonia and Montenegro)
- There are expected mergers and acquisitions in these countries, especially because of the new regulation standards
- Average premiums per company in BiH, Macedonia and Montenegro are below EUR 15 million
- Slovenia had the largest average premium per company (EUR 91 million)

Number of companies

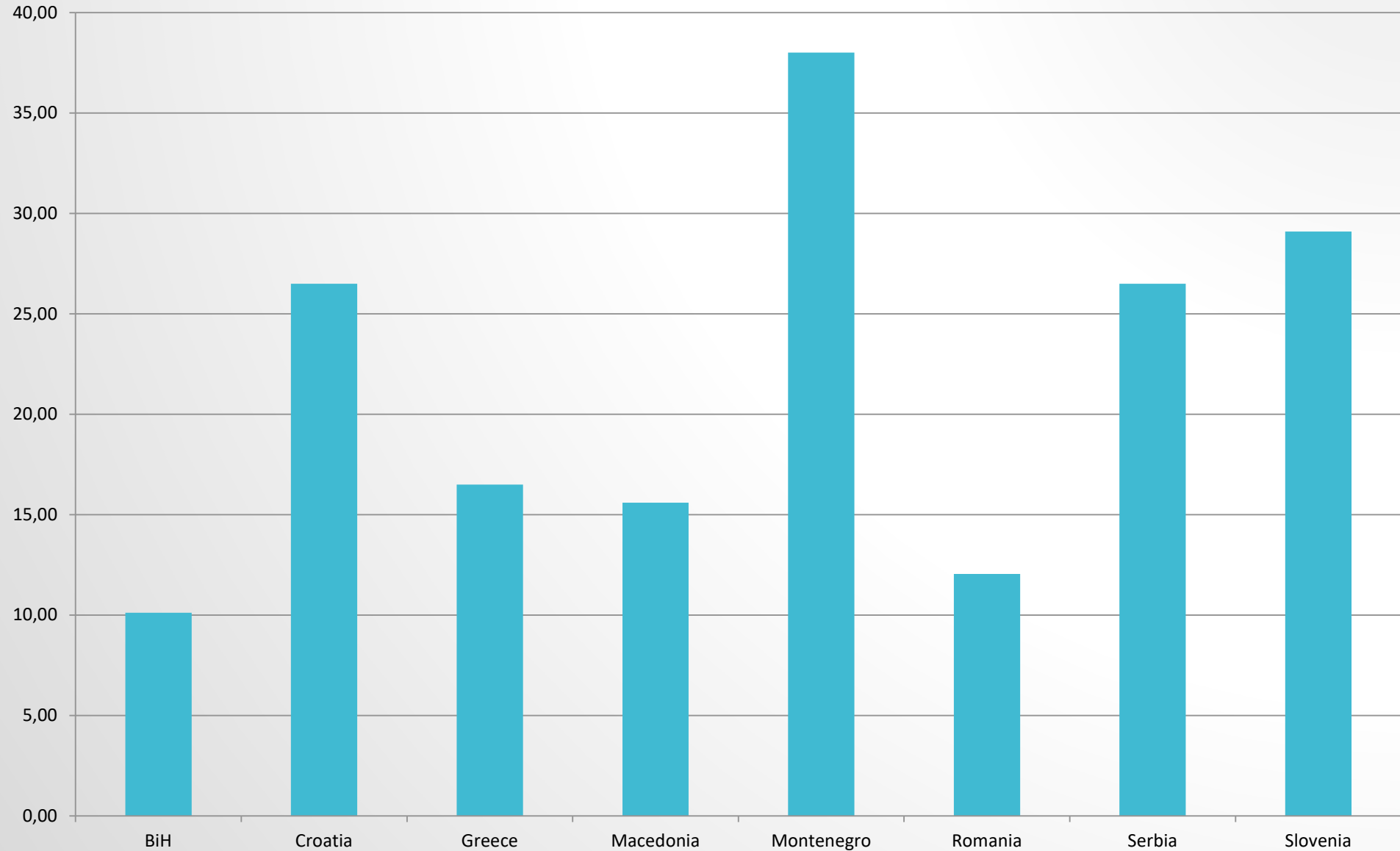


Average premium per company (mil. EUR)

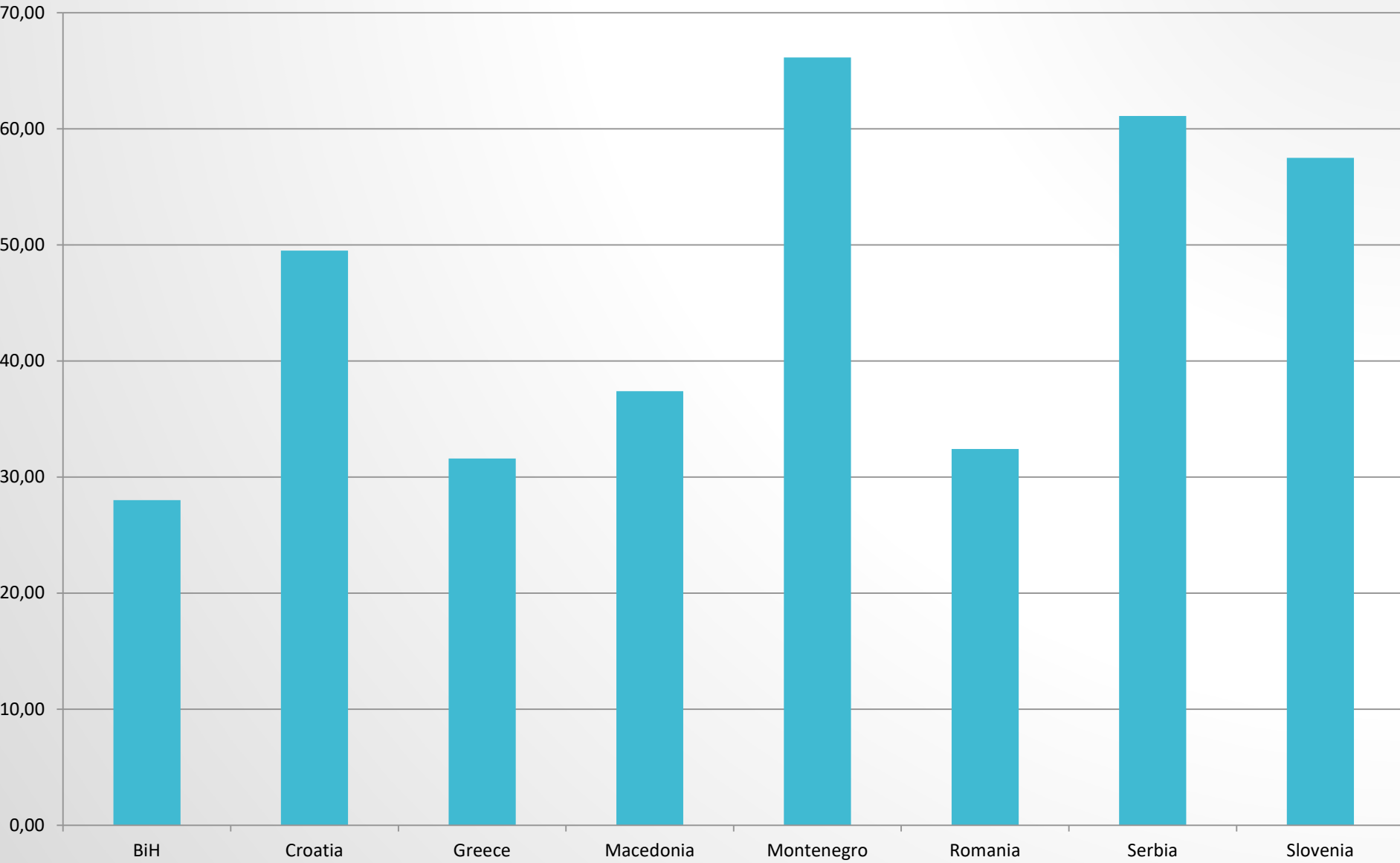


- Successors of the monopolistic state companies that existed in the previous system are still the largest companies on the markets
- The best examples of that are Montenegro, Slovenia, Serbia and Croatia, where the market leaders cover more than 25% of the market
- During the last 25 years new companies have slowly been taking part of the markets decreasing the market share of the largest companies
- Total premium is concentrated in a few largest companies as it is shown for the largest three and largest five companies

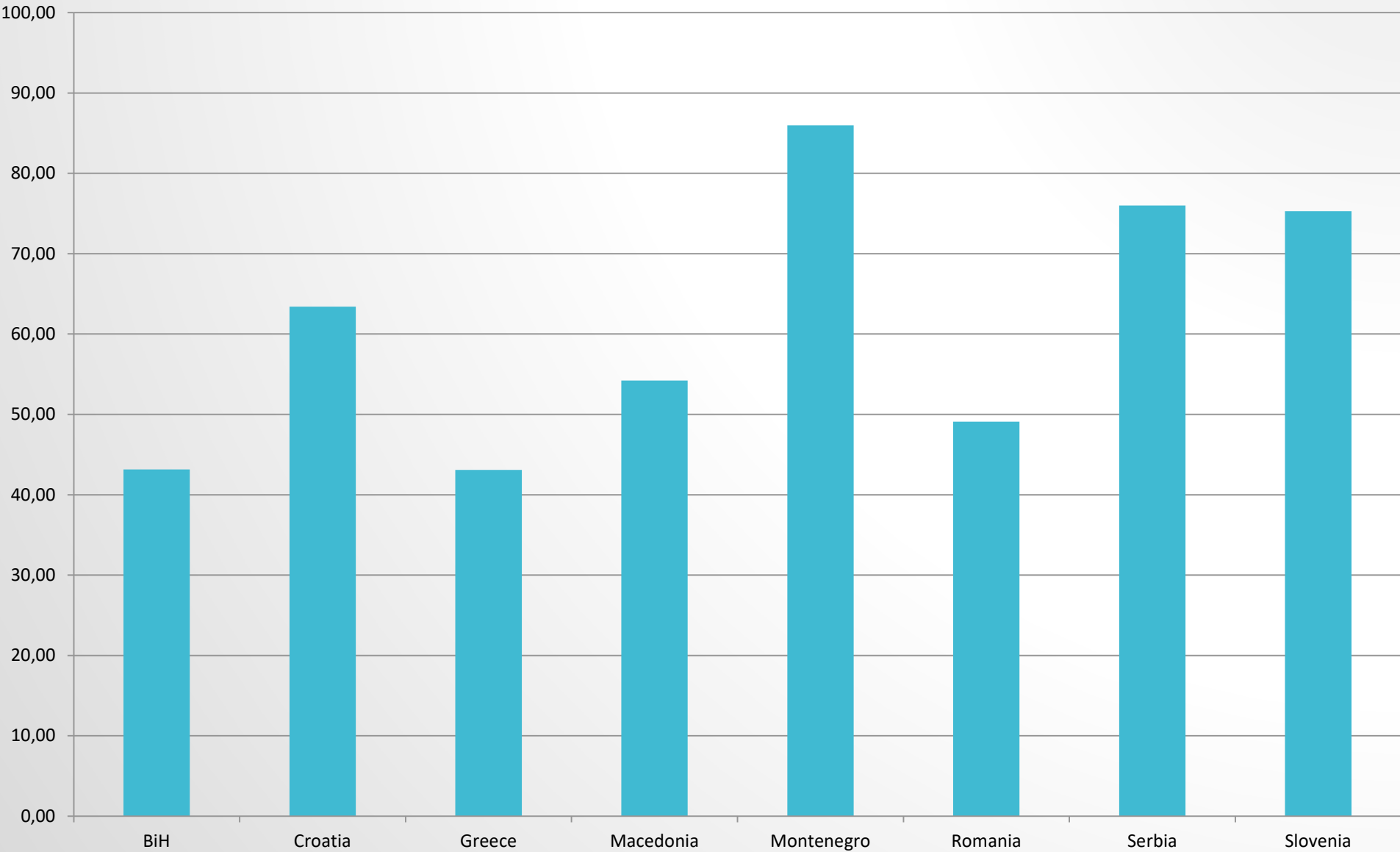
Market share of the largest company (%)



Market share of the largest three companies (%)

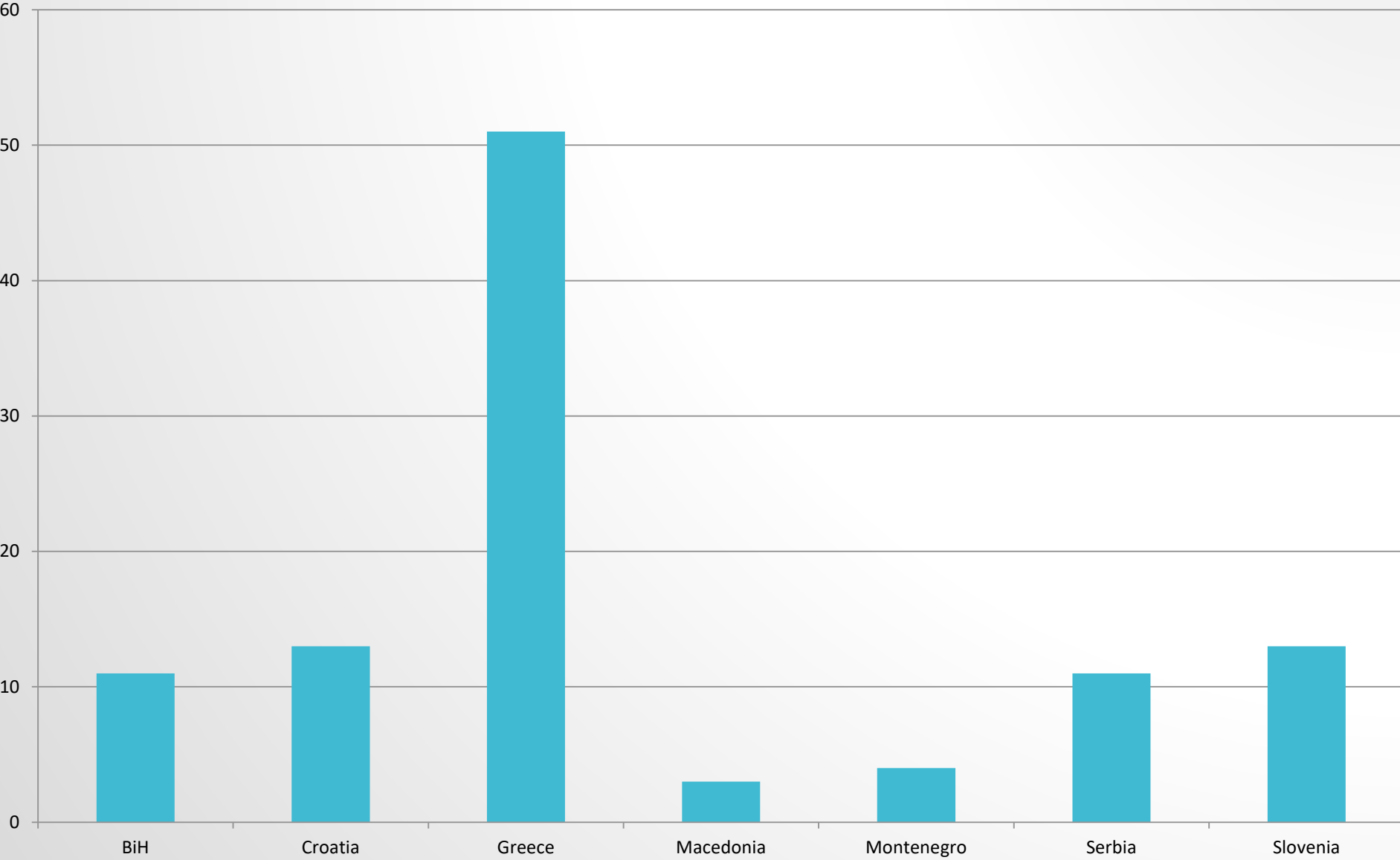


Market share of the largest five companies (%)

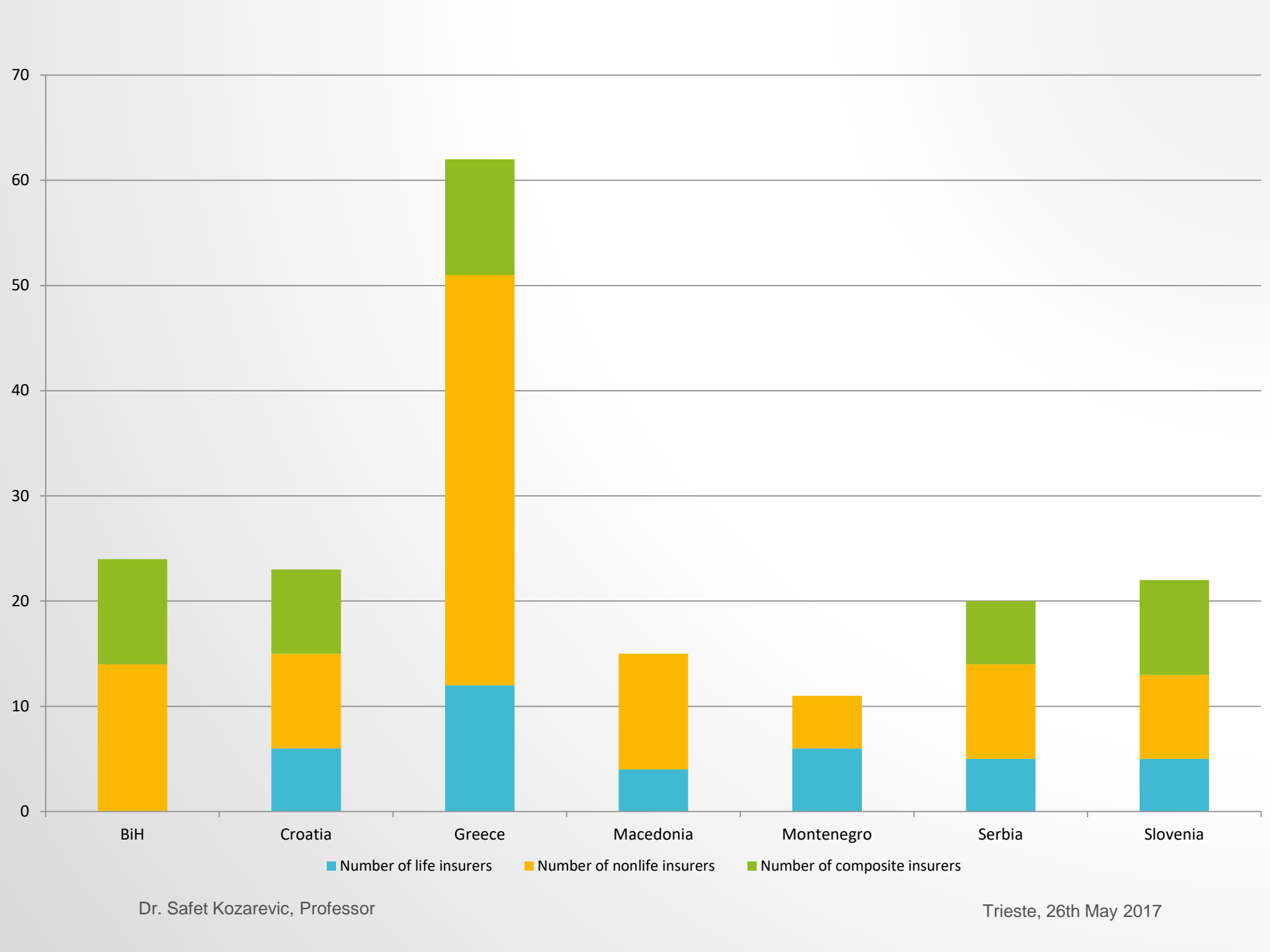


- There are still many small companies with market share less than 3%
- The number of these companies has decreased during the last five years as a consequence of mergers, acquisitions and bankruptcies
- Greece has the largest number of companies with less than 3% of market share
- Most of the countries have more than 10 of these companies on the market

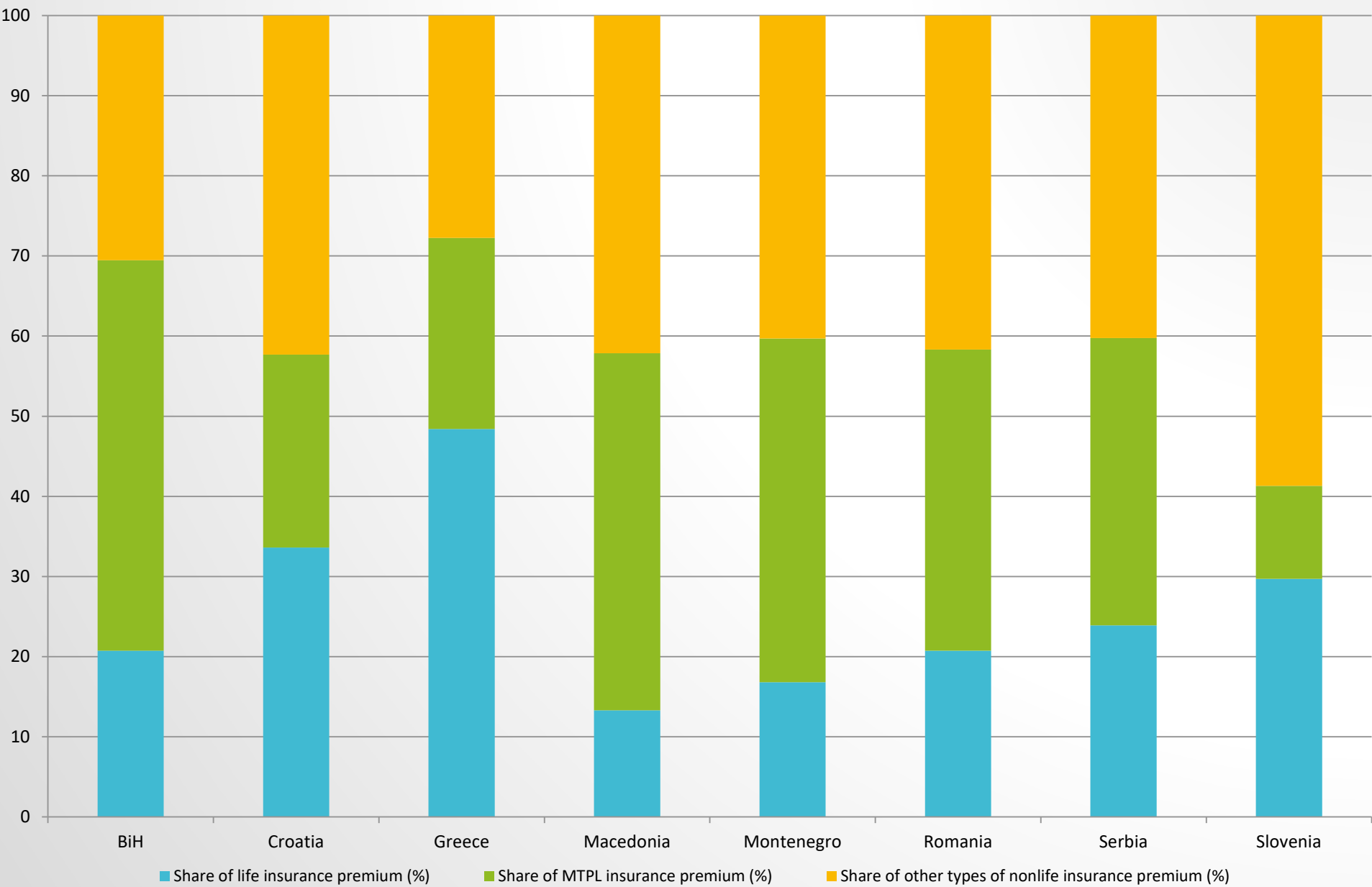
Number of companies with market share less than 3%

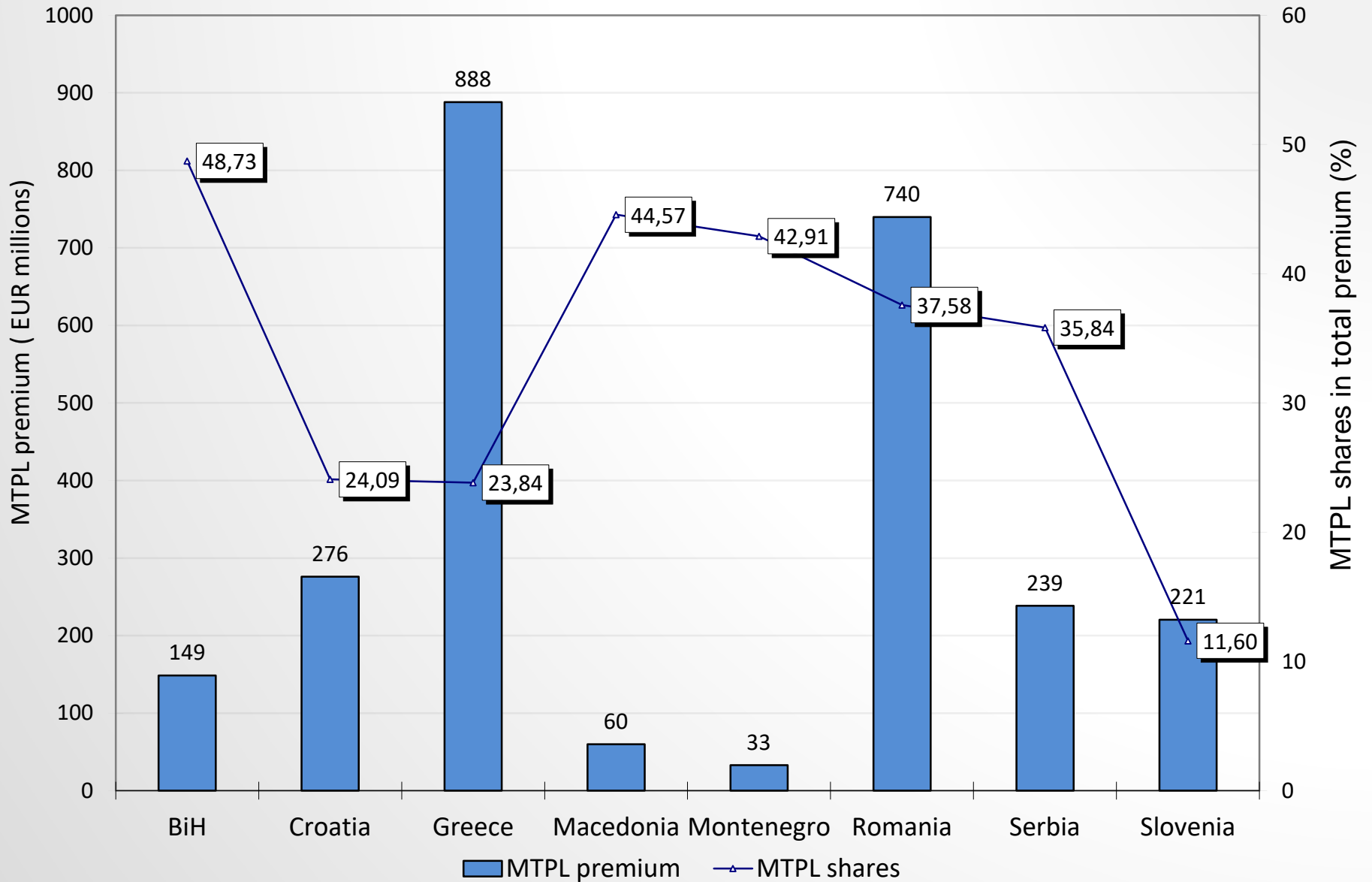


- The insurers on the SEE market are mostly organized as nonlife insurers (typical for local insurers)
- Life business is mostly in the hands of insurers coming from the EU countries
- In some countries the existence of composite insurers is not allowed by the law
- A lack of insurance culture is most evident if we focus on the premium structure
- A low competition level of local companies in life business forces them to focus on nonlife business

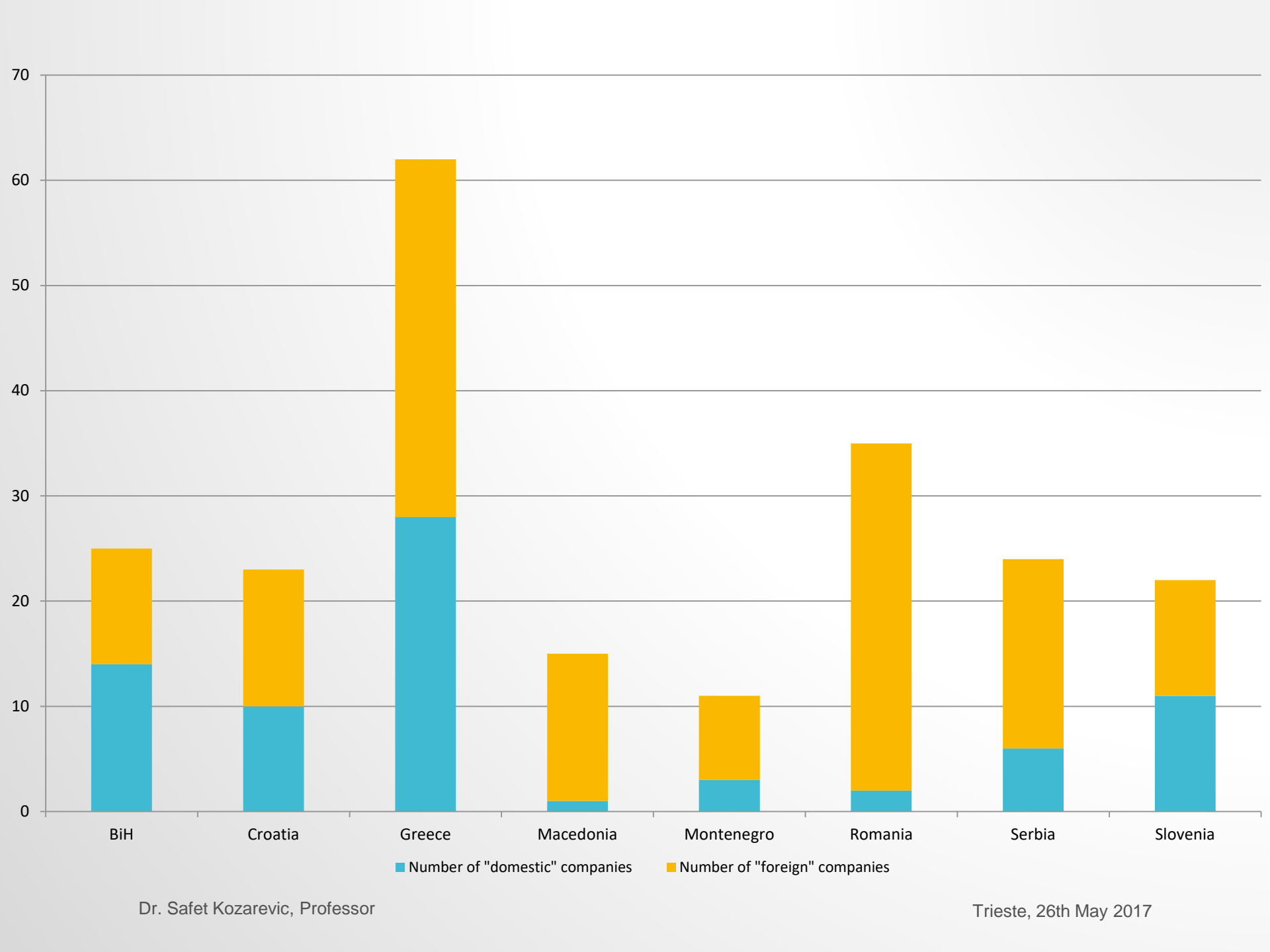


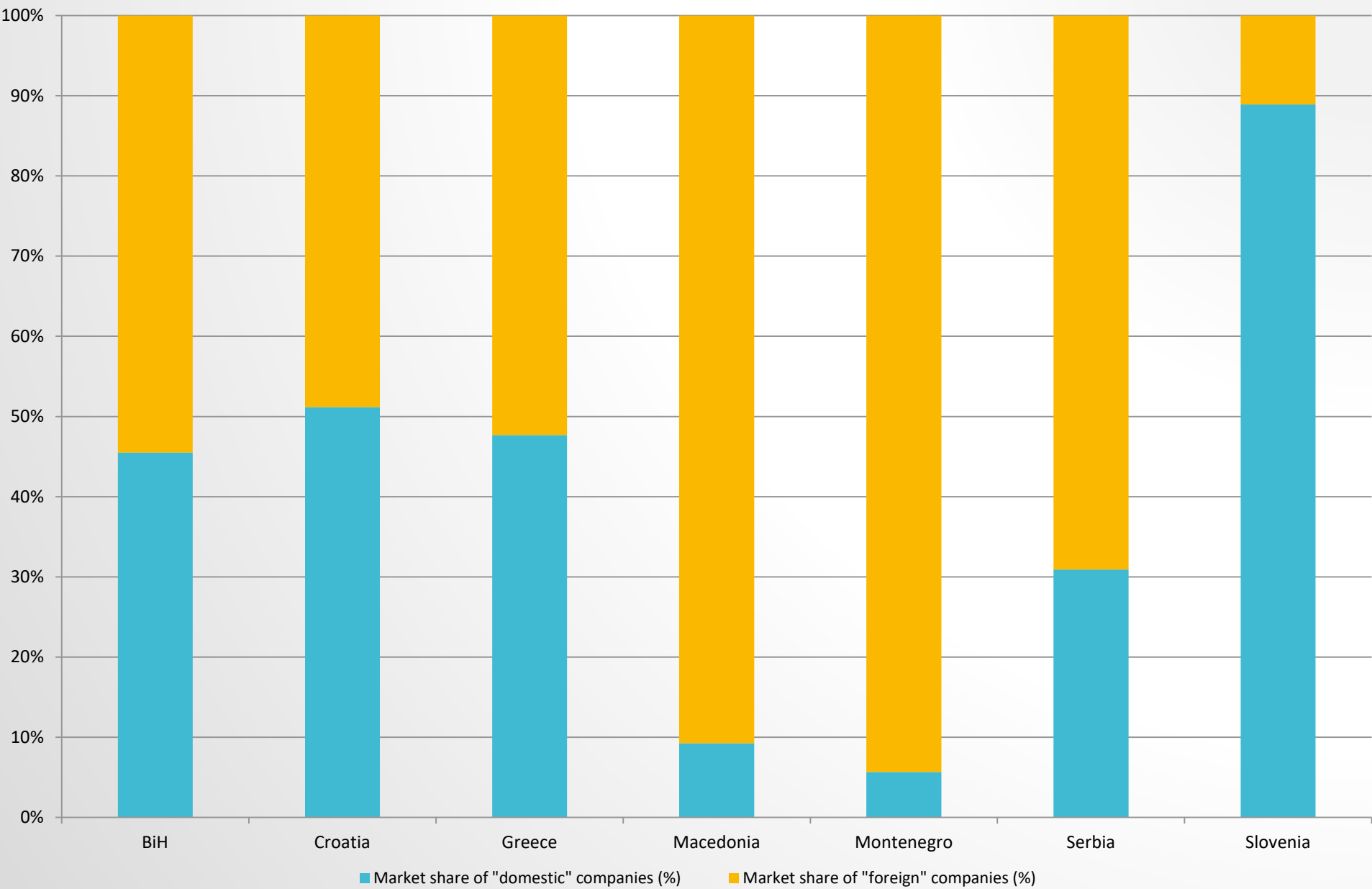
- Average share of life insurance for SEE in 2015 was 34,2%, while MTPL covered 26,2% and other nonlife 39,6%
- Shares of life and other types of nonlife insurance are still on a low level
- During the last five years the share of life insurance has increased, decreasing the share of other nonlife
- Greece has the largest market share of life insurance (48,4%), followed by Croatia (33,6%) and Slovenia (29,7%)
- Dominance of MTPL is most evident in BiH, Macedonia and Montenegro where it covers more than 40% of the total premium





- Ownership structure of the insurers on the markets shows dominance of insurers with majority of foreign ownership
- They cover more than half of the total premium on the local markets, excluding Slovenia where foreign insurers cover 11,1% of the market
- There are also many insurers from one SEE country (such as Slovenia and Croatia) operating on the markets of other countries of the region
- The largest market share of the foreign insurers is registered in Montenegro and Macedonia, where foreign insurers cover more than 90% of the markets





LIMITS FOR MARKET DEVELOPMENT

- Underdeveloped economy in almost all countries
- SEE economies are not competitive to Western Europe
- Most of the region still suffer the consequences of events in the last decades
- Many unsolved political issues
- Delay in EU integration process
- Slow process of economic reforms (privatisation, unemployment, poor financial markets...)

Correlation between macroeconomics and insurance development ranks

Country	Rank			
	GDP per capita	Share of premium in GDP (%)	Premium per capita	Share of life insurance in total premium (%)
1	2	3	4	5
Slovenija	1	1	1	3
Greece	2	5	2	1
Croatia	3	2	3	2
Turkey	4	8	5	10
Romania	5	11	7	6
Montenegro	6	5	6	8
Bulgaria	7	3	4	7
Serbia	8	7	8	4
Macedonia	9	9	10	9
BiH	10	5	9	5
Albania	11	12	12	11
Kosovo	12	10	11	12
Rank correlation	-	0,62	0,94	0,69

- Role of insurance for the economy is not well recognized
- Government is slow in providing legal and institutional framework for development
- Bank-centric market – focus to the banks
- Business entities still consider insurance as an unnecessary expense
- Individuals are not familiar with insurance
- Low level of confidence in insurers

- Insurers and their associations are not enough active in promotion of insurance
- Activities of insurers are focused to increasing their market share leading to unfair competition
- Low level of insurers' cooperation on the market decrease the efficiency of associations
- Insurers' frequent insolvency and delays in indemnification

- Structure of the insurers portfolio is not well
- Dominance of MTPL as obligatory insurance and negative experience with liberalisation
- Potential for development of life insurance is not fully exploited (problem with pensions...)
- Other non life products are not well promoted and adapted to the market
- Low level of product innovation
- Low level of use of mobile technology and Internet

PROSPECTS AND CHALLENGES

- EU integration and implementation of new regulatory framework - insurers will be more efficient
- Economic reforms will be followed by increasing of demand for insurance products
- Insurers can play important role in risk management and investment in SMEs
- Reform of social insurance – a need for private insurance alternatives
- More collaboration with banks – distribution and product innovation

- Market consolidation – mergers and acquisitions
- Strengthen capacity of supervision bodies in order to implement Solvency II
- Active role of insurers associations in promotion of insurance and increasing level of confidence in the sector
- Education of insurers for new standards
- MTPL market liberalisation
- Provide better statistics for the whole market