

Market Survey “The Outlook for Insurance and Reinsurance in Central and Eastern Europe”

Understanding the fundamentals of the insurance market and forthcoming business opportunities is of mutual importance to us and our business partners. As such, Trust Re commissioned a survey in 2016 with title “The Outlook for Insurance and Reinsurance in Central and Eastern Europe” aiming to study:

- 1) Market characteristics
- 2) Impact of Solvency II on the strength of the insurance market
- 3) Growth and profitability prospects by Line of Business

Senior officials from various insurance stakeholders participated such as: Insurers, Reinsurers, Brokers, Regulators and Insurance Associations.

The survey was conducted into two ways: a) Qualitative research with 29 in-depth telephone interviews and b) Quantitative research with 206 completed on-line questionnaires.

The findings of the survey suggest that the market has good prospects to develop further and that maturity of the insurance market somewhat hampers growth potential. In particular, survey findings suggest that improving 1) quality of claims data and 2) public awareness of the role of insurance will contribute significantly to the development of the market.

Constantinos Hadjigeorgiou, Group Corporate Services Officer of Trust Re commented: *“Insurance markets in Central and Eastern Europe demonstrated resilience over difficult times. Going forward, the insurance industry will be pushed out of its comfort zone. The industry is moving from product-driven to customer-driven model. Inevitably, customer centricity will be a driving force for innovation and agility which will result in higher insurance penetration and higher market share for the innovators”.*

Regarding regulation, the majority of survey participants rate the regulatory framework in their country as strong or somewhat strong. Around 2/3 of respondents share the view that introduction of Solvency II will strengthen the market whilst they recognize that the administrative burden will be increased. Moreover, Solvency II is expected to augment the demand for capital relief solutions hence, Reinsurance.

Marios Argyrou, Head of Actuarial and Risk Management remarked *“2017 will be the first year all three Pillars of Solvency II will be officially in place. How well such risk-based principles will be embedded into business as usual is to remain a difficult task. But I expect the greatest challenge to be the journey from Solvency II compliance to real value creation”.*

From the underwriting perspective, survey findings present interesting insights about growth prospects per class of business, profitability, competition and pricing of risk at a regional level as well as at country level for some countries.

Sinisa Lovrinčević, General Manager of Trust Re Cyprus Branch Office, highlighted three positive aspects of the survey findings as below:

- *Expected growth in property & engineering, financial lines, professional indemnity, D&O, life & health lines of business*

- Governments are investing outside the oil sector as part of their diversification strategy which is expected to increase the demand for insurance as well as public awareness of the role of insurance (in the CIS mainly)
- Rate increases in the motor line of business in order to remain profitable

The report “The Outlook for Insurance and Reinsurance in Central and Eastern Europe” can be accessed on www.trustre.com. The findings are presented at a regional level (CEE¹, SEE², CIS³, and Russia) including SWOT analysis, growth prospects, profitability, pricing of risk, competition and regulatory aspects.

For more information about the market survey you may also contact survey@trustre.com.

1 - CEE (Central and Eastern Europe)

2 - SEE (Southeastern Europe)

3 - CIS (Commonwealth of Independent States)

Insurance Market characteristics

Overall, survey participants believed that support from reinsurers was the factor which strengthened the market the most. The regulatory framework and underwriting capability were also considered points of strength. On the other hand, a deep weakness was the perceived lack of public awareness of the role of insurance.

The lack of availability of claims data, a very important aspect of the insurance value chain, was also seen as a weakness.

Solvency II is expected to contribute positively to improve some of the market characteristics but other initiatives will be required to address the two fundamental weaknesses of the markets as highlighted in the survey. A participant specified “Awareness of the people about the Insurance benefits would lead to the increase in Premium level in all lines of Business.”

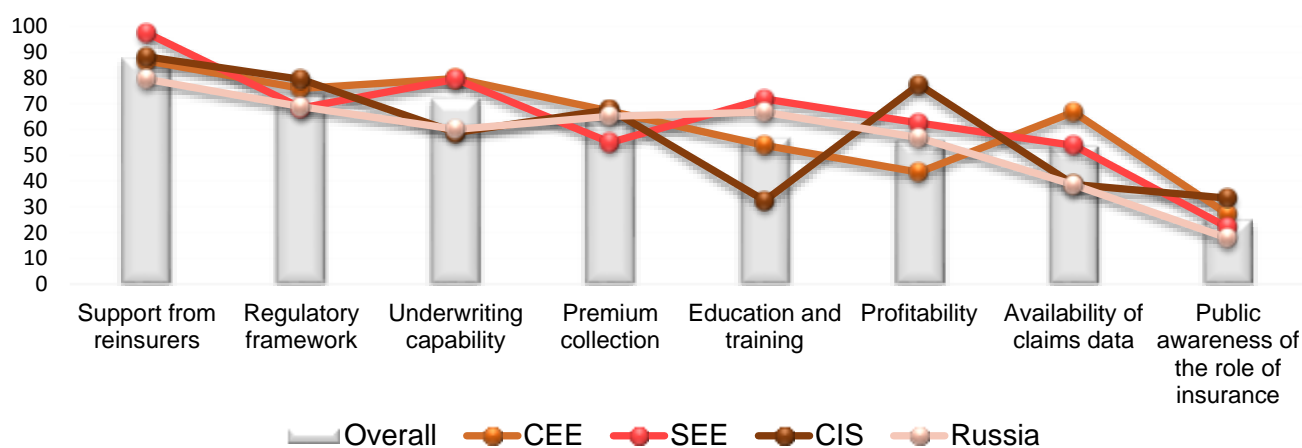


Chart 1: Trust Re developed a framework specifically for the insurance market having 8 components. All regions present a similar profile with some notable variations which are discussed in more detail in the full report. CIS perceives most profitability whereas the level of education & training is the lowest.

The impact of Solvency II

Bearing in mind that some 72% of survey participants rate the regulatory framework in their country as strong, or somewhat strong, around 2/3 of respondents felt Solvency II would strengthen the sector in their country. Net positive impact (the net difference between those who think Solvency II will strengthen the insurance sector, and those who think it will weaken it) was particularly strongly felt in SEE, followed by CEE, then Russia and CIS.

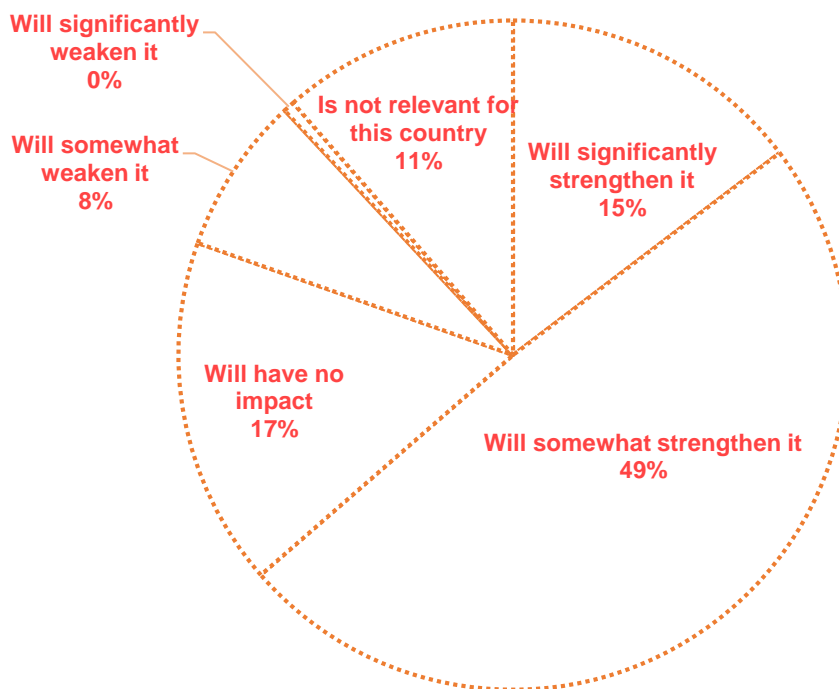


Chart 2: Solvency II is perceived positively and no respondents believe that it will significantly weaken the market

Even though most thought that the introduction of Solvency II would add administrative burden and cost, they did not see this as a detractor from the strengthening that Solvency II would bring to the sector.

Furthermore, 2/3 of respondents felt that Solvency II would increase the demand for reinsurance.

Expectations of the future – Growth and pricing

The survey triggered expectations of the future, particularly growth in premiums, expected participation in evolving lines, and future pricing developments. Emerging risks, with cyber security to be on the top, will cause changes to the insurance product mix.

Participants also expected consumer awareness to be changed, whether as a result of enforced regulations, self-awareness or improved economic conditions. It is expected that interest will be shown in wider property covers, other than motor insurance. Asymmetry of information between insurance buyers and suppliers will be reduced and essentially rational decision-making will prevail when transacting insurance. One participant stated “*The number of Insurance providers will be reduced significantly... Insurance sales will be diverted from the traditional agent/broker to Direct/online sales*”. Personal lines are expected to be affected the most.

Furthermore, survey findings suggest that with improved economic conditions we should expect above average growth in health, life and agriculture.

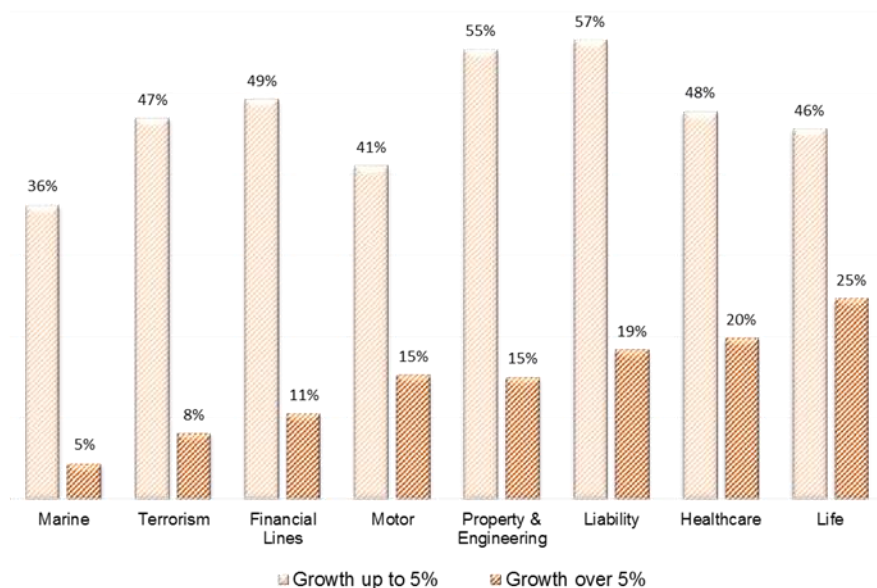


Chart 3: Life will lead insurance growth over the next 2 years. Emerging risks will add to the growth from 2018 onwards.

Growth does not necessarily equate to profitability, especially given the competition level. This could also be seen positively, as it could enhance market discipline with improved pricing models.

The majority of participants believe pricing will either stay the same or reduce slightly. Motor is a slight exception to this with slightly more participants believing pricing will increase rather than decrease but this could also be interpreted as merely an aspiration to maintain marginal profitability of this line of business.

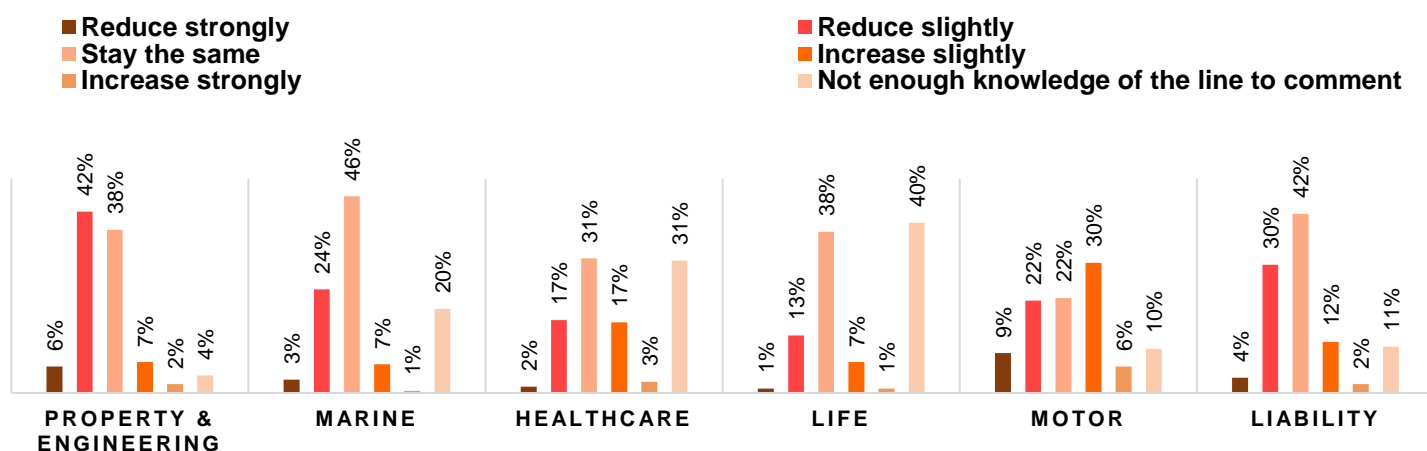


Chart 4: Competitive environment and excess capacity will keep the rates mostly at the same level with some expectations for rate increases i.e. motor.

Additional required reinsurance capacity

Focusing on additional required capacity from reinsurance, there appear to be some possible regional themes in the answers. Those in Russia were more likely to mention Agriculture and Aviation risks, as well as some ‘sanctioned’ areas, perhaps unsurprisingly. There is some evidence that participants in the CEE region are more likely to feel there are gaps in capacity for Financial Lines and Cyber risks.

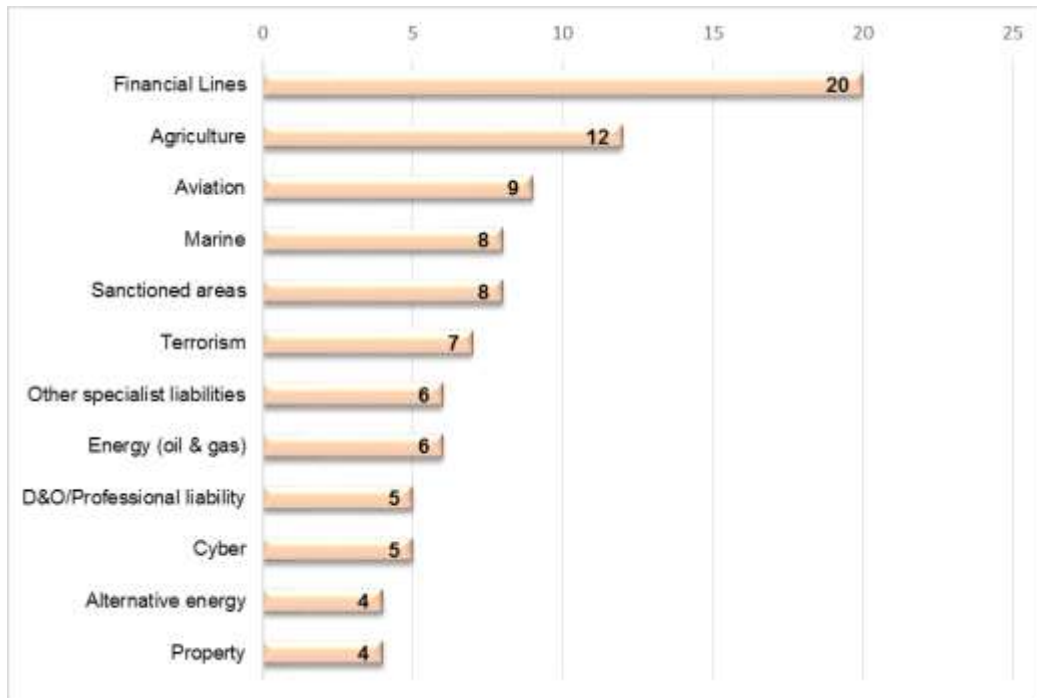


Chart 5: Overall reinsurance capacity is considered adequate with demand for specific lines of business varying per region.

However, sometimes the issue is not as simple as there being “enough capacity” or “not enough capacity”. While capacity may be available in principle, it is not available at an acceptable price, or it may be that limits of reinsurers are constrained. It was also mentioned that reinsurance capacity was lacking for risks that could not be modelled.

The full report discusses this topic in more detail.

Final remarks

Finally, what changes would participants like to see?

Participants felt that the insurance market is overcrowded and M&A activity is anticipated. Higher pricing rates, general growth and an increase in penetration were all mentioned regularly. Some of the elements which several participants also hoped would change might support such an outcome. These included more awareness of insurance, an improvement of knowledge and technical skills, improved legislation, increases in requirements for healthcare or life cover, more new products, better adherence to best practice and the successful implementation of Solvency II. It is a healthy sign to see a positive attitude to change towards improved market discipline and maturity.

This article has been prepared by: Sally Meikle and Duaa Mohammed