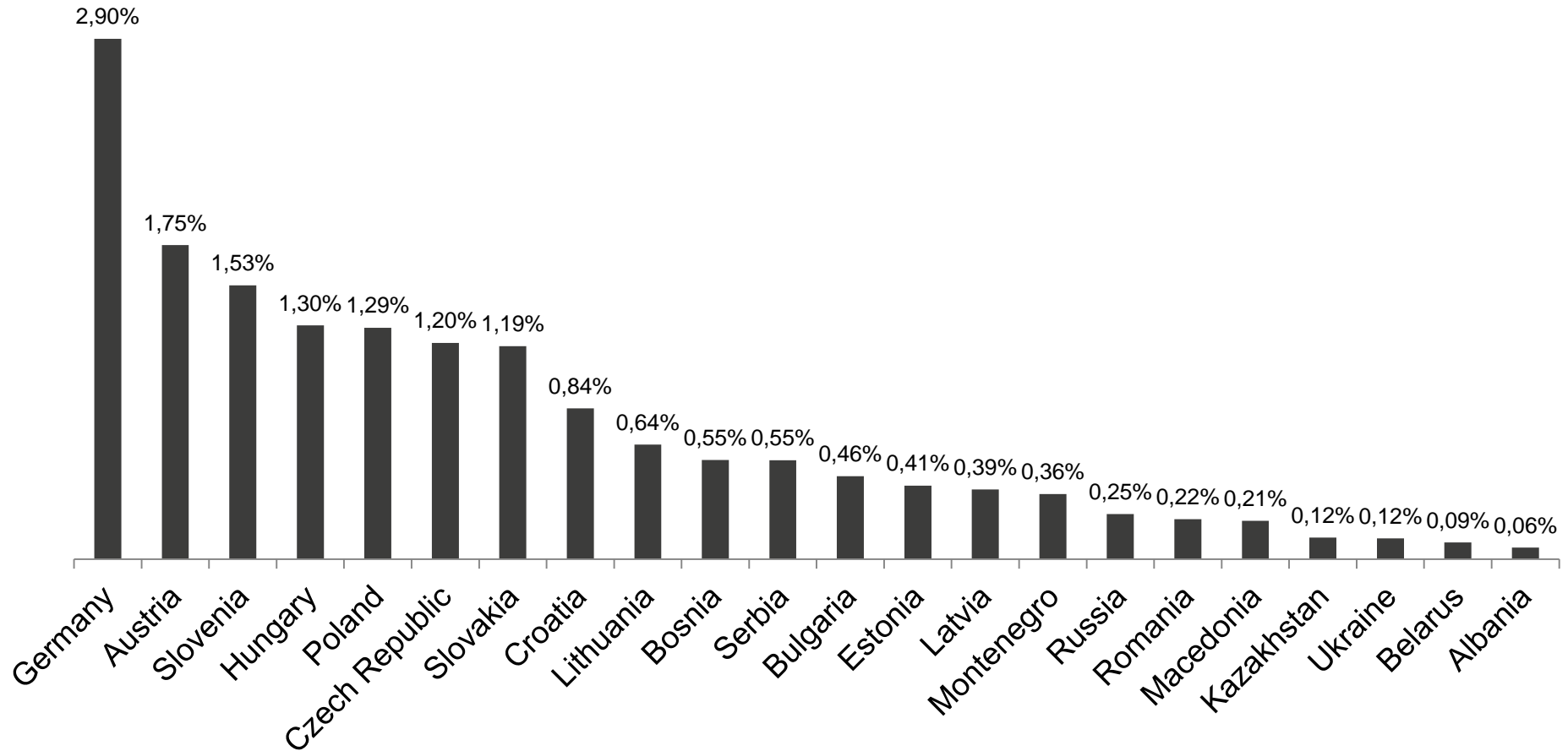


CEE Life Insurance Markets

Jure Kimovec, FRM, CAIA, ERP

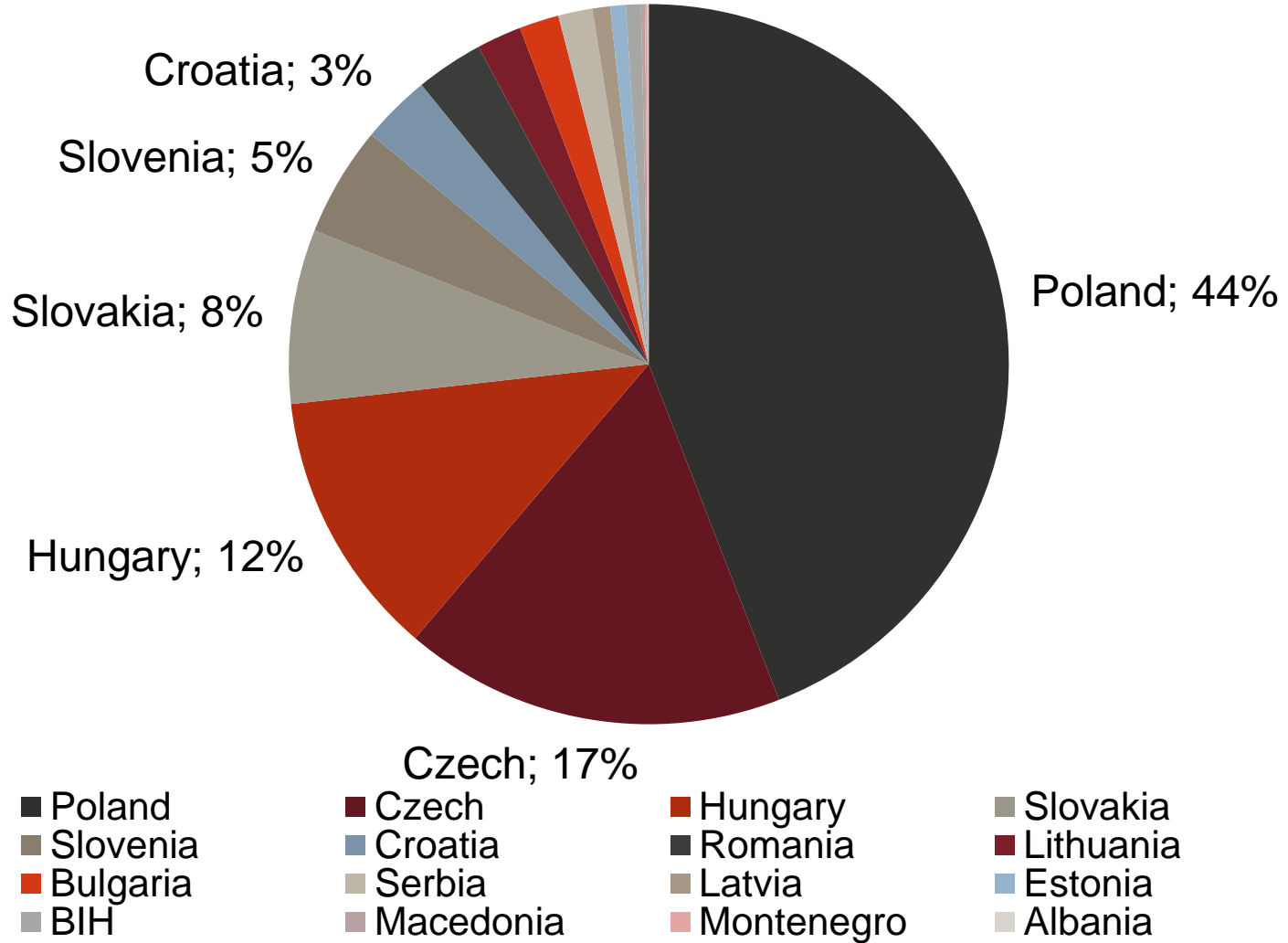
Ljubljana, 4.September 2017

Life insurance GWP vs Nominal GDP in 2016



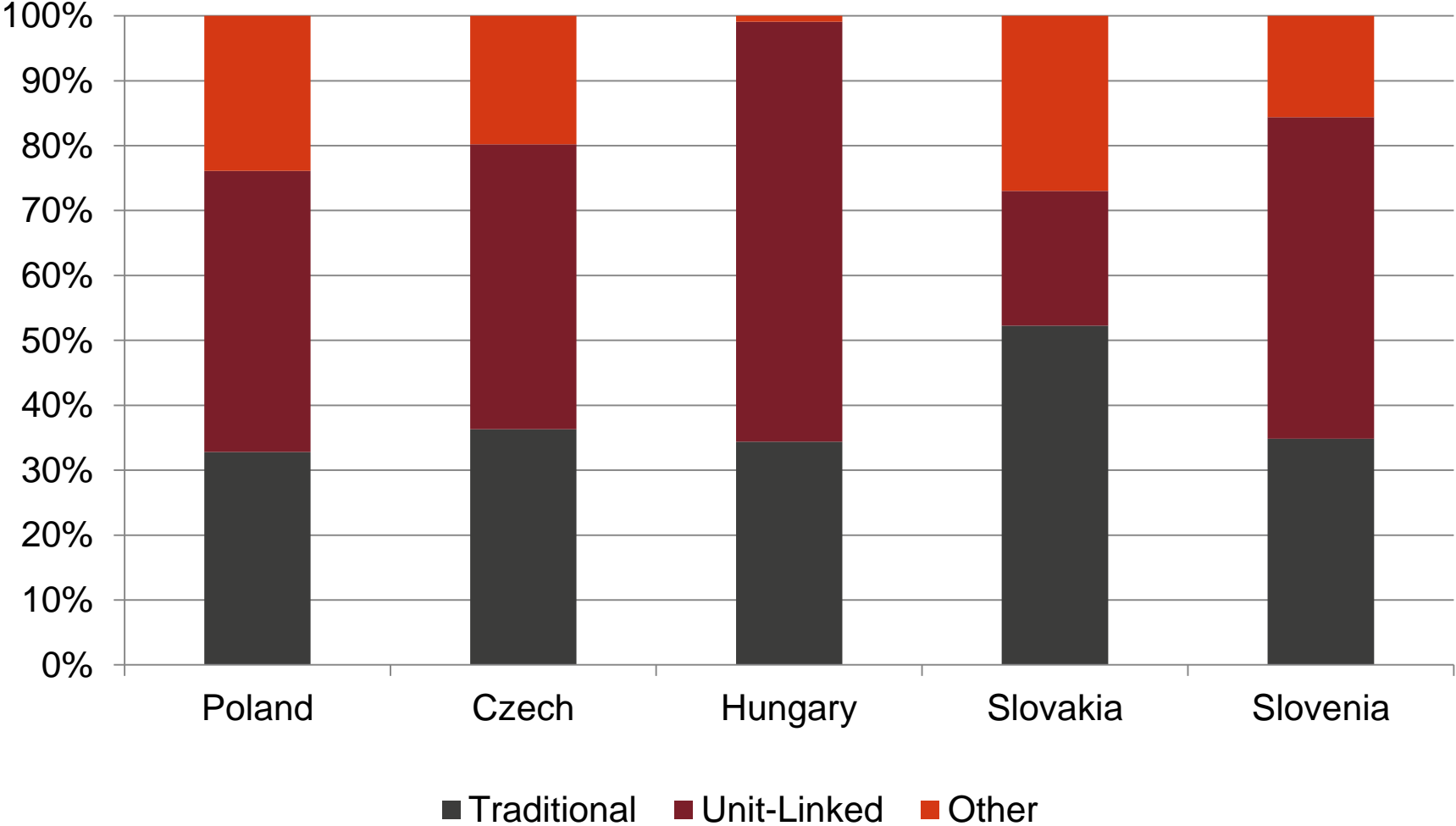
Source: S&P Global Ratings

CEE Life Insurance Market - €12.3 bn at the end of 2016



Source: S&P Global Ratings

Selected CEE Countries Market Structure

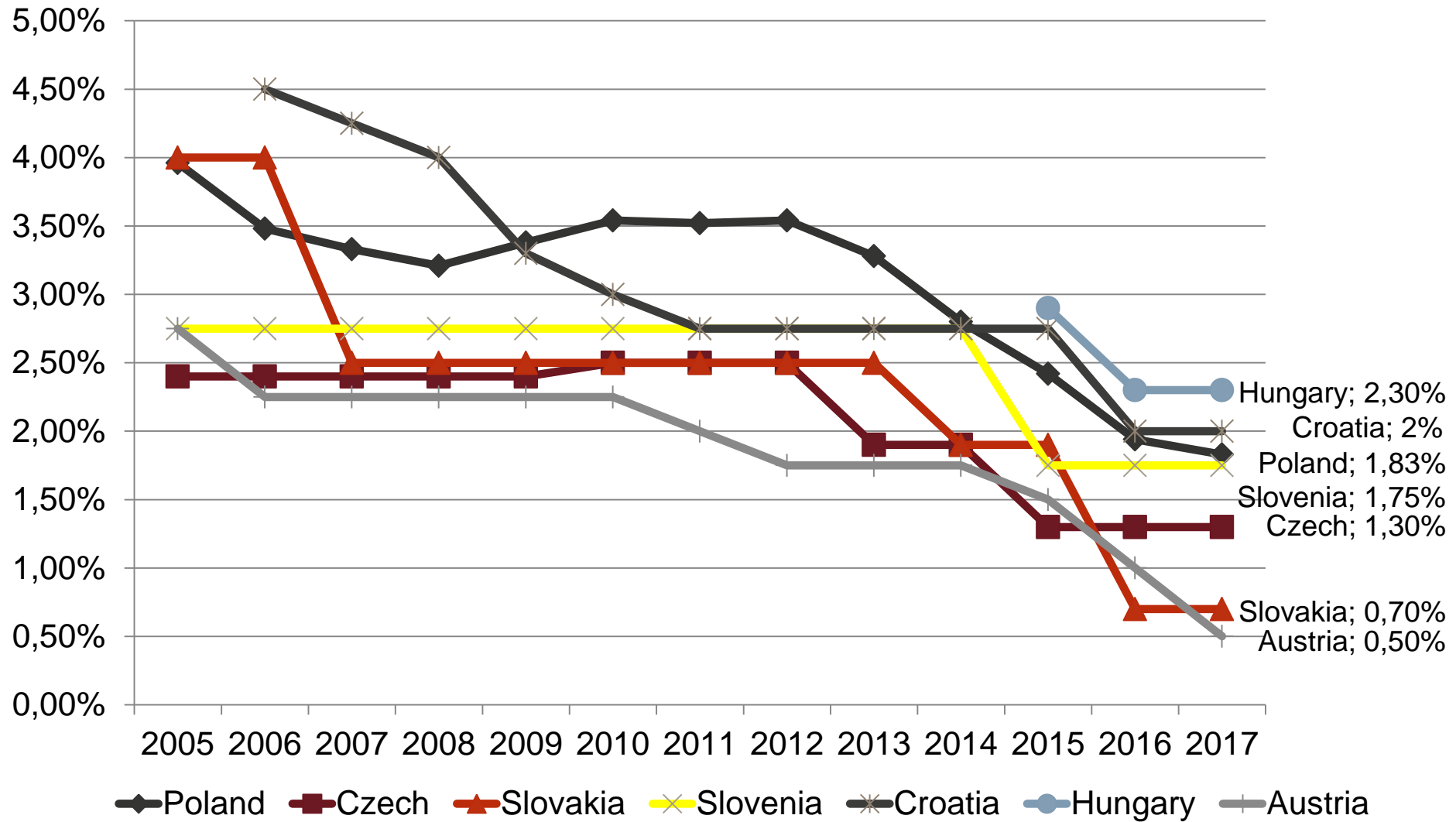


Source: S&P Global Ratings
* For Hungary, data is from 2015

Market Developments of CEE Life Insurance

- Low interest rate environment is leading companies to reduce guaranteed rate on traditional products which is hampering demand for them.
- Consumer protection initiatives, due to upcoming IDD implementation, are triggering changes of life insurance offerings in several CEE countries.
- Cyclically higher amount of old contracts maturities.
- Favorable regulatory changes for additional supplementary pension insurance or private life insurance schemes in several CEE countries.

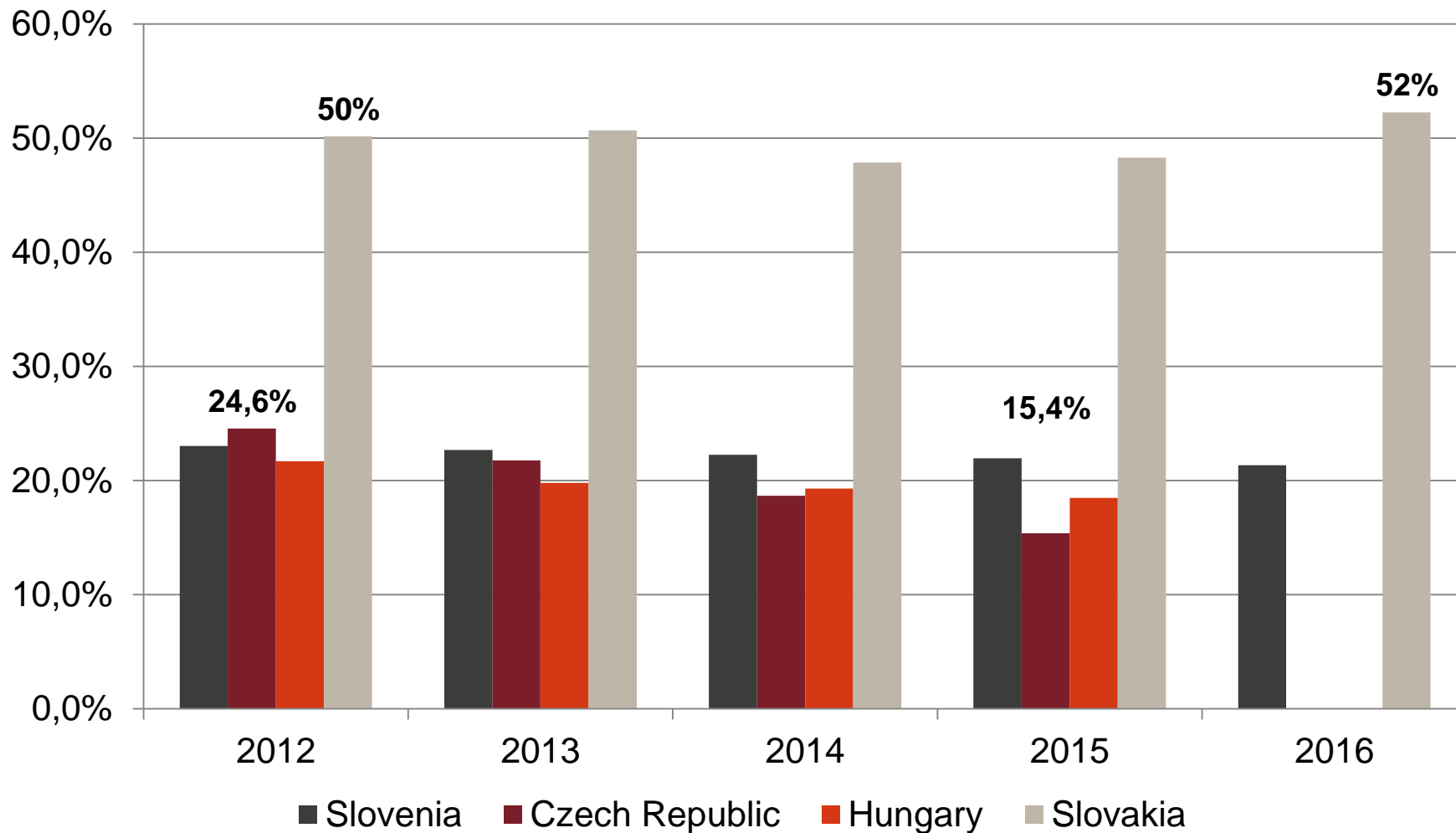
Maximum Technical Interest Rate



Source: S&P Global Ratings

S&P Global
Ratings

Proportion of Traditional Guranteed Life Insurance is Declining



Source: S&P Global Ratings

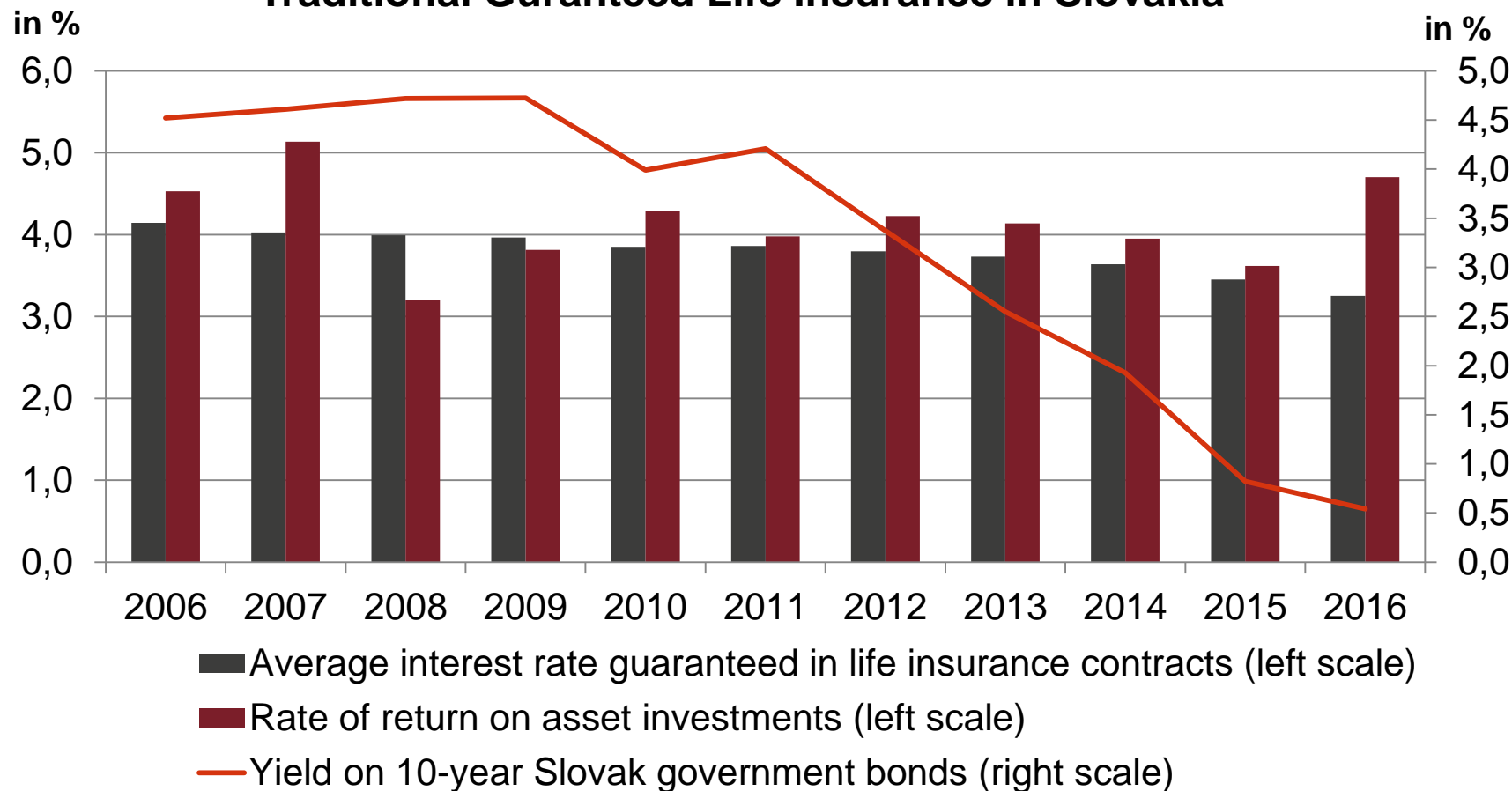
Average Guranteed Rate on Back Book

It remains relatively high in comparison to reinvestment yields achieved on high quality fixed income securities.

Country	Average market guaranteed rate on back book (%)	Maximum guaranteed rate on new business (%)
Germany	2.9	0.9
Austria	2.80-2.90	0.5
Italy	1.60-1.80	1.5
Denmark	2.5	0 - 1.5
Sweden*	3.3	0
Norway	3.00-3.50	0 - 2.0
Slovenia	2.70	1.75
Slovakia	3.30 - 3.50	0.7
*Contracts can offer a guarantee of between 100% and 85% of gross premium paid.		
Source: S&P Global Ratings		

Average Guranteed Interest Rate on Back Book Will Only Gradually Decline

Traditional Guranteed Life Insurance in Slovakia

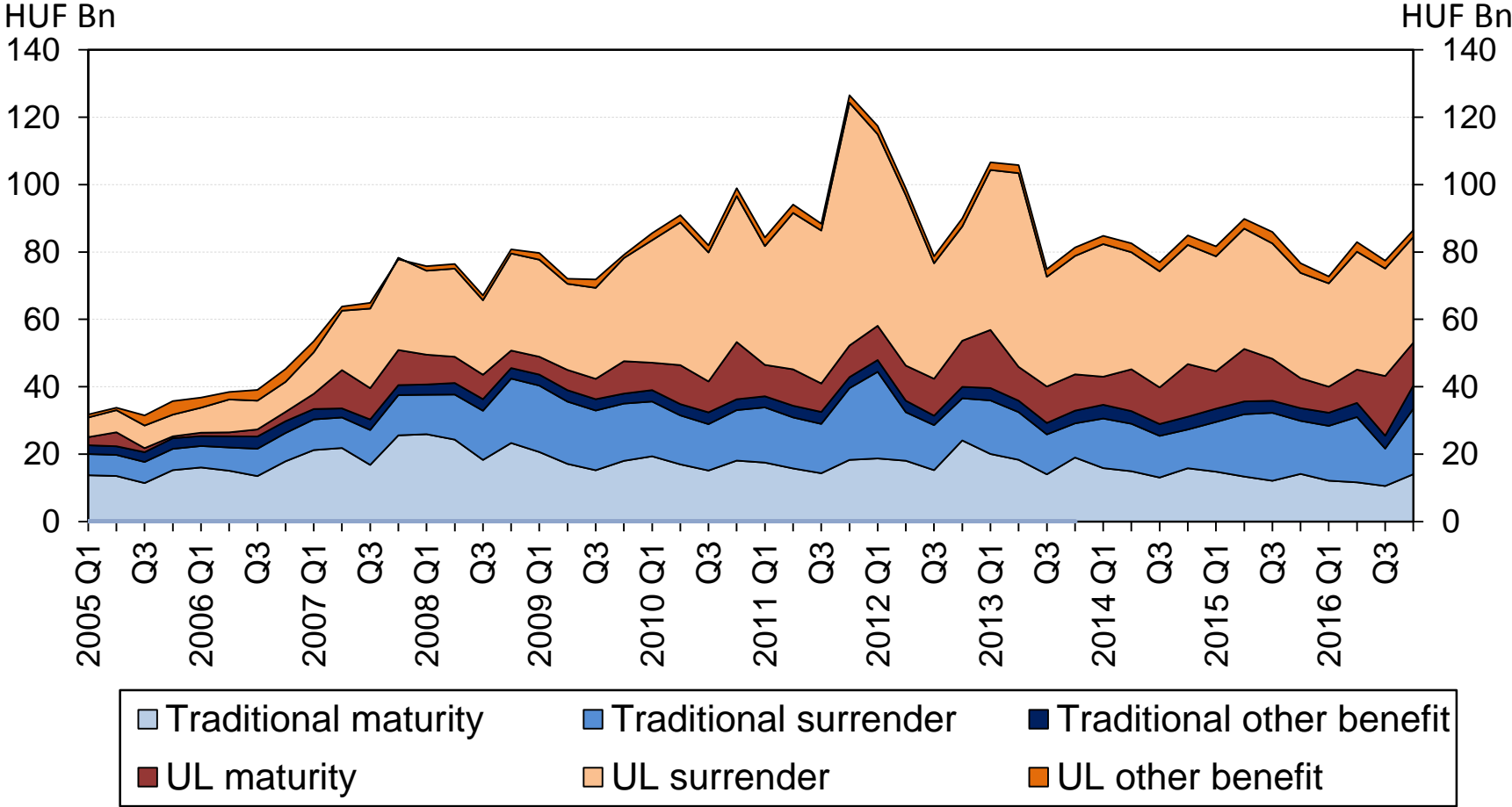


Source: Slovakia National Bank

Unit-linked Past Developments Across CEE

- Unit-linked products were introduced in the CEE late 1990s/early 2000s.
- The market developed relatively rapidly before the 2008 financial crisis.
- Due to product complexities consumers often have difficulties to understand risks, cost/charges and other characteristics of these products.
- In the past this led to material misselling across EU, with some of the CEE countries being considerably affected.
- 2008 financial crisis materially reduced value of underlying invested assets of unit-linked products, reduced demand for new unit-linked policies and heightened lapse rates.
- Misaligned incentives for sales staff caused excessive switching of the life insurance policies in number of CEE countries.
- Reputational and financial damage for the insurance sector.

Unit-Liked Surrender Payments Remain High Across CEE Countries – Example of Hungary



Source: MNB (Magyar Nemzeti Bank)

Low consumer confidence lead to increasing customer protection measures

- In the past years there has been material loss of consumer confidence due to misselling and in general low transparency and low comparability of unit-linked insurance products.
- Stagnating / declining life insurance markets created need to restore consumer confidence in the sector.
- Number of regulatory changes and industry self regulation was done throughout CEE countries from 2008 onwards.
- We consider that markets which intrinsically focusing on consumer protection are overcoming the issues faster and more efficiently.
- Rapidly implemented partial market regulation can have less favorable impact on the life insurance market.

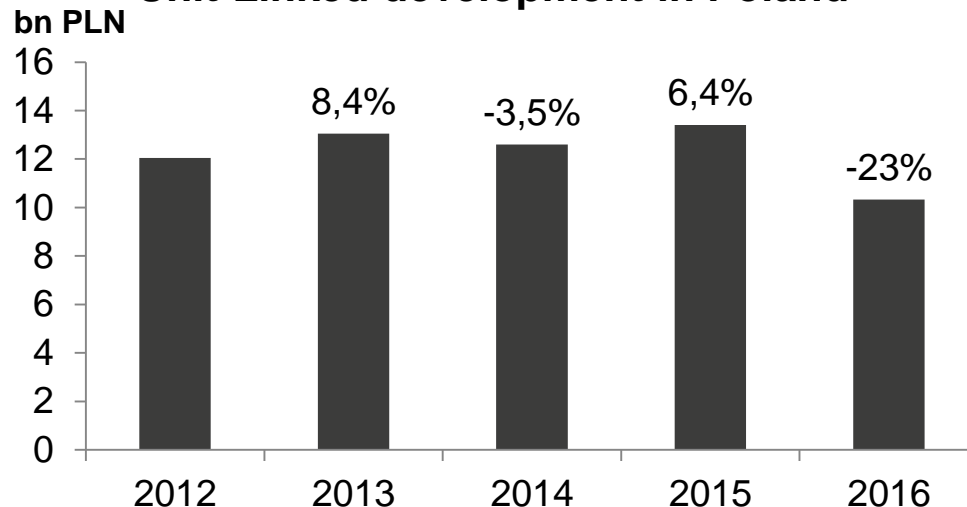
Poland

- New regulation (Act on Insurance and Reinsurance activity) entered into force in Jan 2016.
- Reduction of liquidation fees for unit-linked policies.
- Allows a pro rata reduction of brokers' rights to compensation (at least 5-year period).
- Intensive changes of product offerings.

Czech Republic

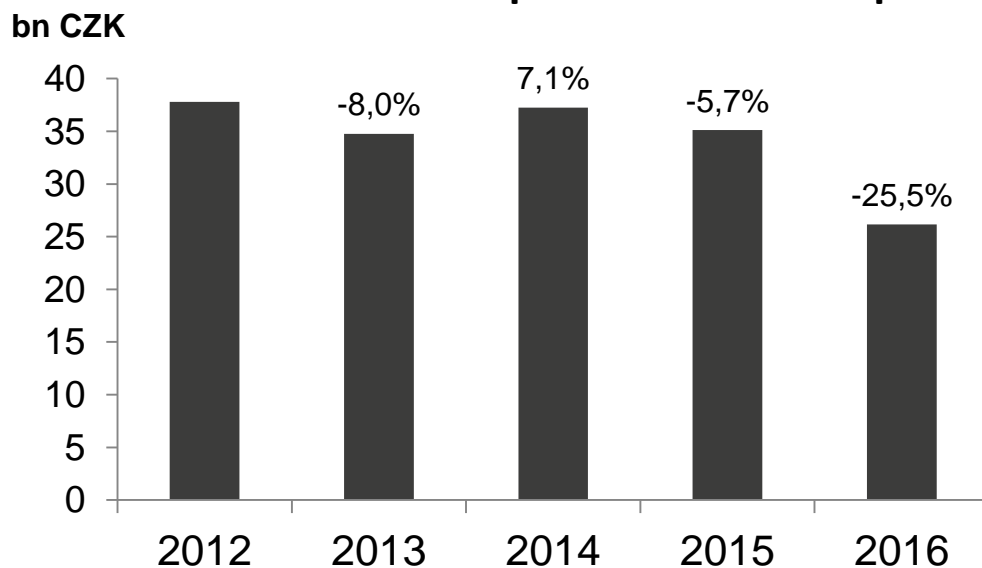
- In Dec 2016 change of distribution regulation.
- Caps brokers' commissions and extending the cancellation period.
- Allows a pro rata reduction of brokers' rights to compensation (5-year period).
- Intensive change of product offerings, some of the companies might cease to write some life products.

Unit-Linked development in Poland



Source: KNF

Unit-Linked development in Czech Rep



Source: CNB

Impact of IDD Implementation

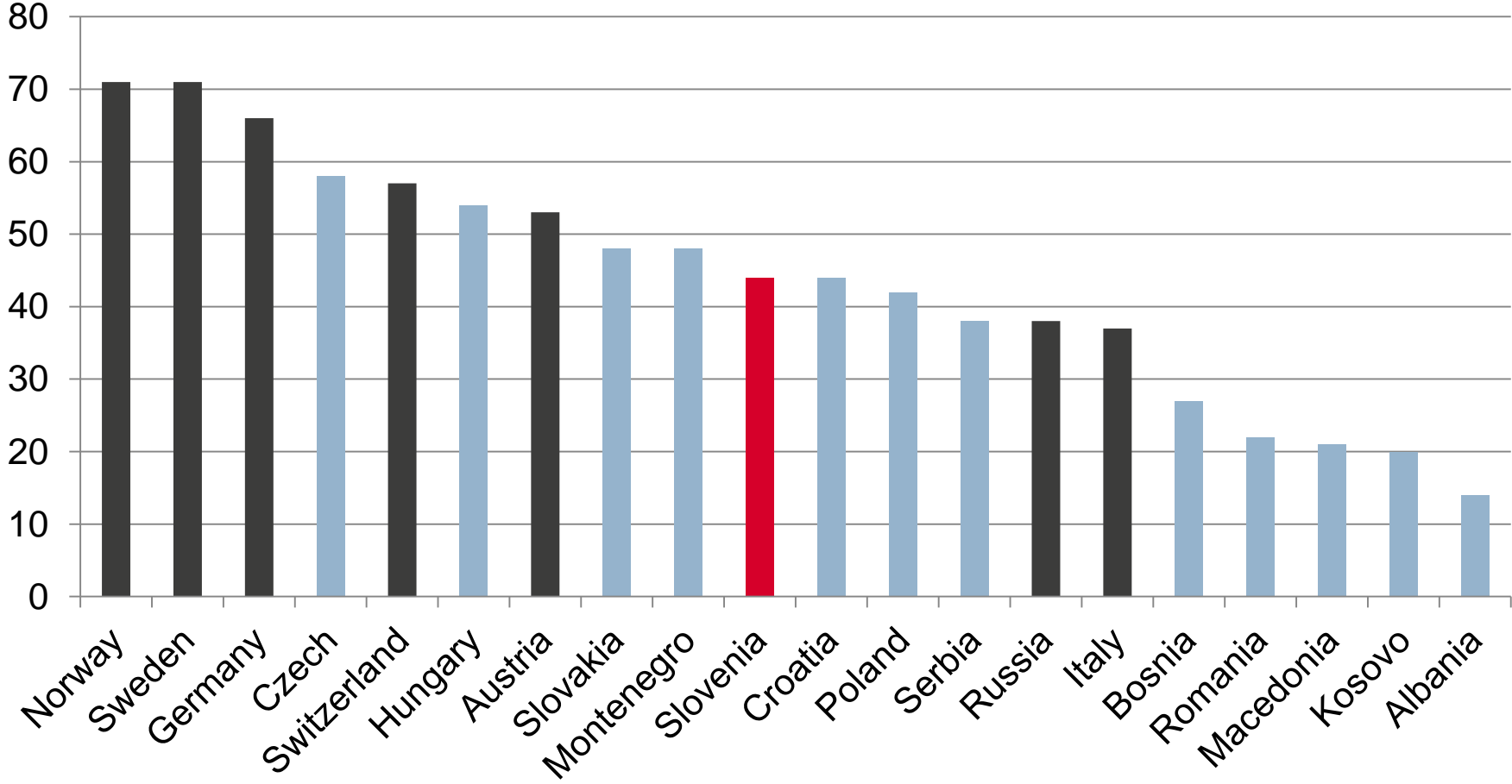
- Upcoming EU-wide IDD implementation in 2017/2018 is triggering changes of life insurance offerings in several CEE countries.
- IDD transposition into national law gives freedom to countries to introduce additional measures if they deem it necessary to ensure the protection of consumers on their markets.
- In general we consider that new customer protection regulation is not existential threat to majority of life insurers' business models.
- We consider that the largest changes are likely to happen in product distribution, since the regulation intends to ensure a level playing field between all participants.
- This could have some negative consequences on business models, in particular for companies that considerably rely on external distribution of their products.

Impact of IDD Implementation

- In short to mid-term period we consider that IDD implementation is likely to have material impact on further market developments in the region, in particular growth prospects.
- Given low interest rate environment which is pressuring profitability of traditional life insurance products, we consider that lower profitability of unit-linked business could in some cases lead to additional pressure on life insurance business lines.
- In longer term we consider that IDD is likely to be favorable since it leads to improvement of product transparency and higher focus on customer centric sales which together have the potential to reduce information asymmetry for policyholders.
- This could gradually lead to strengthening of consumer confidence in insurance sector in the region.
- Greater transparency and higher consumer confidence can offer potential for future development which could lead to great sustainability and stability of insurers business models.

Financial Education in the Region Remains Area For Additional Improvement

Financially Literate Adults in %



Source:
S&P Global Ratings



CEE Life Insurance Growth Prospects

- We expect growth in Slovenia in 2017 and 2018 to be comparatively better than in the Czech Republic and Poland.
- We consider that expected growth between 5% - 7% in 2017 and 3% - 5% in 2018 not to be high enough to materially increase life insurance penetrations which could offer significant improvement of old age savings through insurance.
- We consider Czech Republic and Poland life insurance market growth prospect to remain relatively unfavorable in 2017-2018 on account of regulatory changes, low interest rate environment and more attractive offerings from competitive savings products.
- In our view, additional supplementary pension insurance or private life insurance schemes introduced in several CEE countries, are currently stabilizing factors for few life insurance markets in the region.

Thank you for your attention!

Jure Kimovec, FRM, CAIA, ERP

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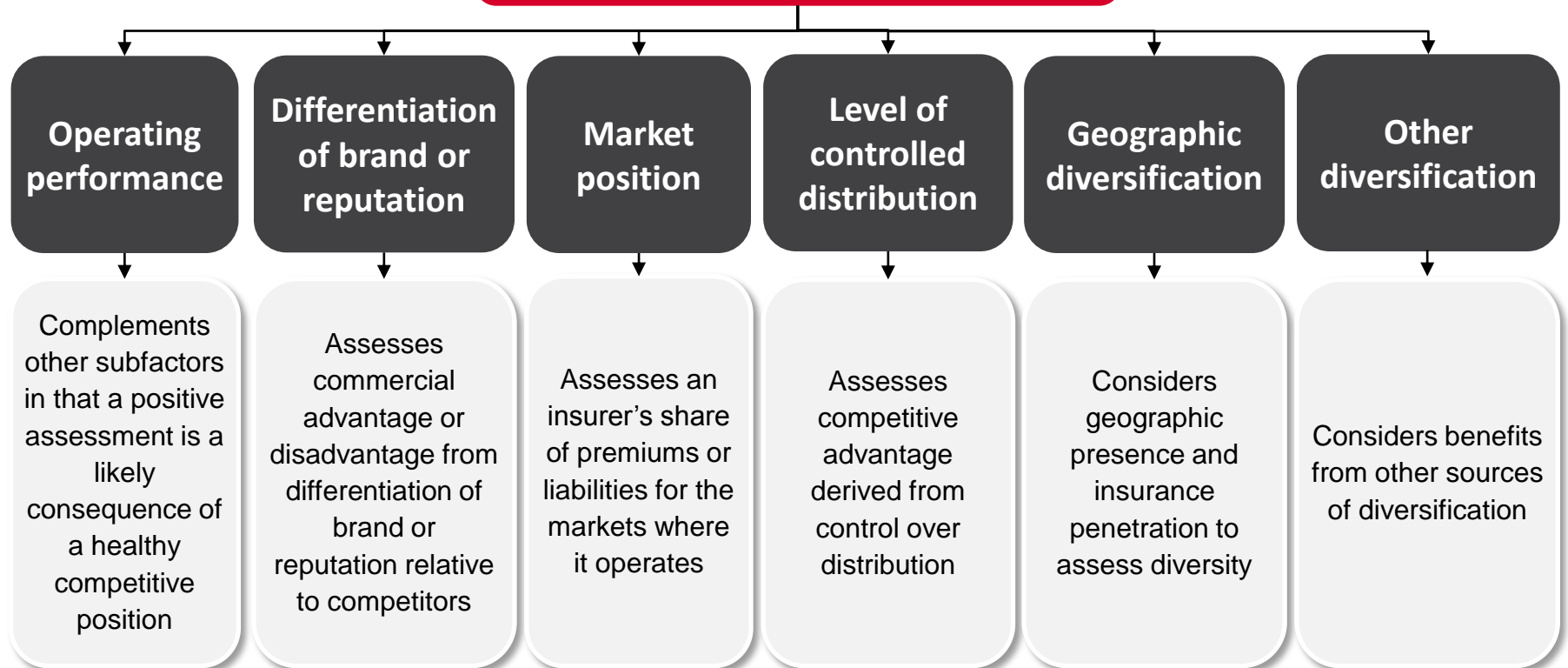
jure.kimovec@spglobal.com

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Appendix 1: Competitive Position

Competitive Position



Underperformance or outperformance directly influences the operating performance assessment and limits that of three other subfactors

Appendix 2: The S&P Global Financial Literacy Survey 2014



The survey covers four topics:

- Numeracy
- Interest compounding
- Inflation
- Risk diversification

Being financially literate:

How many can answer 3 out of these 4 topics

correctly

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