SOUTH-EASTERN EUROPE MACROECONOMICS AND INSURANCE MARKET TRENDS, PERSPECTIVES AND CHALLENGES

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MACROECONOMIC ENVIRONMENT

- Economic growth continued in 2016 (except for Greece)
- Five countries EU members
- Increased investment opportunities and higher level of FDI in the countries approaching the EU
- FDI - interregional cooperation, EU, China, Middle East and Russian Federation
- Investments in energetic and financial sector as well as manufacturing
High unemployment rate

- Undeveloped economies – high level of unemployment, especially for the youth
- Migration of youth unemployed and well educated population in developed EU countries
- Decrease in working-age population
- Total population of SEE in 2016 was 141.6 million (27.7% of 511.3 million EU population)
- Population increased by 2.1% in 2016 thanks to the increase of the Turkish population (79.8 million)
GDP growth

• The real GDP growth in 2016 was between 2.5% in Slovenia and 4.8% in Romania, but
Greece still registers a negative result (-0.2%)

• Total GDP of the region in 2016 was EUR 1.341 billion (increased by 2.1%)

• It is 9% of EU GDP (EUR 14.909 billion) which registered growth of 2% in 2016

• Turkey share of the SEE GDP is 58.4% (EUR 783 billion)
GDP (EUR millions)
GDP per capita

• An average GDP per capita for the SEE in 2016 was EUR 9,473 (increased by 3,5% in 2016 and 10,2% in last five years)

• EU average was EUR 29,200 – still more than three times higher than the SEE

• GDP per capita above EUR 10,000: Slovenia, Greece and Croatia

• GDP per capita below EUR 5,000: Kosovo, Albania, BiH, Macedonia and Serbia
INSURANCE MARKET

- SEE insurance markets noted positive trends in 2016
- Thanks to the insurance associations of the countries (or supervisory authority in Macedonia and State Insurance Agency in BiH), we collected insurance market data for most of the SEE countries in 2016 and did market review
- Individual market reports are provided for all countries except Albania and Kosovo, and for Croatia and Romania data for 2016 collected from their official reports
Legal and institutional framework

• There were not significant changes in legal and institutional framework in the region in 2016, except in countries that started implementation of Solvency II that were very active.

• Changes in other countries during 2016 were mostly oriented towards improving the regulation in the field of MTPL insurance as well as towards promoting risk management process in insurance companies.

• No serious preparations for the new rules and governments are not very active in the sector.
Trends in premium volume

- Total premium volume of the SEE in 2016 increased by 10.7% to EUR 23.917 million and it is the largest growth of the market since 2012.
- It is only 2.0% of the total insurance premium of the Insurance Europe in 2016 which was EUR 1.189 billion, with 7.7% of growth.
- The highest level of growth in Turkey (18.0%).
- Except for Greece and Kosovo, all the countries recorded a two-year continuity of premium increase.
Insurance penetration and insurance density

• Insurance sector followed the growth of the regional economies with the share of premium in GDP of 1.8% (the same as in 2015).

• Insurance density for the region in 2016 was EUR 168.90.

• Insurance Europe in 2016 - insurance penetration was 7.2% and insurance density was EUR 1,981 (11.7 times higher than in SEE).

• Best indicators for Slovenia (5.3% and EUR 1,021), followed by Greece (EUR 360), Croatia (EUR 279) and the others below EUR 150.
Insurance penetration (% of premium in GDP)
Share of life insurance

• The average share of life insurance in total premium of SEE in 2016 decreased to 22.3% from 23.1% in 2015.

• Simultaneously, in the Insurance Europe, the average share of life insurance in the total premium also decreased from 60.9% in 2015 to 58.54% in 2016.

• The largest share of life insurance in 2016 was registered in Greece (49.2%), followed by Croatia (33.3), Slovenia (30.6%), Bulgaria (20.9%) and BiH (20.4%).

• The other countries shares were below 20%.
Premiums in 2016

- The total premium of EUR 23.917 million in 2016 (little more than half of the share of Turkey) makes the region as one of the least developed parts of Europe

- Greece, Romania and Slovenia are the only countries with the amount of the premium above EUR 2.000 million

- Considering the volume of their economies, a common for all the countries is a high potential for market growth
Total premium in 2016 (EUR millions)

SEE = EUR 23,917
Number of companies

- The average premium per company for the selected nine markets in 2016 was EUR 89 million and only Turkey had an average premium per company above EUR 100 million (EUR 199 million).

- In BiH, Macedonia and Montenegro the average premium per company was less than EUR 15 million.

- Because of a disproportionately large number of companies in relation to market's premium, mergers and acquisitions can be expected.
Number of companies

- BiH: 27
- Croatia: 22
- Greece: 57
- Macedonia: 15
- Montenegro: 11
- Romania: 31
- Serbia: 23
- Slovenia: 22
- Turkey: 61

Countries listed: BiH, Croatia, Greece, Macedonia, Montenegro, Romania, Serbia, Slovenia, Turkey.
Average premium per company (EUR mln.)

- BiH: 11.5
- Croatia: 52.9
- Greece: 68.2
- Macedonia: 9.5
- Montenegro: 7.3
- Romania: 67.4
- Serbia: 31.5
- Slovenia: 95.8
- Turkey: 199.3
Market concentration

- Montenegro still has the highest market share of largest company in 2016 (37.3%), while in Croatia and Slovenia, the successors of state companies from the previous system, cover more than one quarter of the market.

- Three largest companies cover more than 30% (except BiH with 26.4%) and five largest companies cover more than 40% of the total markets in all the countries.

- Participation of small companies on the markets, with market share less than 3%, is largest in Turkey (52), followed by Greece (44).
Market share of the largest company (%)
Market share of the largest three companies (%)
Market share of the largest five companies (%)

- BiH: 41.35%
- Croatia: 61.30%
- Greece: 47.50%
- Macedonia: 53.50%
- Montenegro: 85.00%
- Romania: 55.24%
- Serbia: 74.90%
- Slovenia: 77.30%
- Turkey: 46.60%
Number of companies with market share less than 3%
Premium structure

• There is dominance of nonlife insurers on the markets, while life business is mostly in the hands of the insurers originating from the EU

• The share of life insurance on the selected markets in 2016 was 22.6%, while MTPL covers 29.2% and other nonlife 48.2%

• Greece had the largest market share of life insurance (49.2%), followed by Slovenia (30.6%) and Croatia (30.3%)

• A high share of MTPL insurance on the market is evident in BiH, Macedonia, Montenegro and Romania (more than 40%)
Number of life, nonlife and composite insurers

- Number of life insurers
- Number of nonlife insurers
- Number of composite insurers

<table>
<thead>
<tr>
<th>Country</th>
<th>BiH</th>
<th>Croatia</th>
<th>Macedonia</th>
<th>Montenegro</th>
<th>Romania</th>
<th>Serbia</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>10</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Nonlife</td>
<td>17</td>
<td>5</td>
<td>11</td>
<td>5</td>
<td>17</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Composite</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>6</td>
<td>7</td>
<td>5</td>
<td>37</td>
</tr>
</tbody>
</table>
Market share of life, MTPL and other nonlife insurance

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of life insurance premium (%)</th>
<th>Share of other types of nonlife insurance premium (%)</th>
<th>Share of MTPL insurance premium (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BiH</td>
<td>50,33</td>
<td>30,33</td>
<td>20,39</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>48,77</td>
<td>42,31</td>
<td>11,70</td>
</tr>
<tr>
<td>Croatia</td>
<td>49,20</td>
<td>30,06</td>
<td>14,80</td>
</tr>
<tr>
<td>Greece</td>
<td>41,75</td>
<td>30,65</td>
<td>28,50</td>
</tr>
<tr>
<td>Macedonia</td>
<td>43,45</td>
<td>30,70</td>
<td>25,90</td>
</tr>
<tr>
<td>Montenegro</td>
<td>43,96</td>
<td>30,06</td>
<td>25,00</td>
</tr>
<tr>
<td>Romania</td>
<td>44,15</td>
<td>31,70</td>
<td>24,15</td>
</tr>
<tr>
<td>Serbia</td>
<td>58,70</td>
<td>32,03</td>
<td>10,70</td>
</tr>
<tr>
<td>Slovenia</td>
<td>55,57</td>
<td>30,60</td>
<td>12,40</td>
</tr>
<tr>
<td>Turkey</td>
<td>50,33</td>
<td>30,33</td>
<td>20,39</td>
</tr>
</tbody>
</table>
Ownership structure

• Insurers with majority of foreign ownership are dominant on the markets, covering more than half of the total premium on the local markets.

• There are many examples of insurers from one SEE country (such as Slovenia and Croatia) operating on the markets of other countries of the region.

• The largest market share of foreign insurers is registered in Montenegro and Macedonia (more than 90% of the markets).
Number of „domestic” and „foreign” companies

BiH: 11 domestic, 17 foreign
Croatia: 13 domestic, 9 foreign
Macedonia: 1 domestic, 15 foreign
Montenegro: 9 domestic, 2 foreign
Serbia: 17 domestic, 6 foreign
Turkey: 40 domestic, 20 foreign
Market share of „domestic” and „foreign” companies

<table>
<thead>
<tr>
<th>Country</th>
<th>Market share of „domestic” companies (%)</th>
<th>Market share of „foreign” companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BiH</td>
<td>46,88</td>
<td>53,11</td>
</tr>
<tr>
<td>Macedonia</td>
<td>9,24</td>
<td>90,76</td>
</tr>
<tr>
<td>Montenegro</td>
<td>3,41</td>
<td>96,59</td>
</tr>
<tr>
<td>Serbia</td>
<td>29,13</td>
<td>70,87</td>
</tr>
<tr>
<td>Turkey</td>
<td>36,00</td>
<td>64,00</td>
</tr>
</tbody>
</table>
Key obstacles for markets development

• Underdeveloped economies and need for economic reforms in the region
• Risk management and insurance culture is missing
• Markets are bank-centric
• Insurers are not very active in promotion of insurance and focused to competition
• Dominance of MTPL and low shares of life and property insurance