

The role of regulations in strengthening the CEE insurance market

During May 2016, Trust Re published a survey report entitled “The Outlook for insurance and reinsurance in Central and Eastern Europe”. The report is part of our drive to provide further insight into the markets in which we operate and to support business development efforts across the region.

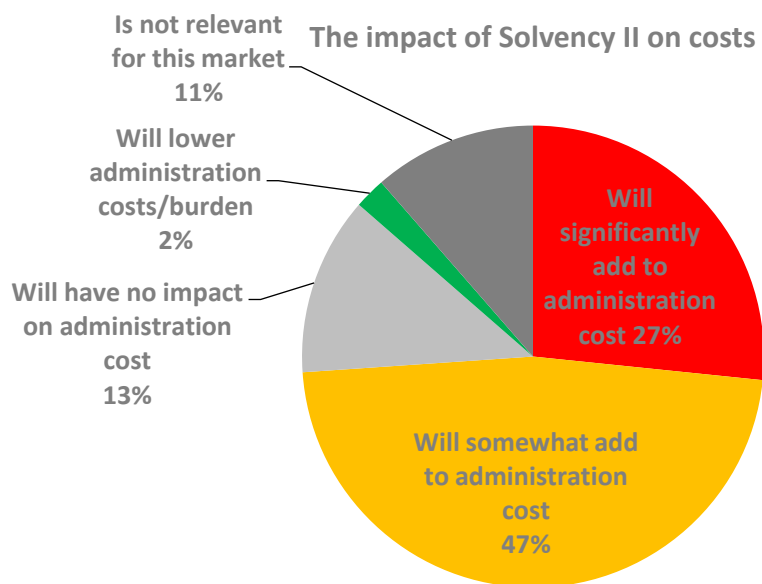
The report provides a general picture of the current condition and future expectations of the insurance and reinsurance sectors in Central and Eastern European markets. Although CEE contains some different market dynamics and influences by sub-region and country, there are also some clear similarities.

In this article and based on the above-mentioned survey, Trust Re offers a perspective on the effects of regulation with regard to strengthening the (re)insurance market, highlighting country specific dynamics, and touching on various other drivers of growth and profitability as well.

As a whole, governance is considered a strength by the survey participants; they believe that regulation strengthens the governance of proper practice, with stricter capital requirements where ultimately the consumer will be better protected.

Interestingly, almost 3/4 of survey participants rated the regulatory framework in their market as ‘strong’ or ‘somewhat strong’. Furthermore, around 2/3 of respondents felt that Solvency II will strengthen the sector in their country and around 3/4 of those who feel it is relevant think it will have a positive impact. In some cases, Solvency II was actually thought of as a catalyst for increasing the demand for reinsurance; this sentiment was particularly prevalent in the SEE region.

General feelings about the impact of Solvency II tend to be positive on the whole. Some expect it to improve the professionalism and operating standards of the sector, and improve consumer protection. That said, there are views that grace or transition periods are required, and that greater expertise is needed in some areas. Some participants view Solvency II as accelerating



Source: *The outlook for insurance and reinsurance in Central and Eastern Europe*

consolidation, though there are differing opinions about whether this is desirable. The administration, experience and cash costs of compliance are recognised to be more challenging for smaller companies.

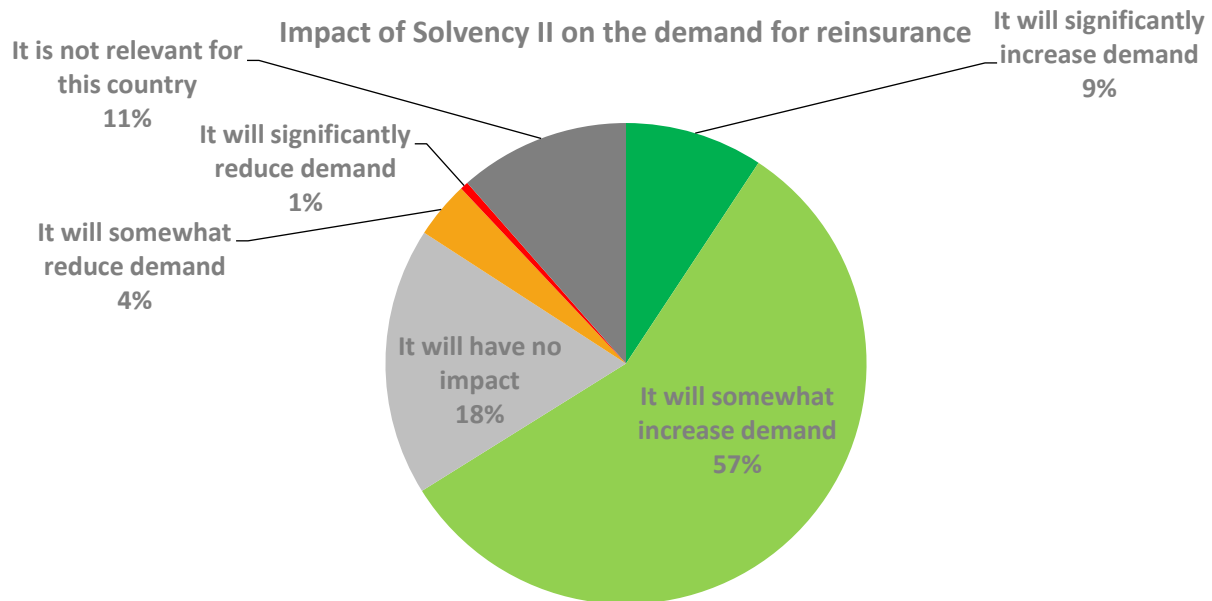
One participant said *“The regulators have a better understanding than insurance companies of what Solvency II is about, they find it easier to see if a company is compliant than a company itself...insurance companies will definitely spend more on capital, alternative capital, reinsurance, or building the IT systems needed”*. These pursuits would certainly encourage stability.

It is interesting to explore additional comments from sub regions covered by the report. In Russia, for example, while many bigger Russian insurers already adopt international standards, nonetheless they believe Solvency II to be beneficial in terms of aiming to increase transparency. The Central Bank was purported to be focusing on capital adequacy, as a result, some smaller insurers operating in grey areas have been forced to close, but this cleaning up is regarded as positive.

The proposed national insurer in Russia is an important development. It is seen as positive in some respects (possibly because it will enable reinsurance of sanctioned areas of business) but there is concern about its ability to pay claims.

In Azerbaijan, whilst Solvency II was not seen as being directly relevant, there have been efforts to rise up to the standards of the directive with some insurance players predicting new requirements from the government in order to adapt to international standards.

Southeastern European respondents very frequently commented on Solvency II. Consistent with other interviewees, their view was that Solvency II would improve the strength of the sector and better protect the consumer. At the same time, there was recognition that the additional costs will be significant, especially for smaller insurers. Furthermore, there was also concern by some that added costs brought about by Solvency II would end up being passed on to the consumer in the form of higher premiums. Meanwhile CEE participants agreed the cost of Solvency II is more onerous for smaller companies, their rationale being that international players with a foothold in the local market can absorb the cost centrally.



Source: The outlook for insurance and reinsurance in Central and Eastern Europe

Aside from regulatory matters, several SEE respondents believe their markets could be strengthened by more flexible reinsurers, meaning reinsurers who better understand the characteristics of the local market. However, the most frequently mentioned area for strengthening the market was education and training; more specifically education of the local market on different lines of liability insurance and financial lines, client training on emerging risks as well as seminars and training. As one respondent commented *“It’s not just about capital, but about companies having sufficient actuarial power, the right people. It’s expensive to buy that capability as the only people you can buy it from, with the expertise, are the major international consultancies”*.

A Romanian interviewee commented that as a result of regulation, *“Insurance companies will definitely spend more on capital, alternative capital, reinsurance, or on building the IT systems needed. I would like to think that by doing all these measures, companies will be more robust, trustworthy, will finally do the job they were supposed to do all along, and be more stable.”*

Some participants also felt that legislation could be more rigorous and made compulsory for several lines, aside from motor. If obligatory insurance was extended to natural catastrophe and flood cover, this would also develop and strengthen markets. More regulation on the liabilities side was seen as necessary as sums required by law tend to be quite low. Interestingly in Slovenia, an interviewee noted that there is a lot of obligatory professional indemnity, including medical malpractice.

In sum, it is safe to say regulations do play a part in strengthening the CEE insurance markets with the participants largely seeing them as a risk-mitigation measure which adds value, rather than a burden. Other factors, such as product innovation, capacity, education and training also play a role. Moreover, as an emerging market, there is plenty of room for catch-up in insurance penetration across the CEE region; a combination of measures to strengthen the market will surely be welcomed.

We trust that the survey report provides useful further insight into market dynamics and sub-influences in the CEE marketplace in order for stakeholders to better understand market trends and forthcoming business opportunities.

To view the full survey report, please read here:

http://www.trustre.com/uploads/media_centre/research_surveys/Trust_Re_Market_Survey_2016.pdf

Author: Trust Re

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