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EVOLUTION OF THE POLISH INSURANCE SECTOR ON MACRO-ECONOMIC BACKGROUND

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ABSTRACT

The insurance sector in Poland has been developing in certain conditions of macro-economic environment. The process in which the phenomena in the insurance market takes place is determined by the speed of development of the whole economy. The dynamics of the development may be seen in the size of GDP, in the size of foreign trade and in the level of foreign investments. The macroeconomic indicators confirm the continuing economic growth. This affects the development of the market in a favourable way because it means that there is a large demand for insurance products. The increasing demand is a strong stimulus of the further market development. Good forecasts of the economic development encourage foreign investors to deposit capital in Poland. The insurance sector is also an attractive place for foreign investments. The conditions of activity of the insurance market have been determined by law regulations that are based on the directives of the European Union. Although the level of development of the Polish insurance market is still lower than in many countries of the European Union the currently perceived tendencies lead to a decrease of the existing disproportions.

Keywords: *Macro-economic Development, Insurance Market*

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The development of Polish economy in the few last years has been processing at fast speed. The beginning of transformations took place together with the reform of the political and economic system at the turn of the 80s and the 90s. The directions of activities initiated in the following years in order to introduce market mechanism in the economy were outlined in accordance with the idea of including the country in the structures of the European Union. The way that Poland covered towards the European integration includes a few major phases. In May 1990, Polish authorities officially applied for the commencement of negotiations concerning the association with the European Union. As a result of the conducted negotiations, in December 1991 the Europe Agreement was signed that delineated the conditions of Polish association with the EU.

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This agreement was enforced on February 01, 1994 and became the basis for the introduction of radical changes to the economy, changes that were indispensable for Poland to include it in the integration group. Negotiations on accession continued until the end of 2002. Finally, after the ratification of the Treaty of Accession (signed in Athens in April, 2003) Poland was formally included in the European Union together with nine other aspiring countries. May 01, 2004 is therefore a very significant date in the history of the development of the Polish economy because it defines the moment of setting of a new market model of the operation of economic structures. It may be stated that the major causes of Polish economic success include the development of economic relationships with other countries and with the countries of the European Union in particular.

The proof for the positive trends in the economy includes macroeconomic indicators showing the process of changes taking place in various economic areas. The most synthetic indicator is the GDP (Gross Domestic Product) value and its dynamics in particular periods of development.

As shown in Figure 1, the level of GDP dynamics remained within the range of 3.8%-6.8% with the exception of years 2001-2002, when a clear drop to the level of 1.4%-1.0% in the speed of development was noted. In 2005 GDP generated in Poland amounted to $ 303 billion that constituted 0,6% of the world GDP. In the structure of the gross value added, the following sectors of economy generate nearly 90% of the value: industry – 23.7%, agriculture, forestry – 2.9%, construction – 4.9%, services – 56.3% (MSZ, 2007).

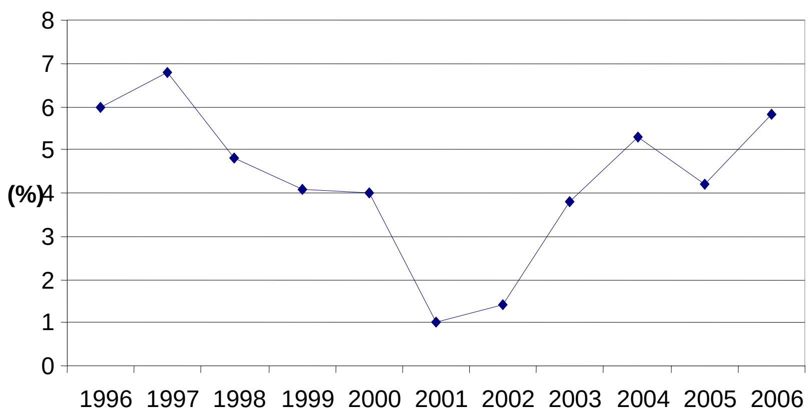

Figure 1: Dynamics of GDP in Poland (1996-2006)

Source: Rocznik Statystyczny 2006, Główny Urząd Statystyczny, Warszawa 2006

The maintaining of high dynamics of the economic development in the last decade enabled to decrease the disproportions in relation to many other European countries as regards GDP *per capita*. In 2005 it amounted to $ 7 944 whereas ten year before it had been merely $ 3 634 (MSZ, 2007). Figure 2 shows analogical indicators for other countries of Central and Eastern Europe in 2005.

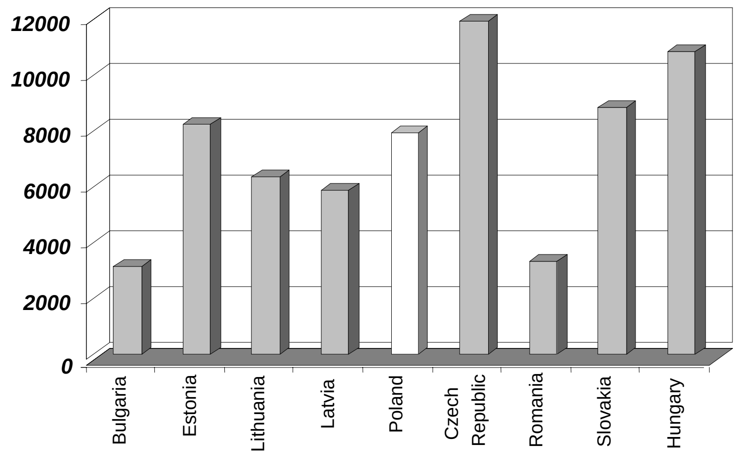

Figure 2: GDP *per capita* in 2005 (in USD)

Source: Rocznik Statystyczny 2006, Główny Urząd Statystyczny , Warszawa 2006

Considering the group of countries that have remained within the European Union since not long ago Poland was placed at the level of development (as regards GDP *per capita*) close to Estonia and Slovakia. This is, however, a significantly lower level when considering other countries of the European Union that have had fully mature market economy for many years now. For example in 2005 the GDP *per capita* was as follows: in France – $ 34 787, in Spain – $ 25 513, in Germany – $ 33 901, in Great Britain – $ 36 634, in Italy – $ 30 394 (Rocznik Statystyczny, 2006).

Another factor that significantly influences the condition of economic development includes Flow of Direct Investments (FDI). Foreign investors perceive Poland as an attractive area for capital investment. Thanks to the above it was possible to speed up the restructure and privatisation of Polish economy. Before 1989 the foreign capital was present in Poland only at a minimal level. The growth of interest of foreign investors in the possibility of effecting economic enterprises in Poland took place following the changes in the political and economic system at the beginning of the 90s. Figure 3 shows the rate of influx of foreign investments into Poland in 2001-2006.

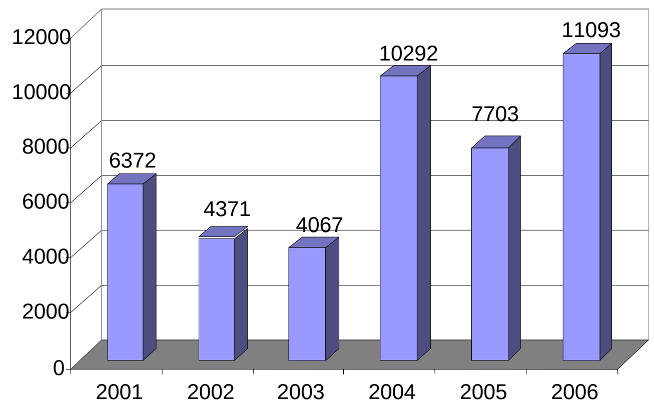

Figure 3: Direct Investment Flows in Poland (mln EUR)
Source: Narodowy Bank Polski, www.nbp.gov.pl, (2007, June 7)

Approximately 90% of the foreign capital that is present in the Polish economy comes from OECD countries. Table 1 shows the accumulated value of investments as at the end of 2004. The financial resources flowing into Poland from abroad are mainly located in manufacturing sector, in financial services and in transport, logistics and data transfer. The main advantage attracting the attention of foreign investors includes still relatively low costs of labour in Poland, an absorbent market enabling the possibility of sale of many products and good development conditions in various sectors of economy with not a high level of competition. On the other hand it should be indicated that there are major barriers making it difficult to take investment decisions. The barriers mainly include weak communication infrastructure, high level of bureaucracy, lack of stability in economic law regulations and high burden for employers as regards cots of labour.

In the region of Central and Easter European countries, Poland is placed at high position as regards the acceptance of foreign investments. Figure 4 demonstrates the structure of those investments. According to UNCTAD World Investment Report 2005 Poland is eighth in the ranking of the most attractive locations for investment (the top places in the list belong to China, the USA and India) (UNCTAD 2005).

Another important phenomenon illustrating the economic development of a country is foreign trade. The level and momentum of development of exports and imports indicate the level of openness of an economy and the strength of connections with the economies of other countries. Figure 5 presents the dynamic development of foreign trade in Poland.

Table 1: Accumulated Value of FDI in Poland – 2004

Country	of investors	Value (mln USD)
1. France	101	16 026
2. Netherlands	126	11 154
3. USA	118	10 163
4. Germany	258	10 149
5. International	14	4 648
6. United Kingdom	56	4 337
7. Italy	67	4 089
8. Sweden	60	3 715
9. Belgium	27	2 902
10. Denmark	50	2 096
……..	…….	……
27. Turkey	4	100
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Total		**84 477**

Source: PAIIZ Rocznik 2004, Warszawa 2005, www.paiz.gov.pl (2007, June 12)

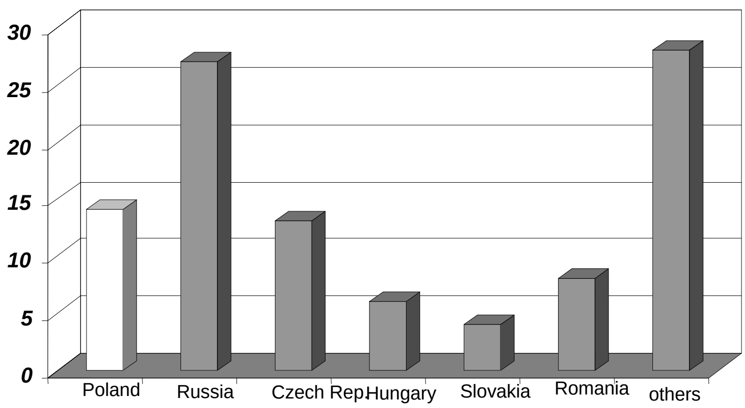

Figure 4: FDI in the Central and Eastern Europe in 2004 (%)
Source: PAIIZ Rocznik 2004, Warszawa 2005, www.paiz.gov.pl (2007, June 10)

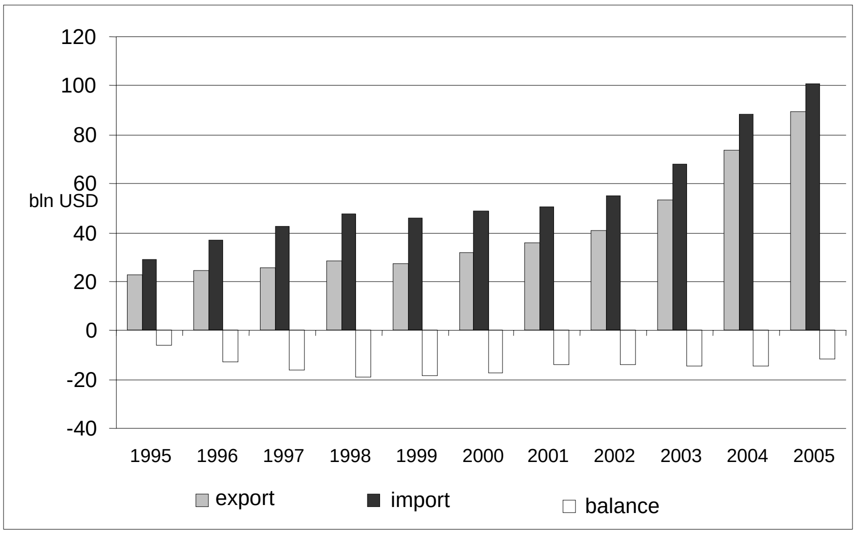

Figure 5: Polish Foreign Trade Turnover 1995-2005
Source: Główny Urząd Statystyczny, www.stat.gov.pl (2007, June 8)

Analysing the development of Polish foreign trade it should be noted that there was a high dynamics in the increase of exports between 2003 and 2005 in particular (130.6-121.1; previous year = 100) that effectively influenced the decrease of negative trade balance. In 2005 Polish exports reached the value of $ 89.4 billion that was 0.9% of the world exports. In the same period Polish imports exceeded the value of $ 101 billion that was 1.0% of the world imports. The value of exports per citizen of a country is an important indicator of the country's openness to the links with the world economy. This indicator for Poland is at a lower level than for the majority of countries of the European Union. In 2005 the value of exports per citizen of Poland was $ 2342 whereas in the Czech Republic it was $ 7634, in Hungary – $ 6128, in Lithuania – $ 3457 and in highly developed countries as follows: in Germany – $ 11 862, in France – $ 7179, in Great Britain – $ 6188 (Rocznik statystyczny, 2006). Figure 6 shows exports *per capita* in 2005 in other countries of Europe.

The most important area for Poland to effect foreign trade covers countries of the European Union. Almost 80% of Polish exports and 70% of imports are executed through the trade exchange with EU countries. The main partners in exports are the following: Germany (28.2%), France (6.2%) and Italy (6.1%), and as regards imports: Germany (24.7%), Russia (8.9%) and Italy (7.1%). In the goods structure the following commodities are dominant: petroleum oils, motor cars and engines, products of steel and iron, paper, aluminium and synthetic materials. The main exports goods are the following: motor cars and engines, articles of rubber, coal and coke, paper, products of steel and iron. Polish trade exchange with Turkey while not of any significant size in the Polish exchange with other countries has been dynamically developing for the recent years. In 2005 the value of Polish exports to Turkey amounted to $ 1 193.6 m and the value of imports amounted to $ 1 300.8 m. In relation to the previous year the trade dynamic indicator amounted to 123.95%. Goods delivered to the Turkish market mainly include electrical machinery industry (71.62%) and chemical industry products (9.58%). Electrical machinery industry products are also dominant in imports from Turkey (46.1%) and also textile industry products (27.5%) and food products (10.57%) (The Embassy of the Republic of Poland in Ankara, 2007).

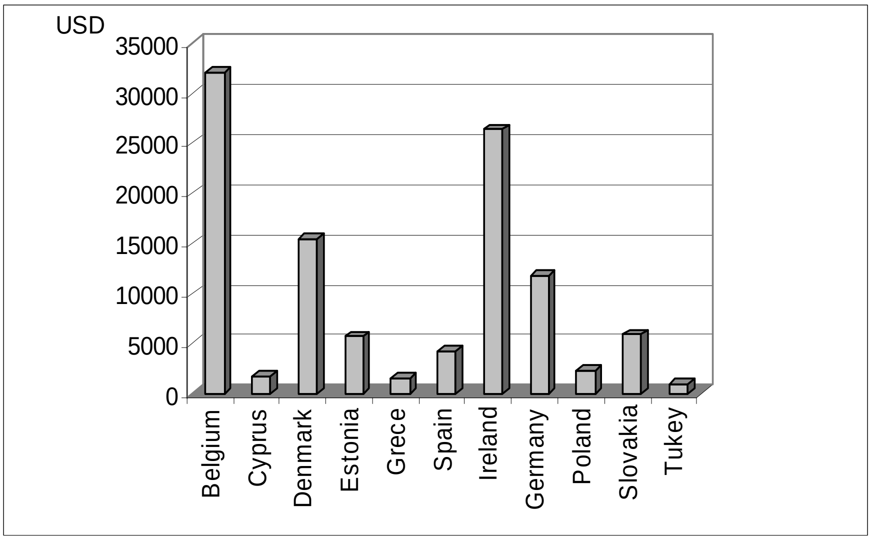

Figure 6: Exports *per capita* in 2005

Source: Rocznik Statystyczny 2006, Główny Urząd Statystyczny, Warszawa 2006

The strengthening of cooperative ties with other countries has undoubtedly influenced the development of Polish economy. Apart from the EU membership (since May 01, 2004) Poland has been a member of other major international organisations such as World Trade Organisation (since 1995) and the Organisation for Economic Cooperation and Development (since 1996). The trends in transformations of the economic system of Poland have been largely determined by globalisation and liberalisation tendencies taking place in the world economy. As a result of system transformations the ownership structure of Polish industry has changed significantly. Over 99% of industrial plants are private. Private sector provides employment to almost 80% of workers and generates 75% of industrial products (MSZ, 2007). One of the most significant changes in the structure of Polish economy has become a major increase in the role of services including financial services sector.

Due to the very important role that financial sector plays in the economy of each country it is worth to look closer at the main trends that have occurred in the Polish banking sector for the past years. The financial sector constitutes the foundation of each economy and its proper functioning is particularly important for the development of other sectors of production and services. The financial sector is the place where money is created; where services connected with financial servicing of economic operations and depositing financial surplus by individual and institutional entities are provided. The financial sector includes banks, insurance companies and other institutions providing financial services as investment funds and brokerage houses (Dębski, 2002). Banks play the dominating role in the financial sector in Poland as regards the value of assets. However, their market participation in the financial market has been decreasing in the recent years (Figure 7).

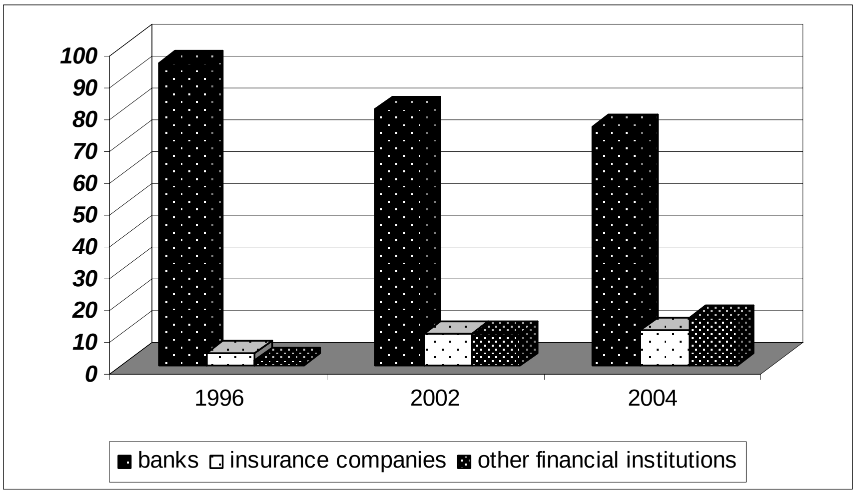

Figure 7: Structure of the Polish Financial Sector by Value of Assets in 1996-2004

Source: Narodowy Bank Polski, Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych, www.nbp.gov.pl**,** www.knuife.gov.pl (2007, June 12)

The banking system in Poland includes over fifty commercial banks and a few hundred small local cooperative banks. The characteristic feature of the ownership structure of banks is a large participation of foreign capital (61.8% as at the end of 2005). The property of State Treasury is approximately 12% of the banking capital; the remaining 12.8% belongs to small private holders, cooperative bank shareholders – 4.2% and other entities (MSZ, 2007). The strong position of the banking sector in the economy is not only the result of the size of owned assets. The activity of banking institutions in the present phase of economic development is connected with huge demand of the companies for sources of financing and financial servicing of economic transactions. The continuing economic growth has also caused an increased interest of natural people in banking products that make it possible to utilise financial surplus from the increasing income. It has been very characteristic for the Polish society in the few last years to exhibit increasing demand for consumption credits and for mortgage credits in particular. As a result of such demand from the individual clients and economic entities the banking sector has got good conditions for further development.

As shown in Figure 7, the remaining financial institutions, particularly investment funds, are characterised by even a higher growth dynamics. 2005 saw the highest growth in assets in investment funds and amounted (in relation to the previous year) to 63.5% while the assets in the banking system increased within the same period by 9% and in insurance companies – 15% (Osiński & Wyczański, 2006). Such a dynamic growth of investment funds was connected with a boom in the market of securities that encouraged individual investors to invest in participation units of those funds. An additional factor stimulating the development of this part of the financial sector was also the activity of the funds themselves as regards offering more and more new products that were much more attractive than the traditional bank deposits with a low interest rate.

With the trends in Polish economy and in the financial sector presented above it is worthwhile to take a closer look at the sphere of insurance that is a part of the financial sector. The insurance reform in Poland commenced at the beginning of the 90s, with the introduction of the new political and economic system. The main directions of changes were then outlined in accordance with the generally accepted goal to integrate with the European Union. In the insurance law of 1990, that was revised in 1995, some very important objectives were introduced as the following: a ban to merge insurance activity with other economic activity, separation of life assurances from other non-life insurance, opening the market to foreign entities, the introduction of insurance supervision, providing possibility to operate for mutual insurance companies, the introduction of institutions protecting the interests of the insured. The implementation of those solutions in practice was in line with the insurance directives of the European Union.

Thanks to the transformations made, insurance became in Poland an important sector of economy executing economic and social functions. By offering their products in the form of insurance protection, insurance companies enable safe operation of other economic entities. Offering their products to individuals, insurance companies effect social functions and enable making certain forms of financial investments.

The fast development of the insurance sector that has happened for the past few years does not mean reaching full maturity of the market. The participation of gross premiums written in GDP that determines the role of insurance sector in an economy, the so-called penetration ratio varies significantly in Poland (Figure 8) from other countries of the European Union.

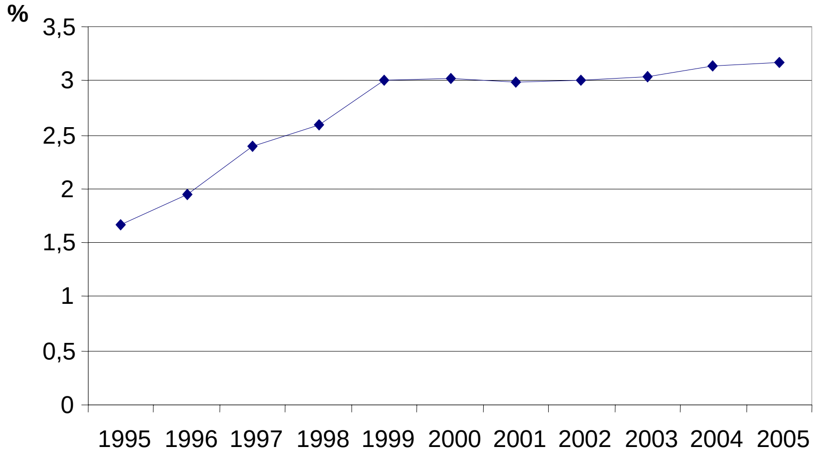

Figure 8: Penetration Ratio, 1995-2005

Source: Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych, www.knuife.gov.pl (2007, June 10)

In 2005 the participation of premiums written in the whole insurance sector was 3.17% of GDP while the same ration for EU countries – 15 amounted to over 10%, for the Czech Republic – 4.15%, for Slovakia – 3.53% and for Hungary – 3.02%.

Another measure of the role of insurance sector in economy is the level of expenditures on insurance per citizen, the so-called density ratio. In Poland those expenditures are at the level of $ 251 per person, whereas in the European Union on average the amount is $ 3077 and in some other countries as follows: Ireland – $ 6804, Great Britain – $ 5630, the Czech Republic – $ 409, Hungary – $ 257, Slovakia – $ 235 (OECD 2003).

The strong stimulus for the development of the insurance market was an interest of foreign investors in the possibility of conducting business in Poland. This resulted not only in an influx of capital into the sector but also in the introduction of new standards of conduct and in an increase of market competition. The foreign capital in the Polish insurance sector appeared gradually in step with opening of the market. Figure 9 presents the participation of foreign capital in the Polish insurance sector.

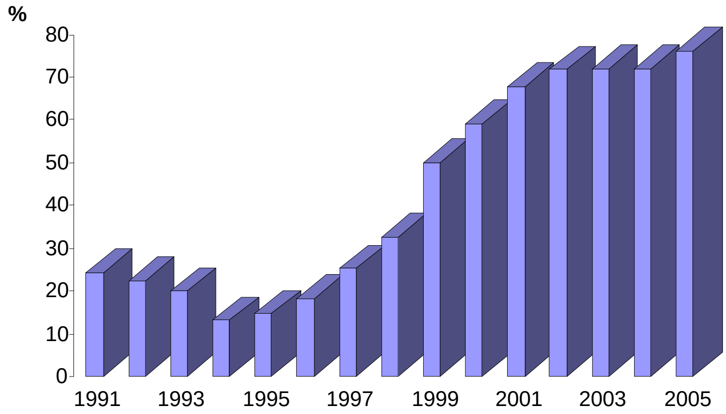

Figure 9: Participation of Foreign Capital in the Polish Insurance Sector

Source: Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych, www.knuife.gov.pl (2007, June 10)

A significant opening of the Polish market to foreign investors took place in mid-90s. The process was mainly a result of the liberalisation of the law regulations. 1999 was particularly significant for the process of inflow of foreign capital because that was the year when the barrier of 50% participation of foreign investments in core capital of the whole insurance sector was crossed. At the end of 2005 this ratio exceeded 76%. Figure 10 presents the structure of foreign capital in the insurance sector per country of origin of the capital.

The level of development achieved on the insurance market in Poland is the result of many factors. The most important ones undoubtedly include Poland joining the European Union. The preparations in the 90s to the planned accession contributed to the change of insurance law in accordance with the directives of the European Union. This, in turn, enabled the activation of market mechanism and commencing the activity by new insurance companies. Another factor that also strongly influences the development of insurances is a fast momentum of the development of economy. As a result there is a high demand for insurance products and that is favourable for the development of the market. It is worth noting the changes that take place in the demand part of the market. The increasing insurance awareness of the society and the increase of income of private households mean an increase of a demand for insurance cover. Integration processes that have been taking place within the European Union will determine the further development of the Polish insurance market. Therefore it is expected that the principles of the operation of the market will be developed further and the security standards created within the policy of the European Union will be strengthened. The trend, however, has already been clearly indicated. That trend means trying to reach such a role of insurances in the economy of Poland that is present in the economies of highly developed countries.

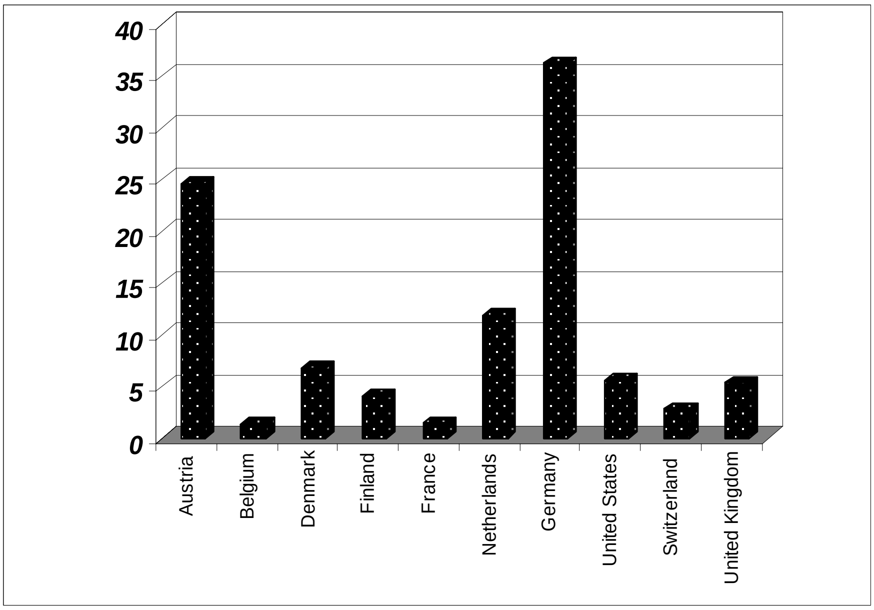

Figure 10: Foreign Capital of Insurance Companies by Countries of Origin in 2005 (in %)

Source: Rocznik Statystyczny 2006, Główny Urząd Statystyczny, Warszawa 2006

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