

DEVELOPMENT OF THE INSURANCE MARKET IN SLOVAKIA 1993 – 2000

Part I.

Ing. Eva Kafková, Faculty of Business Economics in Košice, University of Economics Bratislava

The development of the insurance industry on the principles of the market mechanism has been dated from 1991, when the Act no. 24/1991 on the Insurance Industry was adopted. The activity of insurance companies and their position in the financial market are similarly governed by the Commercial Code, the Civil Code and tax laws. Through the separation of Slovakia in 1993 the important subjects of the insurance market were institutionalised – primarily the Supervision of the Insurance Industry, which was performed by the Ministry of Finance of the SR until 2000 and since November 1, 2000 this function has been performed by the Financial Markets Office, The Slovak Insurers' Association (SAP), and the Slovak Insurance Brokers' Association (SAMP).

Players in the Insurance Market in Slovakia

The gradual creation of a market environment, the transformation of the economy and of legislation had a joint effect in constituting a demonopolisation of the insurance industry, which had until 1990 been a monopoly – Slovenská Poisťovňa (Slovak Insurance), a state-owned company, and which since 1991 has operated as a joint-stock company. In 2001 a tender for the privatisation of this company was announced, the winner being ALLIANZ, a.s., acquiring a 66% stake in Slovenská Poisťovňa.

The market mechanism, the mechanism of supply and demand and the formation of prices in the insurance industry led to and made possible the establishing of other insurance subjects, which at present period offer almost 250 insurance products. While in 1993 10 insurance companies operated in

Slovakia, in the year 2000 there were already 28 insurance companies, thereof 24 companies being members of the Slovak Insurers' Association (SAP), with total registered capital of 8.392 billion SKK. 5 insurance companies have been granted licences for operating life insurance, 6 insurance companies have been granted licences for operating non-life insurance and 17 insurance companies have a licence for operating life and non-life insurance. The 10 largest insurance companies had a share in subscribed premiums in 1998 of 93.86%, in 1999 92.51% and 91.85% in 2000. The share of individual insurance companies is shown in table 1.

Slovak Insurers' Association (SAP) came into being as the legal successor to the Czechoslovak Insurers' Association on 5 November 1993, which was established by 9 insurance companies operating at that time in Slovakia. Extensive co-ordination, methodology, education and presentation activity were implemented by individual sections: legislative, economic, for insuring and providing life insurance, for insuring and providing non-life insurance, for education and publishing activity. A component of SAP is also the editorial board of the journal Premium Outlooks and the Commission for Public Relations.

Brokers are a component of modern insurance market. With the aim of raising the importance and prestige of insurance brokers in the eyes of the lay as well as professional public, the Slovak Insurance Brokers' Association (SAMP) was founded on November 14, 1995, as an interest group of legal entities having an authorisation to conduct independent intermediary activity in the insurance industry in the territory of the SR. Some of the key activities of SAMP are in particular the creation of an Insurance Brokers' Ethical Code, co-

Table 1: Source: Annual reports 1998 – 2000

Member insurance Co.s	1998		1999		2000	
	S. P.	% share	S. P.	% share	S. P.	% share
Slovenská poisťovňa, a. s.	12 552 680	58.98	12 476 769	52.74	13 170 904	48.21
Kooperatíva, a. s.	1 679 857	7.89	2 032 354	8.59	2 506 454	9.17
Allianz poisťovňa, a. s.	1 548 076	7.28	1 792 786	7.58	2 020 737	7.40
AMSLICO AIG Life, PASP, a. s.	892 602	4.2	1 421 517	6.01	2 181 749	7.99
Nationale-Nederlanden, a. s.	693 812	3.26	1 062 522	4.49	1 643 031	6.01
Poisťovňa Otčina, a. s.	798 320	3.75	820 922	3.46	849 141	3.11
Česká poisťovňa – Slovensko, a. s.	565 587	2.66	732 207	3.09	814 946	2.98
QBE – Slov. investičná poisťovňa, a. s.	591 655	2.78	603 383	2.55	592 008	2.17
ERGO, a. s.	266 536	1.25	475 800	2.01	654 792	2.40
UNION, poisťovňa, a. s.	386 100	1.81	469 960	1.99	657 234	2.41
SUMA	19 975 225	93.86	21 888 220	92.51	25 090 996	91.85

(NB: S.P. = subscribed premiums)

**Table 2: Development of GDP and total subscribed premiums. N.B. S.P. is the total volume of accepted premiums in 1993 – 1995 and subscribed premiums in 1996 – 2000**

Indicator	1993	1994	1995	1996	1997	1998	1999	2000	Index 1999/93
Total PP (mill SKK)	8 403	9 089	10 706	13 786	16 968	21 282	23 659	27 322	325.1
GDP (bn SKK)	366.7	398.3	518	653.9	653.9	717.4	779.3	887.2	241.9
Share of PP in GDP	2.29	2.28	2.07	2.1	2.59	2.97	3.03	3.08	134.9

Source: Annual reports SAP, 1993 – 2000

operation with SAP and the preparation and implementation of a system of education for brokers.

Supervision over the specific development of the insurance industry was performed until October 2000 by the Ministry of Finance of the SR. Since November 1, 2000 this function has been performed by the **Financial Markets Office**, which governs and supervises the activity of insurance companies by means of monitoring payment ability, reserves, but also compliance with all acts and regulations applicable for the insurance industry, with the aim of creating conditions for orderly competition in a period of globalisation and the deregulation of the financial market.

The important subjects of the insurance market are **citizens, business subjects** and various **interest groups**, which stand on the side of demand for insurance products. The insurance market, as Čejková, 2001 states, “differs essentially from other sectors of the financial market in the fact that many subjects are not aware of their demand for insurance cover. It is for this reason that they do not have a clear idea of the existing risk situation. When for example we look at the population as the basic market subject we find that at its personal “level of consumption” insurance often stands at the lowest level. Even despite the fact that securing the certainty of income sources and property value should have the same level as a basic need, i.e. foods, accommodation and clothing”. The persistence of the negative attitude of many citizens towards insurance cover is confirmed also by the fact that in the current period people still do not greatly trust non-bank financial institutions, as a consequence of which these are missing out on huge financial resources.

The insurance market, as an important component of the financial market is influenced by many internal and external factors. Among the most important external factors are GDP, the rate of inflation, monetary incomes and expenditure of the population, employment, etc. The development of the insurance market is influenced to a significant extent also by internal factors, the most important of which are the primary activities of an insurance company (the trading, operation and liquidation of insurance events), provision, the attitude of people towards insurance protection, intermediary activity, the activity of SAP and SAMP and the level of regulation of the insurance market by the Inspectorate for the Insurance Market.

For a description of the development of the insurance industry in 1993 – 2000 I will mention from the external factors: the development of GDP in ordinary prices, the development of inflation and average wages.

Table 3: Inflation 1993 – 2000

Indicator	1993	1994	1995	1996	1997	1998	1999	2000
Inflation %	23.20	13.40	9.90	5.80	6.10	6.70	9.40	12.4

Source: MARCINŠIN, A. – BEBLAVÝ, M.: Economic Policy in Slovakia 1990 – 1999

The important aggregated indicator in evaluating the development of the insurance market is insurance penetration, which is expressed as the share of total subscribed insurance premiums to GDP at current prices.

Insurance penetration expresses the overall productivity of the insurance sector in the national economy. Despite a high rate of growth in the insurance industry in the SR, it has not yet developed to the European or even world level. Insurance penetration in EU countries is about 7.3%. Insurance penetration in Slovakia has a constant moderately growing trend, reaching 3.08% in the year 2000. In view of the significance of the insurance penetration indicator, which serves to characterise the degree of development of the insurance industry in national economy, and thereby it can be used for comparison with other countries, I will also mention the correlation between the overall subscribed insurance premiums and GDP. The correlation between the overall subscribed insurance premiums is 0.934, which shows a high intensity of dependency of the accepted premiums to GDP. From table 1 we can see that growth in the overall volume of subscribed premiums for the monitored period is 366.7% and GDP growth is 241.9%, so the growth in subscribed premiums is greater than GDP growth, similarly as in all transitional economies.

In the period monitored subscribed premiums increased from 8 403 mill. SKK in 1993 to 27 322 in 2000, i.e. by 325.1%, while GDP grew from 366.7 billion SKK in 1993 to 887.2 billion in 2000. From this information we can see that despite a difficult economic situation, subscribed insurance grew significantly faster than GDP, thereby confirming the positive change in the attitudes of people as well as businesses to the institution of insurance.

Inflation is one of the significant phenomena of disruption to the economic balance of a country. Inflation has a varied effect on life and non-life insurance. In non-life insurance the recourse rate of the insurance and of the insurance company depends on what price the insured person insured their property for. In the case where property was insured at depreciating cost, the insured receives the insurance pay out in the amount of the cost of the new item decreased by amortisation, meaning that in this case the insured does not receive sufficient funds for securing replacement of the damaged property.

The situation is different when the property is insured at replacement cost, where the insured receives the insurance pay out

Table 4: Reserves of SAP insurance companies

Indicator	1996	1997	1998	1999	2000	INDEX 2000/96
Reserves (thous. SKK)	32 428 369	30 128 878	33 206 246	34 855 191	39 464 830	121.7
Of which:						
Non-life insurance	10 960 718	6 444 311	7 450 787	8 993 619	9 149 880	83.5
Life insurance	21 467 651	23 684 567	25 755 459	25 861 572	30 314 950	141.2

Table 5: Investment of SAP insurance companies

Indicator	1996	1997	1998	1999	2000	INDEX 2000/96
Investment as at 31. 12. total (thous. SKK)	28 695 088	30 840 240	34 750 408	38 223 621	42 946 986	149.7
Of which:						
Land and buildings	2 743 054	3 372 311	3 904 562	3 681 777	4 943 121	180.2
Investments in subsidiaries	71 448	2 188 366	5 588 375	3 076 719	2 018 257	2824.8
Shares, bonds and other securities	6 647 130	6 868 921	8 022 670	9 237 509	10 378 940	156.1
Debt and fixed income securities	104 760	403 995	1 786 972	2 573 777	2 425 935	2315.7
Mortgages and loans	2 419 240	2 144 557	130 332	2 490 546	150 168	6.2
Deposits at credit institutions	16 652 338	14 905 027	12 595 029	16 764 658	22 671 870	136.2
Other	57 118	957 063	2 722 486	398 635	358 695	627.9
Total investments in non-life insurance	6 343 302	4 822 041	8 480 578	12 130 185	8 201 186	129.3
Total investments in life insurance	22 261 526	23 705 497	25 855 986	26 093 436	29 576 465	132.9

Source: Annual reports SAP, 1996 – 2000

in an amount equalling the expenses for securing an item of the same type and quality as that prior to the insured event. In this case the insurance company bears the risk of inflation, which need not estimate the rate of inflation well, but the insurance pay out must be made in accordance with prices current at that time.

In life insurance the risk of inflation is born exclusively by the insured, because inflation (whether moderate or galloping) decreases the value of the insurance pay out as well as the share of the insured in the profit created, a significant part of which is used for covering increased administrative expenses. The development of the rate of inflation from 1993 to 2000 is shown in table 3.

In the Slovak insurance market up until 1995 insurance purpose funds were created as the main source for covering liabilities in respect of insured persons. Their creation had various negative aspects, the most serious of which were in particular: disrespecting the important principle of accounting – time differentiation of costs and expenditures, a high rate of regulation from the side of the inspectorate authority in allocating funds and a non-adherence to the principle of profitability, security, liquidity in valuing financial resources on the capital market. The development of the volume of reserves from 1996 to 2000 is shown table 4.

The financial stability of insurance companies is dependent primarily on the amount of their reserves. In 1996 the total reserves of SAP member insurance companies represented 32.4 billion, and in 2000 the figure was 39.5 billion. A large part of

the total reserves are reserves in life insurance, which are essentially the insureds' savings. Currently the growth in the supply as well as the demand for modern life insurance products – capital insurance, variable insurance, universal insurance, endowment policies, insurance for study costs, are supported by further growth in life insurance, the share of which in the total subscribed premiums was very low in comparison with developed economies. Growth in subscribed life insurance premiums in is a necessary prerequisite to the growth of reserves in life insurance and their appropriate use in the process of expanded reproduction. Reserves have exceptional significance for the activity of an insurance company. Their sufficient level is a guarantee that insurance companies will be able to fulfil all their liabilities in respect of the insured persons. With regard to the time difference between their creation and their use, they have great importance for the whole national economy, in which they allocate financial resources of the reserves in accordance with Regulation no. 136/1996 of the Ministry of Finance of the SR on the creation, placing and use of the reserves of an insurance company as amended. In all developed economies insurance companies are significant investors. The volume, structure and development of the investments of the member insurance companies of SAP are shown in table 5, where we can see that the greatest share in the investment portfolio are deposits in credit institutions, which corresponds to the low level of development of our capital market up year 2000.

The professional as well as lay public expects that reform of the social security system will stimulate further development of life insurance, the income from which will compensate people for the decline in state-guaranteed pensions. The development impulse of life insurance will be the long time coming and expected amendment to the Income Tax Act, which would, as in other countries, enable a certain part of the annual insurance premium paid to be considered as a tax deductible item. In view of the fact that the rest of the SAP's proposal has not been passed by the Legislative Council of the SR Government, it is continuing in the preparation of a new act. Its early implementation is crucial for the real growth of reserves, with a positive effect on the development programme of the national economy.

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To be continued in no. 4/2002