TRUST RE
REINSURER OF CHOICE

The Outlook for Insurance and Reinsurance in Central and Eastern Europe

Summary Report

2016

CONTENTS

ABOUT TRUST RE

Trust Re is a closed joint stock company registered in the Kingdom of Bahrain with branches in Labuan and Cyprus as well as a Representative Office in Morocco and a Liaison Office in India.

With authorised, issued and paid up capital of US$ 200 million, Trust Re earned its recognition through its long term professional commitment to the reinsurance industry.

It is classified as a highly reliable security (A.M. Best and S&P: A-) and provides sizable reinsurance underwriting capacity in the major non-life classes of business. The service offering also includes Life and Health reinsurance.

FOREWORD TO MARKET RESEARCH

Central and Eastern Europe and the CIS of course contains some different market dynamics and influences by sub-region and country. But there are also some clear similarities. Understanding market trends and forthcoming business opportunities is of paramount importance for us and for our partners in Europe.

Market research is a key tool of Trust Re strategy. As such, we commissioned *The Thriving Company* to undertake a survey on our behalf to gain key insights into how insurers, brokers, regulators and reinsurers view the future of their markets in Central and Eastern Europe. In total, 237 directors, executives, senior managers and other insurance professionals from 22 countries provided their input. Our thanks are due to all those who participated in the survey.

There are some overall differences in the underlying influences on markets by sub-region and country. In particular, different maturity, profitability, and level of competition. Difficult conditions in most of the underlying economies over the last few years have constrained growth. Our study shows that Solvency II will have a major impact. Both would strengthen the insurance sector and increase costs. Solvency II will also impact the demand for reinsurance.

At Trust Re, we are proud that our underwriters make frequent visits to engage with stakeholders and to better understand markets and customer needs, as well as participating in the likes of FiAR, SorS and AIIF conferences. With our regional centre in Cyprus, we strive to further improve our services to our clients in CEE, SEE, Russia and the CIS.

In early May 2016, we held a seminar focusing on Managing Trends of Property & Engineering Insurance, in Vienna, for our clients and business partners in CEE, SEE, Russia and the CIS. In line with our vision to be the "Reinsurer of Choice", we focus on developing long-term partnerships based on trust and on delivering value. As part of Trust Re's commitment to Central and Eastern Europe and the CIS market, we are delighted to share the findings of the survey with you. Lastly, we welcome your feedback. After all, the primary purpose of this exercise is knowledge-sharing.

Fadi AbuNahl

Group CEO & Director

EXECUTIVE SUMMARY

Central and Eastern Europe contains some different market dynamics and influences by sub-region and country. However, there are also some clear similarities.

There is a trend of low penetration of insurance and clearly, from the inputs received, low levels of 'retail' business and public awareness of the value of insurance. While in the medium term these suggest significant potential, in the short term they act as brakes on growth.

Poor conditions in most of the underlying economies over the last few years have also constrained growth; our overall reading of sentiment from the in-depth interviewees is (mostly) cautious optimism about some growth.

We do see some overall differences in the underlying influences on markets by sub-region. Some of the countries within Central and Eastern Europe "CEE" seem to be more mature; and (for example) those in CIS see the level of education and training as less well developed than their peers in SEE. Overall profitability is scored more lowly in SEE than any other sub-region. While Russia is clearly a very large market and with huge participation of major players, sanctions make market conditions difficult and some participants are worried about the impact that the introduction of a national reinsurer may have.

Motor is the most insured risk across the region and dominates business in some locations. Most other lines are seen as profitable, in overall terms, with the exception of healthcare.

Growth expectations as a whole are fairly muted for mainstream risks, but consistently with the above. For Central and Eastern Europe as a whole, they are highest in life, healthcare and liability. In terms of evolving risks, many insurers and brokers expect to widen the risks they cover. Participation is expected to remain highest in Business Interruption and Energy. Even in a risk with much lower current involvement, cyber risk, 40% expect to participate in it by the end of 2018 compared to 5% today. Expected participation in these risks is higher in SEE and Russia than elsewhere.

Most lines are seen as profitable by the majority of participants with sufficient knowledge of that line. Exceptions to this are motor and, to a lesser degree, healthcare. Perhaps not surprisingly, levels of

competition are seen as most intense in motor. They are most likely to be insufficient in terrorism cover.

Participants were also asked to say what changes they would like to see take place. A reduction in the number of players was frequently mentioned. Higher 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.

METHODOLOGY AND CONDUCT OF THE STUDY, AND CHARACTERISTICS OF THE PARTICIPANTS

The research programme included two key stages:

a. **In-depth telephone interviews with key market participants:**

A total of 29 in-depth telephone interviews as well as two written inputs enabled us to explore perspectives on the outlook for insurance and reinsurance in Central and Eastern Europe in detail, in terms of current characteristics, future developments across lines and sub-regions, the implications for insurers, and ways in which reinsurers can provide added value.

These interviews lasted for an average of 40 minutes. Interviewees were drawn from 13 different countries and covered a range of roles and positions including CEO, Chairman, Executive Director, Managing Director, Director, Department head, and Manager as well as some brokers and underwriters.

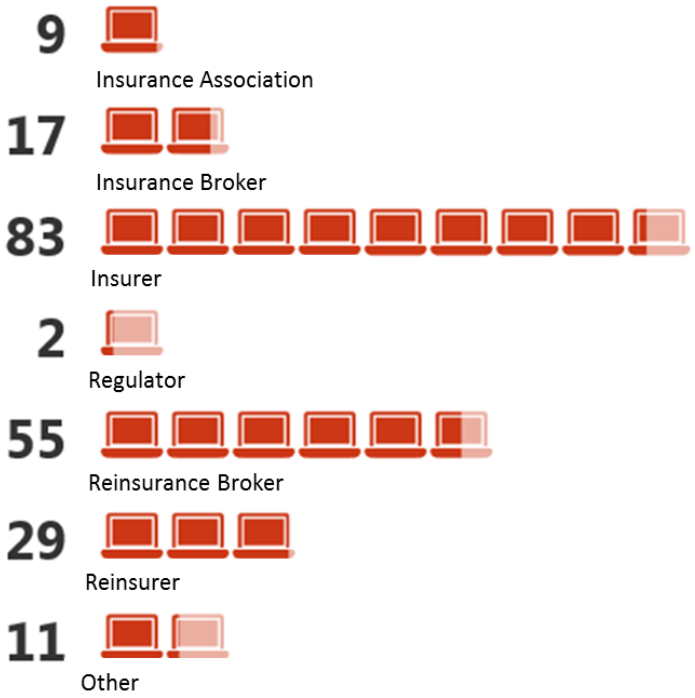
b. Online questionnaires:

In total 206 participants, either fully completed all questions of an extensive online questionnaire, or completed enough questions to be appropriately included in the analysis.

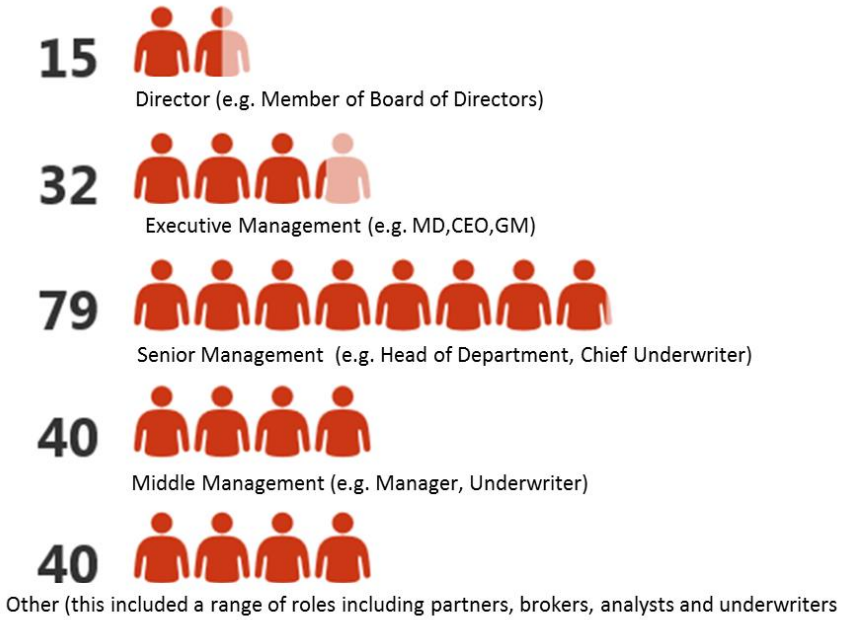
Thus in total we had 237 inputs to the study, with responses covering 22 countries, making it a robust overview of the outlook for insurance and reinsurance in Central and Eastern Europe.

The following graphs summarise the characteristics of the participants in the online phase.

Graph 1: Characteristics of the online survey respondents by organisation role:

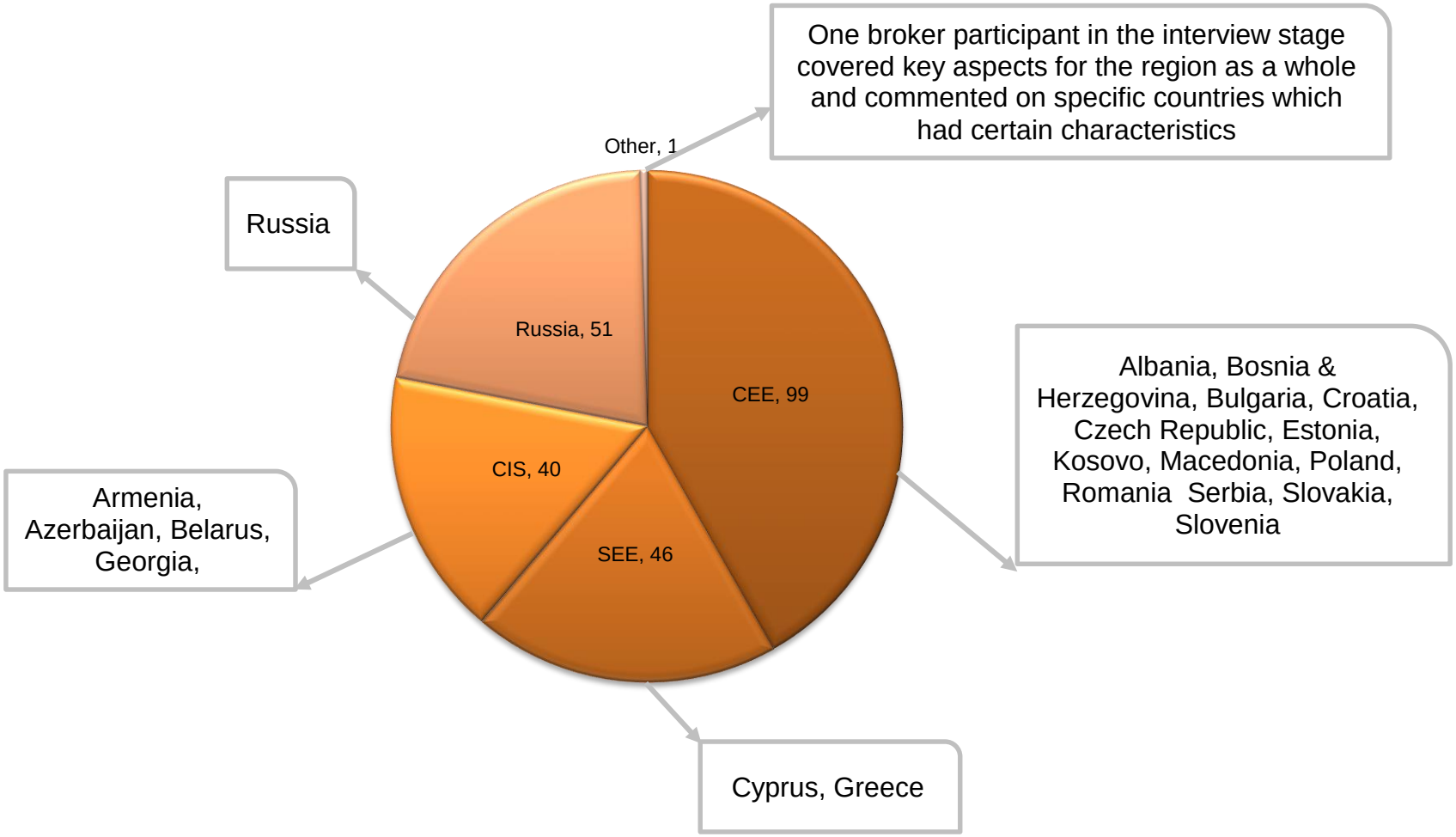


Graph 2: Characteristics of the online survey respondents by position



Graph 3: Geographic spread of respondents

In total, including both in depth interviews and online responses, there was a wide geographical spread of participants:



AN OVERVIEW OF MARKET CONDITIONS TODAY ACROSS THE SUB-REGIONS OF CEE, SEE, CIS AND RUSSIA

The following SWOT analysis and comments are drawn from the in-depth interviews and online survey responses from each sub-region. They are based on the judgment of the researchers, The Thriving Company limited.

CEE

STRENGTHS

- Insurance culture improving.
- High quality and professionalism.
- Many markets/countries are not litigious by nature.
- Solvency II viewed as improving market strength.
- Insurance is obligatory in a gradually increasing number of lines.

WEAKNESSES

- Price sensitivity is high in many lines.
- Rates are below technical price in some areas.
- High agent commission rates.
- Private sector individuals expect the state to pay for disasters.
- Some emerging lines have very small levels of demand.
- Non-payment of claims in some territories.

OPPORTUNITIES

- Low penetration represents an opportunity.
- Cautious optimism regarding the economy from some countries.
- Some expectation of growth in:
  - Life/Health/Pensions
  - Property
  - Engineering/Infrastructure (longer term)
  - Cyber (e.g. from EU directives)
  - Professional Liability
  - Liability
  - Terrorism
- Bigger markets represent bigger opportunities.
- Motor rates may be hardening.
- Internet distribution.
- Insurers may have opportunity to extend into other EU markets given their relatively low cost base.

THREATS

- Economic setbacks.
- Increase in cost of capital/capital requirements.
- Liberalisation may increase competition.
- “Opening up” historic court rulings could increase claims incidence (some jurisdictions).
- Continued impact on ‘scandal’ on public perception.

Insights about the CEE Sub-Region from Interviewees

There is a recognition that motor business is the dominant line of business in most portfolios in most countries. There is a sense it has acted as a 'loss-leader', but some participants hope that pricing 'below technical levels' for motor will stop.

However at the same time increased activity from 'international' insurers may impact this. Some markets are subject to liberalisation and thus there is potential access for new players.

More generally many people expect a process of consolidation. Some believe there are just too many players in their own markets. This process might be speeded up both as markets mature and as capital adequacy requirements, whether imposed by Solvency II or regulation in the same spirit, begin to 'bite'. Bigger insurers have an advantage in accessing capital, and those smaller insurers who find it more difficult to do so may increasingly look to reinsure. (The overall impact of Solvency II is covered elsewhere).

We occasionally heard a view that increasing maturity of the market may lead to more segmentation; where insurers can only succeed by being better or lower cost, and need to define their strategy to do so.

Some other specific insights were:

- The courts or legislative approach to claims and major injuries is evolving in several countries and is difficult to predict, but it may have an impact on appetite for reinsurance in the future.
- Some see different uses of insurance emerging, for example where life products become used as investment policies.
- There are other speculations on potential developments affecting various classes, for example the possibility of a natural disaster/earthquake pool in Bulgaria.

Overall the economic situation in each country is a key influence. Our sense is that we heard the beginnings of cautious optimism in most locations. Penetration is still relatively low, and insurance culture still relatively less-developed compared to Western Europe. For this reason we would expect growth in CEE.

SEE

STRENGTHS

- Remaining insurers have proved financially robust.
- High quality and professionalism.

WEAKNESSES

- Continued economic weakness.
- High unemployment/low disposable income accessible to insurance.
- Reduction in number of active companies.
- Oversupply leading to rate reductions to maintain/grow share.
- Described as not highly insurance educated.
- Agents have historically been powerful.
- High commission rates (c. 20-25%).

OPPORTUNITIES

- Legislation to increase penalties for those ‘caught’ not having motor insurance.
- Lines such as D&O, professional indemnity, and agriculture.
- Expectation of public sector support for healthcare lessening, increased need for insurance and pensions.
- Marine could be the one of first areas to improve if economic activity increases.
- Property, engineering lines growth in longer term.
- Weakening in bancassurance provision; banks separating out insurance business; their competitive advantage lessening.
- Access to other EU markets.
- Expected gradual improvement in economic situation.
- Strong trend to online.
- Insurance premiums relatively low % of GDP compared to peer economies.

THREATS

- High corporate tax rates may restrict investment.
- Worsening of loss ratios.

Insights about the SEE Sub-Region from Interviewees

Of course, the recent financial crisis needs no further introduction but continues to have a far-reaching impact on the insurance sector.

It has impacted appetite to insure but also has led to insurers aiming to gain business and diversify risk through pricing at below technical rates.

There continue to be expectations of significant consolidation. That said, we heard that those institutions which have survived the crisis are considered financially strong.

We heard views that life and health business will grow. Some interviewees report there is a growing realisation that the state cannot provide this for all, and that people cannot rely on their state pension to fully support their needs in old age.

Overall there is a sense that slow improvement is expected, and many of the comments about the CEE region also apply here. We also heard comments that EU directives could enable insurers from this region to grow their business by competing in other jurisdictions.

All that said, we would caveat some of these conclusions by reference to the expectations on growth we see in the results from the online survey; typically expectations are lower across most lines than for other sub-regions.

STRENGTHS

- Several lines are compulsory in some countries, including property/catastrophic events.
- Interest in new products/appetite to learn from other markets.
- Good dovernance in some locations.

WEAKNESSES

- Many national markets are small.
- Economy, investment and insurance demand are strongly influenced by oil/energy price fluctuations.
- Restriction of competition in some markets.
- Limited retail appetite for insurance.
- Level of public/government control seen as restrictive by some in some domiciles.
- High levels of commission.
- Different cultures can restrict the ability of international businesses to operate.
- Variability in levels of professionalism.

OPPORTUNITIES

- Professional indemnity, D&O.
- Bankers Bonds.
- Property.
- Medical.
- Government interest in diversifying economies can create demand for insurance e.g. in agriculture.
- Compulsory property insurance for individuals.
- Retail (read also CIS notes on legislation).
- Increase in economic activity could have big impact on risks such as energy, catastrophe.

THREATS

- Agents continuing to demand very high commission rates.
- Reductions in banking activity might reduce retail demand for insurance.

Insights about the CIS Sub-Region from Interviewees

An interviewee from Kazakhstan described the insurance market as ‘like a teenager’ and clearly had the characteristics of a developing market. Elsewhere we heard about how market participants were ‘good learners’, though in fact the online survey suggests that insurance education and training is a little behind other sub-regions.

The pervasive influence of the oil sector and prices on the economy and the development of the insurance sector was clearly stated in some interviews.

We did hear about attempts to diversify the economy as well as insurance being compulsory for catastrophe risk. All that said, we also heard about a fairly ‘centrist’ approach to the sector, and liberalisation was only mentioned in the sense of it being absent.

Though we received inputs about insurers ‘dumping’ rates to gain market share, the overall level of competition seems less intense than in other markets.

STRENGTHS

- Large market.
- Central bank activity to ensure insurers are robust.
- Large number of players (but consolidating).
- High potential for growth in the medium term.
- High potential for corporate lines.
- International companies ready to provide consultancy and help support/grow the market.
- Introduction of a national insurer.

WEAKNESSES

- Sanctions and embargoes (particularly impacting lines such as marine and energy).
- Exchange rate problems.
- Low oil prices.
- Immature insurance culture.
- Loss making in several lines.
- Inappropriate business practices by some current players.
- Described as less efficient than some other markets.
- Introduction of national insurer.

OPPORTUNITIES

- Professional indemnity.
- Life assurance.
- Engineering.
- Health.
- Financial Lines.
- Marine.
- Banks as a means of distribution.

THREATS

- Further sanctions.
- Extensive reduction of reinsurers.
- Introduction of a national reinsurer.

Insights about Russia from Interviewees

Russia is the biggest single country covered by this research and the point about the sheer size of the market was noted by interviewees.

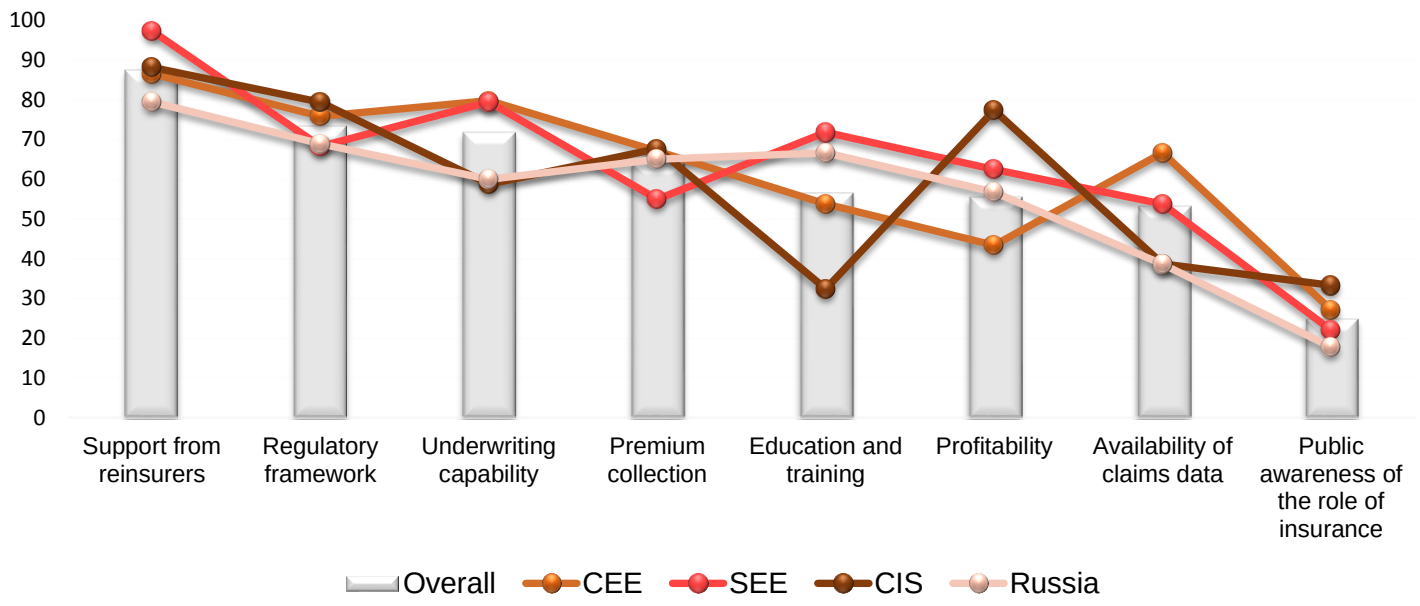
The political situation is of course covered at length in other publications but sanctions are having an impact. These have depressed growth in the economy and the insurance sector; one interviewee described the situation as 'stagnation'.

Regulation was mentioned regularly. There was a clear sense that the regulator was keen to see the numbers of insurers reduce and to encourage consolidation – partly to reduce the incidence of "grey" practices. We also heard many mentions of the expected introduction of the state reinsurer (to help supply reinsurance in areas impacted by sanctions). There were mixed opinions about this.

Overall, and notwithstanding the 'brakes' on market development shown above, the market is viewed as having great potential.

According to the interviewees, there remains significant potential growth in various areas such as Marine, Professional Indemnity, and other Liability. The one we heard most optimism and enthusiasm for was Life insurance, though it is also felt that 'corporate' insurance will grow.

Graph 4 – Perceived strength across market characteristics



Graph 4 summarises the proportion of participants in the online survey who had sufficient knowledge of the characteristic in their market and who rated each market characteristic as "strong" or "very strong".

A higher number of respondents rate the support provided by reinsurers as strong, or very strong, compared to all other characteristics.

Conversely, only 1 in 4 felt public awareness of insurance was strong or very strong. This is significantly behind all other characteristics.

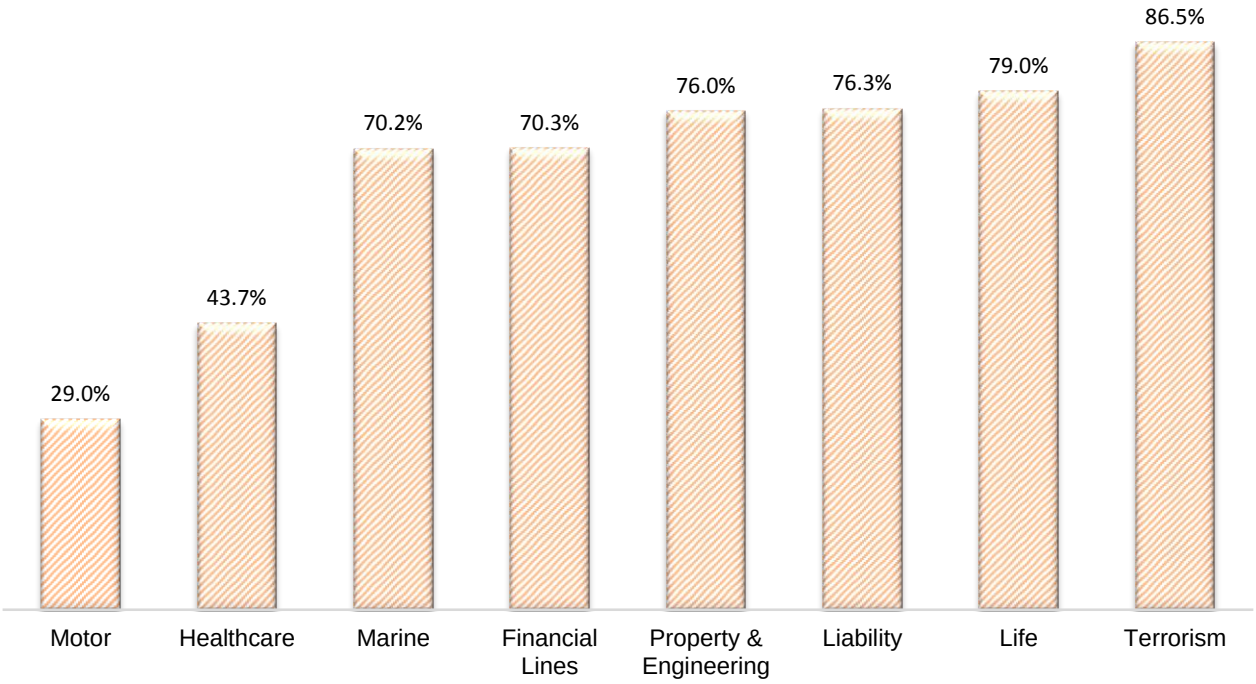
Those in CIS and Russia were less positive about the underwriting capabiity or availability of claims data within their sub-region.

For some characteristics, there is little difference between regions. But this is not true for other areas, including availability of claims data and education and training.

PROFITABILITY

Profitability by Line

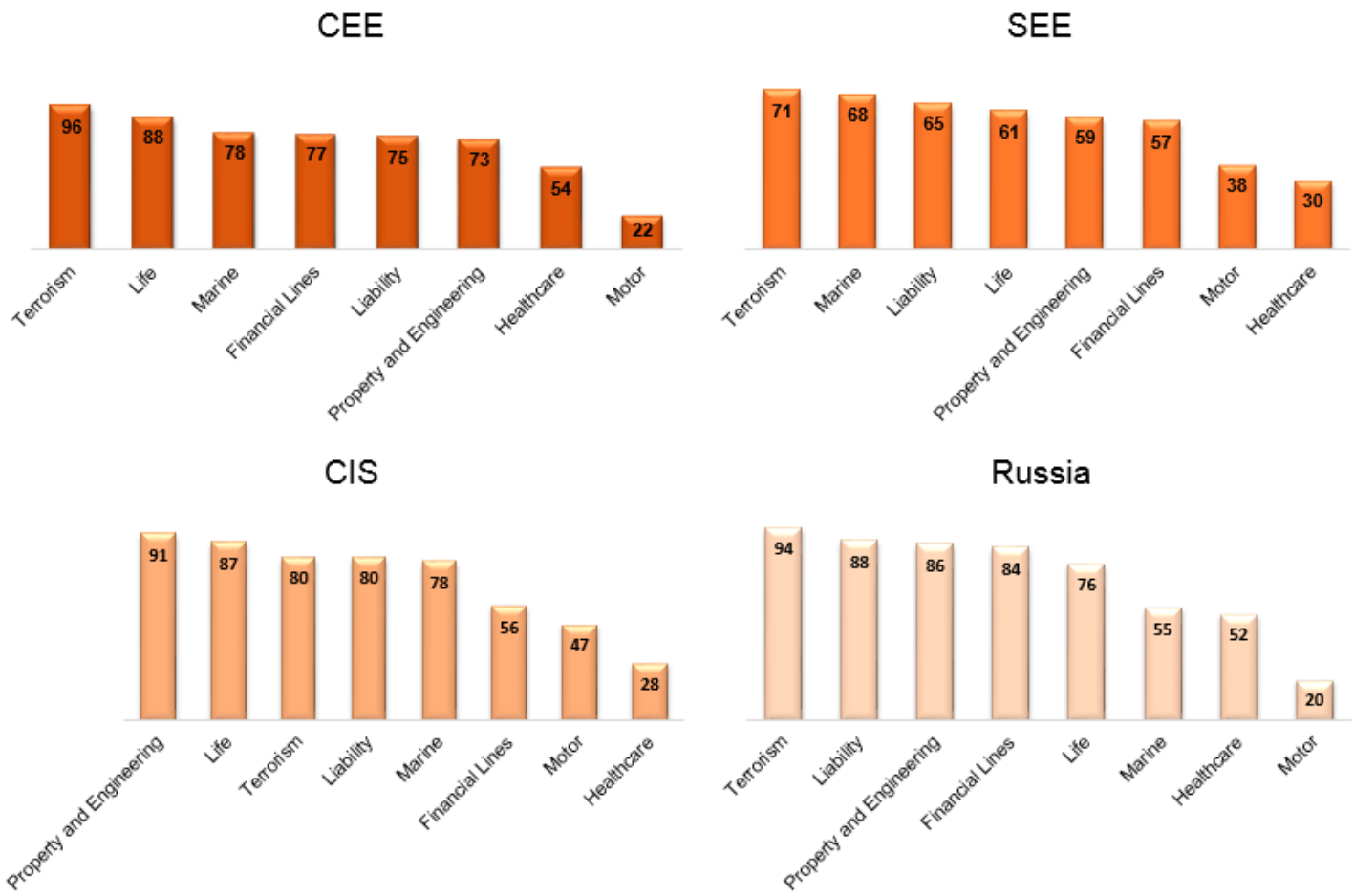
Graph 5: Profitability by line according to online survey participants



Above graph shows percentage of participants saying a specific line of business is profitable. This analysis makes it clearer that most lines are seen as profitable, with the exception of Motor and Healthcare. For all others at least 7 out of 10 view them as profitable, and there seems to be great confidence in the profitability of covering Terrorism risk.

Profitability by Sub-Region

Graph 6: Profitability by sub-region - % saying profitable or very profitable

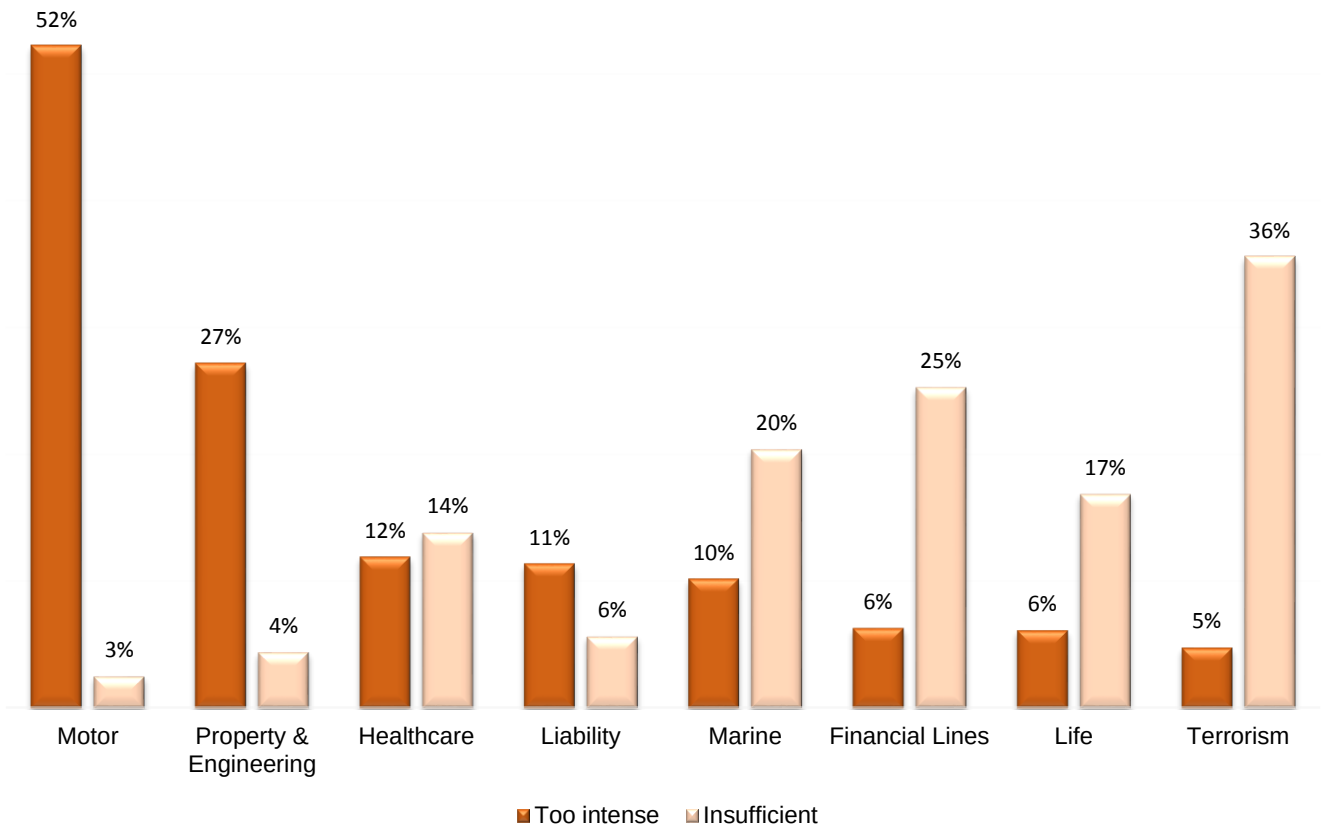


The perceived profitability of Liability is greater than Healthcare across all sub-regions. Note however there are different perspectives of the profitability of Marine as well as other lines, across the sub-regions.

VIEWS ON THE LEVEL OF COMPETITION

Participants in the online phase were asked to characterise the level of competition across various lines as “too intense”, “intense”, “healthy” or “insufficient”.

Graph 7: Level of competition by line



The majority of participants with knowledge about the risk view competition for business in Motor risks as too intense. This is by far the largest proportion with such a view across the risks, though Property and Engineering is also substantially ‘ahead’ of other risks on this measure.

Conversely, significantly more participants view competition in Terrorism, Financial Lines, Marine and Life as insufficient than those seeing it as too intense.

The lines most likely to be seen as having ‘healthy’ competition were Terrorism (48%), life (42%) and Financial Lines (36%).

Tables 1-4 summarise the detailed data for perceived levels of competition in each line in different sub-regions. In each case, the most frequently chosen level of competition is highlighted in dark orange, with the second most frequently chosen option in light orange.

Table 1: Perceived levels of competition in CEE:

	Too intense / unsustainable	Intense	Healthy	Insufficient competition	Not enough knowledge to comment
Property & Engineering	23.5	57.6	16.5	2.4	0.0
Marine	5.9	30.6	27.1	14.1	22.4
Financial Lines	4.7	25.9	25.9	16.5	27.1
Healthcare	2.4	35.3	17.6	15.3	29.4
Life	4.7	21.2	28.2	7.1	38.8
Motor	54.1	37.6	7.1	0	1.2
Terrorism	2.4	9.4	22.4	27.1	38.8
Liability	8.2	60.0	27.1	2.4	2.4

The most regularly chosen “option” across many lines is “intense”. As can be seen, levels of competition seem to be perceived as particularly high in Motor insurance, and to a lesser extent Property and Engineering.

Terrorism appears to be the most notable exception with substantially more participants viewing it as having insufficient competition than viewing the level of competition as either intense or unsustainable.

Table 2: Perceived levels of competition in SEE:

	Too intense / unsustainable	Intense	Healthy	Insufficient competition	Not enough knowledge to comment
Property & Engineering	19.5%	58.5%	14.6%	7.3%	0%
Marine	12.2%	43.9%	26.8%	14.6%	2.4%
Financial Lines	9.8%	22%	26.8%	17.1%	24.4%
Healthcare	12.2%	34.1%	36.6%	4.9%	12.2%
Life	2.5%	27.5%	37.5%	12.5%	20.0%
Motor	56.1%	24.4%	12.2%	7.3%	0%
Terrorism	4.9%	24.4%	34.1%	22%	14.6%
Liability	9.8%	48.8%	24.4%	12.2%	4.9%

Competition is seen as unsustainable in Motor by the majority of SEE participants. Property and engineering, Liability and Marine are also seen as having intense levels of competition by a high proportion.

No area could be said to be “easy”! But Terrorism is the line with a higher proportion than any other saying there is insufficient competition.

Table 3: Perceived levels of competition in CIS:

	Too intense / unsustainable	Intense	Healthy	Insufficient competition	Not enough knowledge to comment
Property & Engineering	32.4%	35.3%	20.6%	8.8%	2.9%
Marine	11.8%	11.8%	26.5%	35.3%	14.7%
Financial Lines	5.9%	29.4%	35.3%	17.6%	11.8%
Healthcare	17.6%	17.6%	32.4%	8.8%	23.5%
Life	8.8%	8.8%	35.3%	17.6%	29.4%
Motor	41.2%	32.4%	17.6%	2.9%	5.9%
Terrorism	5.9%	0%	35.3%	35.3%	23.5%
Liability	20.6%	23.5%	35.3%	5.9%	14.7%

It is fairly clear that Motor and then Property and Engineering are perceived to have very high degrees of competition.

Conversely, Terrorism and then Marine are more likely to – on the face of it – have 'insufficient' competition.

Table 4: Perceived levels of competition in Russia:

	Too intense / unsustainable	Intense	Healthy	Insufficient competition	Not enough knowledge to comment
Property & Engineering	34.8%	39.1%	17.4%	2.2%	6.5%
Marine	8.7%	47.8%	19.6%	13%	10.9%
Financial Lines	0%	21.7%	26.1%	28.3%	23.9%
Healthcare	10.9%	28.3%	17.4%	6.5%	37%
Life	0%	13%	23.9%	10.9%	52.2%
Motor	43.5%	23.9%	17.4%	2.2%	13%
Terrorism	2.2%	17.4%	34.8%	17.4%	28.3%
Liability	8.7%	39.1%	39.1%	4.3%	8.7%

More than a quarter of participants commenting on Financial Lines thought levels of competition were insufficient. It is also noticeable that less than half the participants had sufficient knowledge about Life to rate levels of competition, notwithstanding it being seen as an area of growth by interviewees covering Russia.

WHAT PEOPLE WOULD LIKE TO SEE CHANGE IN THE INSURANCE MARKETS

Online survey participants were asked: "*What change would you most like to see in the insurance market in* (their market) *by 2019?*" Some answers were:

"I would like to see more diversified portfolio, more competition and more types of new insurance products."

"Change of the product mix (increase of profitable lines of business property, liability, health, pensions) - Reinforcement of the insurance awareness of Greeks - All insurance companies will follow the same regulatory rules."

"The number of Insurance providers will be reduced significantly… Insurance sales will be diverted from the traditional agent/broker to Direct/online sales."

"I would like to see a more stable insurance market due to Solvency II implementation, with sustainable rates, proper balance between motor and non - motor insurance, and strong players in the local market."

"Better developed market in terms of capacity, products, and underwriting procedures."

Overall, the themes, in descending order of the regularity with which they were mentioned, were:

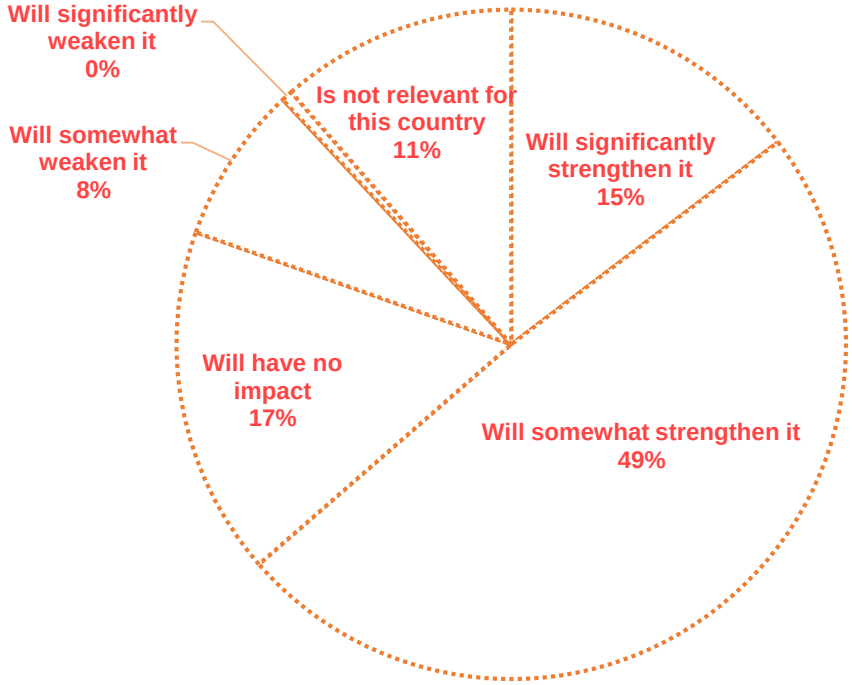
- Reduction in number of players.
- Stabilisation or increases in rates and tariffs.
- Growth.
- More insurance awareness in the market.
- Improvement of knowledge and technical skills.
- Higher penetration.
- Increase in Life or Healthcare business.
- Healthier competition.
- More competition.
- Improved legislation, or better compliance.
- More new products.
- A more “grown up, professional” market with more adherence to best practice.
- Stability.
- Introduction of, or better compliance with, Solvency II.

Impact on Sector Strength

Those taking part in the in-depth interviews were asked "*Thinking about Solvency II, what impact do you think it will have on the strength of the insurance sector in (*the country being covered*)?"*

As mentioned previously, this is against the 'backdrop' that some 72% of participants to the online survey rated the regulatory framework in their market as "strong" or "somewhat strong".

The summary results are shown in graph 8:
Graph 8 – Impact on Solvency II on the strength of the insurance sector



It is clear that around two-thirds of respondents feel that Solvency II will strengthen the sector in their country. As 11% feel it is not relevant for their country, this means that around three quarters of those who feel it is relevant think it will have a positive impact.

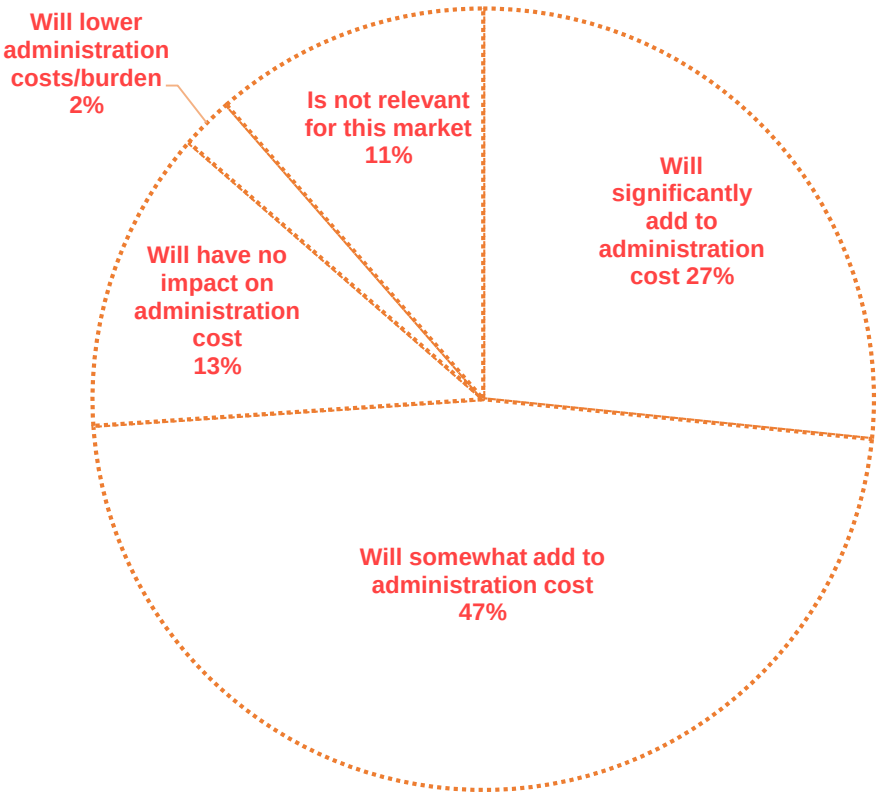
We also determined the "net positive impact" expected in each sub-region; this essentially is the net difference between the percentage who think Solvency II will strengthen the insurance sector, and those who think it will weaken it. The net positive impact in each case is:

- **SEE 87%**
- **CEE 56%**
- **Russia 39%**
- **CIS 35%**

Impact of Solvency II on Costs

Online survey participants were also asked*: "what impact do you think it (Solvency II) will have on the administration costs & burden of insurers in (the country being covered)?"*

The results are summarised in Graph 9 below



Graph 9: Impact of Solvency II on costs

These results almost appear to be the 'mirror' image of those above. The vast majority of participants expect that additional administration costs and burden will be imposed - for those that see Solvency II as relevant, more than four in five believe this.

We also determined the "net negative impact" expected in each sub-region; this essentially is the net difference between the percentage who think Solvency II will add to administration burden and cost, and those who think it will lower it. The net negative impact in each case is:

- **SEE 87%**
- **CEE 86%**
- **Russia 56%**
- **CIS 31%**

Comparing Views on Impact on Costs and Sector Strength

We also analysed the relationship between views on the impact on costs and the strength of the sector. Cross-referencing the answers to the two previous questions gave the following results, based on the 163 people who felt that Solvency II was relevant in their markets. We wanted to see if those who felt it would add to costs also had more negative perceptions of the impact on sector strength.

Figure 1

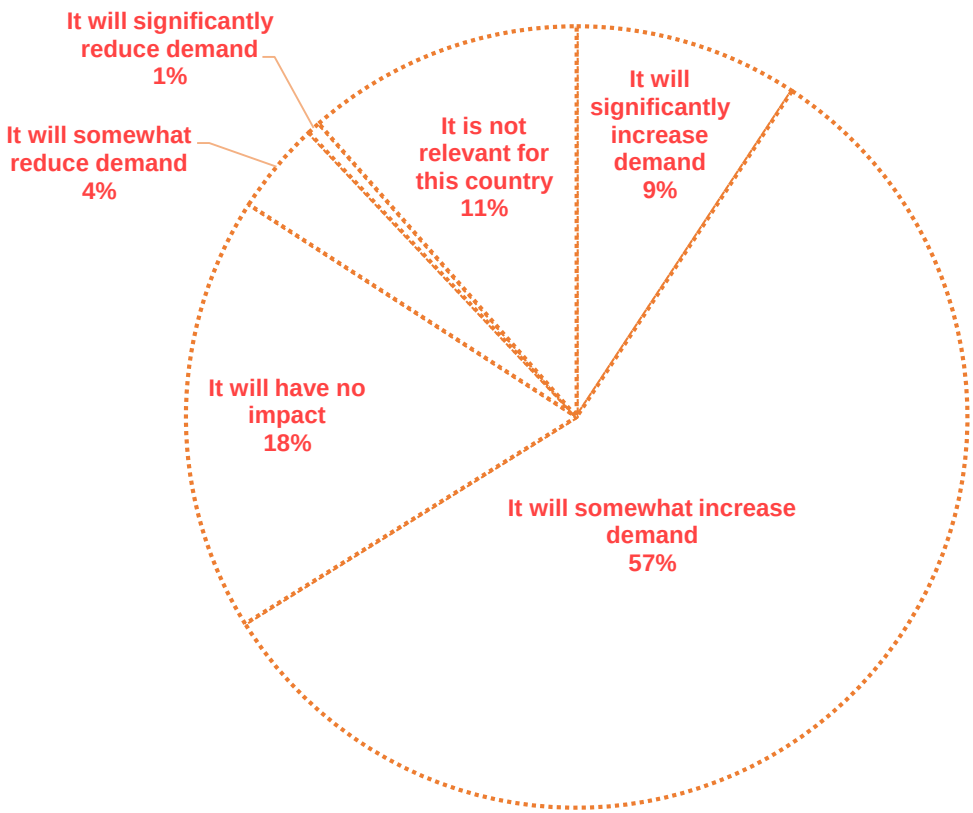
Impact on costs	Impact on Strength: Weakens	No impact	Strengthens
Increases	7.4%	9.8%	65.6%
No impact	1.2%	7.4%	4.9%
Lowers	0.6%	1.8%	0.0%

As can be seen in Figure 1 this does not seem to be the case. Around two-thirds of respondents see the introduction of Solvency II as both strengthening the sector but adding administration burden and costs. This opinion is hugely more common than any other combination of views.

Impact on the Demand for Reinsurance

Online survey participants were also asked: *"In and of itself, what impact do you think Solvency II will have on the demand by insurers in (the relevant country) for reinsurance?"* The answers are summarised in Graph 10 below.

Graph 10: Impact on the demand for reinsurance



Again we seem to have a very clear majority, with over three-quarters of those who believe it is relevant for their country, saying that the demand by insurers for reinsurance will be increased as a result.

The difference between those expecting a net increase in demand, less those expecting demand for reinsurance to be reduced by Solvency II, is as follows in each sub region:

- **SEE 92%**
- **CEE 68%**
- **Russia 46%**
- **CIS 23%**

Commentary and Other Views on Solvency II

Both the online questionnaires and the in-depth interviews gained commentary from participants on how they saw the ongoing impact of Solvency II.

Perhaps unsurprisingly, some respondents in the CIS or Russia regions saw that Solvency II was, in direct terms, not entirely relevant. However, even here some saw the spirit and 'direction of travel' of local regulators being close to this. While others felt that it might be too early to comment meaningfully on the impact of Solvency II, some themes emerged. Most of these were from the CEE region.

In general, sentiment about Solvency II appears to be positive on the whole. Some expect it to improve the professionalism and operating standards of the sector, and improve consumer protection. But there are also views that grace or transition periods are required, and that greater expertise is needed in some areas.

It is clear that some participants view Solvency II as accelerating 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.

EXPECTATIONS OF THE FUTURE

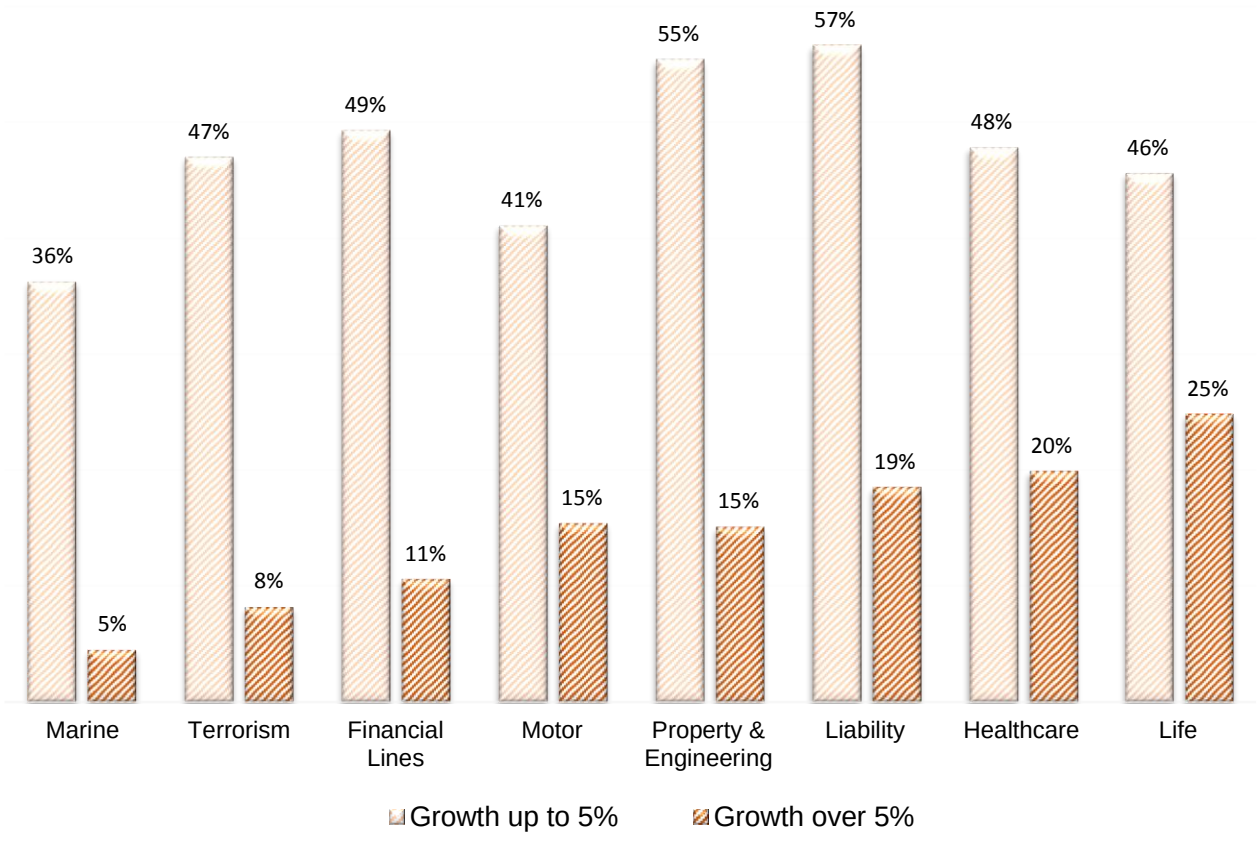
This section covers a range of analyses on the expectations about:

- Growth in premiums,
- Expected participation in evolving lines,
- Future pricing developments, and
- Risk retention.

Predicted Growth of Premiums by Line

In overall terms, there are expectations of gradual growth across most of the risks where online respondents were asked to predict growth.

Graph 11 – Predicted growth of premium income by line per annum



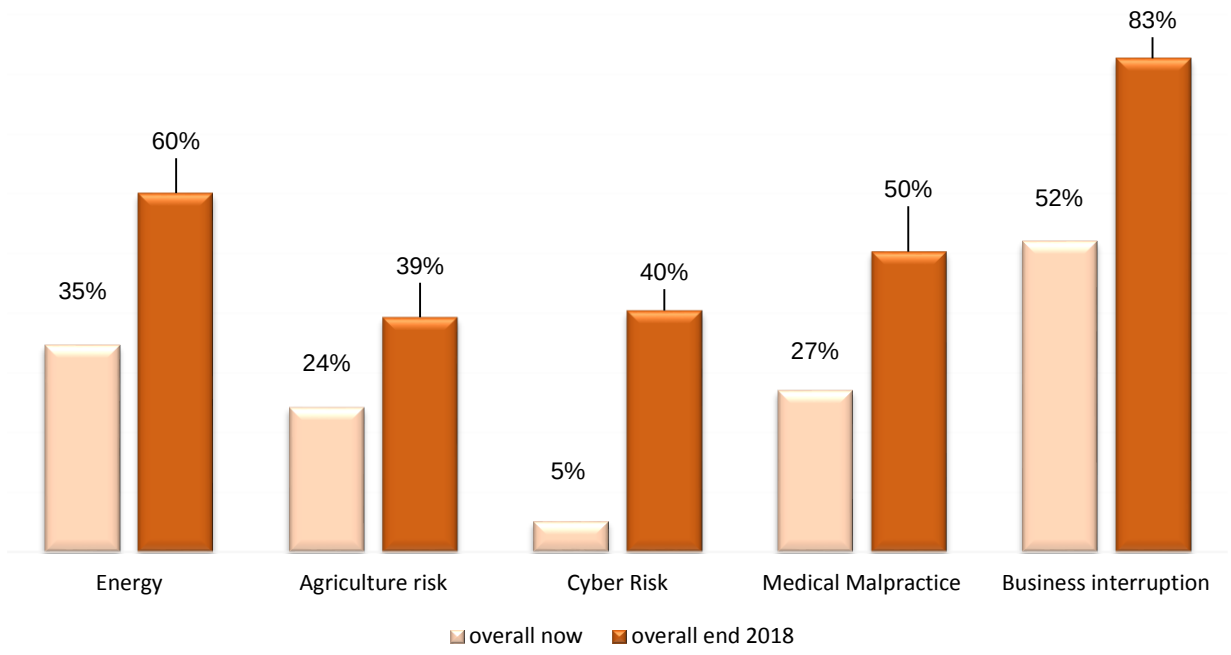
That said, the majority of lines, with the exception of Marine, are expected to grow by the majority of respondents.

More people expect strong growth (defined as more than 5% in premium income between 2016-2018) in Life, Healthcare and Liability than in other risks.

Expected Participation in Other Lines

Online survey participants were asked: *"The following is a list of additional risks. Please indicate, based on your view, how likely you are likely to write (or broke) business in each risk by the end of 2018?"*

Graph 12 – Expected evolution of risk participation by insurers and brokers



This graph shows the potential evolution of involvement in various risks by insurers across Central and Eastern Europe by end of 2018.

The dark orange bar summarises the percentage currently reporting that they write that risk. The light organge bar shows the total percentage who said that they were either "very likely" to write business in it (at least 75% probability they would do so) or "likely" with a 51%-75% probability they would do so.

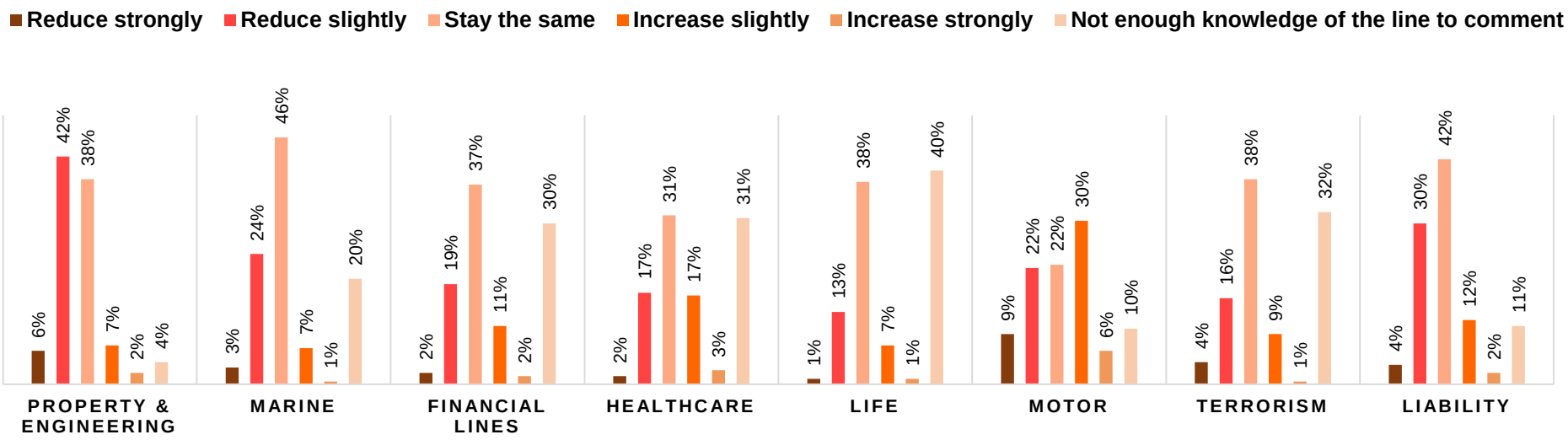
This will overstate potential growth. Not all those who said they were "likely" will write the risk by the end of 2018, but increased participation in these risks can be expected.

The area with the greatest relative growth is Cyber risk, with a total of 40% saying they are likely to cover these risks by the end of 2018, compared to 5% today. In absolute terms, Business Interruption and Energy can be expected to remain the most widely written and brokered risks of this group.

Future Pricing Of Risk

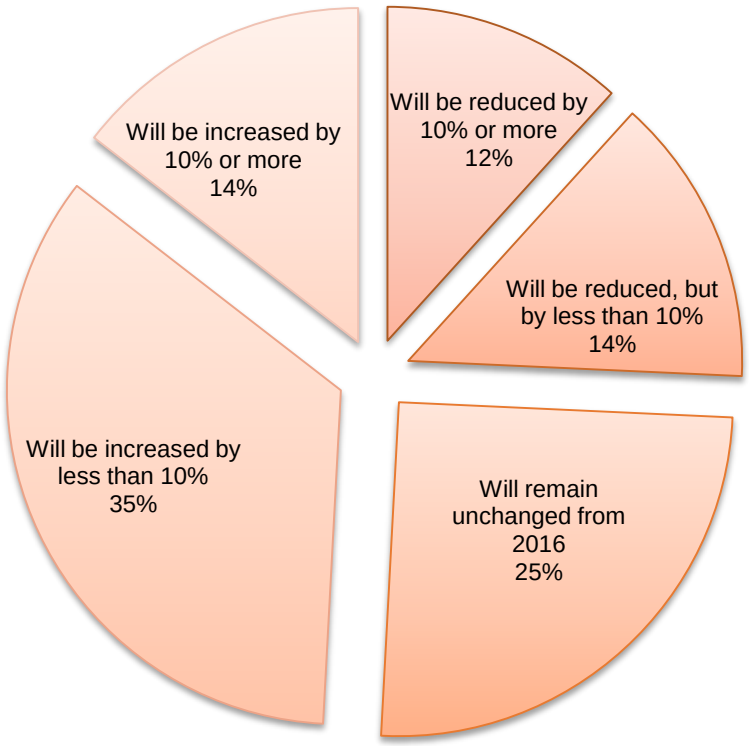
Graph 13 summarises all online survey responses to the question: "*And what would your "best prediction" be for how the pricing of risks will evolve, in (country respondent has chosen) in each of the following lines? Will pricing in each risk...?"*

Graph 13: Predictions on pricing



As can be seen in most cases, across those with knowledge of the line, 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.

Graph 14: Prediction of retention levels by 2019



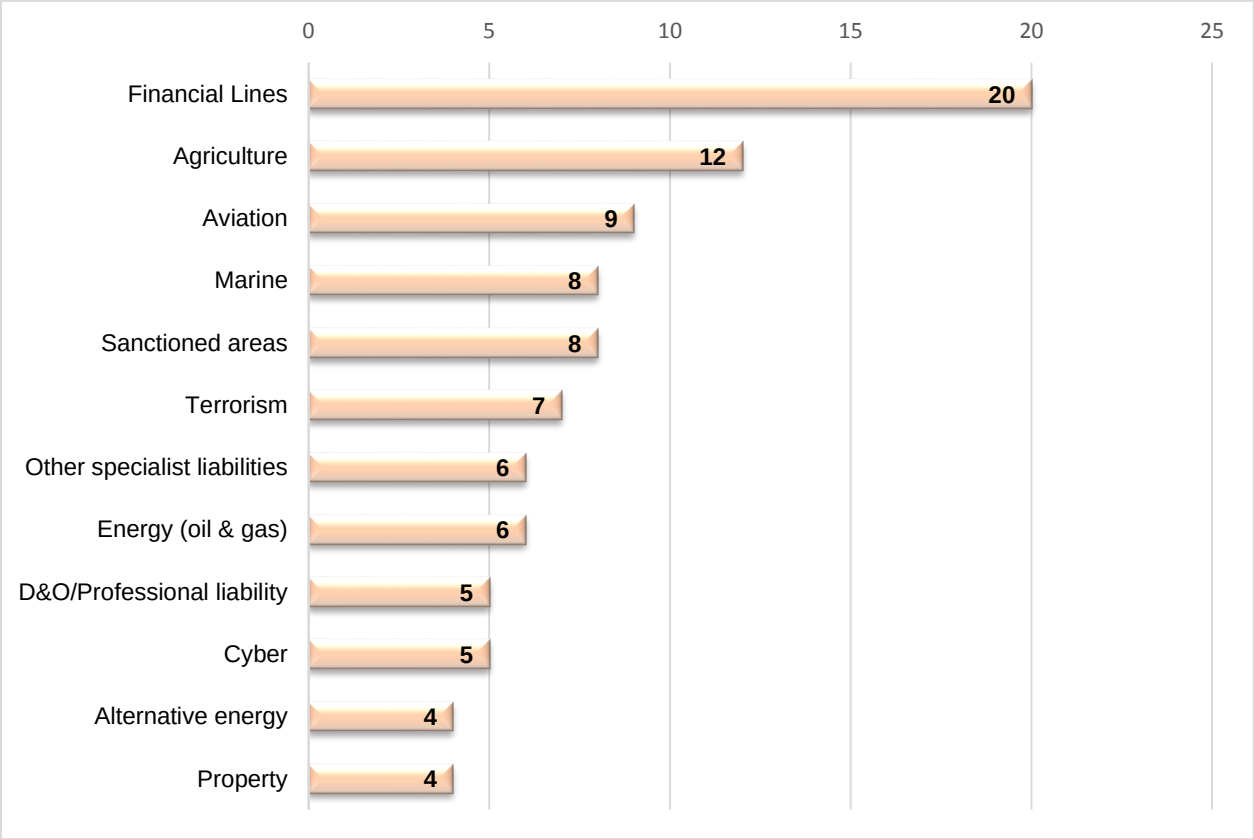
Participants in the online survey were asked: What do you think will happen to the proportion of overall risk that will be retained by insurers in (the country they knew best) in 2019, compared to 2016?

Just under half believe the levels retained will increase, compared to around a quarter who feel it will be reduced. But overall, the answers to this question show a fairly even spread.

Of course, sometimes we heard the view that it would very much depend on the circumstances of the individual insurer.

SPECIFIC RISKS WHERE ADDITIONAL REINSURANCE CAPACITY IS REQUIRED

Graph 15: Risks where there is insufficient reinsurance capacity



In-depth interviewees and online survey participants answered the question *"Are there any risks where insufficient capacity is available from reinsurers?"*

Many said there were "no gaps". But some were mentioned frequently as shown in graph 15.

We have grouped some areas together where this appeared appropriate. For example, Financial Lines includes a range of risks such as credit bonds or credit insurance.

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.

There is also a long 'tail' of individual issues which were only mentioned rarely, such as "developer's liability", medical malpractice, earthquake or catastrophe risks, or "smaller risks".

Finally, sometimes the issue is not as simple as there being “enough capacity” or “not enough capacity”. We heard from some interviewees that while capacity may be available in principle, it is not available at an acceptable price, or that limits of reinsurers are constrained. One participants also said that reinsurance capacity was lacking for risks that could not be modelled.

OTHER ASPECTS OF REINSURERS AND HOW THEY CAN ADD VALUE

Survey participants commented:

"Education of the local market especially on different lines of liability insurance and financial lines of insurance."

"Reinsurers could assist with organization of seminars and training."

"A more flexible approach and a better understanding of the market peculiarities."

"To consider the prices with the local market"

"Grant more support on specific lines like mortgage, special liability risks."

"Focus on SII covers more, there is a place for new players"

"It is really close co-operation with clients…the ability to provide a very wide range of services, long term stewardship, understanding what clients need."

"If you see something that works well in one territory, transferring that to another country, working with a partner, that also helps you improve your competitive positon"

"It depends on the specific needs of the client, for example in respect of regulatory issues, or balance sheet issues. It depends on discussions with client, and being able to discuss these at board level…to identify if reinsurers can find a solution."

"To be less selective in risk appetite".

"Be more involved in the business - provide advice rather than only protection."

Various themes emerged, and are shown in descending order of how many times they were mentioned.

- Provide education and training.
- Demonstrate a more flexible approach, and show more understanding of local market conditions.
- To lower rates or provide more consistent pricing.
- Support specific risks or classes.
- Establish a wider relationship with the client/cedant.
- Share information and insights.
- Increase capacity or risk appetite.
- Add more advice and consultancy.

Respondents also mentioned the value of being able to provide alternative solutions, and demonstrating interest in new product ideas.

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