



HARMONISING THE CZECH INSURANCE MARKET WITH THE SINGLE EU INSURANCE MARKET – AN ANALYSIS

Part 1

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In a market economy insurance has a significant position with specific tasks and importance. Insurance is a separate sector of the financial services of an economy, ensuring the elimination of risks ensuing from economic activity. It represents a system and rules for subjects performing their activity in this sector. The insurance industry comprises insurance institutions, insured subjects, insurance brokers, supervisory authority of insurance industry, associations of insurance companies and other subjects.

The main aim of this article is to present knowledge acquired in studying the development of indicators of the level of the insurance market both in the Czech Republic as well as in the single insurance market of the European Union. This analysis of indicators evaluating the level of insurance markets serves as an evaluation of the current degree of transformation and approximation of the Czech insurance industry in the process of harmonisation with the European insurance industry.

5 322 authorised insurance companies operated in Europe (according to CEA¹ data, 2002), of which 4 693 were in EU countries (prior to the accession of new member states on 1 May 2004). In this number three countries (Britain, Germany and France) with the strongest insurance markets also had the highest numbers of insurers. The number of insurers however need not always express the volume and level of the national insurance market. For example in Sweden there are seven times as many insurance companies as in Austria, but the volume of premiums is almost identical. This is connected also with the degree of concentration of the insurance industry in individual states. It is characteristic for several countries that five to ten of the strongest insurers hold a large majority in the insurance market.

The world insurance market is dominated by successful market economies in the OECD. Their economies comprise approx. 78 % of GDP and account for more than 90% of the total volume of premiums (see [5]). The share of the seven most developed world economies (G7) represents around 80 % of the volume of premium written on world insurance markets. In 2000 the USA and Canada insurance market formed more than one third (37.3 %), the EU insurance market almost one third

(31.9 %) with a further significant insurance market being the Japanese (almost 17 %) whereas the Asian insurance market formed 26.5 % and the rest of the world 4.3 % (according to CEA data, 2002). The long-term growth average of premium written in the world insurance market over the period 1992 to 2001 was 3.8 %, as shown in [6].

The potential of the European insurance market may be documented by several indicators, for example the share of premium written in the formation of gross domestic product, or by premium written per capita, as well as other indicators (see [3], [4]).

Indicators of the level of the insurance market are evaluated in a complex manner. This concerns indicators used also in advanced economies. Indicators used are primarily those which are monitored in the life assurance sector and in the non-life insurance sector:

- premium written,
- insurance benefits,
- loss experience,
- insurance penetration,
- concentration of the insurance market.

Of the above basic indicators of the degree of an insurance market's development, the indicator of the concentration of the insurance market is used also outside the Czech insurance market, and this in a modified form as a percentage share of the representation of the 5, or 10 largest insurance companies in the respective insu-

¹ CEA – Comité Européen des Assurances - European Insurance Committee of 32 European countries. See [20].

rance market. We can also monitor and evaluate an insurance market by means of additional indicators (for more details see [2]).

Other indicators include for example indicator of premium written per capita, which is commonly used for states associated in the CEA, though conversely in insurance practice in the Czech Republic is not stated in the annual reports of the Czech Association of Insurance Companies (see [21]). We will introduce and analyse these indicators in the 1st and 2nd parts of this article.

The insurance market in Europe

Insurance is a significant part of the economic potential of all advanced economies.

In some states in Europe, for example Britain, Switzerland and Sweden, the capital of insurance companies exceeds that of the banking sector. The profitability and growth of the insurance sector is very closely connected to overall economic development of individual states and continents.

One of the largest insurers on the European continent – by premium written – is the German insurance company Allianz. Other leading businesses in the European insurance sector are AXA – UAP (F), Generali (I), Zürich (CH), Winterthur (CH), Prudential (GB), Aegon (NL), ING (NL), Commercial Union (GB), and others (see Table 1).

In selected European countries the development of insurance penetration indicator is more balanced (according to data for 1998 and 2000), and in the first 10 states is within the range of 6 – 16 %, with the exception of Luxembourg, Switzerland and Britain. The average level of insurance penetration in 1998 in the EU countries was 7.4 %, and in the CEA² 7.3 %. In 2000 this figure for the EU average had increased to 9.0 % and in the CEA states on average to 8.6 %. This development is described in more detail in Table 2.

For the insurance industry in the countries of central and eastern Europe the first half of the 1990's meant a significant recovery in the insurance market. In comparison with 1992 growth in premium written in these countries was approximately 35%. Poland, Slovenia,

² More on CEA see [2] and [4].

Table 1: The largest insurers in Europe by premium written (data for 2000)

Top 10 European insurers	
1. AXA	6. ING
2. Allianz	7. Prudential
3. Generali	8. Royal Sun Alliance
4. CGNU	9. Winterthur
5. Zürich	10. Aegon

Source: CEA, 2002

Table 2: Insurance penetration in selected European states (in %)

State	1996	1998		2000	2001
	Insurance	Insurance	of which: : life assurance	Insurance	Insurance
Luxembourg	–	34.8	30,1	27,3	-
Switzerland	11.2	12.7	9.2	12.4	12.7
United Kingdom	10.7	12.1	8.5	15.8	14.2
Ireland	–	10.0	6.8	10.1	9.0
Netherlands	9.1	8.6	6.1	9.9	9.8
Finland	-	8.2	6.3	9.3	8.8
France	8.9	7.9	4.9	9.4	8.6
Denmark	–	6.8	4.3	6.4	6.9
Belgium	–	6.7	3.7	8.4	-
Germany	6.5	6.4	2.7	6.5	6.6
Czech Republic	2.6	3.1	0.8	3.7	3.7
Slovakia	2.4	3.1	0.9	3.1	3.2
EU total	7.1	7.3	4.3	9.0	9.1
CEA	7.0	7.3	4.2	8.6	8.7

Source: CEA, 2002

Hungary, Slovakia and the Czech Republic in particular very quickly overcame the consequences of the long-term absence of a market environment. Despite this, the region's share in the world market was less than 1 %. Even in the framework of Europe these countries remained at the bottom of the league.

Some states of central and eastern Europe achieve relatively respectable results in the figure for overall in-

Table 3: Insurance penetration in selected states of central and eastern Europe (in %)

State	Years				
	1996	1997	1998	2000	2001
Slovenia	4,8	4,5	4,7	4,8	5,0
Czech Republic	2,6	2,9	3,1	3,6	3,7
Slovakia	2,4	2,6	3,1	3,1	3,2
Poland	2,1	2,6	2,8	3,2	3,2
Hungary	2,2	2,3	2,4	3,2	3,3
Latvia	1,5	1,9	2,4	-	2,0
Estonia	1,8	-	1,7	1,9	2,0
EU Average	7,1	7,4	7,3	9,0	9,1

Source: Annual report of Czech Association of Insurance Companies for 2002; CEA, 2002



insurance penetration (see data in Table 3), but still lag significantly behind the average for the EU15 states (prior to its expansion in May 2004).

Over the past years the standing of life assurance has strengthened around the world. This applies also for Europe. Despite this, there are quite significant differences between individual states in the mutual proportion of life assurance and non-life insurance. We can say that a higher share of life assurance in the national market is indicative of a developed market.

An interesting feature is the development of the life / non-life insurance ratio over time in the CEA countries. If we compare development in the transforming Czech Republic, the discordance between the situation in the CR

Table 4: Development of non-life / life insurance ratio in CEA countries (in %)

Years	Non-life insurance	Life assurance
1990	54.8	45.2
1991	53.8	46.2
1992	52.1	47.9
1993	50.5	49.5
1994	49.9	50.1
1995	48.6	51.4
1996	45.9	54.1
1997	43.0	57.0
1998	41.9	58.1
1999	38.6	61.4
2000	34.9	65.1
2001	35.3	64.7

Source: Pojistný obzor no. 6/2002, CEA 2002

and advanced European economies is clear. The development of this ratio in the CEA is shown in Table 4.

In the framework of analysed data from selected states there are large differences in the importance and standing of life assurance in the respective insurance market and the whole economy. Primarily this concerns the difference between the states of central and eastern Europe and those of the EU. Naturally, there are also differences between the EU member states, where these are results of differing traditions, preferences for certain financial products, forms of pension security and insurance, the tax system, etc. This fact is documented by the data in Table 5, showing the levels of the annual premium written for life assurance per capita in EUR and the share in the total CEA life assurance market.

Comparison of the Czech and European insurance markets

The insurance market in Europe, as well as that in the Czech Republic, has in the past years undergone wren-

Table 5: Premium written of life assurance per capita and market share of life assurance within CEA in 2002

Country	Premiums per capita (in EUR)	Market share of life assurance in CEA (in %)
Luxemburg	11 362	0.91
United Kingdom	3 324	37.73
Switzerland	2 908	4.03
Ireland	1 686	1.16
France	1 517	17.19
Netherlands	1 505	4.58
Sweden	1 470	2.47
Belgium	1 346	2.61
Denmark	1 308	1.33
Finland	845	0.83
Norway	792	0.68
Germany	735	11.63
Italy	690	7.57
Austria	664	1.03
Spain	594	4.50
Portugal	376	0.68
Slovenia	91	0.03
Greece	78	0.16
Czech Republic	64	0.13
Poland	56	0.41
Slovakia	49	0.05
Turkey	8	0.11

Source: Pojistný obzor No. 6/2002

ching restructuring. The reason was a substantial growth in competition, brought about mainly by the gradual liberalisation of the market following the adoption of key European Community directives. Insurance companies, in consequence of these changes, are forced to focus their strategy on increasing competitiveness. This process may take various forms (see [6]): a re-evaluation of the business strategy, cutting costs, innovation of insurance products, etc. The decisive factor is the greater orientation on the market and communication with clients.

The sale of insurance products will be more and more focused mainly on these aspects:

- strategic – the structure of insurance products offered,
- economic – cutting costs, primarily in brokerage,
- marketing – focus on the scope of services provided.

The most important factor for completing the process of the Czech insurance industry's approximation to the European, and for evaluating the development of this process is the legislative field. Despite this, a comparison of selected figures for the insurance market (see [2]) is meaningful, where these characterise its quantitative and qualitative aspects. As regards the quantitative relationship of the European and Czech insurance markets it is clear that a comparison of primarily the fi-

Table 6: Selected indicators of the EU and CR insurance market for 2000

Indicator	EU	ČR
Number of inhabitants (in thous.)	377 617	10 261
Number of insurance companies	4 786	41
Number of inhabitants per insurance company	78 900	250 268
Number of employees in insurance industry	891 043	16 112
Number of employees / thousand inhabitants	2,36	1,57
Premium written (in mill. EUR)	735 799	2 011
Premium written per capita (in EUR)	1 949	196
Premium written in life assurance (in mill. EUR)	471 600	658
GDP (in mill. EUR)	8 467 000	54 351
Total insurance penetration (in %)	8,69	3,70
Insurance penetration in life assurance (in %)	5,57	1,21

Source: own calculations based on data of the Annual report of the Czech Association of Insurance Companies for 2001 and CEA 2002

figures of the relative, i.e. proportional, indicators is important. The selection of relative indicators better characterises how advanced an insurance market is, and thus also the level of its insurance services.

One of these indicators is the number of commercial insurance companies in the market. For compatibility reasons we will use also the indicator of the number of inhabitants per insurance company. Another indicator is the number of employees in the insurance industry in proportion to the population, and other additional indicators.

The most important indicator, expressing the qualitative aspect of the insurance market, is however premium written, with the possible delimitation of life and non-life insurance. The insurance penetration indicator is also important, again with the possibility of separate analysis for individual sectors of insurance. Insurance penetration refers to the proportion of premium written to the gross national product. Table 6 shows selected insurance market indicators for the EU and CR in 2000.

It is clear from Table 6 that the number of inhabitants per insurance company in the Czech Republic is more than three times higher than for EU countries. We could theoretically conclude from this comparison a low saturation of the Czech insurance market, something though which would be a matter open to discussion. The development of the number of insurance companies in the Czech Republic clearly shows that roughly from 1997 (see [3]) there has been a move more to consolidation in the number of insurance companies, with newly-established insurance companies being the exception. Indeed, at present the converse is true, where we have seen a number of mergers and acquisitions.

A similar trend is also indicated by another indicator – the number of employees in the insurance industry per thousand inhabitants. In the EU countries this figure is 50 % higher. It is disputable whether the Czech insurance market has approximated to the EU average,

since the number of employees in the Czech insurance business has stagnated (2001 saw a decrease to 15 737 persons, in 2002 another decline to 15 333 persons and in 2003 negligible growth to 15 389 persons, according to the data of Czech Association of Insurance Companies in 2004).

As regards premium written per capita, the Czech Republic is at approximately the level of 10 % of the EU countries.

There is thus clearly a severe lag in the premiums per capita

figure for the CR insurance market behind that for the EU, where is due in part to attitudes of the public and businesses towards insurance. On the other hand we can nevertheless discern a relatively high potential for future growth in this field.

The premium written per capita indicator is to a certain degree connected to the proportion of premium written to GDP (insurance penetration). Despite the fact that over the course of the 1990's this indicator for the Czech Republic grew steadily, it still lags significantly behind that for the EU countries, representing approximately 40 % of the European average in 2000. A still sharper difference can be found in the case of life assurance. Here two factors are at work, pulling in the same direction: low insurance penetration and a low share of life assurance in the total premium written. In the case of life assurance, its share for the Czech Republic represented approximately only 15 % of the average for the EU in 2000. The problem in this regard is that not only the current share, but also the rate of growth of this share in the Czech Republic lags behind EU countries. We can however expect within the foreseeable future significant changes in this indicator.

The Czech insurance market in comparison with that of EU countries is at a relatively low level. From the qualitative aspect, which can be used for the purpose of mutual comparison, we can say that after more than 10 years from the gradual introduction of a demonopolised insurance market, the Czech insurance industry is still far from the level of that in European economies. From a different regard in this sense we understand the field of adapting national legislative standards to European norms, something we will deal with in the next part.

To be continued in issue 7/2005