



A Euromoney Institutional Investor company

# POLAND INSURANCE SECTOR 2016/2017

An EMIS Insights Industry Report

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# ABBREVIATIONS

<b>GUS</b>	Central Statistical Office
<b>IKE</b>	Individual Pension Account
<b>IKZE</b>	Individual Pension Assurance Account
<b>KNF</b>	Polish Financial Supervision Authority
<b>NBP</b>	National Bank of Poland
<b>OFE</b>	Open Pension Fund
<b>PIU</b>	Polish Insurance Association
<b>PTE</b>	Pension Fund Managing Firm
<b>TFI</b>	Mutual Fund Managing Firm
<b>UOKiK</b>	Office of Competition and Consumer Protection
<b>ZUS</b>	Social Security Board

# THE NEW TREN D

## 01 EXECUTIVE SUMMARY

p. 5

Sector in Numbers 2015

Sector Overview

Sector Snapshot

Sector Outlook

Driving Forces

Restraining Forces

## 02 SECTOR IN FOCUS

p.13

Main Economic Indicators

Main Sector Indicators

Insurance & Pension Institutions

Insurers' Financial Results

Insurers' Efficiency Ratios

Global Positioning

Business Sentiment

FDI

Insurance per Person

Bancassurance

## 03 COMPETITIVE LANDSCAPE

p.24

Highlights

Insurers: Basic Figures

Life Insurance: Market Shares

Non-life Insurance: Market Shares

Nationality of Capital in Polish Insurance

M&A Activity in 2014-2016

## 04 COMPANIES IN FOCUS

p.32

PZU Group

Ergo Hestia Group

Warta Group

Aviva Group

Allianz Group



# FINTECH

## 05 REGULATORY ENVIRONMENT

p.44

Key Institutions

Regulator's Policies

Government Policies

Super-National Laws

## 06 LIFE INSURANCE

p.51

Subsector Highlights

Main Events

Premiums & Claims

Costs & Earnings

## 07 NON-LIFE INSURANCE

p.56

Subsector Highlights

Main Events

Premiums & Claims

Costs & Earnings

Main Insurance Types

Automotive Insurance

Focus Point

## 08 PENSION PRODUCTS

p.64

Subsector Highlights

Pension Funds' Financial Results

Pension Funds' Assets

Pension Funds' Portfolios

Pension Funds' Rates of Return

Individual Pension Accounts

Individual Pension Assurance Accounts

## 09 RETAIL CHANNELS

p.72

Retail Channels

Retail Channel Performance: Life Insurance

Retail Channel Performance: Non-Life Insurance



# 01

## EXECUTIVE SUMMARY





## Sector in Numbers 2015

**12th**

Market in EU  
in 2014

**3.1%**

of Poland's  
GDP in 2015

**PLN  
180bn**

of assets  
at end-2015

**PLN  
54.8bn**

of total premium  
in 2015

**PLN  
27.5bn**

of premium  
in life segment

**PLN  
27.3bn**

of premium  
in non-life  
segment

**57**

Domestic  
insurers  
in 2015

**39.2%**

of bancassurance  
in life sector

**50mn**

non-life  
insurance  
policies

Source:

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# Sector Overview

## Overview

The Polish insurance market was ranked 12th in the European Union in 2014, according to that year's gross written premium (GWP). This indicator has been declining since 2012, alongside the sector's share in Poland's GDP – which dropped from 3.8% in 2012 to 3.1% in 2015. However, the sector remains important for the economy, both as a provider of jobs (it employs more than 250,000 persons) and as a substantial investor in both treasury instruments and private companies with assets totaling PLN 180bn. The industry is roughly equally divided into life and non-life insurance segments. In the latter, more than half of premium income comes from automotive insurance, which has been a drag on the sector's financial results.

PAID CONTENT

## Entry Modes

The Polish insurance market is highly concentrated, with the top five insurers in life and non-life insurance segments accounting for around 57% and 70% of their total premiums, respectively. The biggest player in both segments is the country's incumbent, PZU. Newcomers are still popping up, albeit in small numbers (one or two insurers per year), but the bigger players are already seeking expansion, mainly through acquisition, which is best exemplified by PZU's actions: it has purchased insurers both domestically and in other CEE countries and has recently started building up its banking arm.

## Segment Opportunities

Even though profitability in the sector is only moderate and market players are cautious about expecting an overall improvement, there are niches and product groups that bode well for growth. The focus on additional pension savings means that there is a chance to increase sales of adequate long-term policies, or raise premiums for existing ones, or sell more group policies. As for niche segments, continuous problems with access to public healthcare means that there are chances to increase sales of health insurance. The growing affluence of the Polish society could spark more interest in both life and automotive insurance in the longer term.

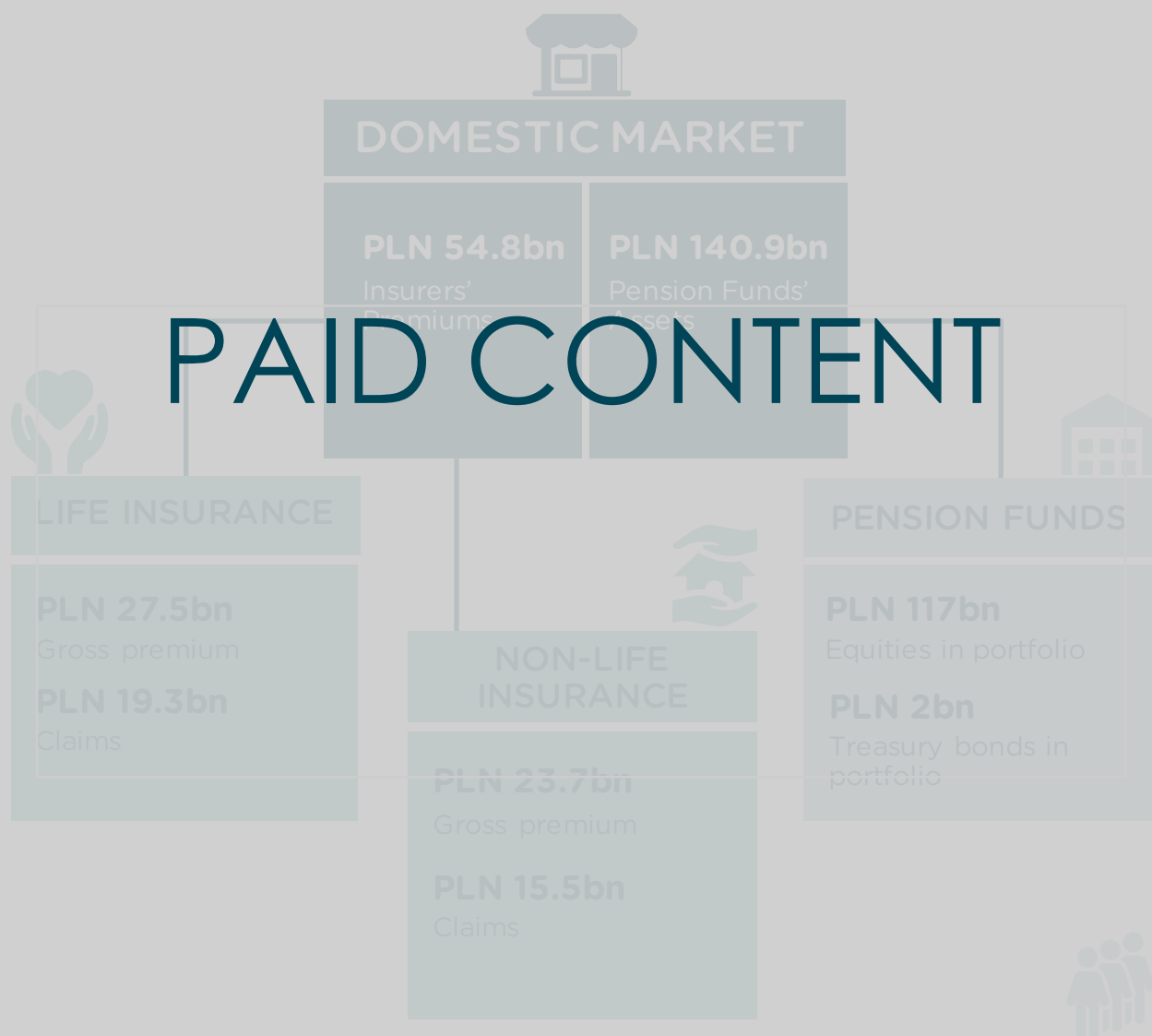
## Government Policy

The insurance sector is quite heavily regulated: even though it is fairly easy to start a business in the branch, the Polish Financial Supervision Authority (KNF) issues recommendations that dictate how insurers in particular segments ought to behave, which in some cases has led to changes affecting entire product groups. Inevitably, the industry is also impacted by changes in overall government policy – recently it has been subjected to a new tax on financial institutions' assets. On the other hand, it may benefit from the government's fiscal easing, aimed at further boosting individual consumption.

Source: PIU, KNF, PZU, NBP

# Sector Snapshot

## POLAND INSURANCE 2015



### KEY PLAYERS GROSS WRITTEN PREMIUM, 2015

1. PZU	PLN 16.92bn	4. Aviva	PLN 2.63bn
2. Ergo Hestia	PLN 5.36bn	5. Allianz	PLN 2.52bn
3. Warta	PLN 5.24bn		

Source: KNF, Treasury Ministry, media



# Sector Snapshot

## Poland Insurance 2015

### PAID CONTENT

The Polish insurance market has been declining, in terms of overall gross written premium, since 2012, but all market forecasters agree that a trend reversal is in the pipeline for the years 2016-2020. Indeed, the projected fall in 2016 has already been much milder than in recent years: premiums' total value inched down to PLN 50.8bn in 2015 from PLN 49.6bn in 2014.

As for individual segments, it was only the life insurance market that saw a drop in terms of premium value in 2015 – to PLN 27.5bn (from PLN 22.7bn in 2014). This was basically due to the regulatory environment (serious limitations of sales of unit-linked policies, following years of widespread offering of ill-tailored policies). By contrast, both major segments of the non-life market saw growth – even in the face of fierce price wars and a resultant deterioration of profitability. GWP in property and casualty insurance – excluding car insurance – amounted to PLN 13.7bn in 2015 (up from PLN 12.9bn a year earlier), while those in the automotive insurance segment came to PLN 13.6bn (up from PLN 13.3bn).

The number of insurers remained broadly unchanged over the 2012-2015 period, with 27 life insurers operating in 2015 (up from 26 a year earlier) and 30 non-life firms (as against 31 in 2014). The share of foreign capital in insurers' core capitals continued to fall – having started to decline when market leader PZU's foreign owner, Eureko, backed off in 2009. That share was slightly below 70% in 2015 (down from 75% a year before). Admittedly, the main dichotomy is not that between domestic and foreign players, but rather that of newcomers and established institutions: it is the newcomers that spark price wars. However, both withdrawals from the Polish market and bankruptcies are rare.

The top five life insurers are: PZU (co-controlled by the Polish state treasury), Aviva, Metlife, Open Life (currently in the process of being purchased by a Polish financial group from Germany's Talanx) and Warta (owned by Talanx). The combined market share of these five in 2015 was 56.7%. The leading 5 players on the non-life market are as follows: PZU, Ergo Hestia (owned by Munich Re), Warta, Allianz and Compensa (part of Vienna Insurance Group), with a combined market share of 69.9% in 2015.

# Sector Outlook

## Gross written premium forecasts, PLN bn

	2015	2016f	2017f	2018f	2019f	2020f
Total market value	55.6	57.3	59.3	61.4	63.7	66.2
Life insurance	27.5	28	28.8	29.7	30.6	31.5
Automotive insurance	13.6	13.3	14.1	15.2	16.7	18.1
Property insurance	5.7	5.8	6	6.2	6.5	6.7
Personal accident insurance	6.9	7.1	7.5	7.9	8.3	8.7
Health insurance	0.6	0.7	0.7	0.8	0.9	1
General liability insurance	2	2.1	2.3	2.5	2.7	2.9

PAID CONTENT

## Outlook

The Polish economy is expected to enjoy several years of brisk growth: the government expects its pace to hover around 4% until 2019 and market economists broadly agree with this projection. Economic expansion has recently been driven mainly by domestic consumption and this factor is widely expected to remain in the forefront – which bodes well for the insurance sector as well.

MarketLine expects the entire Polish insurance market to grow at a CAGR of 3.6% in the years 2015-2020. It notes that in the same period, the Czech and Russian markets should expand at the rate of 0.8% and 6.7%, respectively.

Poland's biggest insurer, PZU, expects (in its *Strategy for the Years 2015-2020*, published in 2015) that the property and casualty insurance market will expand at a CAGR of 2.5% between 2014 and 2020, with slower growth in automotive insurance (2.3%) than in other insurance (2.7%) segments due to the price war in the former (which, however, PZU expects to last only until 2016). Life insurance is expected to grow at a CAGR of 1.3% in this period and health insurance by 8.5%. Not surprisingly, PZU intends to focus on the latter.

All in all, a further rise of private spending on healthcare is anticipated, especially as there is no prospect of dramatic reform of the public healthcare sector. Indeed, EY fears that in 2060, the gap in financing healthcare needs from public resources may reach 4.39% of GDP, compare with the 1.54% gap expected in 2020. Unsurprisingly, private health insurance spending surged 18% y/y in Q1 2016, while the number of the insured jumped by 31% y/y to 1.57mn.

Source: MarketLine (total market), BMI Research (others)

# Driving Forces

Polish insurers are generally in good financial condition, even though certain segments are lagging in terms of profitability. They are ready for both existing and upcoming opportunities – both those appearing on the market (such as the car buying spree, foreign trips with risks covered) and those related to government policies (such as savings and housing schemes and health reforms).

## External

Two major phenomena in Poland will likely have some beneficial effects for the insurance industry: first, sustained economic growth and the resultant increase in disposable incomes; second, the ageing population. Both may lead to increased interest in insurance products. The former factor – as Poles need to safeguard their money, and the latter one – as they wish to ensure a good future for their children as well as to limit health-related hardships in the later phases of life.

The government has pledged to come up with new ideas aimed at stimulating private savings, which are likely to be embraced enthusiastically by insurers, as ways of expanding both their customer base and their product range.

Poland's interest rates have been at their lowest-ever levels for nearly 1.5 years now, but are highly unlikely to drop any further. Monetary policy tightening, which is expected to begin at some point in 2017, will inevitably make it easier for insurers to report higher rates of return, especially as CPI deflation is expected to make way for some gradual price growth only at the turn of 2016.

## Internal

Due to their reverse production cycle, domestic insurers are hardly prone to risks of shortages of liquidity: premiums are paid up-front and earmarked for covering future claims. Payments for damages are often spread over time. Insurers have positive cash flows and focus on liquid assets (at end-2015, treasury bonds and term deposits made up 58% of their assets). Unit-linked policies may be prone to equity market fluctuations, but to a lesser degree than, e.g., mutual funds, due to the special fees payable for closing such policies and the longer period over which such contracts are dissolved. The National Bank of Poland (NBP) notes that the bankruptcy of an insurer (an event which has not taken place for several years) would not have any significant impact on the real economy (in the case of banks, such impacts could be more significant, as has been seen in the last two years).

Product-wise, insurers are quick to adapt to changing regulations and customer needs – hence the swift decline in the number of so-called “policy-deposits” (polisolokaty) on offer and the resurgence of bancassurance. Since car ownership has been buoyant and is expected to remain so, automotive insurance may become a strong pillar for the industry – provided that price wars are ended. Another niche is related to housing insurance, as Poland is still short of at least 1mn housing units and this gap is being bridged gradually.

Source: KNF, NBP, media



# Restraining Forces

The main challenges for the insurance industry are the tax on financial institutions assets and profit-hurting price wars in some product areas, on one hand, and, on the other, product offers inadequate for customers' needs.

## External

Even though government policies may provide some boosts for the insurance industry, they also pose certain obstacles – the most important one being the new tax on financial institutions' assets in place since February 2016. Although only about half of insurers are subjected to this tax (due to insufficient assets) and the majority of their revenue is being provided by the country's incumbent insurer PZU, the tax nevertheless harms the sector's outlook.

Another drawback for the sector is Poles' reluctance to get insured, even if the probability of damages is high, e.g., around 60% of farmers have not insured their fields and do not intend to do so. Price-sensitivity is also the reason for the customers' willingness to change their policy provider, especially in non-life areas, where contracts are concluded for shorter periods.

## Internal

The foremost internal restraining force for Polish insurers is the tendency to engage in price wars, which is particularly harmful for the profitability of the automotive insurance segment. The wars can be seen in insurers striving for attracting new customers by lower prices (as this factor always seems to be more important for them than e.g. damage liquidation). After many years of unprofitability, the year 2016 has brought first signs of the end of this competition. Indeed, some experts expect prices to grow by double digits, in percentage terms, before the end of 2016.

Insurers are flexible companies, but some firms' persistence in offering products that consumer protection watchdogs have found to be inadequate is harmful for the entire industry. There are still several proceedings against some insurers that offered unit-linked policies with high up-front payments and fees for early withdrawal. Such a stance will hardly help convince Poles that it is best to ensure both their own and their families' futures.

Source: KNF, NBP, media

A large, high-quality photograph of a white lifebuoy with red stripes, resting on a sandy beach. The background is a soft-focus view of the ocean under a clear sky.

# 02

## SECTOR IN FOCUS

# Main Economic Indicators

	2011	2012	2013	2014	2015
GDP, real value, PLN bn, current prices	1,566.6	1,629.0	1,656.3	1,719.1	1,789.7
GDP, % change y/y	5	1.6	1.3	3.3	3.6
Gross premiums written in entire insurance sector, PLN bn	57.12	62.63	57.87	54.93	54.8
Gross premiums written as % of GDP	3.6	3.8	3.5	3.2	3.1
CPI inflation: average annual, %	4.3	3.7	0.9	0	-0.9
PPI inflation: average annual, %	7.6	3.3	-1.3	-1.5	-2.2
Exchange rate, mid-rate; end-year, EURPLN	4.4168	4.0882	4.1472	4.2623	4.2615
Exchange rate, mid-rate; end-year, USDPLN	3.4174	3.0996	3.012	3.5072	3.9011
NBP reference rate, end-year, % per annum	4.5	4.25	2.5	2	1.5
Total population, mn, end-year	38.538	38.533	38.396	38.479	38.437
Males, mn, end-year	18.655	18.649	18.63	18.62	18.598
Females, mn, end-year	19.884	19.884	19.866	19.859	19.839
Life expectancy in years	76.5	76.7	77	77.6	77.6
Total deaths, thou	375.5	384.8	387.3	376.5	394.9
Registered unemployment rate, end-year, %	12.5	13.4	13.4	11.5	9.8
Average exit age from labour force, years	62.3	61.9	61.3	62.2	61.3
FDI in insurance: net, EUR mn	-93	728	232	98	n.a
FDI in insurance as % of total in Poland	n.a.	15.4	11.3	1.1	n.a

Source: Central Statistical Office (GUS), National Bank of Poland (NBP)



# Major Sector Indicators

	2011	2012	2013	2014	2015
Serious accidents at work, per 100 thou employed persons	6.03	5.36	4.6	4.46	n.a.
Fatal accidents at work, per 100 thou employed persons	3.46	2.99	2.37	2.21	n.a.
Assets of domestic insurers, PLN bn	146.1	162.9	167.6	178.6	180
Gross premiums written in entire insurance sector , PLN bn	57.12	62.63	57.87	54.93	54.8
Gross premiums written in life insurance, PLN bn	31.8	36.4	31.3	28.7	27.5
Gross premiums written in property and casualty insurance – excluding car insurance, PLN bn	10.6	11.9	13	12.9	13.7
Gross premiums written in car insurance, PLN bn	14.2	14.4	13.6	13.3	13.6
Total claims, PLN bn	56.6	62.7	57.9	54.9	54.8
Claims in life insurance, PLN bn	26	25.9	23.1	20.4	19.3
Claims in property and casualty insurance - excluding car insurance, PLN bn	4.5	5.3	4.9	4.3	4.8
Claims in car insurance, PLN bn	9	8.7	8.8	9.5	10.7
Number of insurance companies	61	59	58	57	57
Number of employees* , thou, end-year	286	284.9	284	283.3	269.8
Sector* employment as % of total	3.4	3.4	3.3	3.3	3.1

Source: GUS, Polish Insurance Association (PIU), Polish Financial Supervision Authority (KNF), \*- in financial and insurance activities

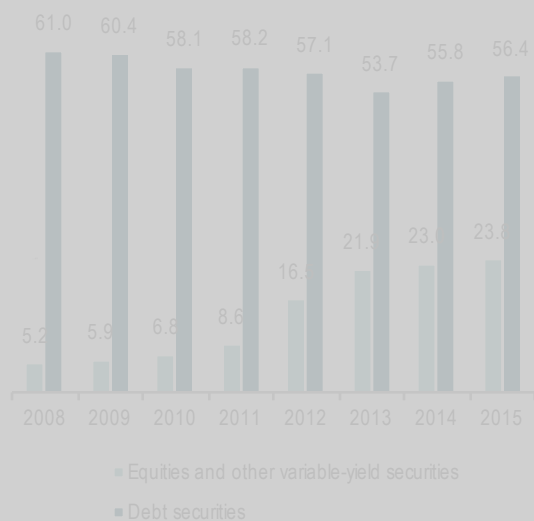
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# Insurance & Pension Institutions

Assets of Selected Types of Financial Institutions, PLN bn, end-year



Domestic Insurers' Investments in Securities, PLN bn



The 1999 pension reform introduced a new capital-based system – which replaced the previous pay-as-you-go system. At the same time, it introduced the so-called third pillar, i.e. additional pension schemes, which opened new possibilities of growth for insurers and mutual funds (TFIs). However, the centre-piece of that reform – open pension funds (OFEs) – lost their prominence after the government wrote off more than half of their assets in 2014 and made them voluntary. There are also several other types of voluntary pension savings schemes, but they are developing slowly due to insufficient tax incentives.

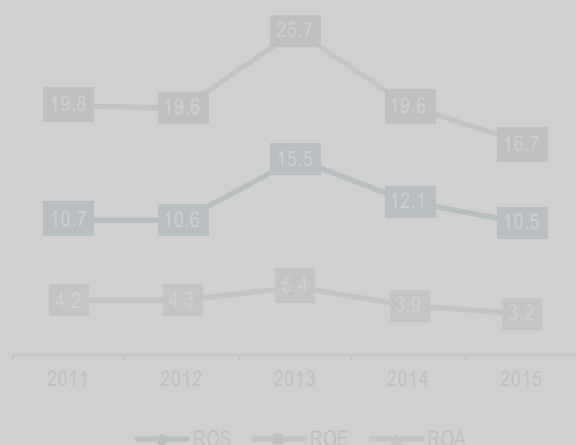
Source: KNF, NBP, Anality Online, PIU

# Insurers' Financial Results

## Insurers' P&L Statement, PLN bn

	2008	2009	2010	2011	2012	2013	2014	2015
Sector revenue PLN bn	n.a.	n.a.	n.a.	n.a.	82.9	76.32	71.62	71.86
Gross written premiums	59.29	51.44	54.15	51.13	62.23	77.87	54.9	54.8
Claims incurred	29.97	39.38	35.65	38.77	39.66	36.22	33.56	32.98
Acquisition costs	7.31	8.08	8.50	9.37	10.34	10.44	11.12	11.24
Balance on technical account	4.18	4.06	2.33	3.63	3.81	4.27	4.07	3.19
Gross profit	6.70	7.81	7.55	6.98	7.54	10.05	7.65	6.53
Net profit	5.78	6.63	6.75	5.99	6.30	8.92	6.68	5.73

## Financial Indicators, %



Insurers' revenue totalled PLN 71.86bn in 2015 with the bulk of that amount coming from gross written premium (76.26% of overall revenue), followed by investment income (11.33%) and reinsurers' share in gross claims paid (3.38%).

In the life insurance sector (Group 1), a decline of gross written premium was noted – of 3.98% y/y to PLN 27.53bn – mainly due to a drop in the sales of pure life insurance (by 16.71% y/y), as the regulator trimmed opportunities for selling so-called “policy-deposits”. On the other hand, gross written premium in the property and casualty insurance sector (Group 2) rose by 3.87% y/y to PLN 27.28bn, thanks mainly to an increase of 3.80% y/y in car auto-casco premium sales.

Source: KNF

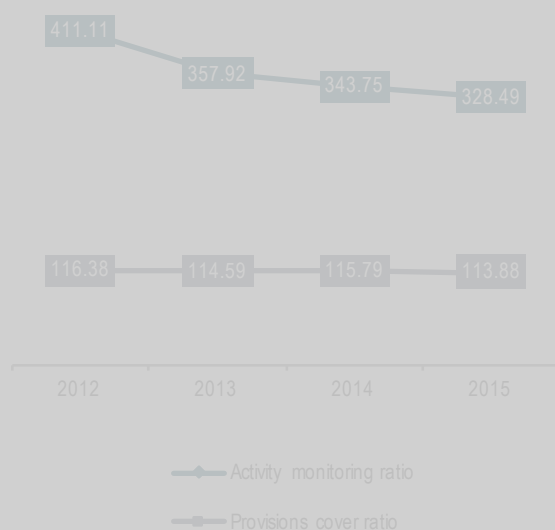


# Insurers' Efficiency Ratios

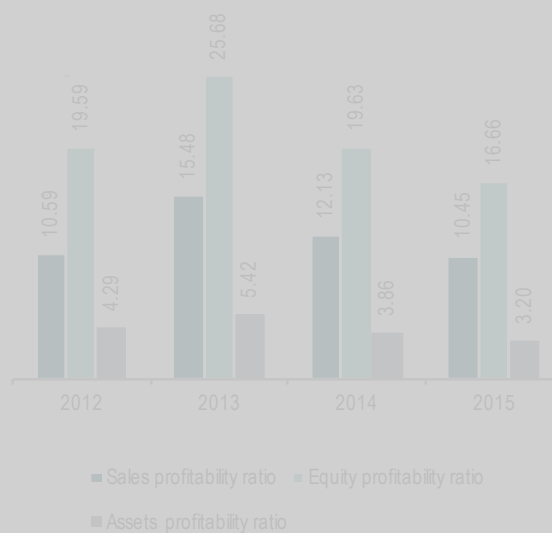
## Solvency, Payments Legibility, %

	2012	2013	2014	2015
Solvency ratio	54.96	53.96	52.51	54.1
Capacity to make payments ratio - net of reinsurance (%)	150.38	172.13	178.77	182.13
Creditors cover ratio (%)	1.38	-2.77	-1.34	-5.46
Creditors payment ratio (in days)	34.3	41.48	64.44	78.44

## Statutory Ratios, %



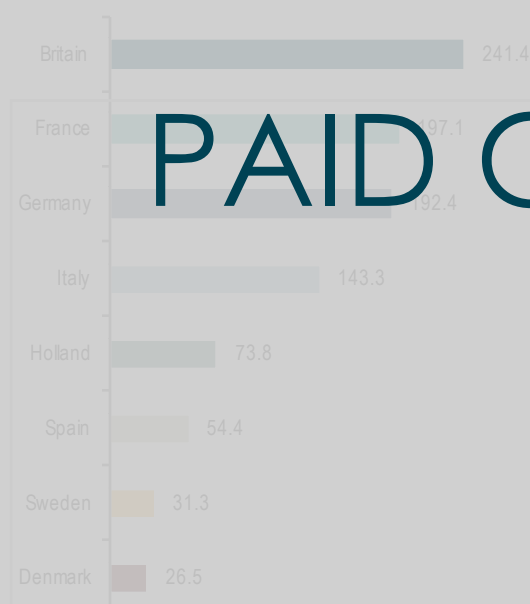
## Profitability Ratios, %



Source: KNF

# Global Positioning

## Gross Premiums Written in EU in 2014, EUR bn

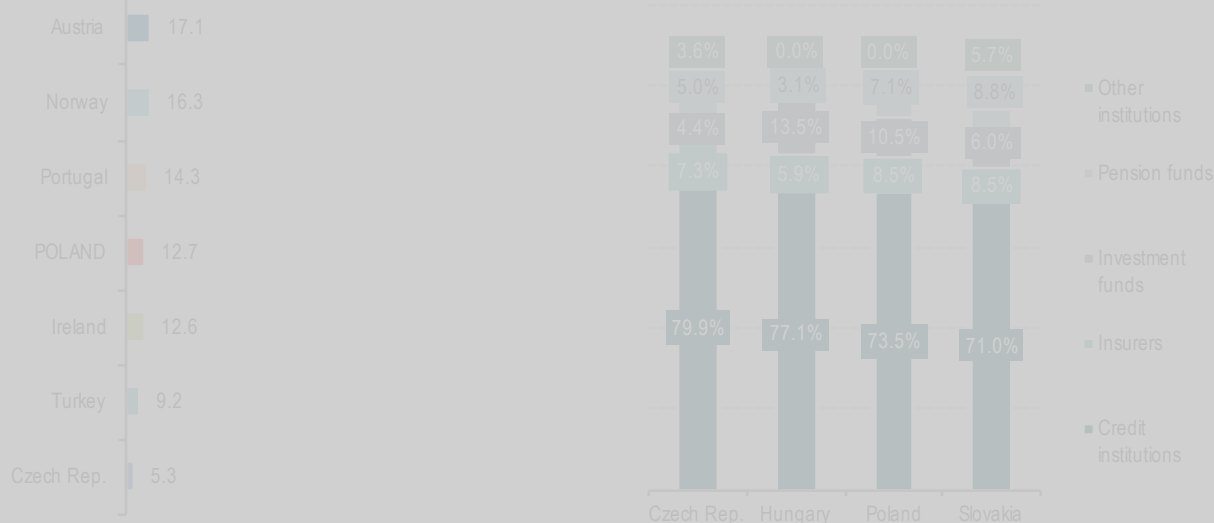


## Poland & EU

The GWP of Polish insurers amounted to 1.2% of the EU total in 2013 (up from 1.4% in 2012). It was three times lower than the EU average in 2013. Polish insurers' per capita premium was around half the average in relation to GDP. Still, the development level of the Polish insurance sector is comparable to that of its CEE peers.

Polish insurers' investments constituted a mere 0.4% of the EU total in 2014. The relation of insurers' investments to GDP was 9.2%, which is nearly six times lower than the EU average.

## Structure of Financial System Assets, end-2014, %



Source: Insurance Europe, central banks cited by NBP

# Business Sentiment

GUS: Finance & Insurance Business Sentiment, pts



## Current Sentiment Overview

Financial and insurance enterprises assessed their current and expected demand positively in June 2016, as they did a month earlier. Assessments and forecasts concerning sales are less optimistic than in May. Their current financial standing is seen as positive, with forecasts in this respect also positive.

At the same time, managers plan to increase lay-offs. Prices for financial and insurance services should continue to rise, albeit at a slower pace than in May.

Source: GUS

# Foreign Direct Investments

FDI in Life Insurance: Value of Investment in Subscribed Capital, PLN mn



FDI: Insurance, Reinsurance and Pension Funding, EUR mn

	2010	2011	2012	2013	2014
Insurance	-1,383	-93	728	232	98
Financial and insurance activities	-981	3,396	3,837	-957	-27
Total for Poland	10,473	14,832	4,716	2,059	8,994

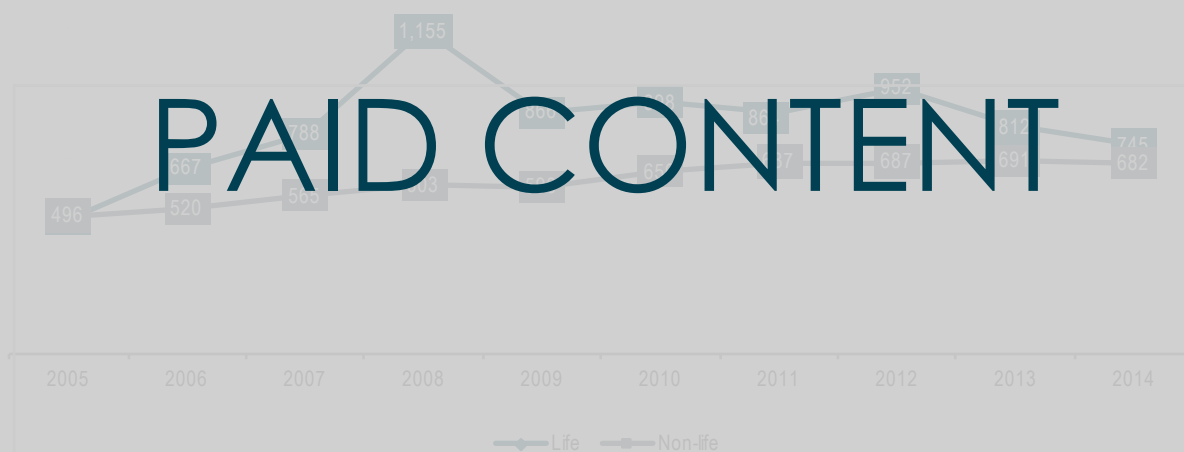
In terms of the origin of capital invested in 2015, Austria was in the forefront, with investments totaling PLN 1.27bn in ten insurers (32.27% of all foreign direct investments in the industry). German capital was injected into 15 insurers, totalling PLN 0.84bn (21.25% of the total), followed by that from France (seven insurers, PLN 0.67bn of investments) and Holland (four insurers, PLN 0.64bn).

Source: NBP

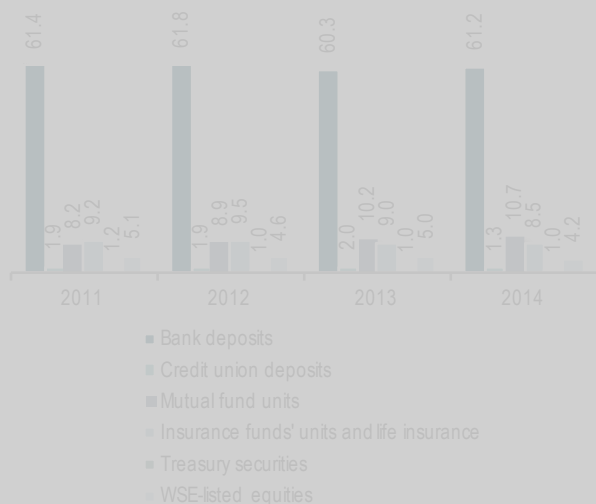


# Insurance per Person

## Gross Written Premium per Person, PLN



## Structure of Households' Financial Assets, % end-year



In the pre-crisis year of 2008, the insurance policy per head ratio was at PLN 1,759 - the record-high level. This translated into EUR 500, according to that year's exchange rate of PLN 3.51:EUR 1 (also a record high). This hike was prompted by the disastrous floods of 2007. In 2014, this indicator fell by 5.1% y/y and amounted to PLN 1,427.

In 2014, the per capita policy in the life insurance segment was PLN 745 (EUR 178), down 8.3% y/y, but up 54% compared to 10 years earlier.

At the same time, the per capita policy in the non-life insurance segment amounted to PLN 682 (EUR 163), i.e. slightly below the 2011-2013 levels, but 38% higher than a decade earlier.

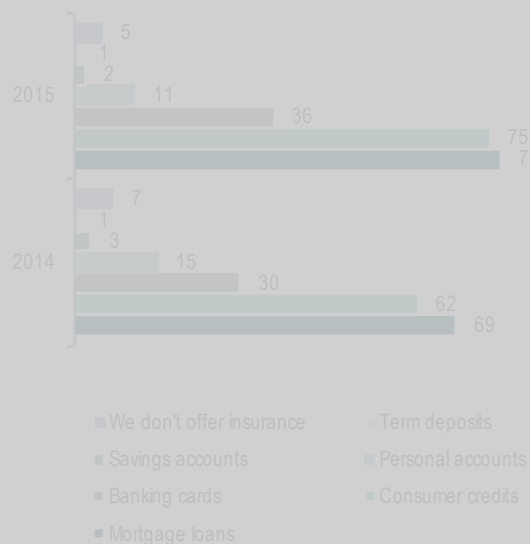
Source: PIU, KNF, Eurostat

# Bancassurance

Share of Insurance Premiums Sold via Bancassurance Channel, %



Purchasers of What Products are Willing to Buy Also Insurance, in %



In 2015, Recommendation U by the Polish Financial Supervision Commission (KNF) came into force.

The recommendation limited the ability of banks to perform simultaneously the functions of insurance companies and insurance intermediaries. It also shielded customers from insurance offers that offered unreasonably elevated risk levels or required customers' in-depth knowledge of the financial markets.

However, its impact on the insurance market has not been enormous. According to a survey commissioned by the Union of Polish Banks (ZBP), a mere 14% of bankers saw a decline of insurance sales via their outlets, while 2% even noted sales increases.

Source: PIU, ZBP

A conceptual image showing four hands from different people reaching up from a green grassy field to form a protective frame around a white silhouette of a family (two adults and a child) against a bright blue sky with scattered white clouds.

# 03

## COMPETITIVE LANDSCAPE

# Competitive Landscape Highlights

## Overview

The leitmotifs of the Polish insurance market from the point of view of insurers have been fierce price competition (and, hence, weak profitability) in automobile-related insurance (but there is a trend reversal looming in this respect) as well as lawsuits and anti-monopoly cases resulting from (alleged) inadequately matched unit-linked products.

Insurers' operations have therefore been closely regulated; companies were forced to cut down on unit-linked policies, but new problems arise when the new EU Solvency II regulation took effect and also when the Polish government introduced a tax on financial institutions' assets early in 2016.

As for the market outlook, price wars are widely expected to be coming to an end, as the third-party liability insurance segment posted a loss in 2015, and an increasing number of insurers are already raising their price tariffs. On the other hand, the government has just presented initial guidelines concerning its new scheme designed to facilitate savings in which there will presumably be major roles for both insurers and mutual funds.

## Market Structure

The market is dominated by foreign-owned players, although the biggest shares in both life and non-life segments continue to belong to PZU, the incumbent that is more than 200 years old and has now been privatised and listed on the Warsaw Stock Exchange (WSE).

The share of foreign capital in the insurance sector fell in 2010 to 77.4% of the total – down from 82.2% a year earlier – as PZU's foreign owner Eureko backed off. Afterwards, there was some stabilisation, but market consolidation has not lost momentum.

The life insurance segment is larger than the property and casualty segment with automotive-related insurance making up the bulk of the latter. Both segments have been growing for many years as Poles want to cover the risks of their new properties as well as safeguard their families' future. Also, there were times when some life insurance policies were popular due to tax reasons, but that is no longer the case.

Source: KNF, PIU, NBP, FinMin, companies' annual reports and press releases

# Competitive Landscape Highlights (cont'd)

## Market Players & New Entries

The insurers with the largest market shares have become household names in Poland as their dominance (especially that of PZU and Warta) has endured even ownership changes. PZU has survived decade-long struggle between the Polish state and its then owner Eureko – which the state won. Warta, in turn, changed hands when its previous owner underwent M&A operations at European level: it now belongs to German Saxo Group, but this transaction has never seriously been considered (an interesting contrast to the banking market).

Foreign owners of local insurers tend to keep their brands and, as a result, many of them own a few companies even in the same segment in Poland. On the other hand, there have been some successful entries of new entities, usually focused on new technologies (direct insurance sales). The most telling example is Link4 – a company from that segment that has been taken over by PZU.

The most recent entrants are Pocztowe TUnZ in the life segment (first insurance policy sold in April, 2015) and TUW PZUW in the non-life segment (first insurance policy sold in February, 2016). Indeed, even though mutual insurance companies are still a niche group, their number has visibly increased in the last few years.

Source: KNF, PIU, NBP, FinMin, companies' annual reports and press releases



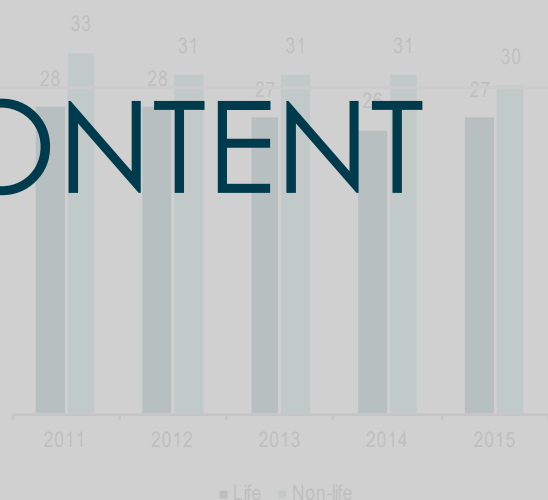
# Insurers: Basic Figures

## Number of Insurers: Comments

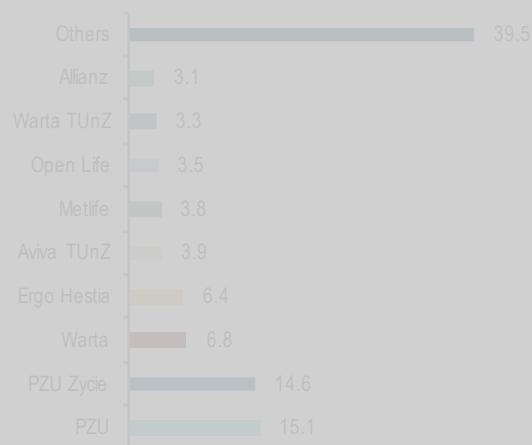
There were 61 insurers with permission to carry out operations in Poland at the end of 2015: 28 life insurers, 32 non-life insurers and one reinsurance company (PTR). Actual operations were carried out by 27 life insurers and 29 non-life insurers as well as PTR. Three property and casualty insurers (PZU, TUW, Medicum) did not receive the necessary permits in 2015 and had not started operations by year-end.

At the end of 2015, the number of foreign insurers from the European Union and the European Economic Area who had notified the Polish authorities of their intention to operate in Poland was 640, while the number of foreign insurers who had give notice of their plans to set up a branch in the country was 26.

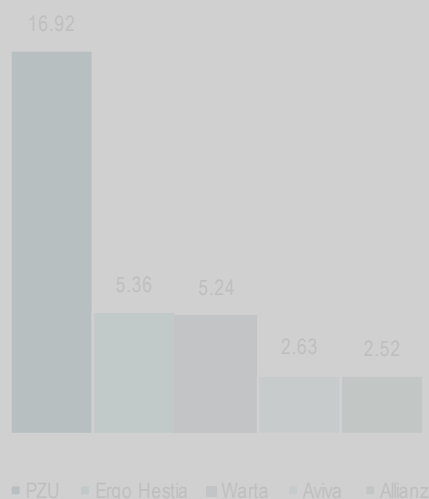
## Number of Insurers



## Shares by Gross Written Premium in H1 2015, %



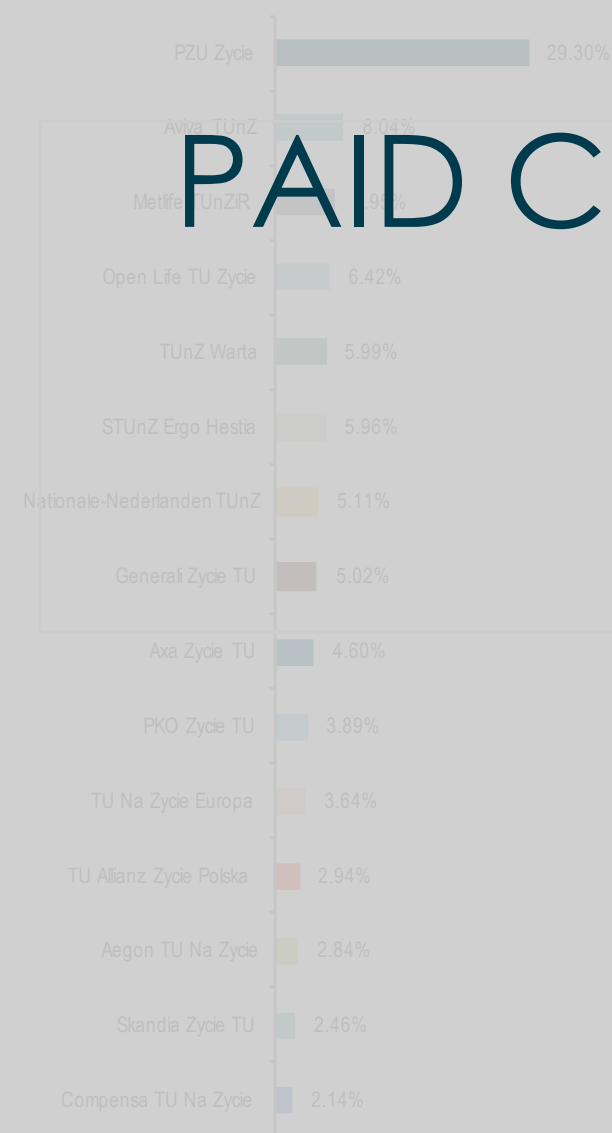
## Top 5 Groups by 2015 Premium, PLN bn



Source: KNF

# Life Insurance: Market Shares

## Market Shares in 2015, as % of Gross Premium

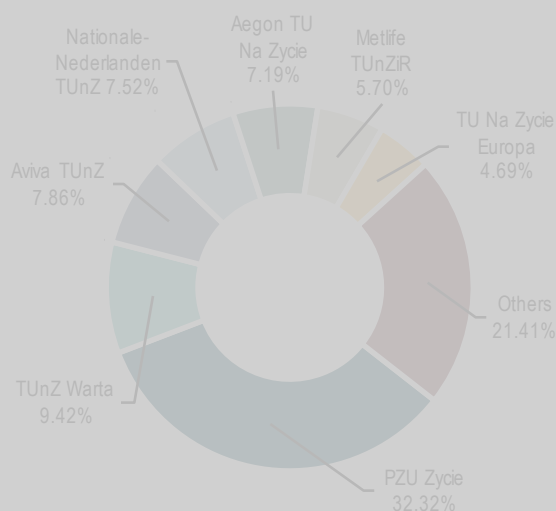


## Group vs. Individual Insurance

The combined market share of the Top Five life insurers amounted to 56.69% (in terms of gross written premium) at the end of 2015, virtually unchanged from end 2014 (56.70%).

In 2015, these top five reported GWP from group insurance at a level of PLN 9.44bn (down by PLN 3.40bn y/y) in 2015 and from individual insurance at PLN 18.07bn (up PLN 2.26bn). Nine insurers reported more than 50% of their premiums from group insurance (compared with 12 in 2014).

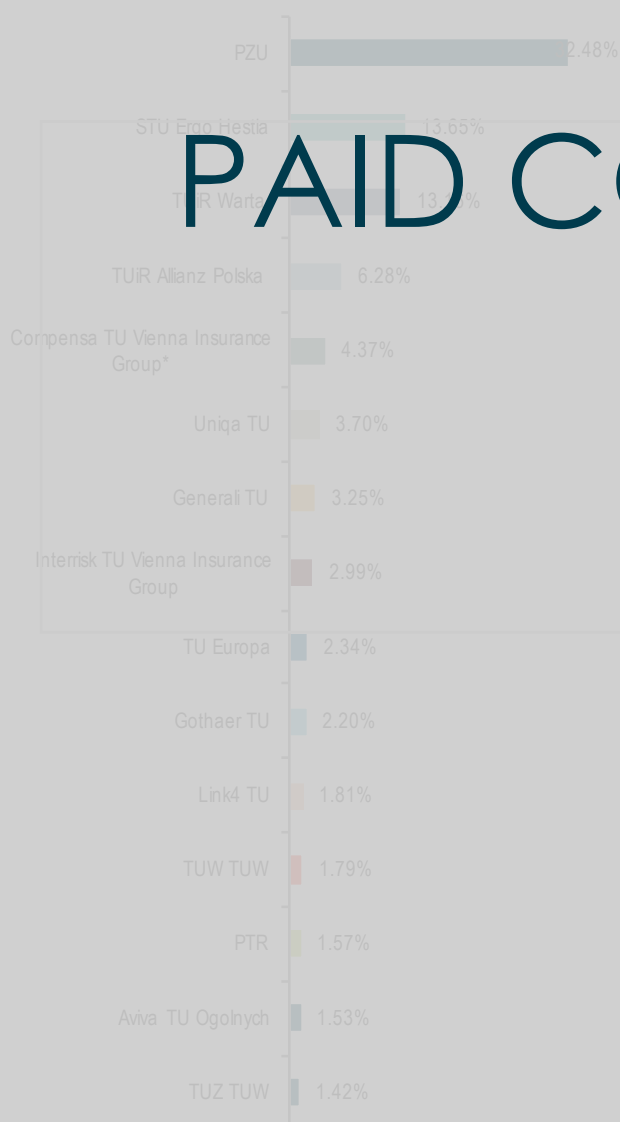
## Structure of Claims Paid in 2015, % of Total



Source: KNF

# Non-Life Insurance: Market Shares

## Market Shares in 2015, as % of Total Premium

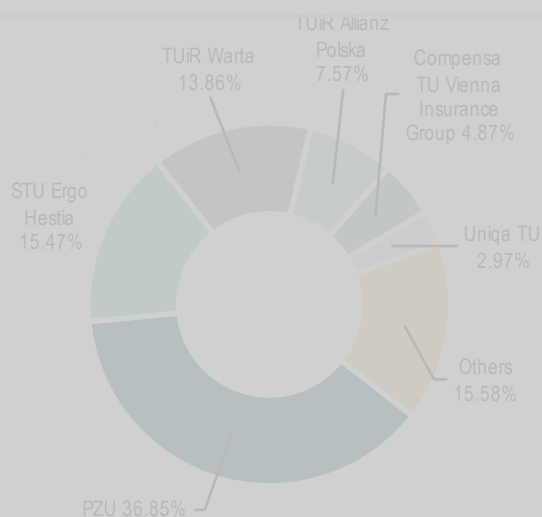


## Main Product Groups

The share of the Top Five property and casualty insurers in the segment's combined GWP rose by 1.71pps y/y to 69.93% in 2015.

The structure of premiums continued to be dominated by mandatory insurance (52.64% of total premium) including third-party liability (31.53%) and auto-casco (21.11%). This was followed by property insurance (20.86%) and accident and sickness insurance (8.21%).

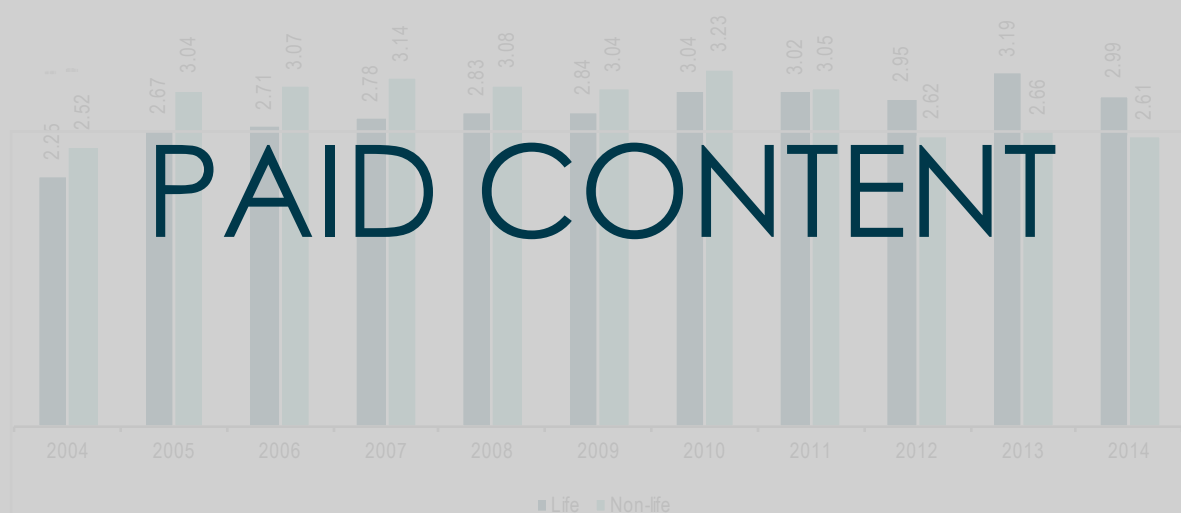
## Structure of Claims Paid in 2015, % of Total



Source: KNF, \* - On Oct 30, 2015, Compensa TU Vienna Insurance Group merged with Benefia TU Vienna Insurance Group (Benefia was removed from the National Court Register)

# Nationality of Capital in Polish Insurance

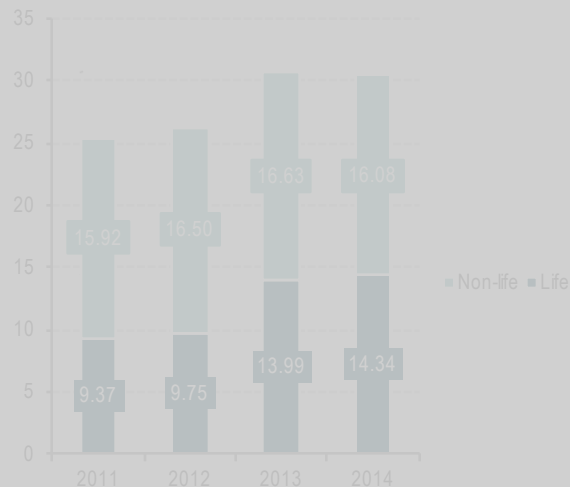
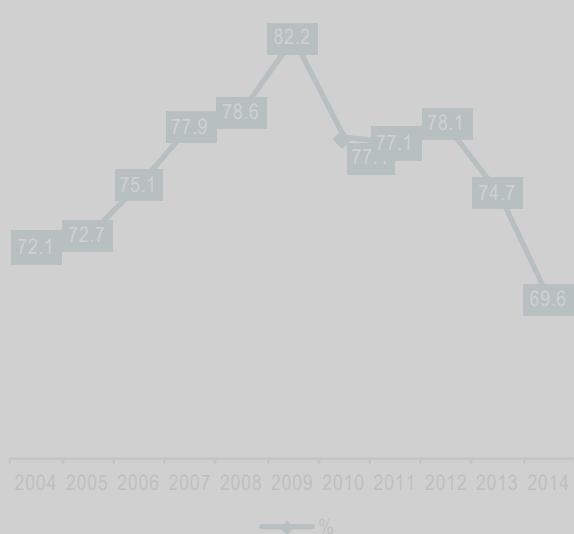
Value of Capital of Insurers Majority-held by Polish Owners, PLN bn



PAID CONTENT

Share of Foreign Capital in Core Capitals

Premium: Insurers with Majority of Foreign Capital, PL N mn



Source: PIU

# M&A Activity in 2014-2016

## M&A Operations Overview

Date	Target Company	Deal Type	Buyer	Country of Buyer	Deal Value USD (mn)	Stake (%)
07/06/2016	THB Polska Sp z oo	Acquisition	Company's managers			100.00
23/05/2016	Open Life TUZ SA	Acquisition	LC Corp BV; Leszek Czamecki - private investor	Netherlands; Poland		100.00
18/05/2016	Voxen Sp z oo	Acquisition	Unifink SA	Poland		100.00
18/12/2015	Liberty Ubezpieczenia	Acquisition	AXA Group	France	23.32	100.00
29/06/2015	Data Connect Direct	Acquisition	Hyperion Insurance Group Ltd	United Kingdom		
19/09/2014	BZ WBK-Aviva TU na Zycie SA ; BZ WBK-Aviva TUO SA	Minority stake purchase	Aviva PLC	United Kingdom		17.00
12/09/2014	BRE Ubezpieczenia TUIR SA	Acquisition	AXA Group	France	175.41	100.00
10/09/2014	Donoria SA	Acquisition	Hyperion Insurance Group Ltd	United Kingdom		51.00
17/04/2014	Balta AAS	Acquisition	PZU SA	Poland	66.35	100.00
17/04/2014	Link 4 Towarzystwo Ubezpieczen SA	Acquisition	PZU SA	Poland	129.78	100.00
17/04/2014	Estonian business of Codan Forsikring	Acquisition	PZU SA	Poland	27.00	100.00
17/04/2014	Lietuvos Draudimas AB	Acquisition	PZU SA	Poland	240.86	99.98

Source: DealWatch



A close-up, low-angle shot of an orange, ribbed suitcase with a black telescopic handle and a green handle. A green tag with a white label is attached to the handle. The background is a blurred airport or travel setting.

# 04 COMPANIES IN FOCUS

# PZU Group



## Highlights

PZU is one of the oldest insurers in Poland. Its history goes back to the 1920s, when the Polish Directorate of Mutual Insurance was established and was later transformed into the Universal Mutual Insurance Institution (ZUW). It was nationalised during the communist regime and changed into the Universal Insurance Institution – Powszechny Zakład Ubezpieczeń (PZU). In 1989, it was transformed into a joint-stock company owned by the Polish state.

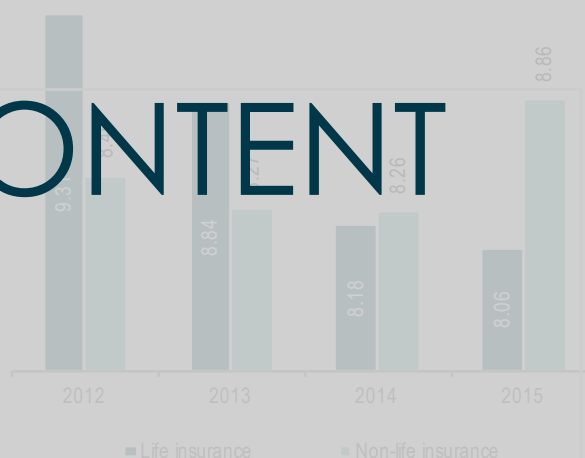
In 1991, PZU set up its life-insurance arm PZU Zycie and transferred life insurance policies to this entity. In 1998, PZU Zycie launched an open pension fund.

In 1999, the government sold 20% in PZU to Netherlands-based insurance company Eureko and 10% to BIG Bank Gdanski. Subsequently, rifts appeared as to the execution of the privatisation agreement, which ultimately ended in an arbitration in 2009.

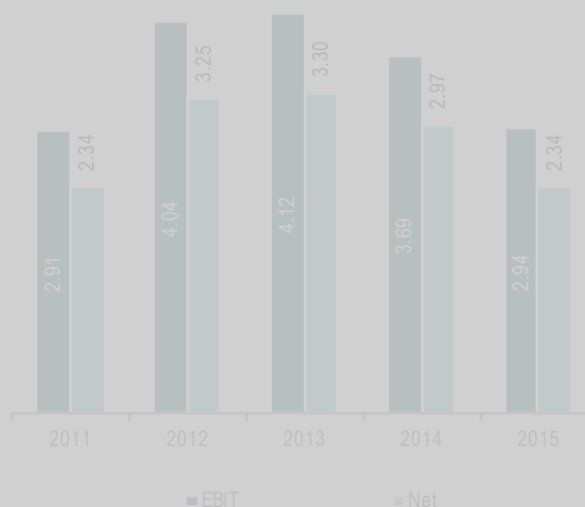
PZU's debut on the Warsaw Stock Exchange in 2010 was the biggest IPO in Europe that year.

In 2015, PZU started expanding in the banking sector, purchasing 25.25% in Alior Bank for PLN 1.63bn. The lender is now taking over Bank BPH. PZU expects the banking sector's consolidation to lead to five or six big players controlling the market, Alior being one of them.

## Gross Written Premium, PLN bn



## Earnings, PLN bn



Source: Company

## PZU Group (cont'd)

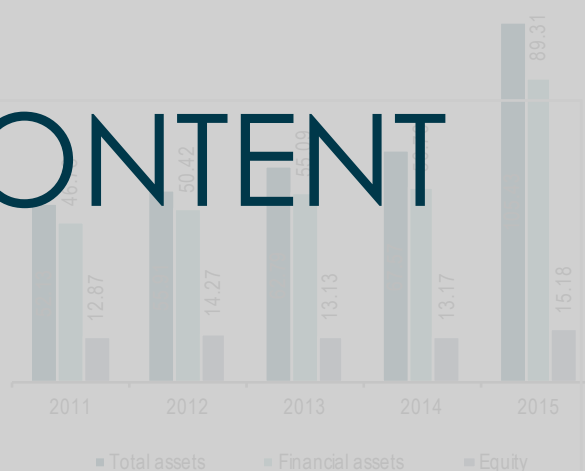


### Highlights

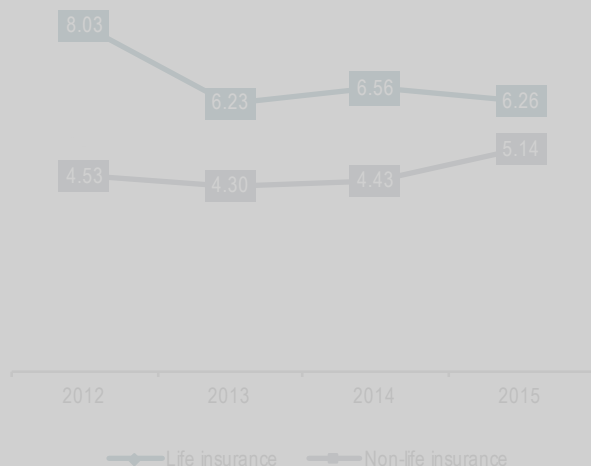
The PZU Group posted net profits of PLN 2,342.2mn in 2015, i.e. 21.1% lower than in 2014, mainly due to lower income from investments and decreased insurance profitability (its return on equity attributable to parent company) declined by 20.1% to 18.5%. Its debt ratio was 22.6% at the end of 2015.

Its Solvency II ratio, calculated at the end of September 2015 according to the standard formula, was 296.1%.

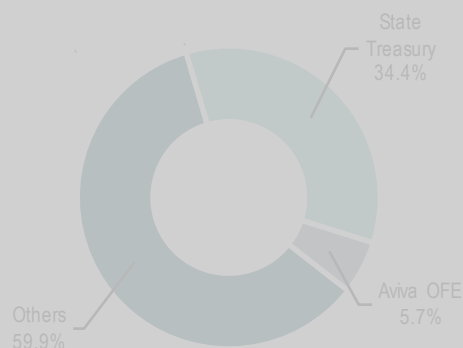
### Assets & Equity, PLN bn



### Gross Claims Paid, PLN bn



### Shareholders at end-2015, % of Capital



Source: Company

## PZU Group (cont'd)



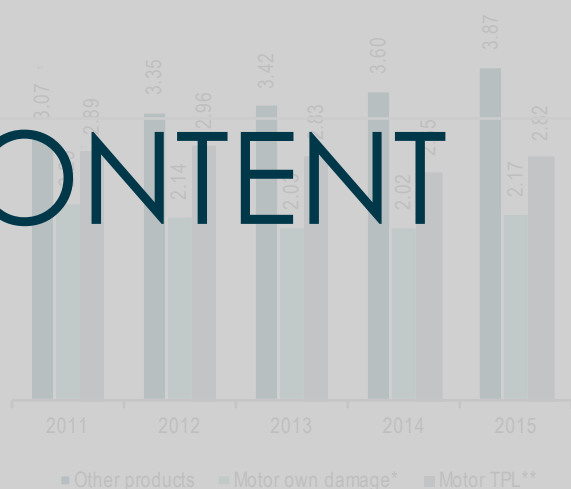
### Highlights

PZU claims it had a 43.9% share in the life insurance market in Poland in terms of regular premiums after Q3 2015 and a 33.0% share in the non-life insurance market in Poland at that time.

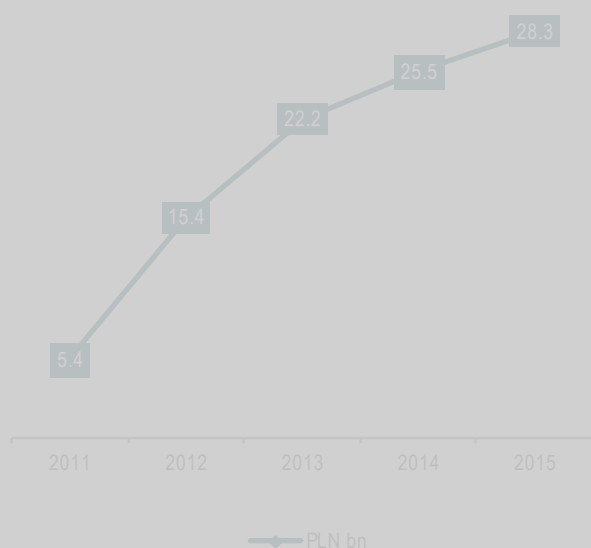
It held a 13.2% share in the investment fund market in 2015, in terms of accumulated assets, as well as a 11.2% share in the investment fund market in terms of net accumulated assets (placing it in the No.2 spot).

The Group is No.1 in terms of written premiums on the non-life insurance markets in Lithuania (31.1%) and Latvia (25.1%).

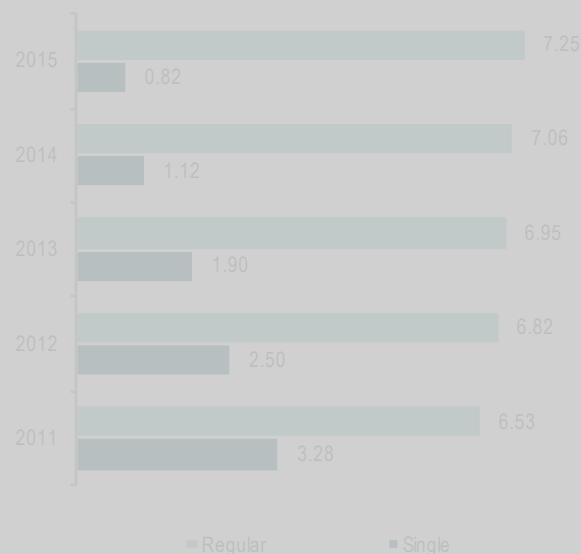
### Non-life Gross Written Premium, PLN bn



### Mutual Fund TFI PZU's Assets, end-year



### Life Gross Written Premium, PLN bn



Source: Company, \*- auto casco, \*\* - third-party liability

# Ergo Hestia Group



## Highlights

Ergo Hestia was the first insurer to come into existence after the toppling of communism in Poland; it sold its first insurance policy in 1991 (as Hestia Insurance) and in 2015 it became the second-highest insurer in the on-life segment as well as a top performer in the life insurance segment (its life insurance arm was set up in 1997).

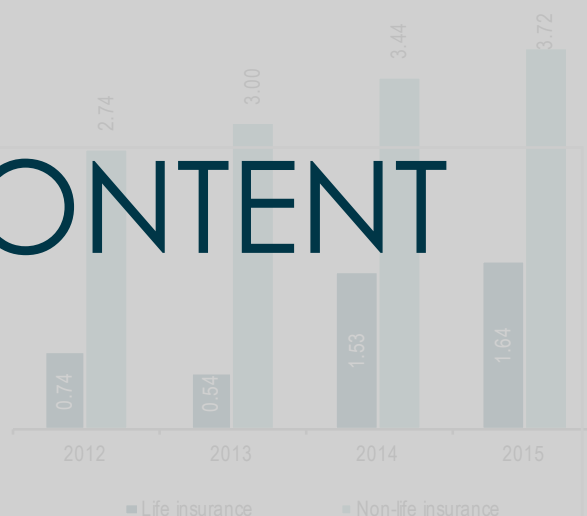
Since 2000 it has belonged to the capital group of the world's biggest reinsurance company, Munich Re.

It operates through over 3,700 advisors and over 600 customer service centres throughout the country.

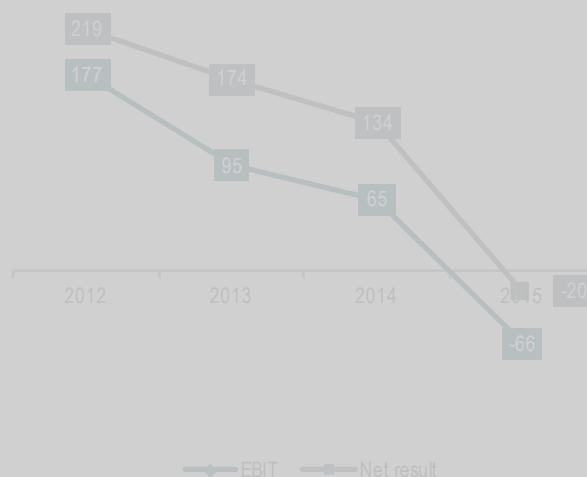
In 2015, the Group's gross written premium rose by 7.8% y/y to PLN 5.36bn (while the entire market saw a drop of 0.2% y/y). At the same time, its claims paid out rose by 19.1% y/y to PLN 2.24bn. The net loss – of PLN 20mn – derived from the continuous price war in the motor insurance segment.

The Group services over 3.6mn individual and corporate customers.

## Gross Written Premium, PLN bn



## Earnings, PLN mn



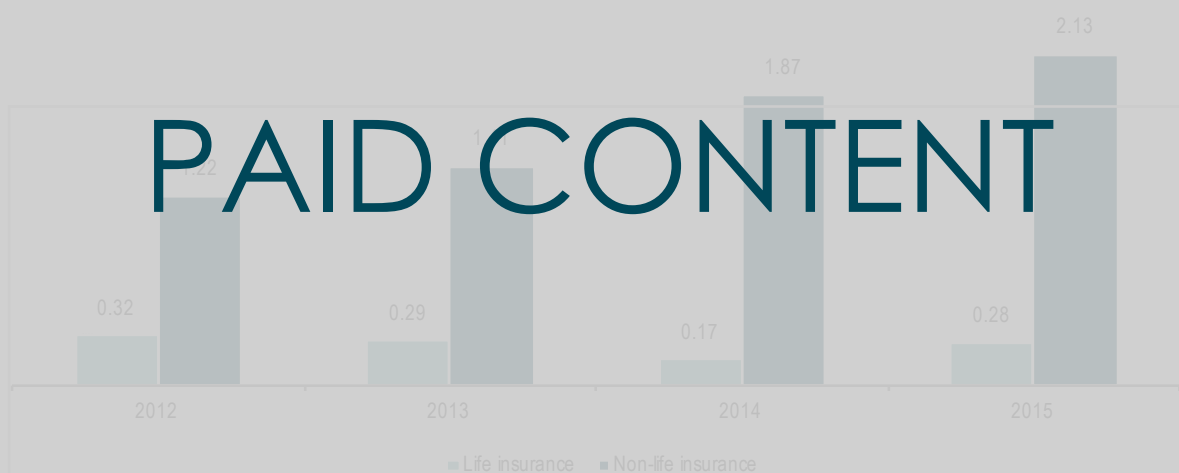
Source: Rzeczpospolita, KNF, company



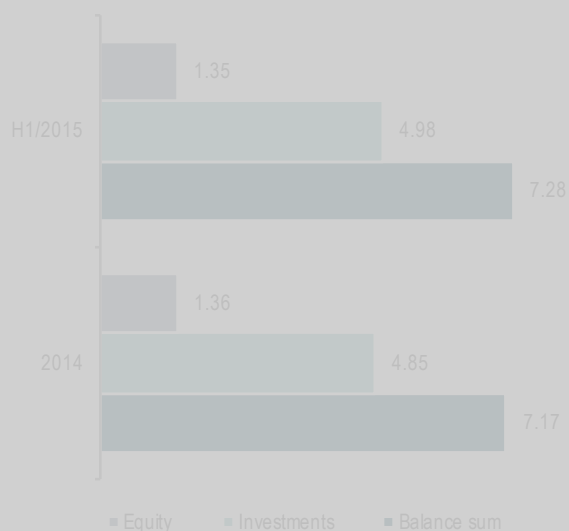
## Ergo Hestia Group (cont'd)



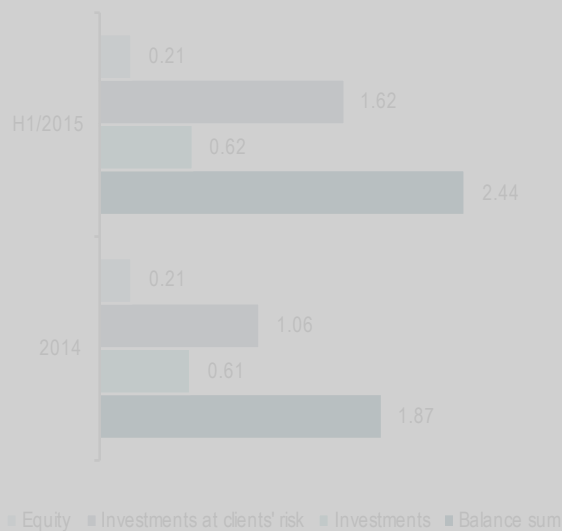
### Gross Claims Paid, PLN bn



### Balance Sheet: Non-life, PLN bn



### Balance Sheet: Life, PLN bn



Source: KNF company

## Warta Group

warta.

### Highlights

Reassurance Society Warta was set up in 1920 in Poznan. It resumed operations – which had been suspended during World War II – in 1946 and was taken over in 1947 by the Polish state, which took a 60% stake. In 1995, it became the first Polish insurer to be listed on the Warsaw Stock Exchange (WSE). It was delisted in 2006.

Also in 1995, its life-insurance arm TUZ Warta Vita came into being.

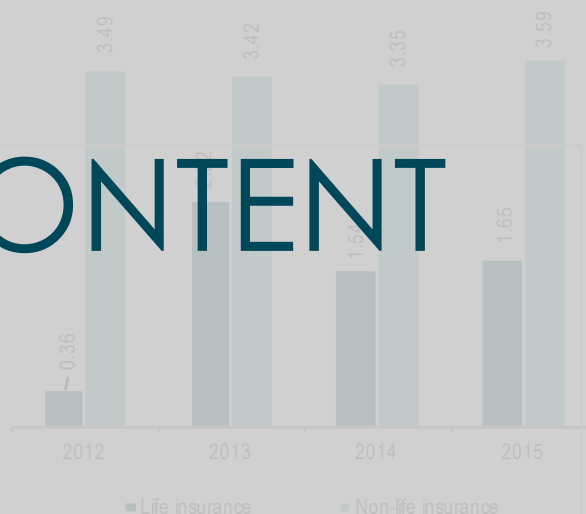
In 2000, KBC joined the company's shareholders, with a 40% stake – the biggest shareholder being Kulczyk Holding with its subsidiaries (52.13%).

In 2012, Germany's Talanx and Japan's Meiji Yasuda took over the Warta Group. Later that year, TUIR Warta merged with HDI Asukuracja TU. Talanx itself debuted on the WSE in April, 2014.

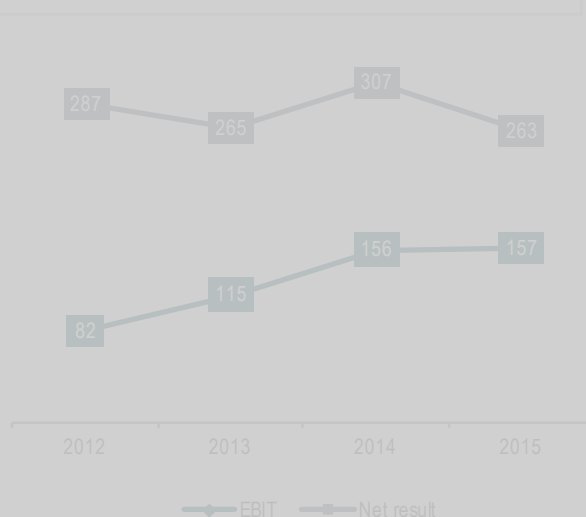
Warta's non-life arm increased its gross written premium by 7.1% y/y to PLN 3.59bn in 2015, with all major segments registering growths – SMEs 16.7%, housing 4.8% and even motor insurance a slight 0.7%.

Warta's life insurance arm saw gross written premium rise 6.6% y/y to PLN 1.65bn in 2015. The most dynamic growths were achieved in the group (30.1%) and structured policies (20.9%) segments. Three-quarters of life insurance policies were sold via bancassurance channels in 2015.

### Gross Written Premium, PLN bn



### Earnings, PLN mn

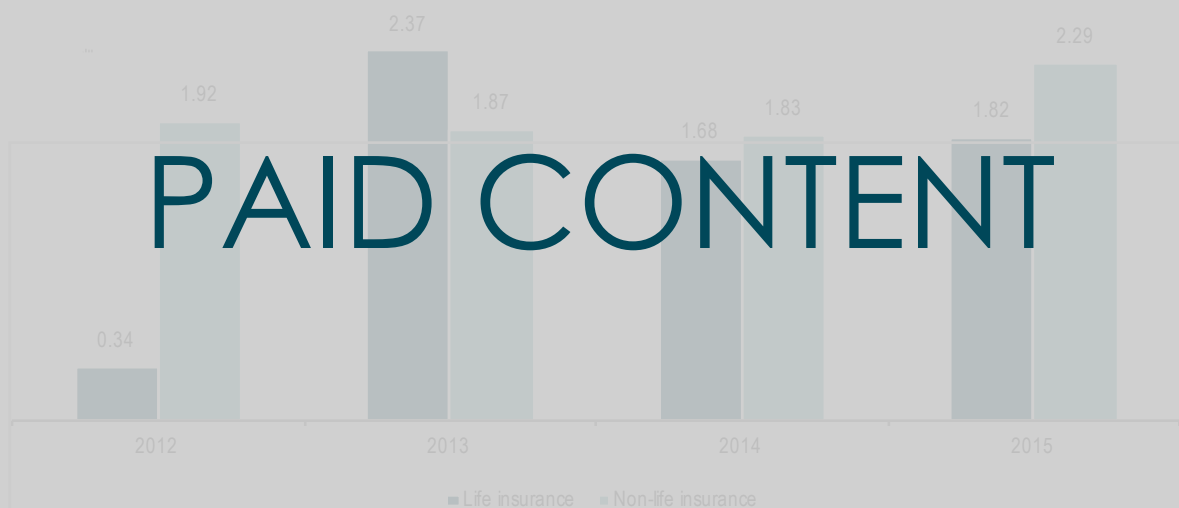


Source: KNF, EMIS, Rzeczpospolita

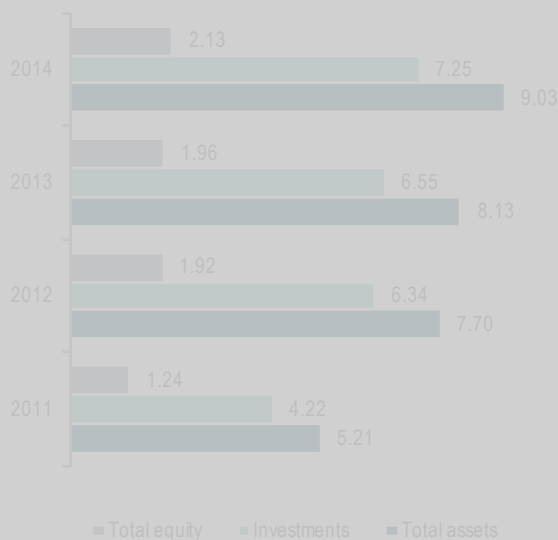
## Warta Group (cont'd)

warta.

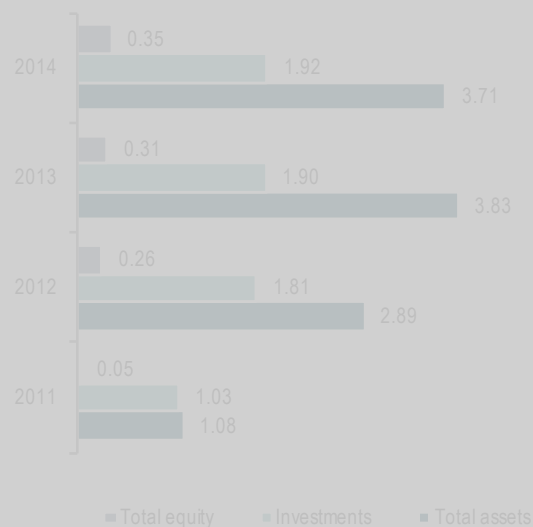
### Gross Claims Paid, PLN bn



### Balance Sheet: Non-life, PLN bn



### Balance Sheet: Life, PLN bn



Source: KNF, EMIS

# Aviva Group



## Highlights

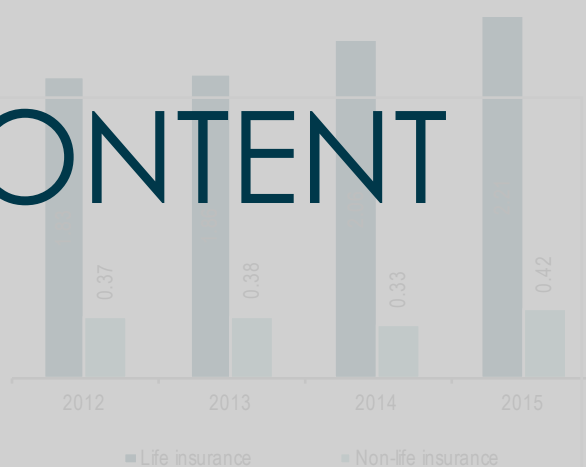
Aviva has been present in Poland since 1992 (as Commercial Union until 2009). It provides services for 3.5mn customers and manages customers' assets totalling over PLN 1.8bn (EUR 11.8bn).

Aviva specialises in life and health insurance, but it also provides property insurance as well as mutual funds. It sells automotive insurance packages by the direct system (telephone, internet).

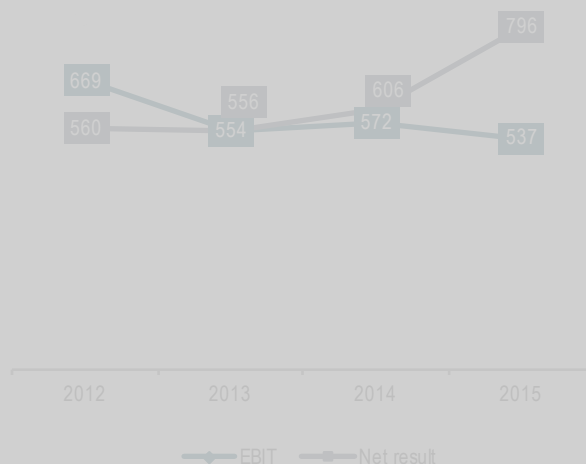
Its open pension fund came into being in 1998, when the government prepared the old-age pension reform that took effect in 1999. Originally, it was co-owned by two Polish banks: BPH and WBK.

In July 2015, the Aviva group finalised the purchase of Expander Advisors – an established financial advisory company. It decided to retain Expander's brand and CEO. Expander has nearly 100 outlets in Poland and helps sell one tenth of the mortgage loans in the country.

## Gross Written Premium, PLN bn



## Life Arm: Earnings, PLN mn



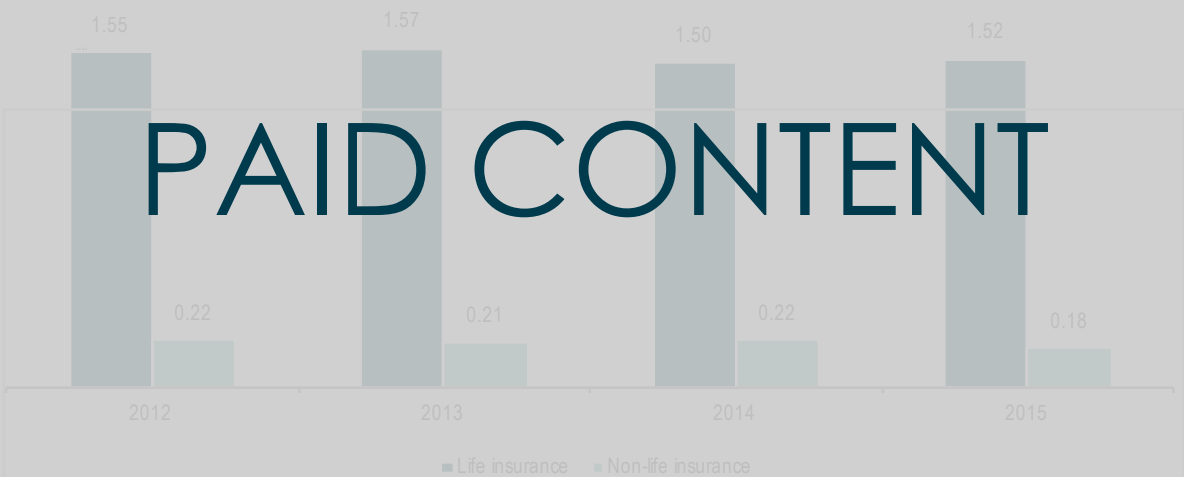
Source: KNF, Rzeczpospolita

# Aviva Group

## (cont'd)



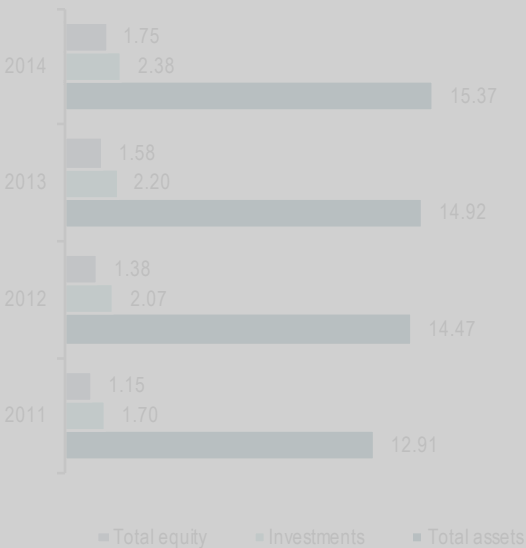
Gross Claims Paid, PLN bn



Balance Sheet: Non-life, PLN bn

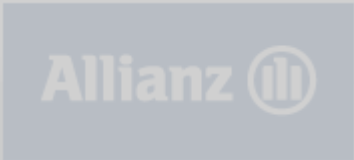


Balance Sheet: Life, PLN bn



Source: KNF, EMIS

# Allianz Group



## Highlights

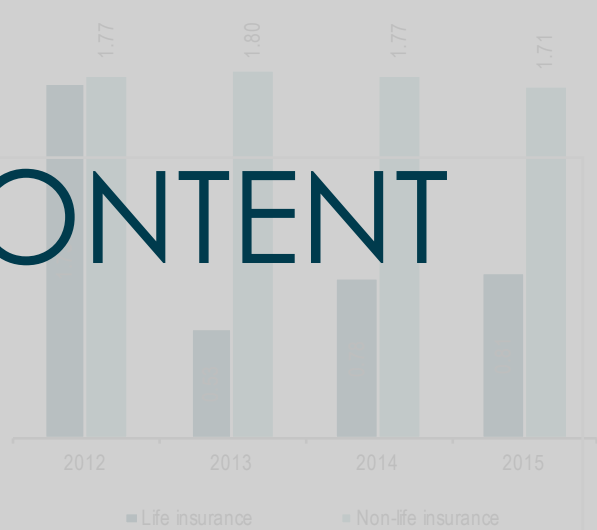
Allianz has been present in Poland since 1997. It now provides services for over 2mn customers via around 5,000 agents offering 180 products.

The group owns four companies in Poland: a life-insurance company, a non-life insurance company, a mutual fund management company, and an open pension fund.

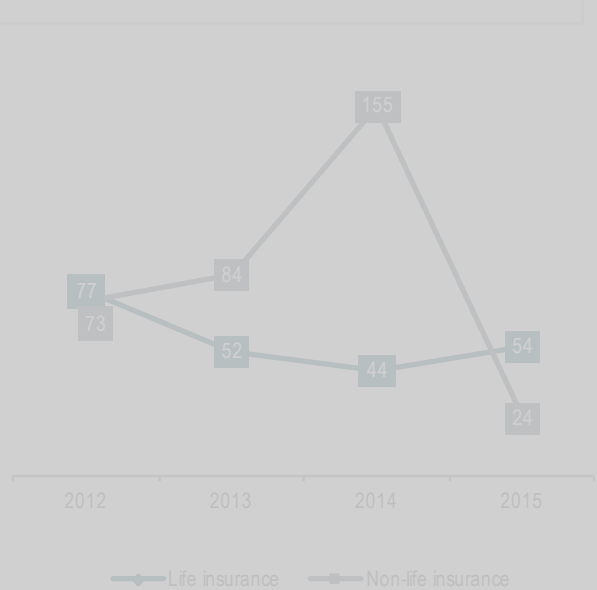
In late 2014, Allianz replaced its life-insurance product with three simple insurance schemes that can serve as the basis for customers' individually adjusted products.

Since May 2016 TFI Allianz Polska has replaced Allianz Investmentbank AG as the distributor of Allianz Global Investors (AllianzGI) funds on the Polish market. Thus, the Allianz TFI mutual fund firm will offer not only its proprietary funds (as well as Allianz's funds as master feeder), but also the array of the Luxembourg funds that have been available on the Polish market since 2011.

Gross Written Premium, PLN bn



Net Earnings, PLN mn



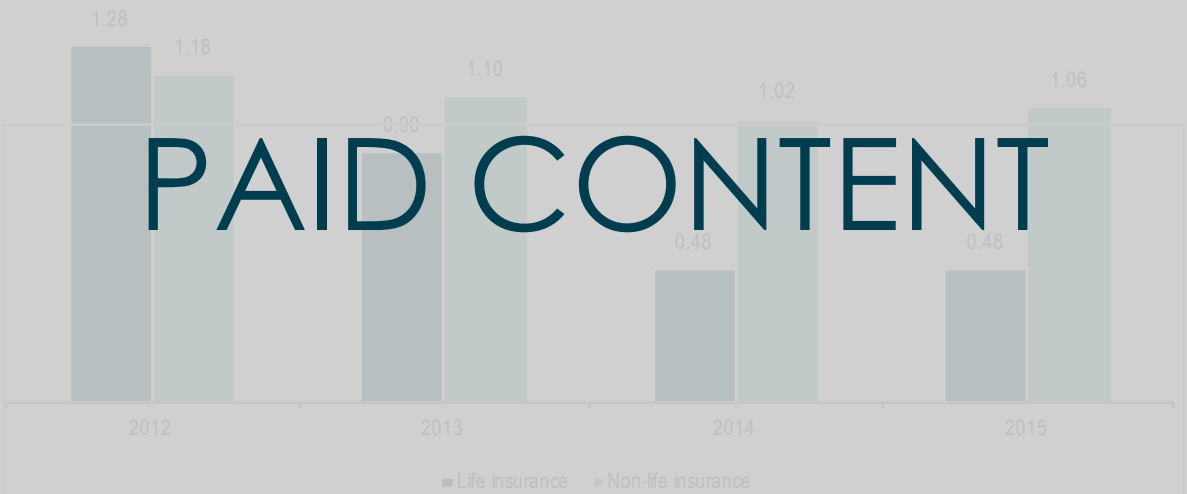
Source: KNF, Rzeczpospolita



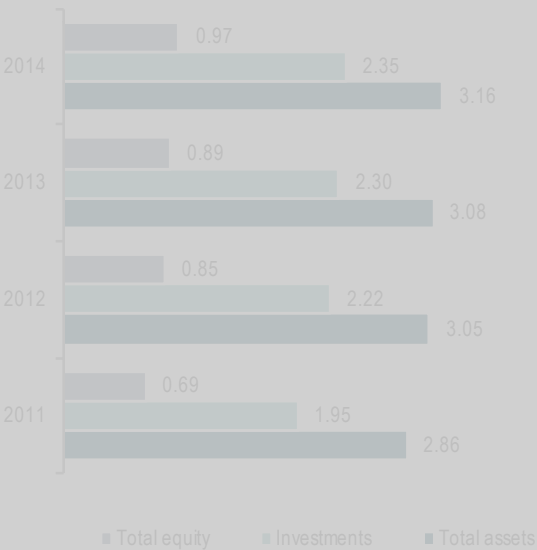
# Allianz Group (cont'd)



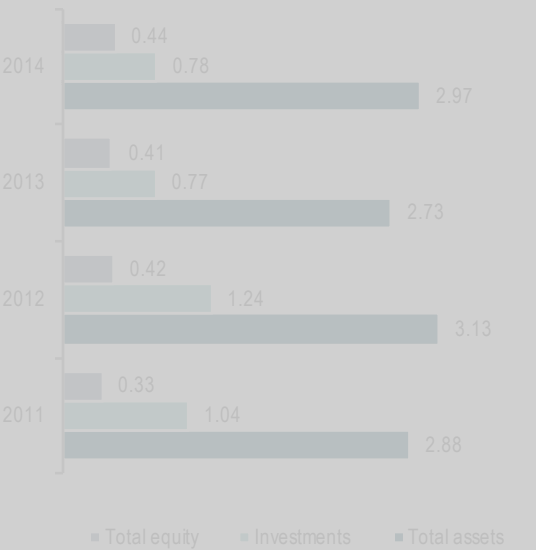
Gross Claims Paid, PLN bn



Balance Sheet: Non-life, PLN bn



Balance Sheet: Life, PLN bn



Source: KNF, EMIS



# 05

## REGULATORY ENVIRONMENT

# Key Institutions

## KNF

The main regulatory body for the insurance sector is the Polish Financial Supervision Authority (KNF). KNF exercises supervision of the banking, capital, insurance, and pension markets. The KNF also carries out supplementary supervision of financial conglomerates, electronic money institutions, payment institutions and payment service bureaus, as well as supervision of cooperative savings and credit unions. It is entitled to give rulings on authorisation to operate on the financial market, administrative sanctions and other issues that are essential for proper functioning of the financial market.

The KNF's chairman is appointed by the Prime Minister for a five-year term of office. The tenure of the current head of the regulator – Andrzej Jakubiak – runs out in October 2016. The new governor of the National Bank of Poland (NBP), Adam Glapinski, has announced his intention to use the end of Jakubiak's term of office to remove banking supervision from the KNF's prerogatives. Until the KNF was set up in 2006, banking, capital markets, and insurance/pension supervision tasks were performed by other bodies (KNB, KPWiG and KNUiFE, respectively).

## NBP

The National Bank of Poland (NBP) is the central bank of the Republic of Poland. Its tasks are stipulated in the country's Constitution as well as other laws (the Act on the NBP and the Banking Act). Under the Constitution, the fundamental objective of the NBP's activity is to maintain price stability and the stability of the national currency.

The most important areas of activity of the NBP are: monetary policy, issue of currency, development of the payment system, management of official reserves, education and information, and services to the State Treasury.

The NBP's governor is appointed for a six-year term by the Sejm (the lower chamber of the parliament) at the request of the President of the Republic of Poland. He/she is the chairperson of the Monetary Policy Council and the Management Board of the NBP. The new governor of the NBP is Adam Glapinski, who took office on June 21, 2016.

Source: KNF, NBPM, UOKiK

## Key Institutions (cont'd)

### UOKiK

Poland's main anti-monopoly watchdog is the Office of Competition and Consumer Protection (UOKiK). Its president is a central authority of the state administration, reporting directly to the Prime Minister, who appoints the UOKiK president from among the persons selected in an open competition. The Office's president is responsible for shaping antitrust policy and consumer protection policy (its president has the power to carry out proceedings concerning practices infringing collective consumer interests, which may lead a decision ordering the enterprise involved to cease the practices in question and pay a fine).

In recent years, the UOKiK's decisions related to the insurance market concerned infringements of the collective interests of consumers by institutions offering unit-linked life insurance. The regulator argued that sale of such insurance policies to consumers was "a dishonest form of sale". "They have frequently been sold as a safe and attractive investment product to persons who intended to open an ordinary deposit account and were not aware that they might lose a substantial portion of their funds if they wanted to withdraw. This is an example of the problem of misselling in the financial sector," the UOKiK said in its report.

Source: KNF, NBPm, UOKiK

# Regulator's Policies

## Recommendation U - on Bancassurance

The Polish Financial Supervision Commission (KNF) introduced these regulations in June, 2014, asking insurers to comply with it by the end of March, 2015. The recommendation limited the possibility of combining the functions of policyholders and insurance intermediaries for banks as it could potentially lead to conflicts of interest (the given bank is part of the insurance agreement and represents the insured, while at the same time it is the intermediary from the insurer).

These regulations also advise customers from being offered inadequate insurance policies, i.e. such that are not beneficial from the point of view of their needs, financial situation, accepted risk level, or knowledge of the financial market. The recommendation also forbids banks to levy fees related to an insurance policy other than those related to return of costs of concluding and servicing the insurance contract.

As a result of these regulations, already in 2014, gross written premium in life insurance decreased by 8.3% y/y, while property and casualty insurance premiums were down by 1.3% y/y.

## Recommendations Concerning Motor Insurance Claims

In late June, 2016, the KNF issued its recommendations concerning procedures and pay-outs of claims related to non-property damages under automotive third-party liability insurance policies. It expects insurers to comply with these regulations by the end of 2016.

These recommendations concern:

- organisation, management, supervision, and control of the process of establishing and paying out on claims,
- compensation, the mode of procedures concerning establishing and paying out on claims,
- the mode of establishing compensation.

The regulator stressed that abnormalities in the process of establishing and paying out compensation for non-property damages lead to the risk of financial losses on the part of insurers, due to the need to cover legal representation costs during court proceedings and, in the case of unfavourable rulings, other fees too.

The KNF's representatives said that they did not expect insurance policy prices to increase as a result of these regulations.

Source: KNF

# Government Policies

## Tax on Financial Institutions' Assets

The new tax took effect on February 1, 2016. Apart from banks, it covers domestic insurers and reinsurance companies, as well as branches of foreign insurance/reinsurance companies. The tax-free limit of assets is PLN 2bn – assets above that level are subject to the tax, to the tune of 0.44% per annum. The tax is to be paid on a monthly basis (based on the state of assets on the last day of the given month).

The National Bank of Poland (NBP) estimated that around half of Polish insurers will be subject to this tax, with nearly 50% of the income from this tax to come from the country's biggest insurance group (PZU). According to the central bank's assessment, the tax should not materially impact the solvency of the Polish insurance sector in the near term, though in the case of some individual companies tax levels may exceed profit levels. In some cases, this may lead to a deepening of losses already incurred in 2015, which could ultimately mean that these companies will have to cover losses from their own resources.

PAID CONTENT

## Consumption-enhancing Measures

The Polish government has pledged – and to some extent, has already implemented – a wide array of reforms, including both measures aimed at increasing Poles' affluence and others seeking to provide a stimulus to the economy.

The former group of reforms includes the “Rodzina 500+” child benefit programme, which provides PLN 500 monthly for every second and subsequent child aged up to 18 in a household – and, in the case of lower-income families, for the first child as well. The costs of this scheme are estimated at around PLN 17bn annually, but it is also designed to further boost individual consumption – which, for more than a year, has been the main driving force of Poland's economic recovery. A number of financial institutions have come up with special offers for parents – attracting them to savings/investment schemes for their children.

Source: NBP, Finance Ministry, Economic Development Ministry



## Government Policies (cont'd)

### Consumption-enhancing Measures

Such incentives – both from government and from financial institutions – are important for the Polish economy since, as the Economic Development Ministry stressed in its policy plan, " Poles have almost no savings which could provide them with financial safety and finance investments in the economy."

Indeed, the ministry has just presented some initial guidelines for these schemes. First, it plans to move PLN 35bn from pension funds to the state demographic reserve fund and the remaining PLN 103bn to open-ended equity investment funds. These would ultimately become mutual funds, as part of the transformed individual pension accounts (IKE) system, but individuals will be allowed to withdraw their resources only after reaching retirement age – and even then allowed to cash only 25% of the sum in their account instantly. . There will be additional new schemes for enterprises, with modest fiscal incentives. All in all, the programme is designed to increase the number of participants in the third pillar pension scheme by 5.5mn people, to bring about PLN 12bn-PLN22bn of additional long-term savings a year, and to raise annual GDP growth by more than 0.3 percentage points.

PAID CONTENT

Source: NBP, Finance Ministry, Economic Development Ministry

# Supra-National Laws

## Solvency II

At the beginning of 2016, the law on insurance activity introduced new capital requirements – the EU's Solvency II – into the Polish legal system. Under the new regulations, calculation of the capital requirement is based on the following risks: market, actuarial (insurance), counterparty insolvency, catastrophe, and operating.

The NBP notes in its Financial Stability Report (February 2016) that "the new Polish legislation introduces 'new principles in the calculation of solvency, determines the reporting requirements for insurance companies, broadens the scope of the domestic supervisory authority and increases the scope of control over capital groups.' New regulations also stand for enhanced reporting requirements for insurers: they are required to draw up separate reports for accounting and solvency purposes. They are now obliged to hold appropriate amounts of eligible own funds to cover the Solvency Capital Requirement (SCR). Insurers have to hold eligible basic own funds in an amount not lower than the Minimum Capital Requirement (MCR). The MCR must be calculated at least quarterly and must be in the range of 25-45% of the respective SCR.

"Some insurance companies, with the consent of the supervisory authority, may apply transitional measures that extend the period of adaptation to the Solvency II requirements for as long as 16 years," the central bank noted. It concluded, though, that the full impact of the new regulations on an insurer's financial standing can only be assessed after it has submitted its first financial statements for 2016.

Nonetheless, the capital requirement coverage ratio of the domestic insurance sector was almost three times higher than the ratio required the Solvency II directive. The results of the study conducted by EIOPA, based on end-2013 data, show that the Polish insurance sector exhibited the highest degree of SCR coverage among EU countries (over 320%), the NBP also reported.

Source: NBP, draft laws submitted with the parliament



# 06

## LIFE INSURANCE

# Subsector Highlights

## Overview

The life insurance segment in Poland is slightly larger than the property and casualty insurance segment (50.2% of gross written premium compared to 49.8% of premium in 2015, respectively). The life segment's earnings have been stable (and they even grew slightly in 2015 in annual terms), as it has not been affected by price wars, unlike its slightly smaller peer.

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## Challenges

The main challenge facing the life insurance market is the new set of rules governing the sale of unit-linked insurance policies. The new law entered force on January 1, 2016, and has already resulted in a drastic decline of such products' sales in Q1 2016.

Under the new law, commissions for unit-linked policies have to be spread over at least five years (hitherto, they were often exhausted in the first 1-2 years, accounting for as much as 90% of customers' premiums for that period). Also, the fee for withdrawal from the policy has been limited to 4%. Thus, many insurance brokers have found that it is no longer profitable to offer such products. As we have mentioned elsewhere, though, market experts hope that a new range of products may emerge to replace these policies.

## Outlook

Insurance penetration is low and is projected to remain broadly stable: at no more than 1.7% of GDP till 2018. Life insurance may become more popular as Poles become more and more affluent. Besides this, the current value of new-type old-age pensions and the government's focus on orienting society to long-term savings may bear some fruit that is visible also on the insurance market. On the other hand, business analysis provider Timetric expects claims in the segment to grow by 1.5%-2.4% annually in the years to 2019, when they should reach PLN 21.45bn, which may bode well for the segment's profitability.

Source: KNF, PIT, Timetric

# Main Events

## Overview of life insurance market's events in last 12 months

- In July 2015, Aviva completed the acquisition of 100% in Expander Advisors – one of Poland's biggest independent financial intermediaries – from private equity firm Innova Capital. The insurer said it did not plan to change the acquisition target's brand or business model. In 2014, Expander sold mortgage loans worth nearly PLN 3.8bn. (*Gazeta Ubezpieczeniowa, Jul 7*)
- At the end of September 2015, PZU closed the sale of a 9.839% stake in its subsidiary PZU Lietuva to Gjensidige Forsikring ASA, for the price of EUR 64.7m. (*PZU, Oct 2*)
- In January, 2016, PZU's pension-fund management firm PTE PZU took over the management of voluntary pension fund Nordea DFE. (*PZU, Dec 17, 2015*)
- In January, 2016, property and casualty insurer PKO TU launched its offer for the country's biggest bank PKO BP's customers willing to purchase credit cards from the bank. In May 2014, PKO BP renamed life insurance company Nordea Polska TUnZ as "PKO Zycie TU" (after taking over Nordea's assets in Poland). (*PKO BP, Jan 11*)
- In March 2016, PZU completed the purchase of the third and last tranche of shares in Alior Bank. Thus, it took over a 25.26% stake for PLN 1.64bn. The insurer later said that it expected 5-6 big banks to remain in Poland in the aftermath of the sector's pending consolidation – with Alior Bank among them. (*PZU, Mar 11*)
- Later in March 2016, the Treasury Ministry's representatives said that the government did not plan to merge PKO BP with PZU, thus defying media speculations. The Treasury holds 29.43% in PKO BP and 35.19% in PZU (both companies are listed on the Warsaw Stock Exchange). (*Gazeta Polska, Mar 23*)
- In May, 2016, LC Corp submitted a request to anti-monopoly watchdog UOKiK for a permit to take over Open Life TU from Germany's Talanx Group. (*UOKiK, May 23*)
- In May 2016, financial market watchdog KNF declined to permit the appointment of Michał Kwiecinski as CEO of Axa TUIR and Axa Ubezpieczenia TUIR, arguing that he would not ensure the proper management of an insurance company. (*KNF, May 24*)
- In June 2016, the UOKiK permitted Nationale-Nederlanden TUnZ to take over 100% of financial intermediary DK Notus (branded Notus Dorady Finansowi). The insurer said it did not plan to change the acquisition target's brand or business model. (*UOKiK, Jun 27*)

Source: Media, companies

# Premiums & Claims

## Life Insurance: Basic Data, PLN bn



## Life Insurance by Type: Gross Written Premium, PLN mn

	2012	2013	2014	2015
Life insurance	19,391.33	13139.31	10,623.07	8,847.96
Marriage assurance, birth assurance	116.75	113.46	114.61	117.26
Life insurance, if linked to investment fund	12,047.06	13051.94	12,599.63	12,996.50
Annuity insurance	99.45	106.98	113.71	131.51
Accident and sickness insurance	4,693.06	4829.28	5,195.45	5,412.11

In 2015, the life insurance sector's gross written premium totalled PLN 27.5bn, of which PLN 8.9bn was endowment insurance, PLN 13.0bn life insurance with insurance capital funds, and PLN 5.4bn accident insurance, while birth and annuity insurance accounted for PLN 0.1bn each.

In the life insurance sector, 47.25% of gross written premiums came from unit-linked policies, while pure life insurance provided another 32.17% of the total in 2015.

Group life insurance policies were worth PLN 9.44bn and individual policies PLN 18.07bn.

Source: PIU, KNF



## Costs & Earnings

### Results, PLN bn



### ROE & ROA, %



### Results Update

In Q1 2016, life insurance premiums tumbled by 20% y/y to PLN 5.7bn, while claims were down by 13.7% y/y to PLN 4.5bn. The value of unit-linked life insurance policies plummeted by 33.1% y/y to PLN 2.4bn.

According to the Polish Insurance Association (PIU), the changes on the life insurance market were primarily linked to the new insurance activity law that limited sales of unit-linked products. However, its representatives hope that new regulations will ultimately necessitate a new range of protection-oriented products, possibly with a savings factor.

Source: PIU, GUS



A close-up photograph of two hands, palms up, holding a white, stylized house icon. The hands are wearing a grey, textured sweater. The background is a soft, out-of-focus grey.

# 07

## NON-LIFE INSURANCE

# Subsector Highlights

## Overview

The majority of gross written premium in the non-life sector (52.64%) came from car insurance in 2015. Within this, third-party liability insurance accounted for 31.53% and auto-casco for the other 21.11%, according to PIU data. It is worth noting that, according to various assessments, at least 10% of automobile drivers do not have the mandatory insurance.

After several years of price wars in the car insurance segment, insurers have decided that further easing would hurt financial results much more, despite digital price controls have already been noticed and are expected to continue.

PAID CONTENT

## Policy Numbers

The total number of property and casualty insurance policies in Poland in 2015 was 50.05mn. Of these, 19.56mn were automobile public liability insurance policies and 5.23mn were auto-casco automobile policies, according to PIU data.

The number of persons who had purchased health insurance amounted to 1.44mn at the end of 2015, while their combined gross written premium totalled PLN 483.5mn, according to PIU data.

The number of agricultural buildings insurance policies amounted to 1.85mn at the end of 2015 and the number of farmers' public liability insurance policies to 1.46mn, according to the PIU's data.

## Outlook

As price wars in the car insurance segment now seem to be a thing of the past and as the number of automobiles in Poland is rising, there are chances for an upswing in financial results, too, even though market players are still pessimistic. Still, the improvement will probably not be tremendous: Timetric expects the Polish non-life insurance penetration to inch down from 1.35% in 2015 to 1.33% in 2019. It also expects paid claims to grow steadily in the 2016-2019 period, by 2.6-3.5% annually, to reach PLN 13bn at the end of this period.

Source: KNF, PIU, Timetric

# Main Events

## Overview of non-life insurance market's events in last 12 months

- For events concerning the biggest market player PZU – see Main Events box in Life Insurance chapter
- In October 2015, the merger of Compensa TU Vienna Insurance Group and Benefia TU Vienna Insurance Group was completed. Afterward, the single entity in operation has been Compensa TU S.A. Vienna Insurance Group (Compensa, Oct 30)
- In February 2016, Austria's Uniq Group said it planned to invest EUR 500mn by 2020 in innovative and digitalisation projects. It announced new investment plans in Poland too – in new IT projects that, within 2 years, should allow it to limit costs. Its management also pledged a product offensive for 2016. (Uniq's press conference, Feb 23)
- In April 2016, anti-monopoly watchdog UOKiK permitted Axa Ubezpieczenia TUIR to take over Liberty Ubezpieczenia (formerly, Liberty Direct). In March 2015, Axa had taken over 100% in BRE Ubezpieczenia from mBank. (UOKiK, Apr 5)
- In May 2016, TFI Allianz Polska replaced Allianz Investmentbank AG as the distributor of Allianz Global Investors (AllianzGI) funds on the Polish market. Thus, the Allianz TFI mutual fund firm will offer not only its proprietary funds – as well as Allianz's funds as master feeder – but also the array of Luxembourg funds that have been available on the Polish market since 2011. (Allianz, May 23)
- In June 2016, Credit Agricole and Concordia Ubezpieczenia started a cooperation arrangement, under which the lender offers the insurer's life, property and third-party liability insurance to its customers. (Concordia, Jun 27)

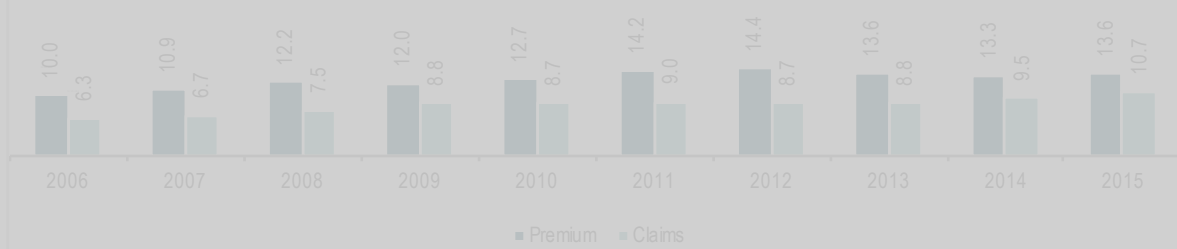
Source: Media, companies

# Premiums & Claims

## Property and Casualty Insurance - Excluding Car Insurance, PLN bn



## Car Insurance, PLN bn



## Comments

The total premium on non-life insurance (exclusive of motor insurance) amounted to PLN 13.7bn in 2015 – 5.7% higher than in 2014. On the non-life insurance market, the premium increase was caused, to a great extent, by an increase in active reinsurance (by as much as 160%).

Compensations and benefits under civil liability insurance (OC) of land vehicles (including civil liability insurance of motor vehicle owners) amounted to PLN 6.8bn (an increase of 15.8%) This was the highest total in the history of insurance in Poland.

The gross written premium on motor civil liability insurance (OC) amounted to PLN 8.2mn in 2015 (up 1% y/y) – the highest figure ever. The gross written premium on comprehensive auto-casco (AC) insurance amounted to PLN 5.5bn (up 3.7% y/y).

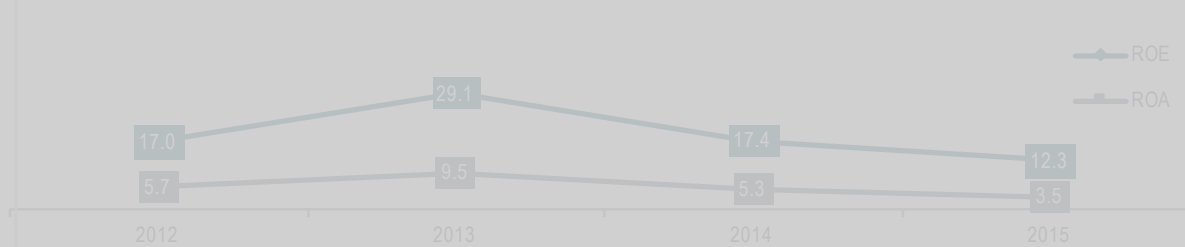
Source: PIU, KNF

# Costs & Earnings

## Results, PLN bn

	2012	2013	2014	2015
Costs of operations	7.05	7.01	7.25	7.37
Technical result	0.66	1.26	0.8	0.35
Gross financial result	3.33	6.11	4.16	2.97
Income tax	0.33	0.34	0.41	0.3
Net financial result	3.33	6.11	3.72	2.66

## ROE & ROA, %



## Results Update

In Q1 2016, the value of property and casualty insurance (excluding car insurance) fell by 2.9% y/y to PLN 3.7bn. In the car segment, it was up 19.5% y/y to PLN 2.3bn in the third-party liability segment and 13.3% y/y to PLN 1.6bn in the auto-casco segment. Technical results were minus PLN 315.5mn and plus PLN 52.0mn, respectively.

Overall, the non-life insurance sector posted a net profit of PLN 49mn in Q1 2016, down 87.7% y/y.

Source: PIU, GUS

# Main Insurance Types

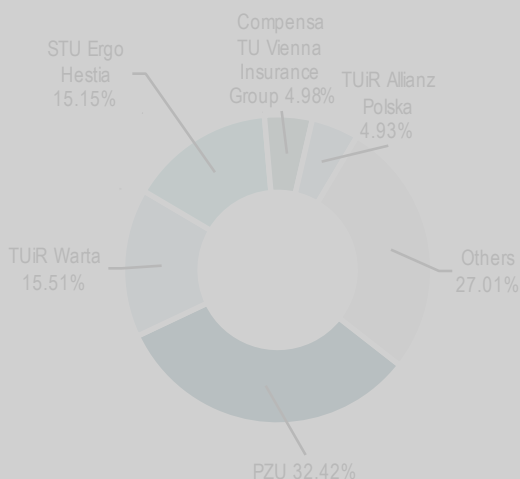
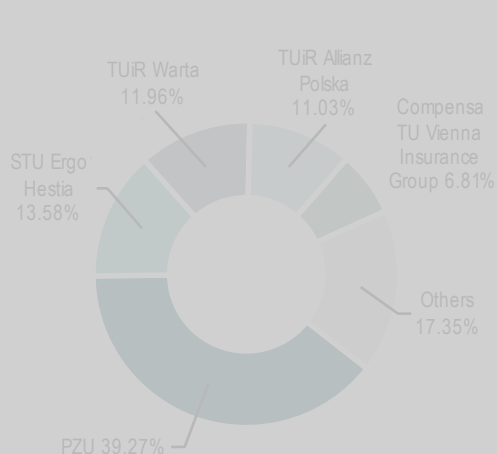
Non-life insurance by type: gross written premium, PLN mn

	2012	2013	2014	2015
Accident insurance*	1,278.69	1,302.55	1,338.99	1,508.97
Sickness insurance	512.52	612.14	656.35	613.31
Land vehicles (other than railway rolling stock) insurance, covering all damage to or loss of	5,627.35	5,321.61	5,260.52	5,455.96
Insurance against damage by natural forces	2,901.73	3,117.32	2,927.06	2,923.88
Insurance against other damage to property due to hail or frost, and any event (such as theft)	2,247.78	2,439.73	2,434.42	2,467.58
Motor vehicle liability insurance, covering all liability	8,935.97	8,464.82	8,071.07	8,150.51
General liability insurance (general third-party liability insurance)	1,746.37	1,859.28	1,920.13	2,011.51
Miscellaneous financial loss insurance	723.55	1,019.61	1,270.01	855.47

Source: KNF, \*- including industrial injury and occupational disease

# Automotive Insurance

Structure of Gross Written Premiums in 2015: in Total, % of All Premiums in Segment

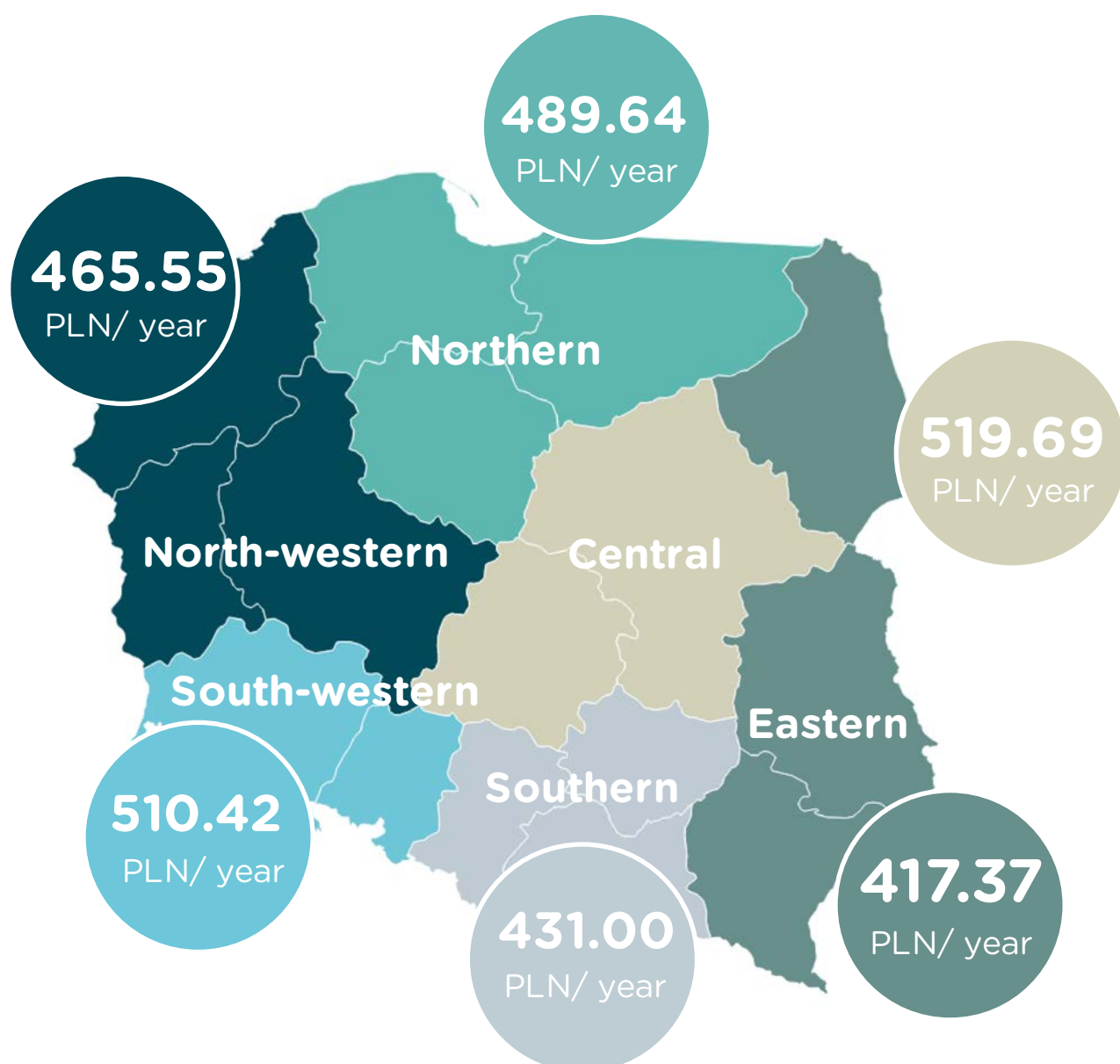


Source: KNF



## FOCUS POINT

### Lowest Prices of Automotive Liability Insurance



*\* price for male customer, aged 33, driving licence for 10 years, insurance for 7 years, damage-free; car: 5-year-old Opel Astra, 110 horsepower, 1.7-litre engine (end-2015)*

Source: Own calculations based on data from [www.superpolisa.pl](http://www.superpolisa.pl)

A photograph of a woman with blonde hair, wearing a tan jacket over a light-colored shirt, sitting at a desk and signing a document with a pen. She is looking towards the camera with a slight smile. In the foreground, the back of a person's head and shoulders are visible, looking towards the woman. The background is a soft-focus office environment.

# 08

## PENSION PRODUCTS

# Subsector Highlights

## Overview

The 1999 pension reform introduced capital-based old-age pensions, ousting the former pay-as-you-go system. Apart from easing public finances, the reform was designed to help strengthen the Polish capital market. Both goals seemed to have been achieved, but, in 2014, the government decided to back off from the reform by writing off nearly all the Treasury bonds held by the funds. As a result, the great majority of Poles have had to continue to rely on state institutions for their pensions.

Since 1999, no government has been successful in persuading any significant number of employees to take to voluntary pension savings schemes, such as individual pension accounts (IKE) or individual pension assurance accounts (IKZE). The current government, though, has pledged to present some new solutions aimed at persuading Poles to save more.

## Challenges

Even though the current government stresses the importance of long-term savings in implementing its economic reforms, there are widespread fears that it may be tempted to remove the remaining parts of the reform. Indeed, deputy PM and minister for economic development Mateusz Morawiecki told a press conference in February 2016 that the government does not plan to use open pension funds to help finance its PLN 1tn investment projects. In May 2016, the government had to deny unofficial media reports concerning alleged plans to merge all the pension funds into a single entity that would be managed by a state-held institution.

## Outlook

It is therefore extremely difficult to predict the future of the pension market in Poland. On the one hand, the government wants the funds to be present on the Warsaw Stock Exchange (WSE), supporting both the capital market and the government's investment ambitions. The government has recently said that it does not plan to nationalise pension funds, but does want to oversee the investments made on around a quarter of their current assets. Still, if the remaining three quarters of assets manage to operate as mutual funds, as intended, it could prompt a considerable number of Poles to start saving for their retirement.

There is also the issue of returning to a lower retirement age, which was one of the themes of the election campaigns of 2015. The 1999 reform did away with retirement rights dependent on the length of service.

In view of costs of this move, however, the Finance Ministry has proposed to make earlier retirement available for those who have worked a certain number of years.

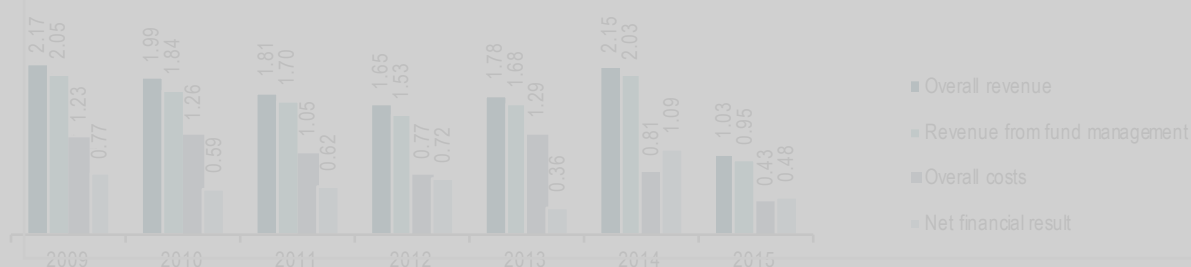
Source: Labour, Economic Development Ministries

# Pension Funds' Financial Results

## Financial Standing of Open Pension Funds (OFEs), PLN bn

	2009	2010	2011	2012	2013	2014	2015
Operating revenue	6.54	7.21	9.2	11.35	11.4	5.48	4.03
Operating costs	0.74	1.06	1.23	1.31	1.57	1.17	0.97
Financial result	20.66	21.13	11.01	31.43	9.9	5	-6.84
Net assets	178.63	221.25	224.72	269.6	299.27	149.05	140.5

## Financial Standing of Pension Fund Managing Firms (PTEs), PLN bn



## Comments

Pension funds (OFEs) reported a net financial loss of PLN 6.8mn in 2015 on operating revenue of PLN 4bn with 96% of it coming from their investment portfolios. The overall financial result was minus PLN 6.8bn in 2015, which – according to the country's Central Statistical Office (GUS) – was due to a negative result of PLN 3.1bn on investments as well as realised and unrealised losses of PLN 9.9bn.

OFE accounts numbered 16.9mn at end-2015, GUS reported, while according to the Social Security Board (ZUS), there were 16.5mn registered OFE members on December 26, 2015, down 0.5% y/y.

Since July 1, 2014, employees have had the right to decide whether to send part of their old-age premium to pension funds or all of it to the ZUS. At the end of 2015, a mere 15% of OFE members were continuing to transfer money to their funds. Thus, OFEs received premiums worth of PLN 740mn-840mn quarterly in 2015, compared to PLN 2.2bn-4.0bn quarterly in 2014 and H1 2014.

Source: GUS

# Pension Funds' Assets

## Assets Changes

Pension funds' assets have diminished considerably since February 2014, when assets worth PLN 153.2bn – in the form of Treasury bonds (i.e. 51.5% of the total) – were transferred to the ZUS and subsequently written off.

The Polish Financial Supervision Commission (KNF) expects the inflow of resources to the funds to decline further in coming years as just 15% of current OFE members have declared they will continue to transfer part of their old-age premiums to OFEs (the rest want the ZUS to keep their entire pension contributions).

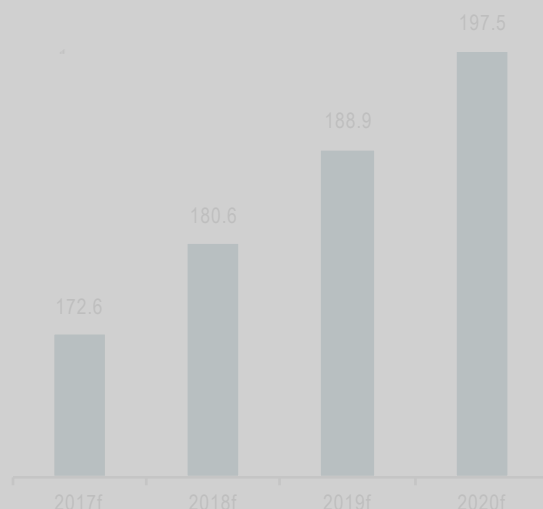
Furthermore, OFEs' assets are being hurt by the so-called security slider – a solution under which a share of an OFE member's assets that increases each year is transferred to his/her account with the ZUS during the last 10 years before retirement age. In 2015, OFEs transferred PLN 3.7bn to the ZUS under this mechanism, i.e. 2.7% of the funds' average net assets at the end of the various months. The watchdog estimates that, in 2016, these transfers will total around PLN 3.7bn.

Also, the KNF notes that, after the removal of T-bonds, the vast majority of OFE assets are located in equities, which are more vulnerable to price changes and cause higher fluctuations in the assets' value.

## Historical Data, PLN bn



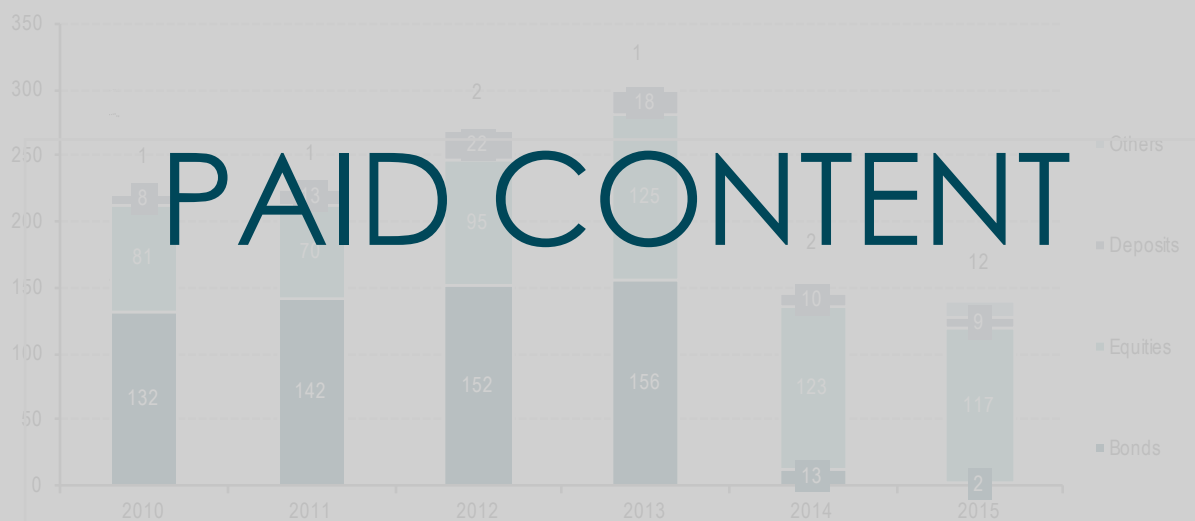
## KNF's Forecast, PLN bn



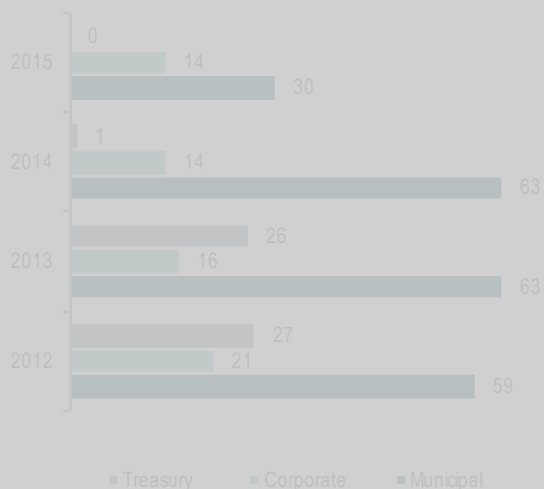
Source: GUS, KNF

# Pension Funds' Portfolios

Assets' Value, PLN bn



Pension Funds' Share in Total Bond Issues, %



After the February 2014 write-off of Treasury bonds, pension funds' portfolios have been dominated by equities. However, the value of bank deposits is also on the rise: it amounted to PLN 9.2bn at the end of 2015 (6.5% of the total portfolio's value), up from PLN 8.1bn a quarter earlier.

Also in 2014, the 5% limit on foreign investments was scrapped. As a result, foreign investments were equal to 8% of the funds' portfolio at the end of 2015 (i.e. PLN 11.3bn).

Source: PwC based on data from KNF and Catalyst

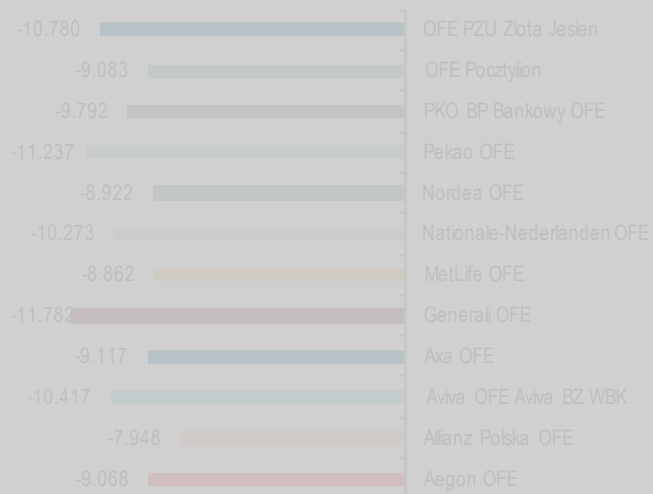
# Pension Funds' Rates of Return

Annual Rate of Return, %

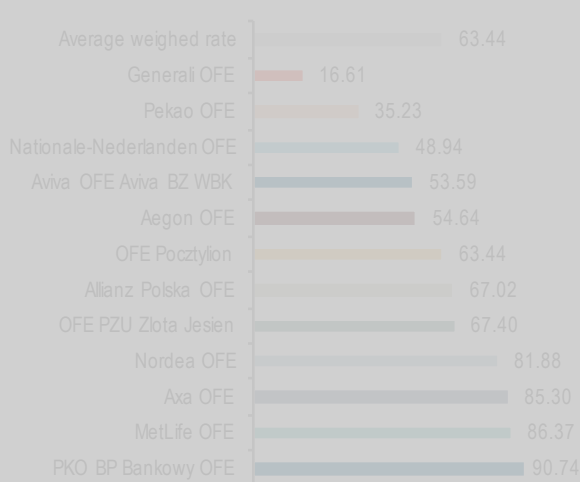


Subaccounts are created by the ZUS for those who switched from OFE to ZUS entirely after 2011; rates before that period are KNF's estimates

One-year Rate of Return on Jun 21, 2016, %



Three-year Rate of Return till Mar 29, 2016, %



Source: KNF, ZUS

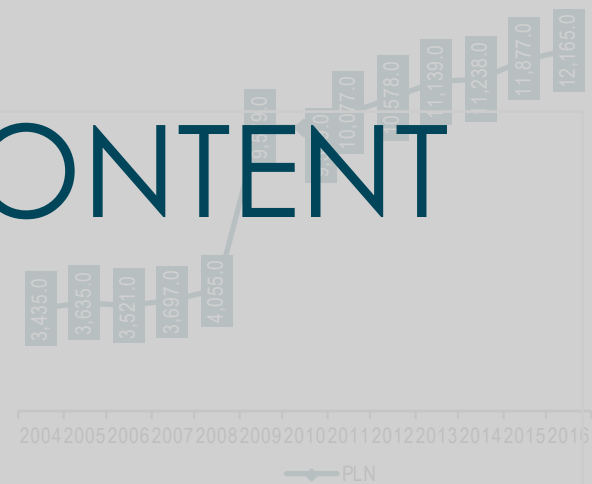
# Individual Pension Accounts

## Rules and Data

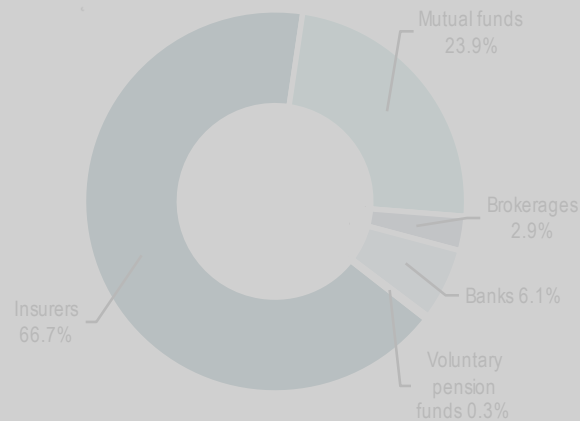
Individual pension accounts (IKEs) are used as a means of building additional pension assets: these assets are tax-free upon withdrawal, provided that the owner is at least 60 years old (and the resources come from a disability income, after PIT payments).

At the end of 2015, 858,700 persons had IKE accounts, which was 5.3% of all employed persons. The IKE market value was PLN 5.7bn (up 13% y/y). Insurance companies had attracted the most capital, PLN 2.1bn.

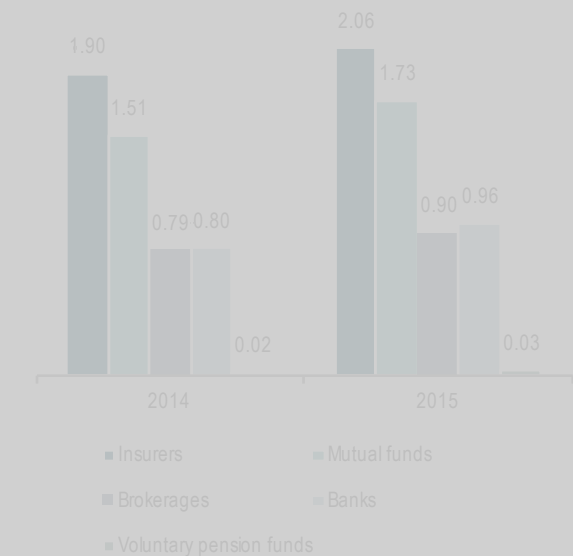
## IKE: Contribution Payment's Limits



## Share in IKE Numbers in 2015, %



## Assets' Value, PLN bn



Source: Labour Ministry, KNF



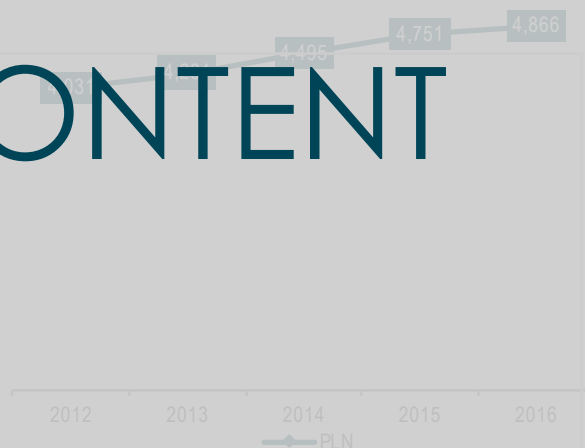
# Individual Pension Assurance Accounts

## Rules and Data

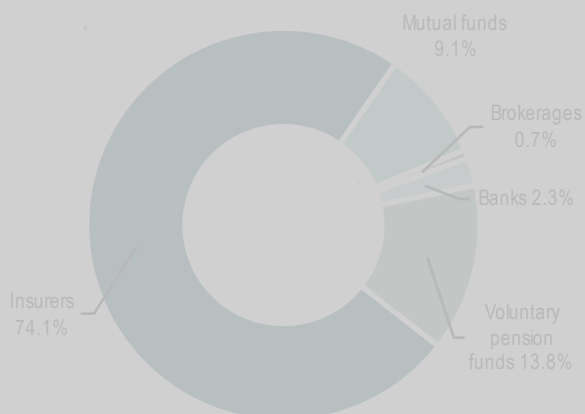
Individual pension assurance account (IKZE) owners are entitled to deduct resources they send to IKZE from their incomes, but when they withdraw the funds they manage to gather, they must pay a 10% income tax on the entire value of these assets.

At the end of 2015, there were 597,600 IKZE accounts, meaning that 3.7% of all employed persons have such accounts. The value of assets under these schemes totalled PLN 622mn (up by 10.6% y/y), with insurers again the dominant destination: assets held in insurance policies amounted to PLN 282mn at the end of 2015.

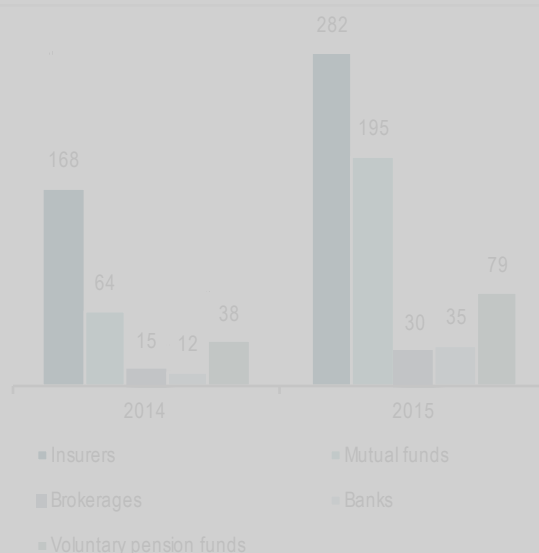
## IKZE: Contribution Payment's Limits



## Share in IKE Numbers in 2015, %



## Assets' Value, PLN mn



Source: Labour Ministry, KNF

A photograph of a modern, two-story commercial building with a light grey and tan facade, large glass windows, and an orange horizontal band above the entrance. A small, bare tree stands in front of the building, and a parking lot is visible in the foreground.

# 09 RETAIL CHANNELS

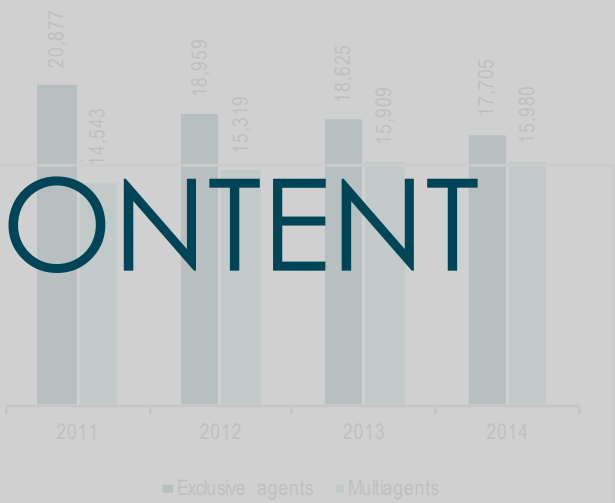
# Retail Channels

## Comments

The latest official data is for 2014. In the coming periods industry experts expect to witness growing importance of multiagent insurance agents, reaching the number of exclusive agents in the nearest future. Agents and multiagents are expected to continue having a strong position in the nonlife sector, while the life insurance sector will depend primarily on insurers' own sales channels as well as bankassurance.

Despite being small in relative numbers, banks and Co-Operative Savings and Credit Unions (SKOK) sold a total PLN 8.534bn worth of premiums in the life insurance category (nearly 30% of total sales value in the segment).

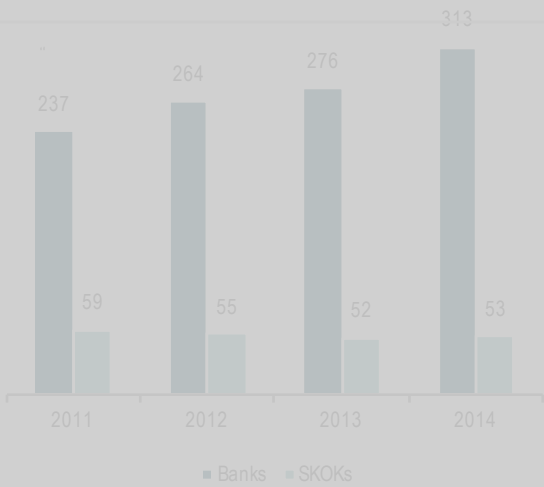
## Number of Insurance Agents, units



## Number of Insurance Brokers, units



## Banks and SKOKs Performing Insurance Agent Activities, units

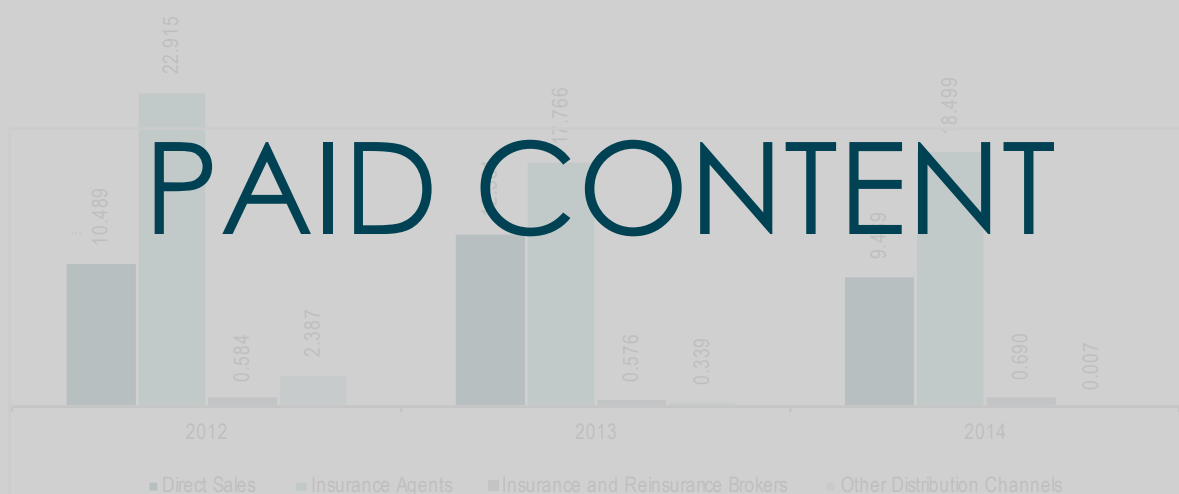


Source: KNF

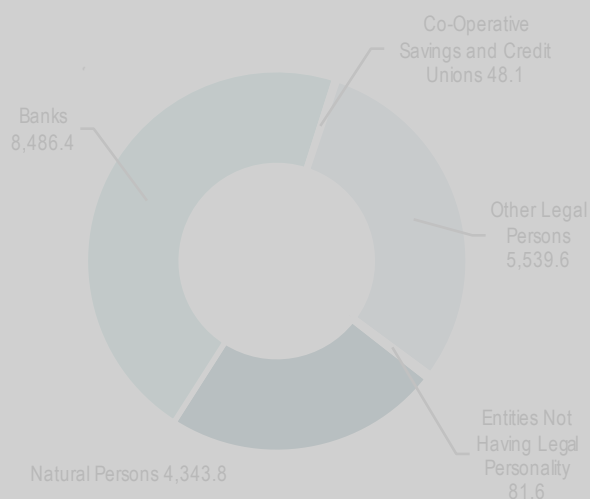
# Retail Channels Performance

## Life Insurance

Distribution Channels, Life Insurance, Value of Gross Written Premium, PLN bn



Insurance Agents, Life Insurance, Value of Gross Written Premiums, PLN mn, 2014



In terms of Direct Sales in the Life Insurance segment, out of the PLN 9.469bn worth of gross written premiums, PLN 7.464bn were realised by employees of insurance companies. Insurance products sold online were of a value of just PLN 1.014mn in terms of gross written premiums.

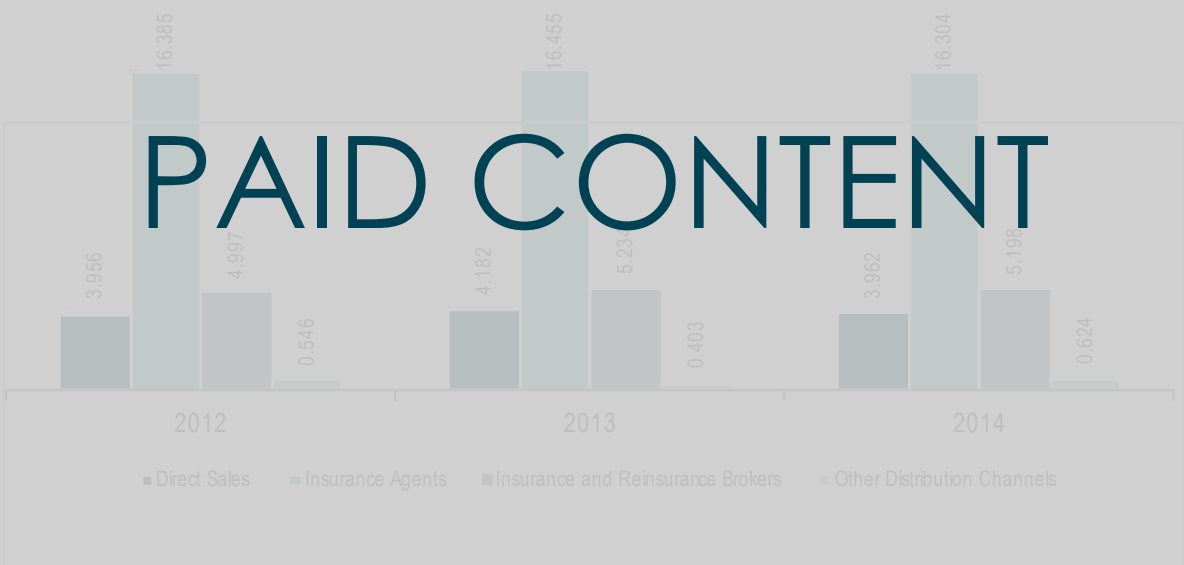
Although among Insurance Brokers, natural persons outnumber the Legal Entities by around two-fold, of the PLN 690.47mn collected from sales of insurance products Insurance Brokers in 2014, legal persons sold policies with a premium value of PLN 613.4mn.

Source: KNF

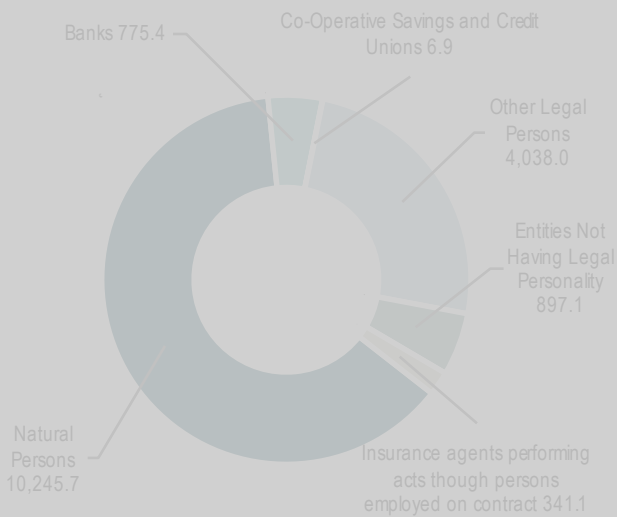
# Retail Channels Performance

## Non-Life Insurance

Distribution Channels, Non-Life Insurance, Value of Gross Written Premium, PLN bn



Insurance Agents, Non-Life Insurance, Value of Gross Written Premium, PLN mn, 2014



In the Non-Life Insurance segment, Insurance Brokers hold a stronger position than in the Life Insurance sector, representing around 20% of the segment in terms of gross written premium value. Likewise as in the Life Insurance business, the bulk of the value of policies sold by brokers are done by legal persons rather than natural ones.

In the Direct Sales category, internet and phone sales are more significant than in the Life Insurance segment, accounting for PLN 180.915mn and PLN 240.1mn, respectively.

Source: KNF



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## **POLAND**

Al. Jerozolimskie 123a  
02-017 Warsaw

Voice: +48 22 255 6570

## **BRAZIL**

Rua Tabapua, 422 - CJ. 43/44  
CEP: 04533-001  
Sao Paulo

Voice: +55 11 30742630

## **COLOMBIA**

Street 93 N 15-27  
7th Floor  
Bogota, Cundinamarca 11001

Voice: +55 11 30742630

## **JAPAN**

Madrigale Ginza 2F 1-22-12  
Ginza, Chuo-ku  
104-0061, Tokyo

Voice: +81 3 5524 0097

## **SINGAPORE**

180B Bencoolen Street  
#06-03 The Bencoolen  
Singapore 189648

Voice: +65 62386100

## **GLOBAL HEADQUARTERS**

6-8 Bouverie Street London  
EC4Y 8DD  
UK

Voice: +44 20 7779 8100

## **BULGARIA**

38-40 Osogovo Str.  
8th floor, app. 8.1  
1303 Sofia

Voice: +359 2 816 0404

## **HONG KONG**

18/F, 248 Queen's Road East  
Wanchai  
Hong Kong

Voice: +852 2591 3307

## **MALAYSIA**

Suite 5-3 & 5-3A  
5th Floor, Wisma UOA II  
No. 21 Jalan Pinang  
50450 Kuala Lumpur

Voice: +603 21669921

## **USA**

225 Park Avenue South  
New York, New York  
10003  
US

Voice: +1 212 610 2900

## **CHINA**

Unit 305, 3/F, Azia Center  
1233 Lujiazui Ring Road  
Shanghai 200120

Voice: +86 21 5877 0860

## **INDIA**

Eucharistic Congress Bldg. No. III  
4th Floor, 5 Convent Street  
Mumbai 400 001

Voice: +91 22 22881123/29

## **PHILIPPINES**

Unit 2704 One Corporate Centre,  
Julia Vargas Ave. corner Merarco Ave.  
Ortigas Center, Pasig City 1605 Manila

Voice: +632 5712178

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