



MARKET UPDATE



GrECo JLT's biannual newsletter on market developments in CESEE

Client Newsletter GrECo International Holding AG
September 2015

No. 1



Liberalization of motor insurance market in Croatia

The situation on the Croatian motor third party liability (MTPL) insurance market, during the process of liberalization, does not look good

All the more so because MTPL insurance premiums continued to fall in 2015, even though this trend was expected to end since all insurance companies with MTPL offered liberalized premiums on the market at the beginning of April last year.

In 2013 the average market premium for MTPL rated just above 200 EUR. From 2013 to 2014 GWP dropped from 392 m EUR to 320 m EUR. Since the beginning of the liberalization process GWP dropped over 100 m EUR (in only 17 months!) and this downward trend is still continuing.

Consequently, the combined ratio increased from 83.8% in 2012 and 81.8% in 2013 to 93.0% in 2014. A further increase can be expected for the current year. For the second half of the year it can be expected that premium decrease will slow down, as the market already starts approaching dangerously low MTPL premium levels.

So far technical losses in Casco insurance have been covered by the (relatively high) rates in MTPL. Now that the liberalization has taken away this "buffer", Casco prices have to be redefined and brought up to realistic market levels. "Against this background, maintaining the stability of the motor business is one of the cornerstones of the overall stability of insurance companies, emphasizing the importance of premium adequacy risk management, ensuring premium adequacy and maintenance of high quality of services provided", says Hrvoje Paukovic, director of HUO (Croatian Insurance Bureau).

Currently, of the countries in the SEE region only a few have a liberalized market for motor third party liability insurance. In Croatia, the market liberalization entailing a liberalized regime and market-based premium of MTPL insurance was introduced in 2013 after becoming an EU member state.

GrECo JLT Comment

From our point of view the process of MTPL liberalization in Croatia is a welcome, clear move away from fixed tariffs as seen in recent years.

While provoking a contraction of the overall MTPL market volume in the short run, we see this corrective development bringing both MTPL and Casco rates to reasonable market levels. Whether this will happen rather smoothly or in a destructive manner will in the end depend on how heavily competition will be actually lived by insurers and whether HANFA (Croatian Financial Services Supervisory Agency) will intervene with corrective measures. In general, we see this development as a sign for increasing maturity within the Croatian insurance market.

MTPL insurance in the total structure of insurance markets in SEE

countries is still the most important line of business making up for 27% (Croatia) to 71% (Kosovo) of total market GWP.

The biggest challenge for the future development of MTPL is the management of the liberalization processes (like in the case of Croatia), as well as the preparation of other countries for the liberalization process. Also, the regulatory bodies play a key role in ensuring the level of allocated technical provisions, adequately forming MTPL tariffs in terms of regulated prices, facilitating the transition, as well as providing quality reinsurance and effective supervision.

It will be interesting to see whether other SEE markets will follow soon and how they will implement liberalization after seeing the Croatian example and its effects.



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Spotlight: Russia

Interview with the General Manager of GrECo JLT Russia, Andrey Panov, on the current market situation

What are the most important risks for foreign companies?

Panov: I would draw the biggest attention to the condition of buildings and facilities, when a company is acquiring a plant or building. Sometimes the equipment or the building itself is very old. They have not been maintained very well in the last years and you have to be careful that your property insurance is covering such an asset.

What about the declining currency?

Panov: The unstable rouble can lead to the problem, that a limit agreed 6 months before will not be sufficient anymore to indemnify a damage properly.

And the danger of terror attacks?

Panov: Russia is not exposed above-average. There were only about 10-15 cases, where compensations have been paid. There were some attacks on international hotel chains, but the property damage was very low. Some regions in the South might have a slightly higher exposure.

How is the current political situation influencing the insurance market?

Panov: Some years ago there has been an investment boom in the Russian economy. Right now many companies have stopped their plans for expansion and remain in a waiting position.

Regarding the insurance market, the Russian insurers have problems to receive reinsurance. The Continental

European and London markets currently have no big appetite for Russian risks. The sanctions imposed on Russia might lead to the fact that some Russian insurers will get into problems, if a big claim arises.



They are not big enough to settle a large claim of about 100 million USD. They need the international reinsurance market as a cover. If they

do not get this backup such a claim might lead to bankruptcy.

CESEE Insurance Forums

GrECo JLT is always actively involved in the region and observing the markets. An important source for market developments are local insurance forums, where GrECo JLT takes part and also acts as an exhibitor.

Azerbaijan Internat. Insurance Forum

The sixth edition of the most important event in the Caucasus Region dedicated to insurance and reinsurance took place in July 2015. It aims to find the most practical solutions in the current market conditions and to strengthen the business cooperation between the participants.

The interactive format of the event is already well known, it includes plenary and panel discussions, bilateral meetings, as well as workshops, allowing everyone to get involved and help find the most efficient ways to achieve success in the re/insurance market.

Traditionally, the event brings together more than 250 participants from over 25 countries. Thus, top managers of national insurance, reinsurance and brokerage com-

panies from the Caucasus Region, Middle Asia, Europe, Turkey, Russia and CIS will attend the event making it an excellent networking opportunity.

Also, the foreign participants will have the opportunity to find more about the potential of insurance within the Caucasus countries.

and longest running industry event – the KIOGE Conference and Exhibition – which takes place on 6 – 9 October 2015 in Almaty.

GrECo JLT joined forces with JLT Specialty in London, a recognized worldwide leading Energy broker and will be an exhibitor at the event.



Exhibitor at KIOGE 2015

Key players operating in Kazakhstan's oil and gas market will share their development strategies and commercial success activities during the country's best attended

You can find us at the Advantage Austria booth (pavilion 10-208) and will be delighted to present our specialist services in risk & insurance advisory, risk engineering consulting for oil & gas exploration and production companies (upstream, downstream, petrochemicals) and energy construction corporations.

Odessa 2015

Better known as „International Yalta Finance Forum“, this year's 15th annual conference was held from September 16 to September 19 in Odessa, Ukraine but in a smaller format.

Despite the crisis participants from various countries had arrived in the historic city of Odessa. The representatives from Austria, Germany, United Kingdom, Romania, Slovenia, Poland, Latvia, Moldova, Georgia and Tajikistan along with their Ukrainian counterparts have shared latest news and exchanged their views on the current legal and financial developments in the country.

Some of the MP have underlined the necessity of deep structural reforms in the financial sector, whereas the insurance market will have to follow the banks as the latter have systemic importance. Overall, we believe that the reforms will create a transparent and effective insurance market, albeit it will take years of hard and persistent work, for in recent years the insurance sector was not treated with due amount of resources and effort.

Serbian Insurance Law

Nearing the end of 2014, the Serbian parliament adopted the new Insurance Law that has taken effect upon expiry of six months - at the end of June 2015.

This finally put an end to the dilemma about the status of composite companies (those that deal simultaneously with both life and non-life insurance) that will not be obliged to separate, strengthened the protection of rights and interests of the insured and regulated sales channels more flexibly.



The new Law stipulates that the newly founded companies have to opt for either life or non-life insurance, and that the companies already operating as composite may continue operations in the same regime, but with an obligation to demarcate assets, liabilities and equity. At the same time, the companies that have al-

ready been separated (those that separately perform life and non-life insurance activities, but have a joint majority shareholder), are allowed for the possibility to jointly perform certain supporting activities.

The new law improved the provisions relating to establishment, business operations and corporate governance in joint-stock insurance and reinsurance companies, and also simplified the criteria for issuing the NBS permits and approvals, while increasing to the maximum the protection of rights and interests of the insured. The obligation to inform the policyholders on all issues relating to the exercise of

their rights under the insurance was also regulated.

The current model of engaging insurance sales agents changed as well - the option according to which only persons employed under full-time employment contracts may deal with brokerage and sales was waived and, as announced, the new solution should be the incentive to reduce shadow economy.

The solutions, envisaged pursuant to the new law, are harmonized with the EU directives: considering the fact that Serbia has been a candidate for EU membership since 2012 and that pre-accession negotiations have started in 2013, gradual liberalization in provision of insurance services will be implemented in accordance with the commitments, while market competition and competitiveness will be encouraged and strengthened. In this way, the insurance market in Serbia will gradually approach the way of functioning which governs the open EU market."



D&O in Hungary

According to the rules implemented by the New Civil Code, Executive Officers and Members of Supervisory Boards will be liable for losses caused to third parties. This will greatly increase interest in D&O liability insurance providers. All participants are monitoring the local D&O claims caused by the new liability rules. Up to now there is still no significant D&O claim that will set business afloat locally.

Tenge Devaluation Forces Insurance Markets to Adapt Rates

The effects of recent currency fluctuations on the Kazakh insurance market

Almost 35.5% devaluation of the Tenge, which followed the Kazakh government's decision to introduce the floating exchange rate, has led to a stupor of many market players of the Asian countries and their counterparts in Europe, including in Azerbaijan.

However, some market agents have already presented their own adaptation strategies. So, insurance company Eurasia, in pursuance of an order of the President of Kazakhstan on the need to change attitudes towards the activities in times of crisis and austerity, has declared a moratorium on the increase in insurance rates for all insurance products sold to both individuals and legal entities on the territory of the country until 31 December 2015.

Also, the insurance company imposed a moratorium on the in-

crease in the cost of reinsurance for the Kazakhstani insurance companies for the same period. Besides, the insurer's partner Medical Assistance Group which provides medical services found a possibility of „freezing“ the value of all its services, including dental care, the cost of which depends on foreign exchange rate before the end of 2015.

„Insurance company Eurasia, being a 100% local insurer of Kazakhstan, is realizing a strategy for keeping risks and insurance premiums in Kazakhstan and reducing the volume of outgoing reinsurance. The shareholders of the company consistently increase the company's capitalization. All this allows Eurasia to control the cost of its services and not to depend on the price of reinsurance abroad and exchange rates,“ the insurer's statement says.



MTPL Limits raised in Ukraine

The Ukrainian insurance regulator, The National Commission for State Regulation of Financial Services Markets, increased the limits to 100,000 UAH in respect of Property Damage loss and 200,000 UAH in respect of Health Damage/Death loss (the current limits are 50,000 UAH and 100,000 UAH respectively).

The new liability limit amounts will be valid in respect of the policies that will be sold as of 1st November 2015.

These changes are caused by the high rate of inflation and considerable increase of average loss

amount of car accidents. The National Commission for State Regulation of Financial Services Markets has also previously made a decision that within 8 years after the full ratification of Association Agreement between Ukraine and European Union, the local limits of Compulsory Motor Liability Insurance should be increased to 1 million EUR in respect of Health Damage/Death loss to one injured or 5 million EUR in respect of one accident despite of the number of the injured persons, and 1 million EUR in respect of Property Damage loss per one accident irrespective of the number of victims.

One of Romania's largest insurers goes bankrupt

Astra Asigurari, one of Romania's biggest insurance companies, owned by local businessman Dan Adamescu, has lost its license and will go bankrupt, following a decision of the financial market regulator ASF. Once the court decides the company's bankruptcy, its clients will be compensated by the Insurance Guarantee Fund.

This is the biggest bankruptcy in Romania's insurance sector. The company currently has 1.8 million clients which hold 2.5 million outstanding insurance policies.

Astra Asigurari was the third largest insurance company in Romania in 2014, with gross written premiums of 173 million EUR and a 9.5% market share.

Romania's Financial Supervisory Authority (ASF) decided to withdraw Astra's functioning license and requested the initiation of the company's winding-up procedure, ASF announced on Wednesday,

August 26. The regulator made these decisions after Astra failed to attract 95 million EUR worth of new capital needed to rebalance its financial position.



The ASF had placed Astra Asigurari under special administration at the beginning of 2014, due to the company's solvency issues. KPMG,

which has been the company's special administrator in this period, came up with a restructuring plan that required Astra to increase its share capital.

Several international insurance groups, such as Germany's Ergo, Poland's PZU, and Portuguese Fossum Group have been interested

in taking over Astra. According to ASF's estimates, Astra's clients may file compensation claims worth some 157 million EUR. Astra's reserves were some 146 million EUR while the Insurance Guarantee Fund has some 225 million EUR available to manage this case.

The maximum compensation for one client is 450,000 RON (little over 100,000 EUR), and most of Astra's clients potential claims are under this level. ASF's president Misu Negritoiu said that the other insurers would not have to pay higher contributions to the Insurance Guarantee Fund due to this event.

Imprint

Media owner and publisher:
GrECo International Holding AG - Insurance Brokers and Insurance Consultants
Reg.Nr. 24559249 | A-1191 Wien, Elmargasse 2-4
Tel. 05 04 04 - 0 | www.greco-jlt.com

Layout: DDG Design & Communication GmbH, Mollardgasse 85a, 1060 Vienna | www.iloveddg.com
Typesetting & Editor: GrECo International Holding AG, Mag. Petra Steininger
Photos: GrECo JLT, VIG, shutterstock

Insurers Corner

Munich Re leaves Russia

The reinsurance company leaves Russia due to the deteriorating economy. Munich Reinsurance Co. has ceased operations in Russia and said that it will continue to serve Russian customers directly from Germany, Forinsurer reported citing newspaper Vedomosti.

The reinsurer said that the move comes as a result of the relatively narrow market of the Russian Federation with a poor economy, low quality risks and no prospects to improve performance.

Bulgaria's Euroins acquires over 50% in HDI

The Antimonopoly Committee of Ukraine has permitted Bulgaria's

Euroins Insurance Group to build up over 50 percent stake in private joint-stock company HDI Insurance (Kyiv), the committee's press service has reported. The company told Interfax-Ukraine that at present, Euroins Insurance Group AD holds 9.9999% stake in the company.

Vienna Insurance buys in Latvia

100% of shares in insurance company Baltikums AAS was acquired by Austrian insurer Vienna Insurance Group AG (VIG). Baltikums AAS was founded in 1998, and is one of the first few insurance companies established in Latvia. It has accumulated substantial experience in providing non-life insurance services in Latvia, Lithuania and Estonia, holding a 8% market share.



Its staff of 250 currently work in 38 cities across Latvia and in Vilnius, Lithuania. VIG intends to capitalize on local know-how and expertise. There will be no changes for the customers: all insurance policies

that have been concluded will remain in force.

Changes in Lithuanian Insurance Market

Recently in the Lithuanian insurance market there have been some shareholder changes of two key insurance carriers. The biggest Lithuanian insurance company Lietuvos draudimas was acquired by PZU Poland, and on the other hand PZU has sold their Lithuanian subsidiary to Norwegian insurer Gjensidige in order to comply with requirements of market concentration and anti-monopoly.

These acquisitions have already started in 2014, but now this process is in the final stage and the results of these acquisitions will appear in the Lithuanian market in the nearest future.