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Article

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JUSTYNA WITKOWSKA*, AUŠRINĖ LAKŠTUTIENĖ**

Directions In The Development Of Commercial Insurance In Poland And Lithuania

Abstract

This article analyses trends in the development of the commercial insurance market in Poland and in Lithuania over the last decade. The insurance market changed in the 2002-2011 period. Those changes can be seen in various fields of commercial insurance. Data on the number of insurers, total premiums written, and the trends in claim payments and claim ratios were used to perform a market trend analysis.

It should be emphasized that Poland experienced the results of the financial crisis in the insurance market later than Lithuania, which is visible in specific ratios under analysis. In Lithuania, in terms of insurance expenditures, non-life insurance products are definitely more popular, while in Poland life insurance plays the most important role. Poles buy most life insurance from group 1, and Lithuanians from group 3. In the case of non-life insurance, motor vehicle insurance (third-party liability insurance and casco (collision/personal liability insurance)) and property insurance are the leading forms of insurance purchased by both Poles and Lithuanians, as well as other Europeans.

Keywords: *commercial insurance market, gross premiums written, level of claims, life insurance, non-life insurance, claims ratio*

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1. Introduction

Commercial insurance plays a significant role in everyone's life. Its dynamic growth in recent years has been influenced by, e.g., the number of insurance products offered, their availability (use of various distribution channels for insurance services) and also by the increasing multitude of risks to life, health and property. Undoubtedly, the importance of insurance, in both business activity and in private life, has increased. Insurers compete in terms of their offers of insurance services to acquire the largest possible group of customers.

In recent years, large changes in the macroeconomic trends of the global economy have been observed. The results of the global crisis have also been felt in the insurance market. Decreases in economic ratios have been observed, depending on world regions and the level of development.¹

Risk accompanies the activity of every legal and natural person, and insurance is one of the major methods of risk management. The following questions emerge: How to manage this risk? What insurance to buy? How to reduce the risk? Risk affects the organisation of an activity and its functioning, and it generates costs. In a situation of uncertainty, we cannot completely foresee what will happen (Williams, Smith, Young 2002, p. 41). An insurance premium is a cost for the insurance holder, who acquires insurance protection. For the insurance company, payment of the premium is income (Hadyniak 2010, p. 55). On the other hand, claims are costs for an insurer, while for the customer, they are compensation for a loss incurred.

Commercial insurance in Poland is governed primarily by articles 805-834 of the Civil Code,² and the Act of 22 May 2003 on insurance activities,³ on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Vehicle Insurers' Bureau,⁴ on insurance and pension funds supervision and the Insurance Ombudsman,⁵ and on insurance mediation;⁶ and the Act of 21 July 2006 on supervision of the financial market.⁷

¹ Ubezpieczenia 2009, Polska Izba Ubezpieczeń, p. 13, http://www.piu.org.pl/public/upload/ibrowser/analizy%20i%20raporty/ubezpieczenia2009_na-cd.pdf (13.11.2013).

² Act of April 23, 1964 - *Civil Code* (Dz.U. 1964, No. 16, item 93).

³ Act of 22 May 2003 on insurance activities (Dz.U. 2003, No. 124, item 1151).

⁴ Act of 22 May 2003 on compulsory insurance, Insurance Guarantee Fund and the Polish Motor Insurers' Bureau (Dz.U. 2003, No. 124, item 1152).

⁵ Act of 22 May 2003 on insurance and pension funds supervision and the Insurance Ombudsman (Dz.U. 2003, No. 124, item 1153).

⁶ Act of 22 May 2003 on insurance mediation (Dz.U. 2003, No. 124, item 1154).

⁷ Act of 21 July 2006 on supervision of the financial market (Dz.U. 2006, No. 157, item 1119).

In Lithuania, provisions concerning commercial insurance are set forth in: the Civil Code,⁸ the Act of September 2003 Republic of Lithuania Law on insurance,⁹ the Act of March 2004 Republic of Lithuania Insurance Law on motor vehicle third party liability,¹⁰ the Act of December 2002 Republic of Lithuania Law on pension reform,¹¹ the Act of July 2003 Republic of Lithuania Law on pension accumulation,¹² the Act of July 2003 Additional Republic of Lithuania Law on autonomous pension accumulation,¹³ and the Act of November 1996 Republic of Lithuania Law on health insurance.¹⁴

In an insurance agreement, according to art. 805 § 1 of the Polish Civil Code, the insurer agrees, within the scope of its business activity, to deliver specific compensation in case an event specified in the agreement takes place, and the insurance holder agrees to pay an insurance premium. Therefore, a basic obligation of the insurance company is to pay claims for losses occurring as a result of random events provided for in the insurance agreement. On the other hand, the task of the insurance holder is to pay the premium.

The essence of commercial insurance is an agreement between two subjects – one party transfers the risk and pays a specified price for it, while the other party assumes this risk. The party assuming the risk is usually a private insurance company operating on the basis of legal regulations (Kwiecien 2010, p. 114) and the transferring party is the customer. Commercial insurance is divided into property and personal insurance (Kowalewski 2002, p. 21).

The object of property insurance can be any property interest which is not illegal and which can be evaluated in monetary terms.¹⁵ On the other hand, personal insurance can concern – in the case of the life insurance – the death of the insured person, or survival until a specified age; and for personal accident insurance – bodily injury, health disorders, or death as the result of an accident.¹⁶

⁸ Act of July 2000 - Civil Code (Valstybės žinios Nr. 74-2262).

⁹ Act of September 2003 - Republic of Lithuania Law on insurance (Valstybės žinios Nr. 94-4246).

¹⁰ Act of March 2004 – Republic of Lithuania Insurance Law on motor third party liability (Valstybės žinios Nr. 46-1498).

¹¹ Act of December 2002 - Republic of Lithuania Law on pension reform (Valstybės žinios Nr. 123-5511).

¹² Act of July 2003 - Republic of Lithuania Law on pension accumulation (Valstybės žinios Nr. 75-3472).

¹³ Act of July 2003 - Additional Republic of Lithuania Law on autonomous pension accumulation (Valstybės žinios Nr. 75-3473).

¹⁴ Act of November 1996 - Republic of Lithuania Law on health insurance (Valstybės žinios Nr. 55-1287).

¹⁵ Act of 23 April 1964 - *Civil Code* (Dz.U. 1964, No. 16, item 93), Art. 821.

¹⁶ *Ibidem*, Art. 829 §1.

Commercial insurance is divided into two groups: division I – life insurance; and division II – non-life insurance. Life insurance include five groups of insurance:

1. Life insurance.
2. Marriage insurance, birth insurance.
3. Life insurance linked to insurance capital funds.
4. Annuity insurance.
5. Accident and sickness insurance.

Non-life insurance comprises as many as 18 groups of insurance:

1. Accident.
2. Sickness.
3. Casco insurance of land motor vehicles.
4. Casco insurance of railway rolling stock.
5. Casco insurance of aircraft.
6. Vessels in sea and inland navigation.
7. Goods-in-transit.
8. Fire and natural forces.
9. Other damage and property loss.
10. Motor vehicle liability arising out of the possession of land vehicles.
11. Aircraft liability arising out of the possession of aircraft.
12. Liability for ships in sea and inland navigation.
13. General liability.
14. Credit.
15. Suretyship.
16. Various financial risks.
17. Legal protection.
18. Assistance.

In Poland, the Financial Supervisory Authority (Komisja Nadzoru Finansowego), and previously the Insurance and Pension Funds Supervisory Commission (Komisja Nadzoru Ubezpieczeń Funduszy Emerytalnych), currently control the insurance market in Poland. In Lithuania, supervision until

the end of 2011 was held by the Commission of Insurance Supervision in Lithuania (Lietuvos Respublikos Draudimo Priežiūros Komisja),¹⁷ and after 01.01.2012 it was held by the National Bank of Lithuania (Lietuvos Bankas).¹⁸

2. Number of insurers

At the end of 2011 there were 61 insurance companies in Poland (Figure 1). On the other hand, the total number of foreign companies registered in Poland under the Freedom of Service Act, or running their business activity through a branch at the end of the fourth quarter 2011 amounted to 577 (including 19 branches of insurance companies).¹⁹ The largest number of insurers in Poland in the period under analysis was recorded in 2003, while in 2011 this number was the lowest. A decrease, at the mean level of 23%, was recorded both in life and non-life insurance.

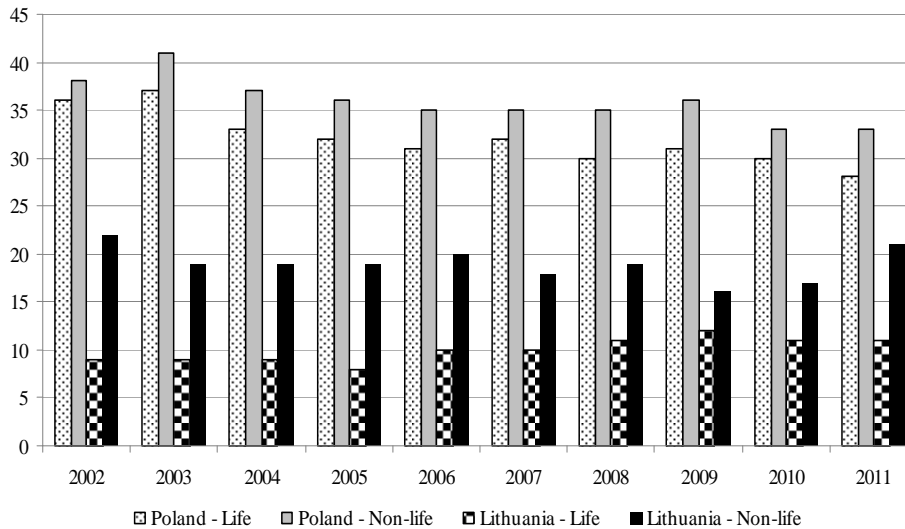
In Lithuania, in the corresponding period, the number of insurance companies grew by 3%. The lowest number of insurers was recorded in 2005 (27) and the highest was in 2011 (32 companies). Under the Freedom of Insurance Service Act, 443 companies conducted insurance activity in Lithuania.²⁰

¹⁷ <http://www.dpk.lt/> (05.10.2013).

¹⁸ <http://www.lb.lt/prieziura> (05.10.2013).

¹⁹ *Raport o stanie sektora ubezpieczeń po IV kwartałach 2011 roku*, Urząd Komisji Nadzoru Finansowego 2012, p. 8, http://www.knf.gov.pl/Images/sektor_ubezpieczen_IVkw2011_tcm75-30582.pdf (18.10.2013).

²⁰ http://www.dpk.lt/en/es_draudikai_beta.php (04.10.2013).

Figure 1. Number of insurance companies in Poland and Lithuania in 2002-2011

Source: Own computations based on data of the Financial Supervision Authority in Poland and in Lithuania: www.knf.gov.pl; <http://www.dpk.lt/>.

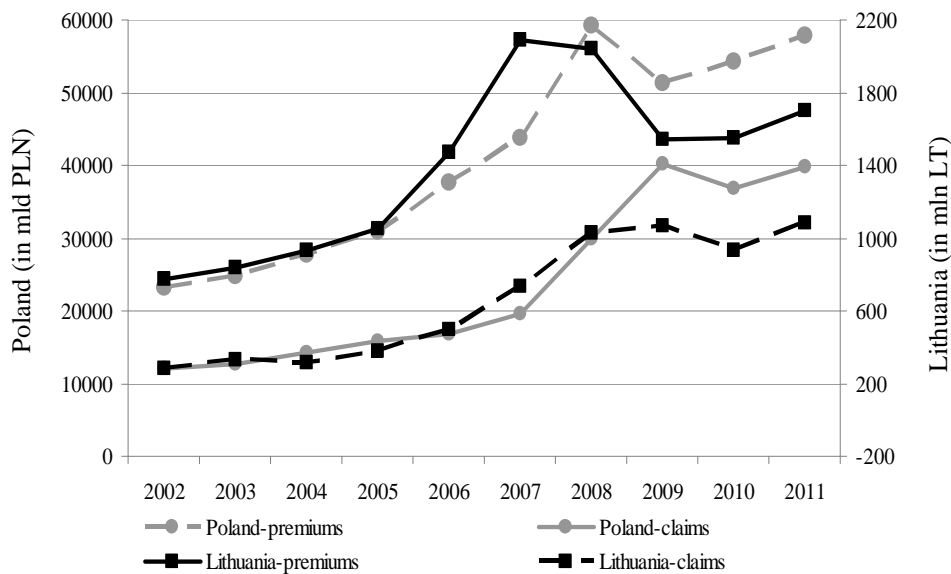
3. Level of gross written premiums, level of claims

Gross written premiums in Poland systematically grew until 2008, reaching the level of PLN 59.3 billion, after which, as a result of deterioration of the economic situation, it decreased to PLN 51.3 billion in 2009, which was followed by a 13% increase in 2011. In Lithuania, the economic crisis was observed earlier in the commercial insurance market – already in 2008 and 2009. Written premiums in 2009 decreased by 26%, in comparison to 2007. In Poland, as in Lithuania in 2008-2009, the level of claims paid increased. However, in Poland the value of claims grew by more than 100% in 2007 compared to 2009, while in Lithuania they grew by more than 45%. Generally, the reactions of both the Polish and Lithuanian markets were very similar, although Poland was one of few states which felt the economic effects later.

The mean annual rate of increased premium payments in Poland was more than 9%. If such a rate is maintained in future, the Polish insurance market will

be among the European leaders in about 20 years.²¹ In turn, it is estimated that the gross premiums written will reach LTL 2.37 billion in the Lithuanian market in 2017 (Ulbinaitė, Kucinskiene, Moullec 2013, p.144).

Figure 2. The level of gross premiums written and claims in Poland and in Lithuania in 2002-2011



Source: Own computation on the basis of data of the Financial Supervision Authority in Poland and in Lithuania: www.knf.gov.pl; <http://www.dpk.lt/>

In Poland, in the life insurance segment in the periods 2002-2005 and 2008-2011, the most significant role in gross written premiums was played by life insurance from group 1 (whole life insurance, term insurance and pure endowments), and in 2006-2007 – from group 3 (life insurance linked to insurance capital funds) (Table 1). It can be observed that the demand for insurance with an additional form of savings, i.e. within group 3, increases when the economic situation of the country is better and stabilised. In 2008, as a result of the global crisis in Europe,²² Polish citizens were less interested in investing their savings in insurance products, while in 2009, this group of products again became popular. The third most popular category, in terms of the amount of written premiums in the Polish market, is occupied by group 5 (accident and sickness insurance), as they supplement groups 1-4 of life insurance. In the years under analysis, the share of this group ranged from 10.5% to 18.3%. In turn,

²¹ *Ubezpieczenia 2010*, Polska Izba Ubezpieczeń, pp. 12, 42, www.piu.org.pl/public/upload/ibrowser/.../Ubezpieczenia%202010.pdf (22.10.2013).

²² *Insurance In Figures*, CEA Statistics No. 36, CEA 2008, p. 21.

group 2 (marriage and birth insurance) and group 4 (annuity insurance) had small shares in the Polish commercial insurance market.

Table 1. Structure of gross written premiums in life insurance, categorized by insurance group, in Poland in 2002-2011 (in %)

Group of insurance	Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.	48.13	48.19	48.75	45.42	38.56	38.69	72.88	63.60	59.85	52.94
2.	0.96	1.34	1.16	0.99	0.69	0.58	0.34	0.42	0.38	0.38
3.	32.26	32.00	31.81	36.86	46.08	46.93	16.15	21.37	25.90	32.41
4.	0.69	0.18	0.19	0.19	0.17	0.18	0.16	0.24	0.27	0.31
5.	17.96	18.30	18.08	16.54	14.5	13.62	10.48	14.37	13.61	13.96

Source: Own calculations on the basis of data of the Financial Supervision Authority in Poland: www.knf.gov.pl

In life insurance, insurance companies pay claims to claimants. In 2002-2011, the most benefits were received by the insured persons or beneficiaries within group 1 (Table 2). The largest increase in the benefit level was recorded in 2009 (an increase of 47% in comparison to 2002). In 2007, in life insurance group 3 insurers paid over PLN 3.7 billion, and in 2008, more than PLN 6.7 billion in benefits.

Table 2. Structure of gross claims paid in life insurance, categorized by insurance group, in Poland in 2002-2011 (in %)

Group of insurance	Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.	53.31	52.16	52.79	58.44	57.81	51.04	57.99	78.43	71.34	70.72
2.	2.56	2.48	2.14	1.92	2.00	1.71	0.92	0.60	0.67	0.49
3.	25.19	26.84	28.44	25.74	27.33	35.99	34.64	15.81	20.7	22.02
4.	1.13	1.01	0.94	0.76	0.70	0.68	0.29	4.94	0.27	0.25
5.	17.82	17.51	15.69	13.14	12.16	10.58	6.17	0.56	7.03	6.52

Source: Own calculations on the basis of data of the Financial Supervision Authority in Poland: www.knf.gov.pl

On the other hand, in life insurance in the Lithuanian market, after 2005 the supervisory authority reports showed only three groups: 1, 2 and 3. Annuity insurance is classified as group 1, and as in Poland is of minimum importance. On the other hand, data concerning group 5 in Poland (accident and sickness insurance) is classified as either group 1 or 2 of non-life insurance. The situation with respect to life insurance in Lithuania is distinctly different than in Poland.

First of all, in recent years (2006-2011), written premiums for life insurance in Poland were higher (the mean for six years was 58.6%) than written premiums for property insurance. In Lithuania, the mean share of written premiums for the last six years in life insurance amounted to 32.3%. By 2007, the share of group 1 decreased, while the share of group 3 increased. Group 2 played a much more significant role in Lithuania. Although its importance has decreased in recent years, the percentage share of this group is still higher than in Poland.

Table 3. Structure of gross written premiums in life insurance, categorized by insurance group, in Lithuania in 2002-2011 (in %)

Group of insurance	Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.	63.10	56.37	53.97	49.00	33.88	19.94	29.29	29.54	27.27	28.04
2.	17.31	10.87	8.80	6.34	3.57	1.82	2.34	2.19	1.70	1.35
3.	19.59	32.76	37.23	44.67	62.55	78.24	68.37	68.27	71.02	70.60

Source: Own calculations on the basis of data of the Financial Supervision Authority in Lithuania: <http://www.dpk.lt/>

As a result of the economic crisis in Lithuania in 2007, and particularly in 2008, a large share of claims was recorded concerning life insurance linked to insurance capital funds, which was a response by the insured to the turbulence in the financial market (Table 4). Subsequent years however show a large interest among the Lithuanian population in such a form of savings.

Table 4. Structure of gross claims paid in life insurance, categorized by insurance group, in Lithuania in 2002-2011 (in %)

Group of insurance	Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.	64.94	39.04	32.48	34.42	38.56	31.56	25.52	44.53	37.71	28.40
2.	34.26	55.87	59.17	55.92	36.86	13.57	7.27	8.47	8.83	6.29
3.	0.80	5.10	8.35	9.66	24.58	54.87	67.21	47.00	53.46	65.31

Source: Own calculations on the basis of data of the Financial Supervision Authority in Lithuania: <http://www.dpk.lt/>

In the non-life insurance sector, motor vehicle insurance definitely constituted the largest share in terms of earned gross premiums in Poland (group 3 – casco insurance – and group 10 – third-party liability insurance for owners of motor vehicles) – about 58% in 2011. Within the ten-year period under analysis, the average share of group 3 insurance amounted to 26.8%, while for group 10 it was 35.1%. The next group in terms of market share was property insurance

against various hazards and random events (groups 8 and 9), which constituted with over 19% of non-life insurance in 2011. Accident and sickness insurance constituted the third largest group of non-life insurance. Their share in the last ten years ranged from 5.6% to 7.7%. Financial insurance (groups 14, 15 and 16) are another important area in division II. Their share ranged from 3.5% to 7.5%. Other forms of liability insurance (group 13) have become increasingly important since 2006 for the development of the Polish insurance market. Their highest share was recorded in 2011(5.8%).

Table 5. Structure of gross written premiums in non-life insurance, categorized by insurance group, in Poland in 2002-2011 (in %)

Group of insurance	Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1+2	5.79	5.81	5.62	5.79	6.11	6.42	7.68	7.22	7.26	6.78
3.	29.08	30.31	30.40	28.46	26.33	26.62	26.23	23.71	23.65	23.24
4.	0.02	0.01	0.02	0.04	0.05	0.05	0.06	0.08	0.07	0.14
5.	0.11	0.10	0.11	0.09	0.09	0.07	0.09	0.10	0.14	0.12
6.	0.57	0.58	0.54	0.67	0.73	0.69	0.51	0.52	0.40	0.39
7.	0.84	0.79	0.82	0.80	0.75	0.62	0.57	0.45	0.43	0.43
8+9	18.72	19.22	18.87	18.03	18.02	17.08	16.81	18.04	18.71	19.41
10.	36.86	34.37	33.94	35.99	35.97	35.32	35.31	34.60	33.85	34.67
11.	0.18	0.28	0.14	0.19	0.15	0.12	0.11	0.12	0.11	0.11
12.	0.24	0.15	0.13	0.11	0.11	0.10	0.08	0.13	0.09	0.08
13.	3.45	3.88	1.28	4.60	5.12	4.97	4.90	5.40	5.59	5.81
14.	1.34	1.54	1.79	2.06	2.72	3.21	2.48	2.23	2.09	2.20
15.	0.88	0.85	0.81	0.89	0.94	1.02	1.08	1.34	1.43	1.22
16.	1.22	1.41	1.80	1.58	1.83	2.48	2.74	4.22	3.54	3.08
17.	0.03	0.05	0.06	0.08	0.11	0.19	0.37	0.47	1.08	0.68
18.	0.67	0.65	0.65	0.62	0.97	1.04	1.06	1.39	1.56	1.64

Source: Own calculations on the basis of data of the Financial Supervision Authority in Poland: www.knf.gov.pl

When looking at the Polish commercial insurance market in terms of its structure of claims paid, the situation observed is very similar to the written premium structure. The most claims were paid out for motor vehicle insurance (in 2011 their share amounted to 72.3%). On account of casco insurance claims, insurance companies paid about PLN 3.8 billion, while for third-party liability insurance claims – over PLN 6.1 billion. Unfortunately, in terms of the amount of claims under third-party liability insurance, 2011 was the most costly year for

insurers. This last year of the period studied was also disadvantageous with respect to claims from insurance groups 13 and 18. Insurance companies paid other third-party liability insurance claims over PLN 890 million and PLN 262 million for assistance insurance to persons who encountered difficulties during travel. In case of property insurance, the highest level of claim compensation was recorded in 2010 – about PLN 3.1 billion (Table 6).

Table 6. Structure of gross claims paid in non-life insurance, categorized by insurance group, in Poland in 2002-2011 (in %)

Group of insurance	Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1+2	4.11	4.42	4.10	3.65	3.38	3.22	3.14	3.08	2.87	3.61
3.	38.97	39.92	39.21	38.35	35.39	32.48	31.16	30.72	27.64	27.63
4.	0.01	0.00	0.01	0.01	0.02	0.05	0.08	0.07	0.04	0.04
5.	0.06	0.03	0.08	0.05	0.09	0.11	0.12	0.10	0.16	0.02
6.	0.60	0.61	0.89	0.83	0.92	1.15	1.07	1.06	0.76	0.46
7.	0.52	0.39	0.33	0.33	0.38	0.45	0.50	0.38	0.37	0.41
8+9	14.18	11.21	12.01	11.74	11.86	14.19	14.26	14.49	21.74	13.19
10.	36.64	38.17	39.09	39.74	41.80	42.90	43.87	42.30	37.84	44.71
11.	0.01	0.01	0.01	0.02	0.01	0.01	0.02	0.01	0.03	0.04
12.	0.20	0.10	0.09	0.10	0.12	0.04	0.07	0.06	0.05	0.06
13.	1.60	2.48	2.16	2.32	3.25	3.16	3.36	4.13	4.21	6.49
14.	0.77	1.32	0.50	0.92	0.80	0.60	0.87	1.70	1.91	0.63
15.	1.35	0.50	0.38	0.60	0.69	0.20	0.21	0.48	0.36	0.15
16.	0.30	0.26	0.45	0.65	0.41	0.56	0.40	0.48	0.64	0.59
17.	0.20	0.03	0.03	0.03	0.04	0.04	0.05	0.05	0.05	0.05
18.	0.48	0.55	0.66	0.66	0.84	0.84	0.81	0.89	1.32	1.91

Source: own calculations based on data of the Financial Supervision Authority in Poland: www.knf.gov.pl

As regards the structure of non-life insurance in the Lithuanian market, the situation is similar to the Polish market (Table 7). In the last year under analysis, the share of motor vehicle insurance in Lithuania was only 1% lower than in the Polish market. However, in terms of amounts, we can observe significant differences. Under casco insurance in 2011, insurance companies operating in the Lithuanian market earned LTL 256 million and LTL almost 390 million under third-party liability insurance. The next in terms of market share was property insurance against fire and other hazards and random events (LTL

243 million), and insurance classified into groups 1 and 2 – accident and sickness – LTL 104 million). Insurance included in group 13 is also of significant importance (LTL 67 million).

Table 7. Structure of gross written premiums in non-life insurance, categorized by insurance group, in Lithuania in 2002-2011 (in %)

Group of insurance	Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1+2	6.30	6.72	6.45	7.27	6.76	6.78	7.87	7.67	8.58	9.15
3.	19.67	23.93	27.09	31.36	29.78	31.73	26.82	23.26	22.13	22.50
4.	0.00	0.01	0.03	0.03	0.03	0.01	0.16	0.26	0.25	0.23
5.	0.09	0.19	0.20	0.14	0.06	0.05	0.03	0.04	0.04	0.04
6.	0.33	1.57	0.76	0.37	0.33	0.15	0.16	0.19	0.17	0.14
7.	0.95	1.17	1.11	1.17	1.07	0.84	0.76	0.67	0.64	0.68
8+9	15.77	16.89	15.50	16.28	16.33	16.83	22.96	21.08	20.59	21.36
10.	40.16	33.01	35.08	31.42	36.22	34.62	31.98	35.58	37.13	34.24
11.	1.48	0.19	0.18	0.08	0.07	0.05	0.04	0.06	0.06	0.03
12.	0.42	0.42	0.31	0.01	0.02	0.02	0.03	0.03	0.03	0.01
13.	3.75	4.34	4.15	5.77	3.58	3.96	3.92	4.82	4.77	5.89
14.	2.70	2.89	2.93	1.97	2.06	1.81	2.36	2.39	1.09	1.33
15.	7.03	7.29	5.56	3.63	3.18	2.65	2.37	3.16	3.74	3.55
16.	1.33	1.32	0.59	0.41	0.42	0.43	0.44	0.68	0.68	0.73
17.	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
18.	0.01	0.04	0.06	0.08	0.08	0.07	0.09	0.11	0.11	0.11

Source: Own calculations based on data of the Financial Supervision Authority in Lithuania: <http://www.dpk.lt/>

The structure of claims for motor vehicle insurance is also high, but definitely lower than in Poland. In 2011, the share of collision coverage and liability insurance was 60.1%, i.e. insurers paid out almost LTL 447 million for these types of insurance claims. A very high level of claims was recorded in property insurance – LTL 170 million. In analysing the data collected from the last ten years, a very high share (18.5%) was also observed in 2009 for claims for credit insurance policies (group 14).

Table 8. Structure of gross claims paid in non-life insurance, categorized by insurance group, in Lithuania in 2002-2011 (in %)

Group of insurance	Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1+2	4.68	4.47	5.13	4.31	4.53	4.07	6.45	5.76	5.08	6.00
3.	37.07	30.58	37.89	40.30	35.96	35.13	34.29	27.02	29.06	28.52
4.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.16	0.14	0.12
5.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6.	4.76	0.21	1.87	1.37	0.01	0.01	0.13	0.02	0.15	0.06
7.	0.91	0.72	1.19	0.84	0.92	0.67	0.25	0.18	0.32	0.56
8+9	16.79	29.00	13.33	11.86	10.94	16.95	16.64	14.70	16.65	22.92
10.	22.80	24.14	30.80	34.14	41.17	39.87	35.43	30.71	31.87	31.59
11.	0.06	0.08	0.03	0.00	0.01	0.22	0.06	0.00	0.02	0.02
12.	0.00	0.00	0.00	0.02	0.00	0.01	0.00	0.00	0.00	0.00
13.	3.14	1.94	3.22	2.64	1.59	0.68	1.11	0.73	1.06	1.58
14.	3.40	3.24	3.38	2.34	2.29	1.56	3.64	18.49	14.09	7.10
15.	6.34	3.35	2.26	2.06	2.53	0.76	0.70	0.77	0.85	0.72
16.	0.03	2.27	0.88	0.10	0.02	0.04	1.28	1.42	0.68	0.77
17.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
18.	0.01	0.00	0.01	0.03	0.03	0.03	0.03	0.03	0.04	0.04

Source: Own calculations based on data of the Financial Supervision Authority in Lithuania: <http://www.dpk.lt/>

When comparing the situation in the non-life insurance market in Poland and Lithuania and in Europe, it can be observed that the structure of written premiums, both in the Polish and Lithuanian markets, differs from the average value for states belonging to Insurance Europe.²³ However, the Lithuanian market is more comparable to the European than the Polish market in this regard.

²³ Insurance Europe is the European insurance federation. Currently, it has 34 members, <http://www.insuranceeurope.eu/> (07.10.2013).

Table 9. Structure of gross written premiums in non-life insurance, categorized by insurance group, in Poland, Lithuania, and Europe in 2002-2011 (in %)

Insurance	Poland	Lithuania	Europe
Motor	58	57	40
Property	19	21	26
General liability	6	6	10
Accident	7	9	10
Other	10	7	14

Source: Own calculations based on data of the Financial Supervision Authority in Poland and in Lithuania: www.knf.gov.pl; <http://www.dpk.lt/>; *European Insurance — Key Facts*, August 2012, p. 11, <http://www.insuranceurope.eu> (30.10.2013).

4. Dynamics of written premiums, claims paid, and claims ratio

Within the activity efficiency ratios providing information on changes in the insurance sector, the trend in gross written premiums is a significant indicator. This ratio is calculated according to the following formula:

Dynamics in gross written premiums = (Gross written premiums as of the end of the reporting period / gross written premiums as of the beginning of the reporting period) x 100%.

An analysis of ratios shown in Table 10 for Poland, both in life and non-life insurance, demonstrates that the insurance market developed quite systematically up to and including 2008. The insurers experienced the results of the economic crisis in 2009, which affected the situation in the life insurance market to a much greater extent. In examining the different groups in life insurance separately, the following trends can be observed: By 2008, the premiums trends increased in group 1 – life insurance; group 4 – annuity insurance; and group 5 – accident and sickness insurance. In comparing 2007 to 2008, an almost three-fold increase in premiums was recorded in the first group. On the other hand, in group 2 (marriage and birth insurance) and group 3 (life insurance linked to insurance capital funds), a decrease in premiums written (by 2% and 61% respectively) was observed in 2008. In turn, slight changes in the premiums written and their trends occurred in non-life insurance. In 2009, negative dynamics were recorded in groups 1, 2, 3, 7 and 14. A significant change was visible in the last year covered by the analysis (2011) for group 4, where a more than twofold increase in premiums was recorded.

The situation is quite different in Lithuania. The Lithuanian non-life and life insurance markets responded differently to turbulence in the global markets. The first signals of decline in the premiums written were visible in the case of life insurance in 2004 and in non-life insurance already in 2003. After this period, life insurance premiums increased systematically for four years up to and including 2007 and then in 2008 they decreased by more than LTL 250 million, and in 2009 by another LTL 50 million. The category of life insurance linked to insurance capital funds should be noted. Within this group, a large difference was recorded in 2006-2007. At that time, an increase in premiums by over LTL 330 million was observed, followed by a decrease by more than LTL 250 million in 2008. In turn, the Lithuanian non-life insurance market responded similarly to the Polish market, with negative dynamics in 2009. In the last year under analysis (2011), groups 13 and 14 of non-life insurance stood out with their clearly positive dynamics.

Table 10. Dynamics of premiums in Poland and Lithuania in 2002-2011

Specification		Year									
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Poland	Life	107.0	112.8	114.1	120.4	137.6	120.9	152.8	77.7	103.8	101.3
	Non-life	100.9	102.7	109.6	105.1	105.2	110.8	111.4	103.7	108.0	114.6
	Total	103.4	107.0	111.6	112.1	121.2	116.5	135.5	86.6	105.5	106.9
Lithuania	Life	149.7	153.6	110.1	122.9	158.3	173.1	67.9	90.6	111.6	103.3
	Non-Life	165.2	97.6	111.9	109.8	132.5	128.6	115.7	70.4	95.3	112.9
	Total	162.2	107.7	111.4	113.1	139.6	142.5	97.6	75.7	100.4	109.5

Source: Own calculations based on data of the Financial Supervision Authority in Poland and in Lithuania: www.knf.gov.pl; <http://www.dpk.lt/>

The claims-paid ratio is another very important indicator. The following formula was used for its calculation: Dynamics in gross claims paid = (Gross claims paid as of the end of the reporting period / gross claims paid as of the beginning of the reporting period) x 100%.

The analysis of the dynamics for gross claims paid in 2002-2011 (Table 11), when compared with the dynamics of written premiums, revealed a consistency in both trends. Such a balance is a desirable feature of the insurance sector. Very high claims were paid out in Poland in division I in 2008 – almost PLN 19.5 billion and in 2009 – PLN 27.8 billion, in which group 1 had the largest share – 78.5%. In Lithuania, very high claims were paid in 2007, reaching LTL 133.4 million (an increase of 182% in comparison to the previous year), LTL 270.8 million in 2008 and LTL 337 million in 2011. In the last year under examination, the share of group 3 accounted for over 65% of claims paid.

On the other hand, the situation in non-life insurance was more stable in both Poland and Lithuania. The highest levels of claims in Poland were paid in 2010 (PLN 14.2 billion) and in Lithuania in 2009 (LTL 834.5 million). In 2011, groups 7 and 13 were distinguished by their very strong trends in non-life insurance in Lithuania, while in Poland groups 13 and 18 showed such trends.

Table 11. Claim trends in Poland and Lithuania in 2002-2011

Specification		Year									
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Poland	Life	127.4	119.6	119.4	122.8	112.1	123.3	186.2	142.7	81.5	115.4
	Non-life	99.6	98.0	107.2	101.5	101.4	109.5	114.8	118.0	113.6	97.0
	Total	108.0	105.7	112.1	110.6	106.5	116.4	152.7	134.0	91.4	108.3
Lithuania	Life	123.0	69.0	102.1	102.0	156.9	283.2	201.0	85.0	88.6	164.9
	Non-Life	163.8	124.1	93.2	122.9	131.0	132.1	126.6	110.1	87.5	101.9
	Total	156.2	115.9	94.0	120.9	133.1	146.5	140.3	103.5	87.7	115.7

Source: own calculations based on data of the Financial Supervision Authority in Poland and in Lithuania: www.knf.gov.pl; <http://www.dpk.lt/>

The claims ratio provides information on the share of claims paid out on the written premiums. For the purposes of this study a simplified form of this ratio was assumed:

$$\text{Claims ratio} = (\text{Gross claims paid} / \text{gross written premiums}) \times 100\%$$

The claims ratio (Table 12) in life insurance in Poland peaked in 2009 and in Lithuania in 2011. In 2003-2007, this ratio in the Lithuanian market was very low. The low initial interest in group 3 insurance in Lithuanian society resulted in low written premiums and low claims paid out for this type of insurance. In 2007, Lithuanians spent LTL 615.5 million on this form of investment, and one year later insurers operating in Lithuania paid high claims (LTL 182 million). On the other hand, the value of the claims ratio in non-life insurance was quite stable. In Poland, its highest value was recorded in 2010 and in Lithuania it peaked one year earlier, in 2009. In Lithuania, in the last three years of the period under analysis, the highest claims were generated by credit insurance (group 14), while in Poland in 2007-2010 the highest claims were generated by group 6.

Table 12. Claims ratios in Poland and Lithuania in 2002-2011

Specification		Year									
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Poland	Life	43.5	46.1	48.3	49.2	40.1	40.9	49.8	91.5	71.9	81.9
	Non-life	58.7	56.0	54.8	53.0	51.1	50.5	52.1	59.2	62.3	52.7
	Total	52.2	51.6	51.8	51.1	44.9	44.9	50.6	78.3	67.9	68.8
Lithuania	Life	30.5	13.7	12.7	10.5	10.4	17.1	50.6	47.4	37.7	60.1
	Non-Life	38.3	48.6	40.5	45.3	44.8	46.0	50.4	78.8	72.3	65.3
	Total	36.9	39.7	33.5	35.8	34.1	35.1	50.4	68.9	60.2	63.6

Source: Own calculations based on data of the Financial Supervision Authority in Poland and in Lithuania: www.knf.gov.pl; <http://www.dpk.lt/>

To summarize the data gathered, the mean dynamics of gross written premiums, claims, and the mean claims ratio are presented in Table 13. The indicators for written premiums and claims paid are higher in Lithuania than in Poland. On the other hand, the claim ratios in Poland are higher than in Lithuania, particularly in the life insurance sector.

Table 13. The mean dynamics of gross written premiums, claims, and mean claims ratios in 2002-2011

Country	Dynamics of premium		Dynamics of claims		Claims ratio	
	Life	Non-life	Life	Non-life	Life	Non-life
Poland	114.8	107.2	125.0	106.0	56.3	55.0
Lithuania	124.1	114.0	137.6	119.3	29.1	53.0

Source: Own calculations based on data of the Financial Supervision Authority in Poland and in Lithuania: www.knf.gov.pl; <http://www.dpk.lt/>

5. Planned trends in the development of insurance market

Based on analysis of data from the Polish and Lithuanian insurance markets for the last ten years it can be assumed that market trends will be preserved. Looking at the experience of other countries, the insurance markets in Poland and in Lithuania coped well with the effects of the financial crisis.

Forecasts for the next few years concerning the number of insurers indicate that Poland will be characterised by stabilization of the number of insurance companies, with a slight decreasing trend. This will be due to mergers among insurers, thus forming strong capital groups to ensure the safety of their

customers. In turn, major changes are not expected in Lithuania. The number of insurance companies there will oscillate at around 30.

When analyzing the written premiums in an unwavering, global financial market, it is believed that in Poland the premium income will increase by an average of about 4.5-5.0 billion PLN per year, and in Lithuania at about 100-150 million LTL. It is believed that paid compensation from the insurance business in the Polish and Lithuanian markets should remain at around 40 billion PLN in Poland and 1100 million LTL in Lithuania, with a gradual increase.

In a stable economic situation it is expected that the Poles should spend greater part of their free financial resources spend on life insurance linked to insurance capital funds, like in Lithuania and in Poland in 2007.

The most popular product in non-life insurance, in both countries will remain motor vehicle insurance. This is due to an increasing growth in the number of motor vehicles. Growing premium income from general liability insurance (group 13) in Poland and in Lithuania is also a factor which confirms the predicted development of the insurance market.

Regarding to the loss ratio of life insurance in Poland it will maintained at about 65% with a slight downward trend, while in non-life insurance situation will be reversed. The level of this indicator will be fluctuated around 55% of a slightly increasing trend. In Lithuania, the rate in life insurance will be around 40%, non-life 65% with small growth tendencies.

6. Conclusions

The analysis of the data collected shows many similarities and some differences in the individual ratios defining directions and trends in the development of the Polish and Lithuanian insurance markets. In terms of the number of insurers, the situation in both countries appears stable. On a per capita basis, Lithuania comes out better in this regard. After opening its markets as a result of joining the European Union, a free market of information, capital and workforce was established. There is no indication that in the upcoming years the situation will change drastically.

The next issue concerned the level of the premiums written and claims paid. Poland felt the results of the financial crisis on the insurance market later than Lithuania. On average, in the analysed ten-year period (2002-2011) the structure of gross written premiums in life insurance in Poland was 52%, and in non-life insurance 48%. In Lithuania, unfortunately, in all the years under analysis insurance products from non-life insurance were definitely more

popular. The means for the 2002-2011 period were 28% for life insurance and 72% for non-life insurance. On the other hand, the share of claims on the gross written premiums in Poland and in Lithuania was the least favourable for insurance companies in 2009, amounting to as much as 78% in Poland and 69% in Lithuania. In 2011 65% of claims paid in 2011 in Poland originated from life insurance, while in Lithuania 69% originated from non-life insurance. Considering the premium income and the payment of benefits and compensation in subsequent years, it is believed that in Lithuania the situation will change the ratio between expenditure on life insurance and property insurance, in favour of life insurance.

For the life insurance sector in Poland, group 1 enjoyed a higher popularity in the last three years (2009-2011), while in Lithuania group 3 was the most popular, combining insurance with a saving function. In the case of the claims' structure, the trend is exactly the same.

Within non-life insurance, most insurance policies were purchased by Poles and Lithuanians for motor vehicle insurance (third-party liability insurance and casco insurance), followed by property insurance, accident and sickness insurance, as well as financial insurance and other liability insurance. In turn, definitely the highest numbers of claims were for motor vehicle and real property insurance in both countries. In this regard there will be no change.

In analysing the claims ratio in the period of 2002-2010, large differences could be observed between the two examined States, particularly with respect to the claims ratio in life insurance. On the other hand, when taking into account the four years of 2008-2011, the claims ratio in life insurance in Poland amounted to 74% and in Lithuania to 49%, while in non-life insurance it was 57% in Poland and 67% in Lithuania.

Considering various aspects of the Polish and Lithuanian insurance markets, it should be emphasized that the development directions are appropriate. Poles are more interested in life insurance, while Lithuanians are more concerned with non-life insurance.

Economic, political and demographic changes have a significant impact on the situation on the insurance market. If there is no repeat of the situation of 2008-2009, which was associated with the global crisis, the Polish and Lithuanian markets will grow properly. There may be slight changes in the investment of customers' savings in life insurance products.

If risk could be foreseen, insurance would not be needed. This, however, is obviously not possible. The economic recession in recent years affected the entire world, and the insurance market also experienced the effects of this crisis. Despite the best intentions and the experience of many persons, potential risks

were overlooked, which threatened the collapse of the global financial system (Lane, Down 2010, p. 522). After a difficult 2008 and 2009 and a short decline, the Polish and the Lithuanian insurance markets started to grow again.

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Streszczenie

KIERUNKI ROZWOJU UBEZPIECZEŃ GOSPODARCZYCH W POLSCE I NA LITWIE

Celem artykułu jest określenie kierunków rozwoju ubezpieczeń gospodarczych w Polsce i na Litwie w ostatnim dziesięcioleciu. Rynek ubezpieczeniowy w latach 2002-2011 zmienił się. Zmiany te są widoczne w różnych obszarach ubezpieczeń gospodarczych. W nakreśleniu kierunków rozwoju rynku pomocne były informacje na temat liczby ubezpieczycieli przypisu składki i jej dynamiki, wypłaty świadczeń, odszkodowań i ich dynamiki oraz wskaźnika szkodowości.

Podkreślenia wymaga fakt, iż Polska później niż Litwa odczuła skutki kryzysu finansowego na rynku ubezpieczeniowym, co jest widoczne w poszczególnych analizowanych wskaźnikach. Na Litwie pod względem wydatków na ubezpieczenia zdecydowanie większym zainteresowaniem cieszą się produkty ubezpieczeń majątkowych, w Polsce natomiast ubezpieczenia na życie. W ramach ubezpieczeń działu I Polacy kupują najwięcej ubezpieczeń z grupy 1, Litwini z grupy 3. Jeżeli chodzi o dział II, zarówno wśród osób mieszkających w Polsce, jak i na Litwie, a także w całej Europie największym powodzeniem cieszą się ubezpieczenia komunikacyjne (OC i AC) oraz ubezpieczenia nieruchomości.

Słowa kluczowe: rynek ubezpieczeń gospodarczych, składka przypisana brutto, poziom odszkodowań i świadczeń, dział I, dział II, wskaźnik szkodowości