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Insurance markets in selected Central and Eastern Europe countries during economic slowdown

This paper analyses the influence of economic slowdown on the insurance markets of selected Central and Eastern European countries in the years 2009–2013. The paper presents Gross Domestic Product growth rate as well as key indicators characterising the insurance market. On this basis a comparative analysis of the discussed countries' insurance sectors has been carried out. Attention has been drawn to differences in processes that take place on insurance markets of European Union Member States within the Single Market as well as countries not associated with the European Union. Particular attention has been devoted to the analysis of geopolitical conditions in non-EU countries that influence the insurance market. The document also highlights risks resulting from the advancing increase in damages and benefits in certain countries. Additionally, an analysis of insurance development level as a support tool that supplements the social insurance system has been performed.

Key words: economic slowdown, insurance sector, insurance company, insurance premium, loss ratio.

Introduction

The contemporary economy, which functions in the reality of constantly changing external conditions, needs an effective financial system capable of reacting quickly to macroeconomic processes in order to be able to function efficiently. It is particularly important now, as we are observing a global economic slowdown. Under such conditions the financial sector should act as a support tool for institutions and business entities operating on the market and a stabilising vehicle for natural persons. In this context, we need to emphasise the significance of the insurance sector, which by being a part of the financial system complements the social insurance system and contributes to the minimisation of financial losses resulting from risk materialisation. Therefore, insurance makes up a very important economic sector that stimulates economic growth and structural development through:

- providing extensive insurance protection to entities operating on the market and as a result, limiting potential financial losses in the case of an event covered by insurance;
- shaping risk management rules for market participants and, as a result, contributing to their steady and sustainable development;
- offering social protection, thus removing the burden from the public finance sector;
- investing in selected business undertakings as part of a financial redistribution policy;
- stimulating consumption growth.

All of the abovementioned factors have a general significance to the economy. However, we need to stress that in different countries insurance products are varied when it comes to their specificity, since they perform different local functions. Therefore, innovation and responsiveness to social needs is a very important factor in the development of the insurance sector, which undoubtedly contributes to the development of the market's insurance infrastructure and allows increased protection and client satisfaction. The subject of this paper has been defined in this very context and thus, it focuses on the analysis and assessment of the functioning of insurance markets in selected Central and Eastern European countries during economic slowdown.

1. Macroeconomic situation

The global economic crisis of 2007–2010 has left an adverse mark on the economies of all EU Member States and other European countries. After the period of downturn observed in 2009, which was a follow-up to the crisis of previous years, the subsequent years marked a gradual growth in GDP. However, in 2012 growth rates fell significantly again, and in several countries we have observed an economic contraction – a result of a returning wave of crisis and a consequent general economic slowdown – Table 1 below.

Table 1. GDP growth rate (%) in the years 2009–2013

Country	2009	2010	2011	2012	2013
Belarus	0.2	7.7	5.5	1.7	0.9
Czech Republic	-4.5	2.5	1.8	-1.2	0.0
Estonia	-14.1	3.3	8.3	3.2	3.0
Hungary	-6.7	1.3	1.6	-1.7	-0.1
Latvia	-17.7	-0.9	5.5	5.6	3.8
Lithuania	-14.8	1.5	5.9	3.6	3.1
Poland	1.7	3.8	4.3	1.9	1.6
Russia	-7.8	4.0	4.3	3.4	1.3
Slovakia	-4.7	4.0	3.3	2.0	1.1
Ukraine	-15.1	4.2	5.2	0.2	-0.8

Source: own study based on available data obtained from: International Monetary Fund (www.img.org), Report for Selected Countries in 2009–2013, and the statistical offices of Poland, Russia and Ukraine.

Economic deterioration has an undesirable impact on basic economic indicators and, above all, on the decline in Gross Domestic Product, industrial production, levels of exports and increased unemployment rates. The existence and magnitude of adverse effects of economic slowdown in the Central and Eastern European countries of our focus vary significantly. We need to emphasise here that the analysis covers post-socialist countries that are now functioning under different geopolitical conditions. A vast majority of them (the Czech Republic, Estonia, Latvia, Lithuania, Poland, and Slovakia) are EU Member States, while others (Belarus and Ukraine), despite their sovereignty, have remained largely dependent on Russia in economic and political terms and are included in the Russian area of influence. The situation is particularly complicated in Ukraine: the country's internal political problems, which culminated in overturning President Vyktor Janukovych, triggered the conflict between Ukraine and Russia. This led to the annexation of Crimea and the outbreak of hostilities in the eastern parts of the country, initiated by separatists in an attempt to break away areas bordering with Russia from Ukraine and proclaim the People's Republics of Donetsk and Lugansk. Without doubt, these activities will very negatively affect Ukrainian and Russian macroeconomic indicators for 2014 and in the years to come due to the introduction of economic sanctions on Russia by the U.S., the European Union, and a number of other developed countries.

A significant decline in GDP has also been seen in Baltic states (Latvia, Lithuania, Estonia) – nicknamed "tigers" on the economic map of Europe at the beginning of the 21st century. These countries have gradually been rebuilding their economies after a considerable breakdown in 2009. However, the growth observed in the years that have followed is not impressive and adversely influences social conditions. These deteriorating conditions have resulted in a significant number of migrants, particularly young people, heading towards Western Europe, which has intensified already unfavourable demographic processes and weakened the local labour market. Far-reaching dependence on Russia as regards supplies of raw materials is also problematic.

Considerable economic slowdown can be observed in the Czech Republic, Hungary and Slovakia as well. These countries' economies have suffered from the results of the crisis, while intensifying demographic issues, declining production and increasing public debt have curbed an active participation of business entities in the market adversely influenced that, under normal circumstances, would be followed by the kind of increased consumption that contributes to a significant GDP growth.

The economic situation of Belarus – a country strongly dependent on Russia – is difficult. GDP growth rates indicate growth potential but the local economy is experiencing problems with its current account deficit, structural restrictions and inflation. Low demand in Russia – the main outlet for Belarusian goods – and reduced internal demand are not facilitating growth either. All these factors allow us to speculate that economic problems will become more acute in the years to come.

In Poland, compared to the abovementioned countries, the positive GDP growth rate in 2009 – the critical moment of crisis – was noteworthy. In 2010 negative tendencies visible for two previous years were overcome. Economic activity and the economic growth rate increased. In 2011 the economic growth rate increased even further. However, the years 2012–2013 observed economic slowdown, which has certainly resulted in a declining internal demand and growing public debt. It needs to be noted here that the 2013 governmental reform of the pension system will reduce public debt and improve public finance, but contingent liabilities of the public system will increase, which can negatively influence economic growth in the forthcoming years.

Summing up, the observed economic slowdown has adversely influenced the financial market in all of the Central and Eastern European countries of our focus, which is a consequence of the following:

- decline in real income;
- limited consumption;
- limited availability of investment and working capital facilities as well as their increased price;
- reduced investment expenditure among enterprises;
- decline in real estate prices and a downturn in the construction sector;
- reduced prices of stock exchange listed companies' shares.

All these factors have directly influenced the insurance market, which is tightly linked to the amount of cash on the market, and depends on the clients' need to transfer risks of fortuitous events, which under economic slowdown is correlated with the desire to optimise expenses related to the scope and cost of insurance protection.

2. State of the insurance sector in the light of economic situation

The insurance sector constitutes a very important segment of the financial market of every country's economy. Insurance companies operating in this sector contribute to the balancing of the financial market. The sector's short, medium, and long-term financial resources are one of the sources of covering budget deficits, whereas operating insurance companies participate in financing public debt through purchasing treasury debt securities. Accumulation of capital performed by insurers is also significant for the economy. It consists in collecting resources from decentralised sources and creating insurance funds that are later transferred to the budget, banking and other sectors. By being donors of capital to other entities, insurance companies perform a redistributive and stimulatory function. In addition, they significantly complement the social insurance system by shouldering a number of liabilities and expenses related to the provision of benefits and pensions that result from fortuitous events. Therefore, insurers offset tensions related to the functioning of the market economy by stabilising the financial situation of households and businesses through the provision of protection and by allowing compensation for financial losses that emerge as a consequence of fortuitous events. They are also one of the most important institutional investors, which is a significant stabilising element of socio-economic processes in the case of economic turmoil.[1]

Bearing the abovementioned facts in mind, it is worth analysing the share of the insurance sector in GDP of each of the countries of our focus[2] – relevant data are presented in Table 2 below.

1. K. Ortyński, "Rola ubezpieczeń w rozwoju gospodarczym" in *Pośrednictwo finansowe a rozwój gospodarczy*, edited by T. Banasik, A. Kosztowniak, M. Sobol (Warszawa: Wydawnictwo Fachowe CeDeWu, 2013), 161–162.
2. In Russia, an insurance premium does not cover compulsory medical insurance services. They are qualified as a separate item by insurance supervision entities due to the fact that they are a part of a social security system, while insurance companies operating on the market are *de facto* providers in the scope of managing the network of medical centres providing services and intermediaries in the scope of transferring budget funds for the provision of services. In Ukraine an insurance premium does not cover internal reinsurance, which in many cases is a premium fronting tool between insurers and can be repeatedly included in financial statements; that, in turn, can distort market results.

Table 2. Share of the insurance sector in GDP (%) in the years 2009–2013

Country	2009	2010	2011	2012	2013
Belarus	0.8	0.8	0.8	0.8	0.8
Czech Republic	3.9	4.1	4.1	4.1	4.1
Estonia	2.0	1.9	1.8	1.9	1.9
Hungary	3.2	3.1	2.9	2.9	3.0
Latvia	1.4	1.3	1.2	1.2	1.2
Lithuania	1.7	1.6	1.6	1.7	1.7
Poland	3.8	4.0	4.2	4.3	4.2
Russia	1.3	1.2	1.2	1.3	1.4
Slovakia	3.2	3.1	3.1	3.1	3.1
Ukraine	1.3	1.2	1.3	1.5	1.5

Source: own study, based on data obtained from: Belarusian Insurance Association (www.belasin.by), Czech National Bank (www.cnb.cz), Estonian Financial Supervision Authority (www.fi.ee), Association of Hungarian Insurance Companies (www.mabisz.hu), Latvian Insurance Association (www.laa.lv), Central Bank of The Republic of Lithuania (www.lb.lt), Polish Financial Supervision Authority (www.knf.gov.pl), The Central Bank of The Russian Federation (www.cbr.ru), Slovak Insurance Association (www.slaspo.sk), The Ukrainian National Committee Supervision of the Financial Services Market (www.nfp.gov.ua).

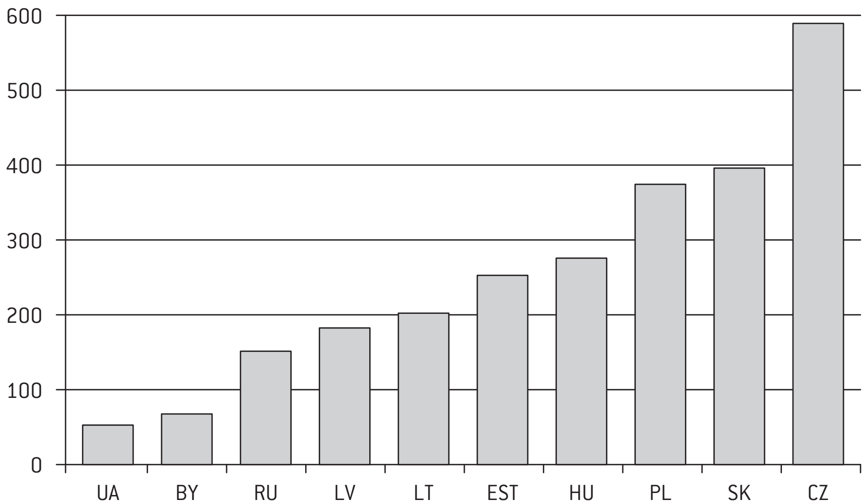
We can distinguish three groups of countries:

1. Those with a relatively large insurance sector's share in GDP[3] – Visegrad countries (the Czech Republic, Hungary, Poland, Slovakia) in which the insurance sector shows the largest share, varying between 2.9 and 4.3 percent of GDP in particular years. In the analysed period the share of insurance sector in each country's financial market remained at relatively even levels.
2. Medium share in GDP, including: Estonia, Latvia, Lithuania, Russia and Ukraine. Historically, all these countries were a part of the Soviet Union. Having gained independence in 1991, they began the process of shaping their insurance markets based on own scenarios. Some of them (Estonia, Latvia and Lithuania) adapted their markets to the European Single Insurance Market requirements, while some of them chose an independent way.
3. Low share in GDP, exemplified by Belarus. In this case we are dealing with an extensive number of state-imposed regulations present in the insurance sector and the fact that insurance options are mainly based on compulsory products. In correlation with a high level of inflation, relatively low income, fairly well developed social insurance system and low level of insurance awareness, it results in a low level of interest in insurance products and their very low position in the economy.

3. The analysis takes into account only presented countries. Obviously, in comparison to other EU Member States or other countries in the world the differences can be large, since, for example, in Great Britain the share of the insurance market in GDP in 2012 (data of Insurance Europe, www.insuranceeurope.com) amounts to over 12 percent, while the Community average amounts to ca. 8 percent, so disproportions will be very large.

We need to note that the share of the insurance sector in GDP does not reflect the development of the insurance market in the analysed countries. Certainly, its development derives from plenty of geopolitical and macroeconomic agents. On the one hand, insurance is one of the most frequently used methods of financing results of risk materialisation, both by natural and legal persons. On the other hand though, insurance is widely used by the state as part of the social and economic policy. The role of the state seems to be crucial in this regard, since an informed development policy of the insurance sector can limit potential financial losses in areas and upon terms preferred by the state. It can also constitute a very important supplement to the social insurance system that considerably burdens the state budget and increasingly indebts the public finance in each country of our focus. However, we need to note here that in all analysed countries (probably except for Belarus) we are observing a gradual withdrawal of the state from direct interventions in socio-economic life, which should result in the intense development of the insurance sector in the years to come. Currently, as regards insurance, the saturation levels vary significantly in individual countries – Chart 1.

Chart 1. Premium *per capita* (EUR) as of the end of 2013



Source: Table 2.

The lowest premium per capita is observed in Ukraine – only EUR 45, while in the Czech Republic it is nearly 13 times as high – EUR 583. The large disproportions in benefits per capita between the countries included in this study stem from a number of factors, with the following being the most important:

- low level of insurance awareness and the lack of habit to insure oneself;
- poor economic condition of business entities and low income of the majority of the society;
- low capitalisation of numerous insurers observed in Eastern European countries;
- lack of social trust in insurance institutions (particularly in former Soviet Union countries);
- overregulation of the insurance sector by the state;
- mandatory insurance protection imposed by legislators;
- inconsistent adaptation of insurers to free market rules;

- use of insurance institutions for the vested interests of investors who aim at gaining the highest possible income from performed operations in a short period of time.

All abovementioned factors determine the situation of the insurance market and influence its development on demand and supply side likewise. With regard to supply, we need to note that it is partially related to the number of operating insurance companies, as they constitute the strongest link of the insurance sector. Their reliability, efficiency and availability indicate the market development status and allow reaching the largest possible group of clients. In this regard the situation is non-homogenous in the countries under review. As part of the Single Market, insurance companies can operate in practically the entire EU area on the basis of a notification. This has resulted in a limited or steady number of insurers with a local operating licence – relevant data are presented in Table 3 below.

Table 3. A number of insurance companies holding a national operating licence in the years 2009–2013

Country	2009	2010	2011	2012	2013
Belarus	24	24	25	25	25
Czech Republic	54	53	53	52	51
Estonia	12	13	12	12	12
Hungary	30	30	30	29	29
Latvia	19	19	19	18	18
Lithuania	21	21	20	20	19
Poland	66	65	61	59	59
Russia	722	640	587	458	422
Slovakia	21	23	24	23	23
Ukraine	450	456	442	414	407

Source: Table 2.

In the analysed non-EU countries, the access of foreign entities to the insurance market is limited and foreign insurers can only operate on the basis of a licence issued by a local authority to a company registered in a given country. This kind of approach results in varying numbers of insurers holding a local operating licence. It is worth focusing on two countries – Russia and Ukraine – with the largest number of insurers.[4] Despite the fact that the differences between the insurance sectors in both countries are gigantic, the number of operating insurers is comparable. We are dealing with two processes here: in Russia, we are observing a gradual decline in the number of insurance companies operating on the market, which is mostly caused by a very strict insurance supervision policy regarding the financial security of insurers, which manifests itself mainly through raising requirements concerning equity and the amount of technical provisions. Actions aimed at tightening the legislation in force are also taking place in order to eliminate the so-called tax optimisation: schemes that consist in exploiting incoherent regulations in order to lower corporate taxes or even to divert funds away from a company by means of insurance. This was taking place mainly through considerable over-declarations of property insurance benefits,

4. Those having a local licence for insurance operations.

levels of which had nothing to do with actuarial accounts, as they were set exclusively as a tool for serving the vested purposes of company owners or managers. Insurance proceeds were then transferred further in the form of reinsurance benefits to tax havens and returned to "interested parties" in the form of foreign investments or even cash. Supervisory and legislative activities have been quite efficient, resulting in the elimination of unreliable entities willing to circumvent the law instead of doing proper business on the market. Another factor that limits the number of insurers is mergers and takeovers, particularly of small insurance companies without sufficient capital to drive territorial expansion, but with a strong position on the local market. A takeover allows them to function efficiently as a local branch of a large capital group.

Ukraine is a different story. It is so mainly due to the specificity of this insurance market. It is estimated that only about 80–100 insurance companies operating in Ukraine perform typical operations aimed at external clients. Other insurers are mostly "captives" that can be divided in two groups:

- sectoral insurance companies that under the pretence of protecting a given sector's interests actually monopolise a given insurance area;
- insurance companies created by large producers or industrial and financial groups in order to satisfy their own insurance needs; the scope of their operations is usually subordinate to founders' interests.

Unfortunately, their operations have little in common with typical insurance business as we understand it: they focus primarily on the so-called tax optimisation, i.e. using regulatory loopholes in order to avoid paying taxes or lower the tax base.

Compared to its neighbours, the Belarusian insurance market seems very stable in terms of the number of insurers. It has remained at an unchanged level for several years now, which is a consequence of very strict legal conditions that limit the right to perform insurance operations by private and foreign entities and a *de facto* monopolisation of the market by state actors who have been granted the exclusive right to provide all obligatory types of insurance.

3. Insurance markets during economic slowdown

Insurance market development and its stability under economic turmoil is reflected in the amount of premiums written. This certainly mirrors economic stability, but is subject to a broad spectrum of social influences that can weaken insurers' position as regards insurance acquisition. In the analysed period (2009–2013) we observed considerable differences in the amount of premiums written and their change during economic stagnancy. On the one hand, these differences derive from the level of economic development and consequently, from the living standards of residents. Still, on the other hand, they are linked to the role performed by insurance in these countries' economies and awareness of the insured. We need to emphasise here that in all discussed countries, insurance is gradually becoming an important element that supplements the public social insurance system. Undoubtedly, it is a result of demographic changes, mainly the ageing of the society and extended life spans, and consequently of cumulating problems of pension and health care systems in providing comprehensive protection to the insured. Therefore, it is reasonable to say that this process is intensifying and the role of insurance, particularly life and health insurance, will grow.

Analysing the market from the point of view of premiums written, we need to stress that in the years 2009–2013 they grew in value, despite the downturn – Table 4.

Table 4. Insurance premiums in EUR million in the years 2009–2013

Country	2009	2010	2011	2012	2013	$D_{13/09}$
Belarus	279	334	294	402	568	203.58%
Czech Republic	5,287	6,225	6,011	6,107	5,709	107.98%
Estonia	322	295	288	300	320	99.38%
Hungary	3,050	3,023	2,620	2,627	2,656	87.08%
Latvia	377	328	391	443	473	125.46%
Lithuania	447	449	492	518	556	124.38%
Poland	12,498	13,676	13,872	15,322	14,114	112.93%
Russia	11,647	13,847	16,265	20,249	21,388	183.64%
Slovakia	2,019	2,067	2,109	2,040	2,095	103.76%
Ukraine	1,172	1,212	1,695	1,939	2,043	174.32%

Source: Table 2.

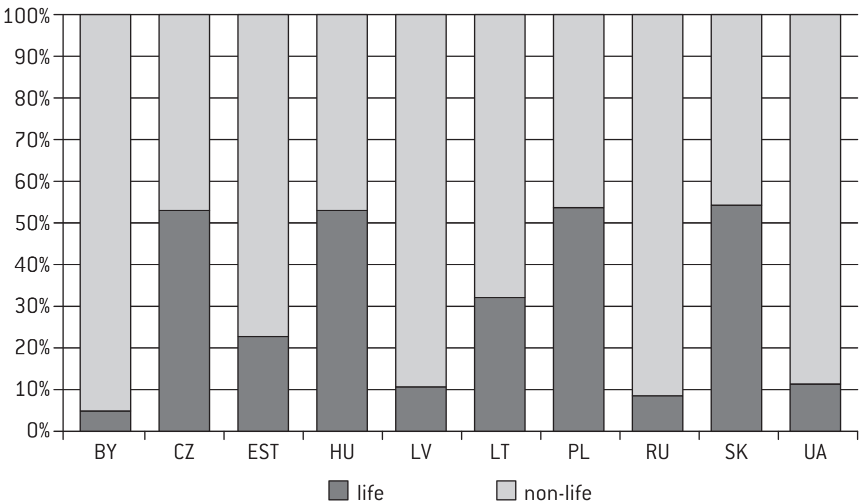
Only Estonia and Hungary have experienced a decline in premiums. This is certainly a result of a complicated economic situation, visible since the beginning of the financial crisis. Throughout the crisis and thereafter Hungary observed a relatively low growth rate. Such state of affairs is a result of a number of elements, the most important of which are: weak internal demand, very low economic activity of the society, decline in production, high debt rates and low investment rates.

We need to note that despite an increase in premiums during the economic slowdown, the situation of the insurance sector in Belarus, Russia and Ukraine is quite specific, since insurance products are treated as a tool in the hands of the state. The main reasons for this situation are:

- considerable political risk and the lack of stabilised state policy in the field of foreign investments,
- pressure on state policy exerted by oligarchs who wish to protect their interests from the influence of competitors,
- sealing of the market related to the legislation in force,
- insufficient availability of financial instruments that allow for a safe investment policy, particularly in the reality of substantial inflation,
- a very strong position of sectoral insurance companies and captives pursuing vested interests of their shareholders, while simultaneously limiting competition and enforcing insurance conditions and tariffs that have nothing to do with the modern insurance activity,
- the lack of a clear methodology of establishing technical provisions and applying methods of actuarial practice,
- the lack of clear legal regulations that enable local businesses to use insurance products as an efficient tool for protecting corporate property and potential, which in turn facilitates the emergence of "schemes" of all sorts that fuel the struggle between insurance companies and their clients with fiscal institutions.

The structure of the insurance market is an important agent that determines its development and perspectives for further growth.[5] In a vast majority of developed countries, life insurance prevails as it constitutes a significant element that complements the social insurance system. The situation in the countries of our focus differs – Chart 2.

Chart 2. Market structure (%) as of the end of 2013



Source: Table 2.

Inasmuch as the situation in V4 countries is very similar, with life insurance having an over 50 percent share in the market. In other countries, such as Belarus, Russia, Ukraine and perhaps surprisingly, Latvia, the market share of life insurance ranges between 9.1 and 11.5 percent (5.2 percent in Belarus), which attests to its very low development. This is a characteristic feature of developing markets, where non-life insurance enjoys greater popularity in the first years of economic transformation. Additionally, the role of life insurance as a supplement to the public social insurance system is also insignificant. However, this irrelevance also indicates directions for further development, which is likely to follow the pattern of developed markets dominated by life insurance. Additionally, we need to note that life insurance performs various social functions in the analysed countries. On the one hand, this results from the society's interest in life insurance while on the other hand, from the shaping of the role of life insurance in the social insurance system by legislators. Accordingly, we can observe large disproportions between the countries as regards the share of this type of insurance in the market. The gap between life and non-life insurance market share is even larger if the state emphasises development and positioning of life insurance in the social insurance system and the financial market. In Poland, clients' increased interest in life insurance products has been fuelled by the legal framework of life insurance, which is very capacious and covers contracts with diverse characteristics and economic functions. In recent years products with an investment or savings element have played a particularly vital role.

5. K. Ortyński, "Rynek ubezpieczeń non-life w Polsce" in *Ubezpieczenia non-life*, edited by E. Wierzbicka (Warszawa: Wydawnictwo Fachowe CeDeWu, 2010), 17–18.

They are offered mainly by insurance companies in cooperation with other providers of financial services. From the economic perspective, these contracts are similar to typical capital market instruments (e.g. investment funds' share units) or those of the banking sector (deposits). Therefore, their market share is relatively high, although their social function is quite limited. In Eastern Europe, a region exhibiting extremely low levels of social trust in public institutions (including social insurance institutions), life insurance serves another purpose: clients try to secure their future by concluding life insurance contracts. Limited income, insufficient insurance awareness within the society and the abovementioned lack of trust in institutions, including those providing insurance services – intensified by the escalation of political and social problems caused by economic slowdown – form a fundamental obstacle to the mass popularity of life insurance.

As regards other Visegrad countries, life insurance is treated as a mechanism that supports the social insurance system, particularly in the Czech Republic and Slovakia.[6] In Hungary, a recent reform of the pension system resulted in a private pillar of this system being *de facto* state-controlled and used to collect funds for the purpose of reducing budget deficit. These actions resulted in a decline in public debt from over 78.5 percent GDP in 2012 to 77.3 percent GDP in 2013[7] (at the same time Polish debt amounted to 55.7 percent GDP, according to Eurostat[8]). With the intent of protecting the poorest, the V. Orban government imposed new taxes on banks, telecoms, and supermarkets and introduced a uniform 16 percent rate in 2011. Additionally, wishing to help foreign currency debtors, the government passed a law that enabled them to make a single repayment of the entire loan at a 30 percent lower rate than the market rate. Around 130 thousand debtors exercised this option. However, instead of improving the residents' economic standing the effect of these actions turned out to stand in contrast to the intentions. The banks lost their best clients, while the percentage of unrecovered loans nearly doubled to almost 20 percent in a short time. As a result, the government only helped the richest. The situation of the poorest is getting worse – currently 4 million Hungarians live below the poverty line[9], while in 2008 the number was 300 thousand less. Without doubt, this type of situation adversely influences the purchasing power of the majority of society, which is reflected in the reduced interest in non-essential products, including insurance. Unfortunately, this has also adversely influenced life insurance, the market volume of which is beginning to shrink and will weaken social and pension security even more.

In Baltic States life insurance still occupies a marginal position. This is a consequence of the historical legacy of the Soviet Union, in which social insurance was fully guaranteed by the state, plus a resulting lack of insurance awareness combined with internal economic problems related to low income and a very high percentage of migrants, that makes the number of persons interested in taking out life insurance relatively low. However, we need to stress that despite the fact that

6. Necas S., Cejkova V., "Non-life Insurance Market in the Czech Republic and Slovakia" in *European Financial Systems 2014. Proceedings of the 11th International Scientific Conference*. Brno: Masaryk University, 2014, p. 417–424.
7. http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&pcode=teina225&language=en (accessed: 2015–02–12).
8. http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&pcode=teina225&language=en (accessed: 2015–02–12).
9. Sustainable development in the European Union 2013 edition. Key messages. Eurostat statistical books, p.77, http://ec.europa.eu/eurostat/documents/3217494/5787473/KS-03–13–331-EN.PDF/6515c50d-3ba7–4d10-b2cf-f8da2cf97d3d?version=1.0, (accessed: 2015–02–12).

the economic situation is different in each country we have focused on, we can see an upward trend when it comes to interest in insurance, including life insurance, particularly among natural persons. The Lithuanian economy has demonstrated an increasing trend in recent years. Internal demand, triggered by, among others, the increased consumption in households, spurred mainly by an increase in salaries, is gradually growing. In 2013 the minimum wage increased, which covered about 20 percent of workers. The increase in the minimum wage resulted in a higher average level of wages, which facilitated a general increase in consumption. The growing economic activity of the country is also boosting investments. The need for extensive investment outlays is particularly noticeable in industry, where the level of capacity utilisation is on the rise. This process should also be facilitated in the coming years by the introduction of the EURO on 1 January 2015. These factors are certainly stimulating the growing interest in financial services, including insurance. Neighbouring Latvia has observed a gradually improving economic climate since 2010 as well. After the crisis the country managed to succeed in certain fields by, for example, introducing solutions that stimulate economic activity, completing the privatisation process and improving the situation in the labour market. Although the unemployment level remains high, it is demonstrating a downward trend. On 1 January 2014 Latvia joined the EURO zone, which certainly should influence the economic growth in a positive way and, consequently, further growth in the insurance sector. The situation in Estonia looks more complicated, with a slight shrinkage in the insurance market. On 1 January 2011, Estonia joined the EURO zone. Since then, a gradual increase in the price of goods and services has been observed. Unfortunately, it has not been accompanied by an increase in remuneration, which is leading to a decline in consumption, including the demand for insurance services.

In analysing the impact of economic slowdown on the insurance market, it is worth referring to the claims ratio[10] on each market. Relevant data have been presented in Table 5 below.

Table 5. Claims ratio (%) in the years 2009–2013

Country	2009	2010	2011	2012	2013
Belarus	56.7	59.9	56.6	47.6	42.5
Czech Republic	60.6	53.2	54.8	57.3	60.4
Estonia	57.1	46.3	67.2	61.6	57.4
Hungary	57.0	57.7	60.0	60.2	61.3
Latvia	65.5	56.4	55.8	53.5	55.7
Lithuania	69.0	59.5	63.7	59.2	56.3
Poland	74.3	67.3	69.7	63.8	63.6
Russia	44.3	46.2	45.7	45.7	46.5
Slovakia	51.1	54.8	56.0	58.9	59.7
Ukraine	47.8	44.2	26.2	24.5	21.2

Source: Table 2.

10. Due to the fact that in some countries insurance supervision authorities do not publish data concerning operating costs and the level of technical provisions, this study analyses the claims ratio calculated as a ratio of total compensation paid to an insurance premium.

Data analysis shows a visibly lower claims ratio in Belarus, Russia and Ukraine as compared to other countries. Without doubt, this is a result of numerous factors, the most important of which are:

- low insurance awareness among clients;
- relatively low level of compensation, especially in the case of bodily injury, resulting from very low valuations of claims by insurers or a widespread "undervaluation" of human life and health in a society;
- low share of mass insurance options for a broad spectrum of individual clients as well as small and medium enterprises in insurers' portfolios;
- application of clauses in terms and conditions of insurance which allow insurers to use broad discretion in refusing to pay compensation, in whole or part;
- low (or even non-existent) consumer protection by state institutions.

In other countries the claims ratio is much higher, which reflects better development of the insurance market and a broader use of insurance mechanisms as a tool for minimising losses related to risk materialisation as well as complementing the social insurance system. In certain countries we can observe claims ratio growth in subsequent years, which is certainly a consequence of a decline in insurance premiums, but could also be the effect of an increased number of claims reported by the insured, which is caused by a worsening financial situation[11] or a probable increase in insurance fraud. These are the factors that need to be taken into account by insurance companies in their day-to-day operations as part of the process of optimising operational costs and seeking new sales opportunities. This is particularly important during long-term economic slowdown, which can cause liquidity problems among insurance companies due to a decline in equity levels and reduction of investment ratings, which in turn destabilises the financial situation of the entire insurance sector and adds to the increased probability of insolvency of insurers. Therefore, the key aspect of providing insurance market security in all analysed countries is to introduce systemic solutions that would boost the financial security of active insurance companies, and in consequence, the security of clients benefiting from their services.

Conclusions

The economic slowdown observed in the European economy in the years 2009–2013 affected all analysed Central and Eastern European countries. It had an adverse impact also on the insurance sector which strongly experienced effects of the decline of, among others:

- demand for life insurance products for individual clients that could complement the social insurance system ;
- demand for insurance protection as a tool for optimising operations of business entities;
- insurance premium growth rate;
- efficiency of active insurers as a consequence of an increased level of compensation.

11. It happens frequently, especially in the case of large enterprises, that "minor losses" are not reported to insurers, since procedures they use for reporting and settling claims can take up several days, which can be uneconomical if a machine, a device or a means of transport remains out of use.

We need to stress that in the reality of the market economy, the insurance market constitutes an important factor that stimulates economic growth and structural development through the following channels:

- providing broad insurance protection to enterprises, thus improving their financial standing;
- stimulating entrepreneurial attitudes, encouraging investments, innovation, triggering market dynamics, and competition;
- providing social protection independently of the state and removing the burden from the public sector;
- broadening the scope of financial intermediation, enhancing liquidity and mobilising savings.

As institutional investors, insurers gather dispersed funds and channel them to particular investments, therefore facilitating corporate access to capital:

- by promoting sensible risk management among households and companies, thus contributing to constant and responsible development;
- by stimulating stable consumption.

All abovementioned factors are tightly correlated with economic growth and observable changes triggered by internal and external agents.

The analysis indicates that insurance markets of all countries of our focus “follow” GDP growth rates, showing a downward trend in times of economic volatility. Economic slowdown considerably influences and restructures the insurance market. Usually, under such conditions, the demand for life insurance is higher than for motor insurance. Health insurance enjoys greater popularity as well. Insurers aim at optimising operating costs by modifying sale and client service networks and striving to improve their efficiency. They limit capital investment, mergers and takeovers while consolidating their own structures to reduce operating costs. All these actions are aimed at reducing the destabilising impact of external agents that could disturb the operation and at introducing solutions for the maintenance or, possibly, improvement of insurers’ market position.

Actions undertaken by insurers differ when it comes to their efficiency in dealing with external factors such as financial crises or economic slowdown. Despite the fact that EU Member States’ insurance practice is based on single legal regulations, the underlying agent is the economic development in each individual country. Given that, the insurance sectors in Latvia, Lithuania, and Poland were most successful during the economic slowdown. The situation is worse in the Czech Republic and Slovakia, although we can observe an upward trend there. Negative growth dynamics can be seen in the Hungarian and Estonian insurance markets. Compared to all abovementioned countries, the insurance sectors of Belarus, Russia and Ukraine evince an above-average growth. Unfortunately, this is mainly a result of the increasing role of compulsory insurance and the specific geopolitical situation of these countries, which makes the insurance market a tool in the hands of the state.

Nevertheless, we need to stress that in all countries of our focus the insurance sector has gone scot-free in the face of problems generated by the economic slowdown. This certainly attests to its strong position in the financial sector. In addition, insurance companies operating in these countries are undergoing qualitative changes through optimising their operations by means of applying innovative risk management solutions, streamlining the underwriting process, or introducing new financial security rules as part of Solvency II Directive. All these factors will allow a further strengthening of the insurance sector and its players in Central and Eastern European countries for the benefit of insurance sector clients and the economy.

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Rynki ubezpieczeniowe w wybranych krajach Europy Środkowo-Wschodniej w dobie spowolnienia gospodarczego

Celem niniejszego opracowania jest przeprowadzenie analizy wpływu spowolnienia gospodarczego na rynki ubezpieczeniowe wybranych krajów Europy Centralnej i Wschodniej w latach 2009–2013. Został zaprezentowany wskaźnik dynamiki wzrostu produktu krajowego brutto oraz na jego tle kluczowe wskaźniki charakteryzujące rynek ubezpieczeniowy. Na ich podstawie przeprowadzono analizę komparatywną sektora ubezpieczeniowego w omawianych krajach. Zwrócono uwagę na różnice w procesach zachodzących na rynkach ubezpieczeniowych krajów należących do Unii Europejskiej w ramach jednolitego rynku ubezpieczeniowego oraz krajów nie należących do UE. Szczególną uwagę poświęcono analizie uwarunkowań geopolitycznych w krajach pozaunijnych wpływających na sektor ubezpieczeniowy. Zwrócono także uwagę na zagrożenia wynikające z postępującego wzrostu w niektórych omawianych krajach odszkodowań i świadczeń. Dokonano także analizy stopnia rozwoju ubezpieczeń jako instrumentu wsparcia w zakresie narzędzia uzupełniającego publiczny system zabezpieczenia społecznego.

Słowa kluczowe: spowolnienie gospodarcze, sektor ubezpieczeniowy, zakład ubezpieczeń, składka ubezpieczeniowa, szkodowość.

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