

# Polish Insurance Market

## - Liability Insurance, Stronger but More Expensive?

The Polish insurance market is incessantly approaching the Western European market, but it still does not yet mirror trends existing in the old Europe. Until 11 September 2001 Polish prices of corporate insurance were higher than in Western Europe. Upon attack on WTC and the series of natural disasters that skipped Poland at that time, the global insurance market was forced to increase insurance prices, and European rates outran significantly Polish insurance rates which, after 2000, experienced a progressive decrease in price, characteristic of the soft market, for a few years.

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THE CHANGE OCCURRED ONLY when prices reached minimum profitability and, in addition, when Poland was afflicted by its own series of natural disasters – floods, hail storms and harsh winters – which was followed by a general increase in the loss ratio. In the period of natural disasters Polish insurers were unable to keep pace with the declaration and payment of claims. The increase in the loss ratio triggered losses for insurers and, as a consequence, a rise in prices that almost reached several hundred percent in the most risk exposed economic sectors.

Insurers were forced to improve unsatisfactory financial results and both raised prices and approached risk more selectively. Insurers started to make more detailed analyses while considering customers' applications, and rejected a higher proportion than ever before. The reasons usually were the same – too high a risk exposure due to the nature of activity carried on by the customer or location and/or too high a loss ratio. A phenomenon called *portfolio cleaning* occurred in the insurance companies. In most cases, the decision was not dictated by the financial market, but was often imposed by an inability to find insurance coverage on reinsurance markets.

In 2011 we have been observing a significant increase of rates in property damage insurance and, in this regard, the Polish market has probably reached optimal level and insurers have recovered the losses that were the outcome of the heightened

level of loss ratio. Next year, however, we should prepare for an increase in rates in liability insurance, particularly in the motor insurance sector.

This increase stems firstly from changes within Polish legislation and, secondly, from a continuing increase in insurance awareness. With regard to the insurance motor liability, for instance, the number and value of reported personal losses is constantly growing. Between 2006 and 2009 the value of paid personal losses for motor vehicle insurance increased by PLN 400 million.

Those changes were imposed by legal regulations. Some amendments were implemented through legislation, *inter alia*, in a Civil Code institution called "redress" which was brought into existence (Article 446, paragraph 4), on the basis of which the family of the victim of an accident may solicit for cash compensation for suffered damage. Another material legal change consisted of the implementation of the opportunity to submit a class action that would make it easier for citizens to assert their rights, including claims for personal losses.

We can also observe the phenomenon on renegotiations of already granted personal compensations. Persons who have already obtained the right to a pension are more frequently applying for an increase of guaranteed benefits proving more extensive health consequences of a loss event than initially stated.

The transposition of EU regulation is another reason for an increase in prices. In 2012 the sum insured in

motor liability will be increased in connection with the adoption of the EU 5th Motor Directive, which will be the last step leading to alignment of Polish regulations to European directives within obligatory insurance. In the light of the transposition of this directive, in June 2011, the sum insured increased to EUR 5 million for personal losses and EUR 1 million for economic losses. Such an increase may seem spectacular, but there is still a gap between us and Western European countries, where the compulsory sums insured are considerably higher than those imposed by EU legislation, and the insured themselves are often interested in obtaining higher sums insured, even to the extent of unlimited sums insured in the case of personal losses.

Another reason for increase of the prices in liability insurance arises from the fact that Poland, at present, still has one of the lowest rates in Europe, while still chasing the old Europe.

An increase in rates should be somewhat levelled by an increased sale of liability insurance. Luckily, growth of insurance awareness is not only manifested by claims declaration but also by insurance products' sales' increase, which is particularly noticeable in liability insurance. Admittedly, liability insurance is compulsory for vehicle owners, and changes should not be expected in this area but, within products such as liability in private life or Directors and Officers liability insurance, growing interest is observed. ::