

TRENDS IN THE INSURANCE BUSINESS IN THE CZECH REPUBLIC

Pavla Jindrová

Faculty of Economic and Administration, University of Pardubice

***Abstract:** This article brings an overview of development of the insurance industry in the Czech Republic in the period since the establishment of the independent the Czech Republic in 1993 till 2009. Into these parameters belong both general data such as the number of insurance companies and their distribution by type of insurance (life, non-life, universal), and statistics of the several indicators of written premium during the monitored time interval.*

***Keywords:** Insurance, Insurance Company, Written Premium.*

***JEL Classification:** G 22.*

1. Introduction

The aim of this paper is to present survey of development trends in insurance in the Czech country. It summarizes the development of selected important parameters in the period since the establishment of the independent the Czech Republic in 1993 till nowadays. Both general data such as the number of insurance companies and their distribution by the insurance type (life, non-life), and specific statistics of the amount of insurance and evaluation of their development during the monitored time interval belong among these parameters.

Insurance is among the major sector of the economy with significant impact on the function of other areas of the whole economy. It is an integral component of financial and credit system as well as special financial service industry. Insurance is one of the most significant parts of the national economy with huge impact into other parts of the whole economy too. It is not only a special standalone part of financial services, but also an integral part of financial and credit system. Insurance, considered as non-manufacturing industry, is specialized in insurance protection and in creation, administration, evaluation and use of insurance reserves. Insurers, reinsurers, insurance brokers and possibly others subjects are the parts of the insurance business.

2. History of insurance in the area of the Czech Republic

Insurance has a long tradition in the area of the Czech Republic, first noted back to the 17th century. Initially, it was only the experiments, which didn't last long time or weren't eventually implemented, such as John Christopher Borek proposal for introducing obligatory buildings fire insurance in 1699. As the basic of the Czech insurance sector can be considered the establishment of the institute called "Imperial-royal privileged Czech joint damage by fire seduced by insuring institute" in 1827. This name was later changed to "The First Czech mutual insurance company in Prague". Furthermore, same time in Brno also originated Moravian-Silesian mutual insurance company. Both insurance companies had initially the same focus on real

estate fire insurance and they gradually expanded their activities into other areas of insurance.

As the significant event may be also considered the establishment of the First Czech hedging bank in 1872 in Prague. This institute was the first hedge institution in the Czech Republic.

In the eighties of the nineteenth century the First Czech mutual insurance company was so strong that with its economical stability didn't shake even the biggest compensation for damage per one insured accident, which was the fire of the National theatre in 1881.

After the establishment of independent Czechoslovakia the national economy was extensively damaged after the First World War 1914 - 1918, but even that didn't prevent the establishment of new insurance companies. Except them, there were also some foreign insurance companies operating in our country.

A significant loss for insurance market in our country meant the Protectorate during Second World War. Even in 1945 there were 733 registered insurance companies and insurance associations, which is associated with the successful period before Second World War.

By presidential decree from the 24th of October 1945 insurance companies were nationalized and from the 1st of January 1947 their number was limited to five. In 1948 a single national insurance company - Czechoslovakian insurance company was created and for several decades the natural development of insurance market in our country was interrupted. From the 1st of January 1969 the Czechoslovakian insurance company was divided into two separate subjects. On the Czech national insurance company with headquarters located in Prague and on the Slovak insurance company with headquarters located in Bratislava, both locations connected with the new federal state structure.

Year 1989 was beginning of transformation from controlled economy to market economy. This was the period of dynamic changes for insurance market the.

3. Development of insurance in the Czech Republic

By amendment of act No. 185/1991 coll., About Insurance, subsequently amended, a basic legal framework and business rules in insurance sector was established. The Czech state insurance monopoly was repealed by this act and the forming a competitive home insurance companies and one year later also foreign insurance companies may begin. Diverse insurance market offering a wide range of insurance products was built gradually.

No less important and necessary step was to restore the state regulatory authority - the state insurance supervision. This authority is the Ministry of Finance, which is responsible for monitoring of compliance with defined rules and frameworks for insurance business, as well as decides on granting of permission for new establishing insurance companies. In the 1993 republic was divided into Czech and Slovak

Republic. For further monitoring of trends in insurance market in the Czech Republic is the year 1993 is selected as starting year.

3.1 Development of insurance companies

In the first half of the nineties the dominance on domestic insurance market was held by Czech insurance company, which originated from the Czech state insurance company by changing its legal form from state enterprise to stock company. As already mentioned, new insurance companies on our market were established in this period. On the 3th of December 1993 20 insurance companies operated in the Czech Republic, of which 5 were operated only in life insurance, 7 of them only life insurance and 8 offered both life and non-life insurance (universal insurance companies). Their number has changed over the period so that at the end of 2009 on the Czech insurance market there were 52 insurance companies, of which operated only 7 life insurance, 29 non-life insurance and only 16 were universal insurance companies. Until the 30th of September 2010 was added to our market one insurance company offering only life insurance.

In Tab. 1 there is shown the trend in the number of insurance companies in the Czech Republic from 1993 until the 30th of September 2010.

There isn't shown only the total number of insurance companies in the Czech Republic, which is shown in Fig. 1, but also their distribution in different types, namely in life, non-life and universal insurance. Development of insurance companies by type of insurance is shown in Fig. 2.

Tab. 1: Development of number of insurance companies in the Czech Republic since 1993

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Number of insurance companies	20	27	35	35	40	41	42	41	43
of it: Life	5	4	5	2	4	5	3	3	3
Non-life	7	10	15	14	18	19	21	20	23
Universal	8	13	15	19	18	17	18	18	17

	2002	2003	2004	2005	2006	2007	2008	2009	30.9.2010
Number of insurance companies	42	42	40	45	49	52	53	52	53
of it: Life	3	3	3	5	6	6	7	7	7
Non-life	22	23	21	23	27	29	29	29	30
Universal	17	16	16	17	16	17	17	16	16

Source: www.mfcr.cz, www.cnb.cz, www.cap.cz

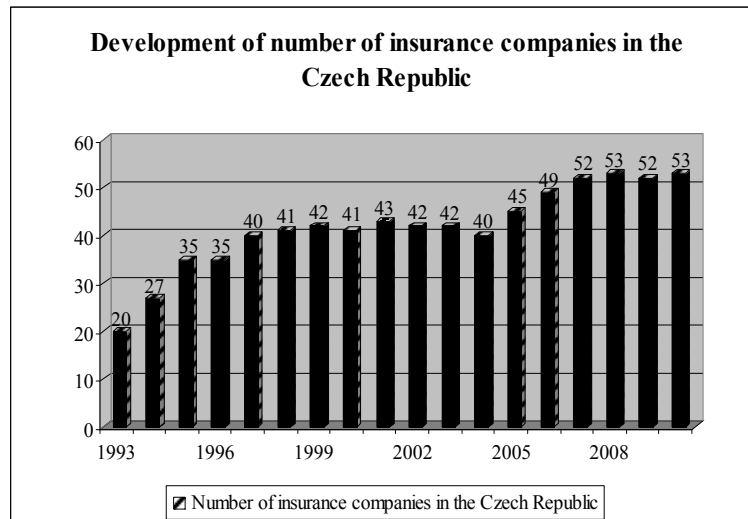


Fig. 1: Development of number of insurance companies in the Czech Republic since 1993

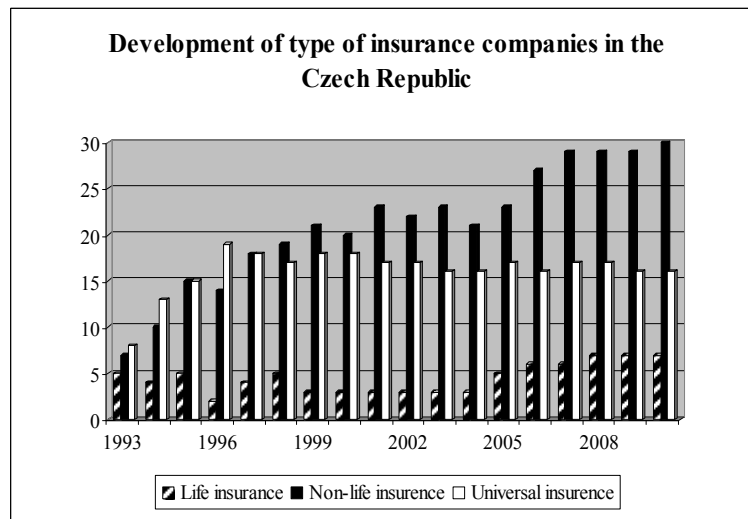


Fig. 2: Development of type of insurance companies in the Czech Republic

As shown in Tab. 1 and also in Fig. 2, during the consideration period there was only a slight increase in insurance companies providing life insurance and universal insurance but there was high increase in number of insurance companies, which provide only non-life insurance - from 7 non-life insurance companies in 1993 to 30 non-life insurance companies to 30th of September 2010.

3.2 Development of written premium

In assessing insurance market development several indicators are used, which include (for example according to Daňhel, 2002):

- the amount of written premium,
- distribution of written premium for life and non-life insurance,
- the annual growth in written premium,

- size of the written premium per one inhabitant,
- insurance rate measured by the size of written premium relative to gross domestic product.

Development of several indicators for the Czech Republic is analyzed in the next part of this article; starting from generated independent state at 1.1.1993.

The first of these indicators is development volume of written premium in the Czech Republic from 1993 to 2009, as can be seen in Tab. 2. This indicator quantifies premium volume of all insurance contracts in the year. This indicator of the volume of written premium is developed separately for life insurance and non-life insurance.

Tab. 2: Development of the volume of written premium in the Czech Republic in millions CZK

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total written premium	22 792	29 669	33 940	41 125	47 985	55 637	62 784	69 284	79 197
of it: Non-life insurance	16 915	22 222	24 598	30 188	35 293	40 548	42 991	46 514	50 915
Life insurance	5 877	7 447	9 342	10 937	12 692	15 089	19 793	22 770	28 282

Year	2002	2003	2004	2005	2006	2007	2008	2009
Total written premium	91 072	104 635	111 585	115 527	120 411	130 780	136 574	139 915
of it: Non-life insurance	56 797	63 512	67 384	70 609	73 179	76 659	80 288	80 761
Life insurance	34 275	41 123	44 201	44 917	47 232	54 121	56 285	59 154

Source: (www.mfer.cz, www.cnb.cz, www.cap.cz)

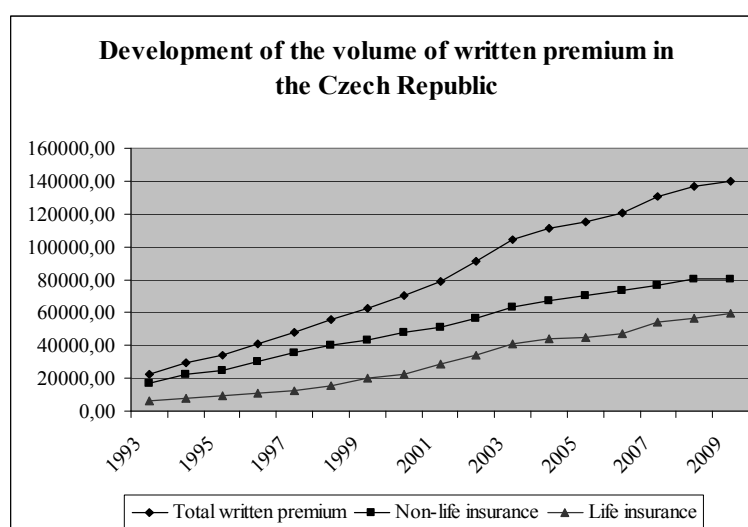


Fig. 3: Development of the volume of written premium in the Czech Republic in millions CZK

As shown in Tab. 2 and Fig. 3, in all areas of monitoring the increase of premium is visible. Total written premium increased from 1993 to 2009 more than six times, whereas it has grown five times in non-life insurance and even more than ten times in life insurance. This increase of written premium is given by general economic changes in society, from legislative changes and from development of burned of losses too. We may call this increase written premium as above-average as this is related to development of Czech insurance market. This market was artificially forced outside market environment from 1948 to 1989. After this period this is market which is able to adapt to market conditions. The increase growth in life insurance especially related with different perception of people to this class of insurance. This trend is shown in Fig. 4 too.

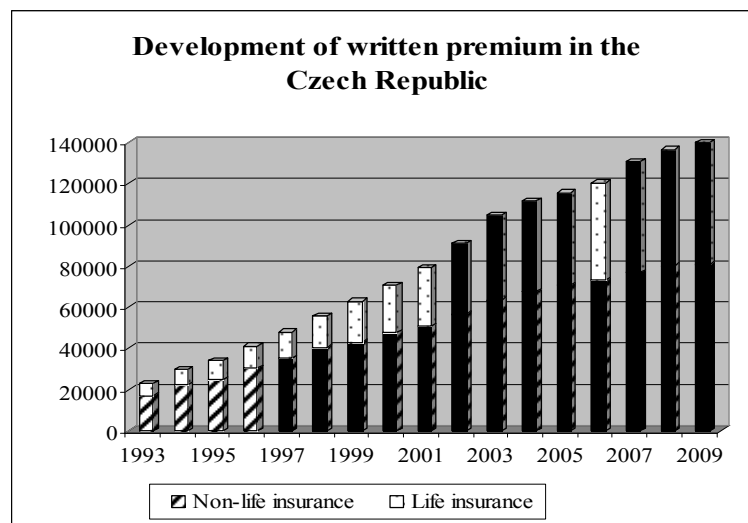


Fig. 4: Development of written premium in the Czech Republic – share of life and non-life insurance in total written premium

Development of share of life and non-life insurance to volume of written premium in the Czech Republic is shown in percents and it is shown in Fig. 5. From this figure we are able to read that the proportional share of life insurance to total written premium increased in the monitoring period. The proportional share of life insurance to total written premium was 25,78 % in 1993, but 42,28 % in 2009. This development in the Czech Republic shows that Czech insurance market precedes the same tendency as advanced world insurance markets, still our insurance market has to continue in this trend because on the advanced world insurance market the proportional share of life insurance to total written premium is more than 50 %. Thanks to the economic and legislative changes and other factors, as for example increased demand for life insurance for coverage of diverse risk, Czech insurance market proceeds in the right direction.

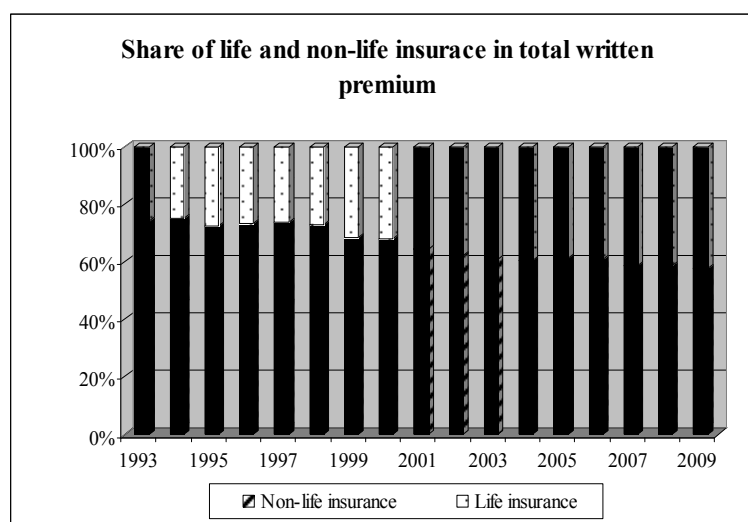


Fig. 5: Share of life and non-life insurance in total written premium (in %)

We can observe next developmental trend on insurance market by based on development of real annual increase of written premium. The values we can see in Tab. 3 and these are shown in Fig. 6.

Tab. 3: Development of real annual increase of written premium in period 1993 – 2009 (in %)

	Real annual increase of written premium in % in years							
	94/93	95/94	96/95	97/96	98/97	99/98	00/99	01/00
Total written premium	+30,17	+14,40	+21,17	+16,68	+15,95	+12,85	+12,43	+12,19
Non-life	+31,37	+10,69	+22,73	+16,91	+14,89	+6,02	+11,23	+6,47
Life	+26,71	+25,45	+17,07	+16,05	+18,89	+31,18	+15,04	+24,21

	Real annual increase of written premium in % in years							
	02/01	03/02	04/03	05/04	06/05	07/06	08/07	09/08
Total written premium	+14,99	+14,89	+6,64	+3,53	+4,23	+8,61	+4,43	+2,45
Non-life	+11,55	+11,82	+6,10	+4,79	+3,64	+4,76	+4,73	+0,59
Life	+21,19	+19,98	+7,48	+1,62	+5,15	+14,59	+4,00	+5,10

Source: (own calculations)

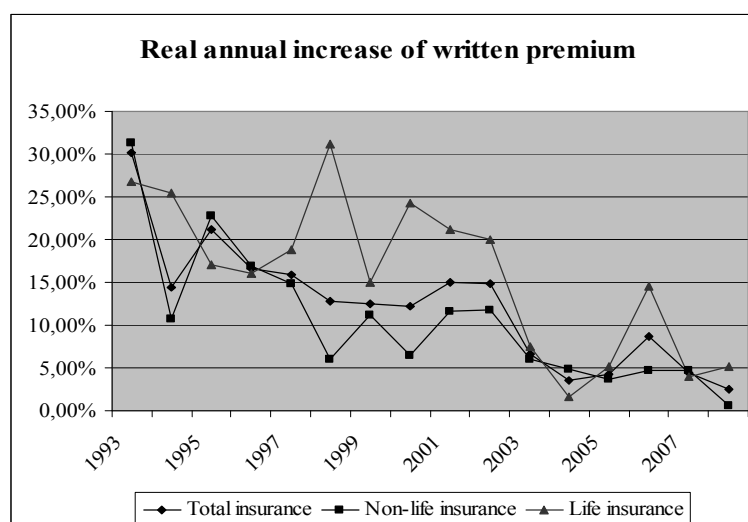


Fig. 6: Real annual increase of written premium in period 1993 – 2009 (in %)

How is shown in Tab. 3 and in Fig. 6, we can see only increase of written premium in life and non-life insurance, but not decrease, in all period. This development was influenced by economic development in Czech Republic. The economic development is the most important indicator affecting Czech insurance market.

The next indicator for monitoring all insurance is the volume of written premium per capita. The values of this indicator are shown in Tab. 4 and displayed in Fig. 7.

Tab. 4: The volume of written premium per capita in CZK

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total written premium per capita	289,02	286,49	319,31	325,52	350,92	378,26	475,85	520,05	600,88
Non-life written premium per capita	1637,37	2149,93	2381,04	2926,51	3425,29	3938,63	4180,87	4655,05	4979,86
Life written premium per capita	568,89	720,48	904,29	1060,26	1231,80	1465,67	1924,87	2216,60	2766,18

	2002	2003	2004	2005	2006	2007	2008	2009
Total written premium per capita	694,71	796,66	783,59	750,78	730,68	762,72	759,84	812,06
Non-life written premium per capita	5567,91	6225,66	6601,79	6899,39	7127,84	7426,26	7698,02	7697,76
Life written premium per capita	3360,04	4031,01	4330,49	4388,96	4600,53	5242,92	5396,61	5638,28

Source: (own calculations)

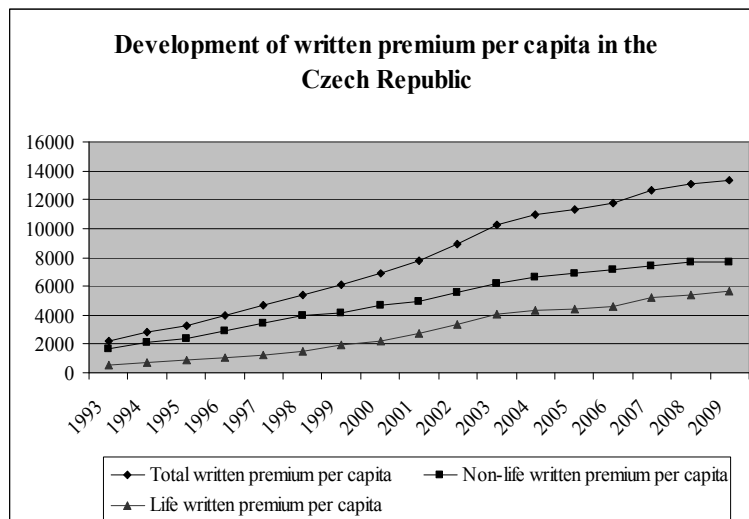


Fig. 7: Development of written premium per capita in the Czech Republic in CZK

As clearly visible from given and displayed data, during monitoring period we can see only fractional increase of total written premium per capita. On the other side, if we evaluate development insurance per capita, it is evident, that development of non-life and life insurance is increasing by the same rate. If we focus on the development of share of life and non-life insurance per capita, it is apparent that in this period the share of life insurance was increased, as shown in Fig. 8. For comparison purposes, in 1993th share of life insurance was 25,78 % compared to 42,27 % in 2009.

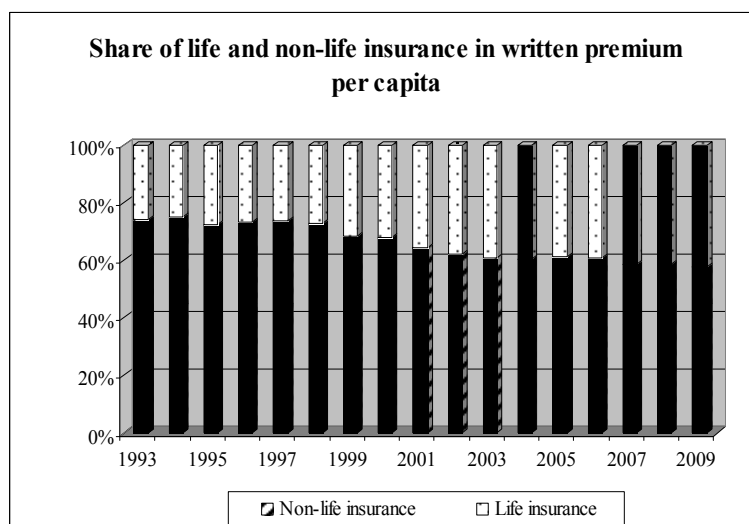


Fig. 8: Share of life and non-life insurance in written premium per capita (in %)

Last indicator in this article is volume of written premium per GDP. The values of this indicator are in the Tab. 5 and shown in Fig. 9.

Tab. 5: Volume of written premium per GDP in the Czech Republic (in %) in period 1993 – 2009

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total written premium per GDP	2,23	2,28	2,31	2,44	2,65	2,79	3,02	3,22	3,37
Non-life written premium per GDP	1,66	1,70	1,68	1,79	1,95	2,03	2,07	2,18	2,16
Life written premium per GDP	0,58	0,57	0,64	0,65	0,70	0,76	0,95	1,04	1,20

	2002	2003	2004	2005	2006	2007	2008	2009
Total written premium per GDP	3,70	4,06	3,96	3,87	3,74	3,70	3,70	3,86
Non-life written premium per GDP	2,30	2,46	2,39	2,37	2,27	2,17	2,18	2,23
Life written premium per GDP	1,39	1,60	1,57	1,51	1,47	1,53	1,53	1,63

Source: (own calculations)

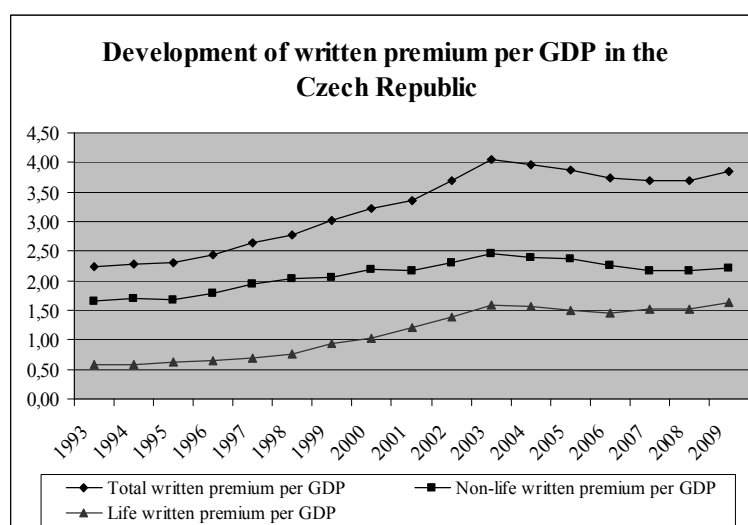


Fig. 9: Development of written premium per GDP in the Czech Republic (in %) in period 1993 - 2009

For the last of development indicators - the written premium per GDP by percentage – is visible increase with total insurance and with life and non-life insurance too. This increase is nearly one percentage by non-life insurance, but it is more than one percentage by life insurance. It is shown in Fig. 10. There is evident increase share of life insurance.

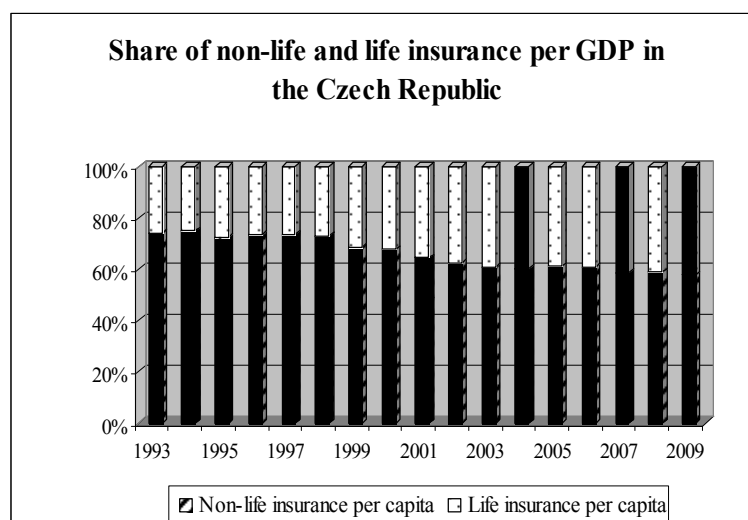


Fig. 10: Share of non-life and life insurance per GDP in the Czech Republic in period 1993 - 2009

4. Conclusion

Czech insurance market, after a pause from 1948 to 1989, is now in the period of intensive development. The global indicators of insurance are given in this article. These indicators express and display development of the Czech insurance market in period 1993 – 2009. By these indicators is shown there's increase trend. We can see, that at first the market environment has asserted itself in the insurance market. It is evident by increasing number of insurance companies with domestic and foreign offices. This competitive environment helped increase of numbers featured products on the market, which demand was significantly reduced before 1989.

Political changes in 1989 also brought big economic and legislative changes. It resulted in an above-average increase in written premium in this period (as one example). Total written premium increased from 1993 to 2009 more than six times, whereas it has grown five times in non-life insurance and even more than ten times in life insurance in monitoring period. These changes are related with the talking reasons but with other too, for example with people changes to insurance to themselves or there's a property. Development of life insurance is greater than non-life insurance.

During the period there were many natural disasters in the Czech Republic, especially floods, storms and hurricanes. The largest of them were floods in 1997, 2002, 2006, 2009 a 2010. The largest of storms was in 2007 and in 2008.

These natural disasters have brought great damage and loss of property and health too and some casualties too. The increases of written premium followed these disasters as for life insurance and for non-life insurance too. Thanks to good strategy and stability of almost insurance companies was not so much at risk. But some example of a defunct insurance company exists. It was insurance company Morava. This company finished after great floods in Moravian region in 1997. It was isolated incident. We can say that Czech insurance companies have a good basis and are safe. Natural disasters did not a major impact on Czech insurance market.

Development of all Czech insurance market is increase trend. The increase of written premium is higher than average due to Europe countries since 1989. This trend is confirmed by all global considered indicators of written premium. If the trend will continue, the Czech insurance market will be approaching the developed European countries.

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Contact Address

Mgr. Pavla Jindrová

University of Pardubice, Faculty of Economics and Administration, Institute of Mathematics

Studentská 84, 532 10 Pardubice, Czech Republic

E-mail: Pavla.Jindrova@upce.cz

Phone number: +420466036018