

**THE INSURANCE MARKET IN POLAND
– AN ANALYSIS OF THE CURRENT SITUATION
AND DEVELOPMENT PROSPECTS**

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Abstract. The paper contains an analysis of changes which took place on the Polish insurance market during the last twenty years. First, some important facts concerning the development of this market between 1990 and 2009 are briefly described. Then, the results of research concerning development tendencies, threats and comparisons with other foreign markets are presented. The development ratios characterizing the insurance market in Poland in comparison with developed markets is analysed. The conducted analysis was mainly focused on the following areas: market structure measured with gross written premium and claims paid, number of insurers operating on the market, ownership and capital structure of the insurance companies and insurance distribution channels. Moreover, new trends concerning changes in demand for insurance products and the increasing need for financial insurance, private health insurance and liability insurance are considered. In the last part of the paper, conclusions and development opportunities as well as new challenges for the insurance sector in Poland are discussed.

Keywords: insurance, development, analysis, market structure, insurance products, insurance companies.

JEL Classification: G22, O16.

1. Introduction

As the beginning of the revival of the insurance market in Poland the date 28 July 1990 is agreed, when the Act on Insurance Activity was passed, which partly considered the European Union directives concerning functioning of the single financial market and simultaneously gave the new legal foundations for the modern insurance market operating in conditions of the free market. The authors of regulations were motivated with two basic aims: privatization and breaking the monopoly. Since that time twenty years have

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passed and the insurance market in Poland has experienced different development phases.

The period between 1990 and 1999 was characterized by the intensive appearance of new, but rather small, insurance companies on the Polish market with the predominating share of the large insurer in both life and non-life section (it was a sole-shareholder company of The Treasury of State – PZU SA and its subsidiary PZU-Życie SA). For that period, very low capitals of the majority of insurance companies and difficulties with maintaining the solvency were significant problems. At that time, the first bankruptcies of insurers appeared (Westa SA, Westa – Life SA, PTU Gryf SA, Hestja SA, Fenix SA, Gwarant SA, Agropolisa SA, HDI Samopomoc SA and TUiR Polisa SA). These bankruptcies showed the weak maturity of the insurance market, but, above all, the very low level of knowledge and experience of the managing staff, as well as the low insurance awareness of customers. The dominant products on the Polish insurance market were compulsory MTPL and voluntary motor insurance, i.e. autocasco. Agricultural insurance and financial insurance had a marginal market share. In the life insurance section group life insurance products were the most popular; however, they were more and more often replaced with individual life policies providing long-term savings.

An important date for the development of the Polish insurance market was 22 May 2003, when a package of four insurance acts was established. These new regulations were introduced to the Polish market on 1 January 2004. All these acts took into account solutions proposed in the European Union directives, which were supposed to create a legal framework for the functioning of a uniform insurance market in the EU. At present, the insurance market in Poland according to the legal regulations is completely adapted for functioning on the European market; however, it looks much worse when we take into consideration economic ratios and the level of development. A lot of weaknesses can be observed, particularly in the range of using insurance services by both enterprises and households, the quality of these services as well as the variety of products offered by insurance companies. Another disadvantage of the Polish insurance market is the great concentration of the market in both life and non-life insurance branches. Several large insurers have a dominating position on the market. In 2009, the five leaders of life segment constituted approximately a 64.8% share of the whole market, while the five leading insurers of non-life segment reached a 70% market share (*Insurance 2009*).

The main aim of the paper is to present the selected results of analysis concerning the changes that appeared on the Polish insurance market during the

last twenty years and indicate the challenges related to further development of the insurance sector in Poland. The presented results concern particularly the number of insurance companies operating on the market, the amount of gross written premium, claims paid and the structure of purchased insurance products. The ownership and capital structure of the insurance companies in Poland and the applied insurance distribution channels are also considered.

2. Statement of a problem

Due to the economic transformation and new law regulations, the insurance sector in Poland has become an important part of the European insurance market; therefore, the question arises about the current situation of this sector and its future development prospects. The authors determined the purpose of their study as an examination of the changes of the main indicators characterizing the size of the Polish insurance market and its level of development. The analysis of this type has a practical significance, especially for the insurance intermediaries operating on the market, as well as for the insurance companies and their customers. In our research the period of 1991-2009 was considered; however, in some cases due to the lack of complete and credible data the analysed period was shorter. The following aspects of the insurance market in Poland were analysed and compared to the trends observed on the developed markets:

- market structure measured with gross written premium and claims paid,
- number of insurers operating on the market,
- market share of life insurance products and property and casualty insurance,
- ownership and capital structure of the insurance companies,
- insurance distribution channels.

The analysis was conducted using data collected by the Polish Financial Supervision Authority and the Polish Chamber of Insurance.

3. Problem solving

3.1. Analysis of changes in the Polish insurance market structure

One of the most important ratios applied to the evaluation of the level of development of insurance market in a given country is a percentage share of the insurance premium in GDP (so-called “insurance penetration ratio”). In 1992 in Poland this ratio amounted to 1.8%, and after 17 years of moderate growth in 2009 the premium collected by the insurers constituted 3.8% of GDP. For

comparison, the average value of the analysed ratio for the EU members reached 6.3% in 1992, and 9.5% in 2001; however, it decreased after new members joined from Central and Eastern Europe and amounted to 8.42% in 2009. In a few European countries with very well-developed insurance markets the value of the insurance penetration ratio exceeded 10% in 2009 (Netherlands – 13.6%, the United Kingdom – 12.9%, France – 10.3%). On the other hand, some countries noted relatively low levels of the considered ratio (e.g. Greece – 2.0%, Lithuania – 1.5%) (SWISS RE, 2010).

The number of insurance companies functioning in Poland between 1991 and 2009 is presented in Table 1. During the whole analysed period the total number of insurers increased from 24 in 1991 to 65 in 2009. The greatest number of insurers was noted in 2003 (77 companies); however, the change in the number of insurers is not uniform. After 2004 the number of insurers began to drop reaching the level 65 in 2009. The number of non-life insurers was almost always higher than the number of life insurers, except for the period of 2000-2002, when more life insurance companies functioned on the market.

Table 1. Number of insurance companies in Poland in 1991-2009

Year	Total	Branch I Life	Branch II Non-life
1991	24	5	19
1992	26	6	20
1993	28	6	22
1994	36	10	26
1995	40	13	27
1996	45	15	30
1997	51	21	30
1998	55	24	31
1999	67	31	36
2000	68	35	32
2001	71	36	35
2002	73	37	36
2003	77	36	41
2004	71	33	38
2005	69	32	37
2006	65	31	34
2007	67	32	35
2008	66	30	36
2009	65	30	35

Source: (*Insurance 2008; Insurance 2009; Insurance Market 1999..., 2000; Insurance Market 2009...*).

Taking into consideration the organizational and legal form of the insurance companies functioning in Poland, they are mainly joint-stock companies (see Table 2). The market share of mutual insurance societies is marginal. In the European Union in 2004 mutual insurance companies and cooperative units represented nearly 70% of over 7000 licensed insurers. The share of mutual insurers is diversified in particular European countries and it depends on specific cultural and organizational factors. In 2007 the market share of mutual insurers measured with gross written premium amounted to 5% in Poland, compared to 34% in France, 25% in Spain, 44% in Finland, 37% in Sweden and the average value of 27% in the EU.

Table 2. Number of insurance companies in Poland in 2009 according to the organizational form

	Total	Joint-stock insurance companies	Mutual insurance societies
Total	65	56	9
Branch I	30	28	2
Branch II	35	28	7

Source: (*Insurance Market 1999...*, 2000).

In 1999-2009 the level of gross written premium in both insurance sections increased and during this period the value of premium grew by 2.3 times. Since 2004 we can observe higher dynamics of premium growth resulted from the integration process with the EU; however, there are some differences between life and non-life insurance sections. In the beginning non-life insurers collected much more premium in comparison with life insurers and since 2006 the value of premium in life insurance branch exceeded the amount of premium collected by non-life insurance companies and this tendency still continues. Table 3 shows the value of gross written premium *per capita* in Poland in 1999-2009.

As one can see from the data presented in Table 3, 2006 was a crucial year for the development of the Polish insurance market because since that year Poles have started to spend more money on life insurance than on property insurance. This trend was continued during the following years and in 2008 the amount of gross written premium *per capita* in life branch was almost twice higher than the comparable amount in the non-life section. In 2009, due to the economic crisis, people in Poland spent less money on life insurance than in 2008. It is important to underline that the Poles' insurance

awareness has improved because these relations approached the relations characteristic for developed countries.

Table 3. Gross written premium *per capita* in Poland (in PLN)

Year	Branch I	Branch II	Total
1999	218	363	580
2000	241	362	604
2001	254	361	615
2002	270	361	631
2003	304	373	677
2004	359	421	780
2005	433	442	875
2006	616	480	1 096
2007	727	521	1 248
2008	1 023	534	1 557
2009	794	548	1 342

Source: (*Insurance 2008; Insurance 2009*).

In Table 4 the amount of gross claims paid by the insurers in Poland between 1999 and 2009 is presented. The process of claims payment developed in a different way in life and non-life insurance sectors. In the case of property and casualty insurance during the analysed period, the value of claims paid remained on a relatively stable level; however, in 2002 and 2003 a small decrease was noted in comparison with previous years. In the life insurance branch a clear upturn can be observed, particularly during the last few years. This trend results from terminating periods for the part of term life insurance purchased in the early 1990s. Moreover, some customers terminated their life policies earlier and transferred money into other forms of savings.

Table 5 shows the market share of life insurance products expressed as a percentage of gross premium written in the life insurance section. Life insurance belonging to the first group (traditional life insurance and endowment policies) and life insurance linked to capital investment fund (group 3) play a dominant role in the life insurance sector. The decreasing market share of traditional life policies observed in 1998-2007 was related to an increase of premium collected from life insurance with an investment fund. In 2008 the situation rapidly changed and due to the financial crisis many customers transferred their savings from life insurance belonging to the third class to traditional life policies (group 1); however, in 2009 the market share of the third class increased to 21.4%.

Table 4. Gross claims paid (in PLN thousand)

Year	Branch I	Branch II	Total
1999	2 503 852	8 404 113	10 907 965
2000	2 845 376	8 381 846	11 227 222
2001	3 529 782	8 167 982	11 697 764
2002	4 412 568	7 987 458	12 400 026
2003	5 274 114	7 840 864	13 114 978
2004	6 515 326	8 666 874	15 182 200
2005	8 062 644	8 890 611	16 953 255
2006	9 037 728	8 979 512	18 017 240
2007	10 869 968	9 626 689	20 496 657
2008	19 390 278	9 939 460	29 329 738
2009	27 701 592	12 470 713	40 172 305

Source: (*Insurance 2008; Insurance Market 2009...*).

Table 5. Life insurance – gross written premium according to classes (in %)

Year	Group 1 Life insurance	Group 2 Birth and marriage insurance	Group 3 LI linked to capital investment fund	Group 4 Annuity insurance	Group 5 Accident and sickness insurance	Indirect reinsurance
1997	63.0	0.8	20.0	0.2	16.0	0.0
1998	59.3	0.8	23.8	0.2	15.9	0.0
1999	54.8	0.9	29.0	0.2	15.1	0.0
2000	52.3	1.0	30.5	0.2	16.0	0.0
2001	49.7	1.1	32.3	0.2	16.7	0.0
2002	47.3	1.4	31.8	0.2	17.7	1.6
2003	48.0	1.3	30.7	0.2	18.3	1.5
2004	48.3	1.1	31.5	0.2	17.9	1.0
2005	45.0	1.0	36.6	0.2	16.4	0.8
2006	38.4	0.7	46.0	0.2	14.4	0.3
2007	38.6	0.5	46.9	0.2	13.6	0.2
2008	72.8	0.3	16.1	0.2	10.5	0.1
2009	63.6	0.4	21.4	0.2	14.3	0.1

Source: (*Insurance 2006; Insurance 2008; Insurance Market 2009...*).

Birth and marriage insurance are not very popular in Poland – during the last few years interest in these products fell. Similarly, life annuities are rather seldom purchased on the Polish market. The additional accident and sickness insurance are characterized by a relatively stable market share amounting to 14-18%, except for the year 2008, when a significant decrease was noticed.

Table 6 shows changes in premium structure in non-life insurance branch according to classes of insurance products. As seen from the presented data, the volatility of premium structure in non-life insurance was much smaller. Motor insurance (MTPL and casco) still remains the most important part of this sector; however, we can notice a growing market share of financial insurance caused mainly by the development of the credit activity of banks, particularly in the area of mortgage credits and by popularizing credit cards and cash-machines. Moreover, the enterprises use insurance guarantees and they more and more often insure themselves against the loss of profit. A significant increase of market share of general liability insurance is also observed in relation to the growing number of compulsory professional liability and product liability insurance.

Table 6. Non-life insurance – gross written premium according to classes (in %)

Year	Gr. 1+2 Accident and health	Gr. 8+9 Property	Gr. 3 Auto casco	Gr. 10 MTPL	Gr. 4-7, 11 and 12 M.A.T.	Gr. 13 General liability	Gr. 14-17 Legal & financial risks	Gr. 18 Others
1997	4.9	17.0	33.0	36.2	2.6	2.1	1.8	2.4
1998	4.9	16.7	32.0	37.8	2.2	2.3	2.1	2.1
1999	5.1	16.2	31.5	36.9	1.8	2.7	2.4	3.5
2000	5.3	16.7	30.6	37.3	1.7	2.9	2.7	2.8
2001	5.4	17.7	30.6	36.0	1.8	3.2	3.0	2.3
2002	5.7	18.5	28.7	36.1	1.9	3.4	3.4	2.3
2003	5.7	19.3	30.1	34.0	1.9	3.8	2.5	2.8
2004	5.5	18.4	29.7	33.2	1.7	4.2	4.4	2.9
2005	5.7	17.8	27.8	34.9	1.9	4.5	4.5	2.9
2006	6.0	17.7	25.7	34.7	1.8	5.0	5.5	3.6
2007	6.0	17.7	25.7	34.7	1.8	5.0	5.5	3.6
2008	7.5	16.3	25.5	34.4	1.5	4.8	6.6	3.4
2009	7.3	18.0	23.7	34.6	1.4	5.4	8.2	1.4

Source: (*Insurance 2006; Insurance 2008; Insurance Market 2009...*).

3.2. Ownership and capital structure of the insurance companies

In 1999-2009 there occurred a permanent growing tendency concerning the level of the insurance companies' basic capital in Poland. The value of the basic capitals increased by 47% in 2009 in comparison with the level in 2000. In the section of life insurance the dynamics of the change was shaped

at the level of 147%, while it was 148% within non-life insurance. An increase of the value of basic capitals was accompanied by the dynamic growth of the share of foreign investments, mainly resulted from the privatization process of the insurers and the shortage of domestic capital as well as integration with the EU. In 2009 the share of foreign capital in basic capitals amounted to 82.2%, while it was only 14.7% in 1995 (see Figure 1).

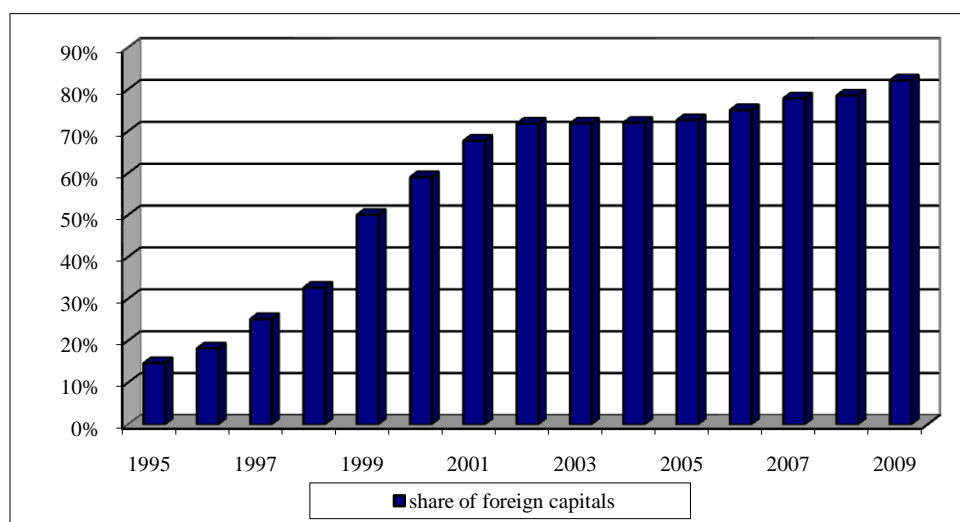


Fig. 1. Share of foreign capital in the basic capitals of the insurance companies in Poland (in %)

Source: (*Insurance 2008; Insurance 2009; Insurance market 1999..., 2000*).

At present, the Polish insurance market is dominated by foreign investors. They own 77% of shares in life insurance companies and approximately 80% in non-life business. Germany is the largest foreign investor in both life and non-life branch. The German investors control the large Polish players (Allianz, Hestia, HDI Group) as well as the smaller ones (Signal Iduna). The United Kingdom (Aviva), the United States (Amplico Life), and the Netherlands (ING, Aegon) also play an important role on the market (*Insurance Market in Poland...*).

3.3. Insurance distribution channels

During twenty years of the functioning of the free insurance market in Poland, significant changes in the area of distribution channels can be noticed. At first, the insurance products were sold mainly by insurance agents and employees of the insurance companies. During the last few years insu-

rance brokers played an important role on the market as well as new distribution channels (banks, internet, phone) appeared. In Table 7 the value of gross written premium according to distribution channels in 2009 is presented.

Table 7. Gross written premium according to distribution channels in 2009 (in PLN thousand)

Distribution channels	Branch I individual	Branch I group	Branch II
Direct sales	2 927 561	6 862 151	3 423 447
– employees			
– internet	15	0	81 638
– phone	2 634	187	240 633
Insurance agents	3 083 419	1 042 669	9 260 759
– natural persons			
– legal persons	7 725 213	6 745 295	3 463 700
– banks	4 898 087	6 319 748	730 069
– SKOKs	981	58 409	93 043
– others	2 826 146	367 138	2 969 275
– entities without legal personality	26 017	260 345	440 543
Insurance and reinsurance brokers	20 432	80 821	658 625
– natural persons			
– legal persons	30 015	411 619	2 608 712
Other distribution channels	71 805	923 788	532 086
Total	13 887 110	16 396 344	21 060 283

Source: (*Insurance Market 2009...*).

Group life insurance policies are mainly sold by insurance companies' employees and through co-operation with banks. In the case of individual life policies, the main distribution channels are insurance agents, banks and employees of the insurance companies. The sale of non-life insurance products is dominated by agents; however, brokers and employees also play an important role in this area. The changes concerning the last few years include the development of new distribution channels such as the Internet and telephone, and the increasing popularity of the bancassurance channel.

4. Conclusions

The process of development of the insurance market in Poland during the last twenty years proceeded in a stable way through various phases, without greater turbulences. The results of the conducted analysis indicate that the insurance market in Poland still differs from the developed insurance markets; however, a lot of market ratios approached their values towards the average values reached by the EU Member States. It is important to underline that the development of an insurance market is always strongly related to the economic development of the country because insurance services are very sensitive to economic conditions. The specific changes and new tendencies on the Polish insurance market include:

- increasing share of insurance premium in GDP,
- higher increase of premium in life insurance than in property and casualty insurance,
- changes in demand for insurance services,
- increasing demand for unit-linked life insurance products,
- increasing market share of financial insurance and general liability insurance,
- improvement of quality of reinsurance,
- growth of customers' insurance awareness,
- new distribution channels, extending bancassurance,
- rising share of foreign investments in insurers' basic capitals.

Among the disadvantages of the Polish insurance market, we can distinguish above all the still low capitals of the insurance companies, marginal market share of the mutual insurers and still high market concentration.

Since 2004 the Polish insurance market has operated as a part of the European uniform market, which results in new problems and new challenges with which we are faced. The most important challenges are the following:

- further changes of the structure of offered insurance products,
- development of private health insurance providing high quality health care services,
- further development of pension products providing additional income for old people (new structured products),
- continuation of the cooperation with banks in the area of distribution channels and new financial insurance,

- development of new insurance products addressed to enterprises, which is connected with the better risk management process conducted by enterprises,
- application of insurance products in catastrophic risk management,
- improvement of risk management methods applied by insurance companies or by insurance capital groups in relation to implementing new principles of the insurance supervision in the EU.

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