The Evolution of the Insurance Sector in Central and Eastern Europe and the former Soviet Union

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Abstract

This paper provides a detailed profile of the development of the insurance industry between 1989-98 in the countries of Central and Eastern Europe (CEE) and the New Independent States (NIS) of the former Soviet Union. In doing so, the author utilizes various sources of data to describe the nature of the insurance market in the region. On an individual host country basis, attention is given to data on premium income with respect to both life and non-life coverage, an analysis of average annual growth rates, as well as insurance density and penetration rates by type of coverage. The paper also addresses a number of issues pertaining to the competitive environment, including the legal conditions for insurance operators, a profile of the key players, and the role of foreign insurers operating within the region. The paper concludes by identifying the three main trends of the insurance industry in the region, the associated policy implications of each, as well as the need for future research.

1. Introduction

In 1989 a wave of revolutionary change swept across the countries of *Central and Eastern Europe (CEE)*[1], fuelled by the economic failings of the communist system. This discontent lead to the downfall of Communist based regimes across the region. The repercussions eventually carried over to the Soviet Union, causing the demise of its own communist system. By the end of 1991, the Soviet Union had officially ceased to exist and the former Soviet republics became known as the *New Independent States (NIS)*[2].

In the wake of these dramatic events the countries of CEE and the NIS have sought to transform their political, social, and economic structures. In doing so, they have each taken their own path along the long road of transition, with each achieving different levels of progress in the process of transformation. However, it has become quite evident over the last decade that the transition from a command style economy to a market oriented structure is an arduous task that requires considerable time and resources. Moreover, it is also clear that the determination and resolution of the local population and their leaders are essential ingredients in the formula.

Given the significance of the situation, and as one would expect, a great deal of attention has been directed at the nature and scope of the transformation process, especially in regard to its economic elements. In fact, there has been an abundance of literature on the subject from both practitioners and academics alike. One key area of discussion has been on the development of the financial services sector in these transition economies. Thus far a great deal of attention has been given to the transformation of the banking industry, and to a somewhat lesser degree on the development of local capital markets. In contrast, scant attention has yet to be paid to the third cornerstone of the financial services sector, namely insurance.

Yet, this low level of interest in the insurance industry might well stem from its very nature. From the outsiders' perspective, the insurance sector is often far from glamorous. After all, some individuals find it difficult to get excited about an industry that uses terms like 'mortality rates'. Nevertheless, the fundamental role of insurance in the development of a dynamic economy should not be underestimated.

In general terms, insurance provides consumers, both individuals and businesses, with the opportunity to hedge against potential as well as inevitable, in the case of some forms of life

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[1]The term *Central and Eastern Europe (CEE)* refers to the following countries: Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, and the former Yugoslavia (Bosnia-Herzegovina, Croatia, FYR Macedonia, Slovenia, and Yugoslavia [Serbia & Montenegro]).

[2]The term *New Independent States (NIS)* refers to the following countries: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. These same countries comprised the republics of the *former Soviet Union (FSU)*.

cover, risks in exchange for a specified *premium*[3]. Thereby, insurers are able to provide customers with varying degrees of security against a vast array of potentially detrimental situations. This in turn not only benefits the individual and business consumer but is also beneficial to host countries as well as the global economy as a whole.

It is important to recognize the sheer magnitude of the industry. During 1998 the world insurance business generated premiums valued at just under $2.2 trillion, of which North America accounted for 36%, Europe 33%, Asia 27%, and the rest of the world the remaining 4%.[4] Given the nature of insurance, a great deal of this premium income is reinvested within local and international capital markets making insurers significant institutional investors in the world economy.

In light of these points, the purpose of this paper is to provide an overview of the development of the insurance industry in the countries of CEE and the NIS since the transition began.[5] In doing so, this paper seeks to redress the shortage of available research on the subject. It should be noted that this paper is the first step in what is intended to be a comprehensive longitudinal study of the evolution of the insurance sector in these transition economies that will provide in-depth coverage of individual host country markets.

This paper is organized as follows. In Section II, the author provides an overview of the relevant literature. Next, a brief history of the insurance sector under Communism is outlined in Section III. Utilizing various sources of data, Section IV describes the evolution of the insurance market in CEE and the NIS between 1989-98. In this section attention is given to data on insurance premiums with respect to both life and non-life coverage, an analysis of average annual growth rates, as well as insurance density and penetration rates by type of coverage. Section V addresses a number of relevant issues pertaining to the competitive environment, including the legal conditions for insurance operators, a profile of the key players, and the role of foreign insurers. Finally, in Section VI, some conclusions are drawn along with the scope for future research.

2. An Overview of the Literature

As mentioned above, the literature addressing the development of the insurance sector in these transition economies since the events of 1989 has been rather limited. Indeed, much of the available literature on this subject has originated from practitioner sources, notably from major

[3]The term *Premium,* or premium income, can be defined as the consideration paid to an insurer in return for insurance cover provided by the insurer.

[4]See Codoni, C. (1999) *World insurance in 1998: Deregulation, overcapacity and financial crises curb premium growth*, pp. 22-23.

[5]Please note that some host countries have been excluded from this present study due to a lack of available data. Those countries excluded include Armenia, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

Western European reinsurers like Swiss Re, while the academic community has seemingly paid scant attention to this important pillar of financial services. Accordingly, it is appropriate to examine some of the key literature, which is presented chronologically in order to aid the reader in their understanding of how the insurance sector has evolved since the onset of the transition process.

One of the first papers to shed light on the subject was from Frinquelli *et. al.* (1991), which was written from the investment banking perspective[6]. The focus of this paper was on presenting an overview of the insurance market in CEE and the then Soviet Union at the outset of the transition period. As such, the authors utilized the limited information available at the time to examine the nature of the insurance system in the region in relation to its size, structure, product types available, modes of distribution, and overall performance. A key focus of the report was on the role of Western insurers already operating in these transition economies as well as the potential for other operators to enter these new markets. Frinquelli *et. al.* concluded that the Soviet Union represented the greatest growth potential within the region, although it was conceded that political instability was delaying much needed economic reform with little hope of improvement in the near future. The market potential was also viewed positively in the then Czechoslovakia and East Germany (GDR), as well as Poland. The authors were more pessimistic about opportunities in Romania and Yugoslavia due to a lack of concerted reform efforts in these countries.

Baur and Enz (1994), as part of the ongoing research efforts of the Swiss Re group in this area, identified a significant decrease in premium volume in most of CEE and the NIS between 1988-92. It was suggested that this decrease was the result of a number of factors: a fall in the local standard of living; high rates of inflation; unclear conditions of ownership and the varied pace of the privatization process; and the abolition of various compulsory types of insurance. However, despite these conditions, Baur and Enz concluded that future prospects in the insurance market for most of CEE, and to a much lesser extent in the NIS, were favorable. Baur and Hess (1995) advanced this same supposition further using data from the 1993-94 period. Yet, Baur and Hess conceded that while growth rates in premium income had increased on average by 8% over the previous period against the worldwide average of just 6%, the insurance markets of CEE and the NIS were still extremely underdeveloped representing less than 1% of the world market.

Hess and Leuenberger (1996) identified Russia, Poland, Czech Republic, and Hungary as the most important markets within the region. It was noted that these four host countries constituted almost three-quarters of total premium volume for the region. Yet, a word of caution is warranted in that one of the key problems in making such statements has been the issue of comparability of data. This is especially the case given that a number of countries of CEE and the NIS have experienced periods of high inflation, and in some instances hyperinflation, as a result of the nature of the process of transition. Hence, it is essential that one not only look at premiums in US

[6] The paper by Frinquelli *et. al.* was written on behalf of the American investment bank Salomon Brothers.

dollar terms, but also use other factors such as volumes in local currencies; average annual growth rates; as well as both density and penetration rates.

Meyer *et. al.* (1998), in one of the most comprehensive studies by Swiss Re to date in this area, employed data from the 1996-97 period to examine the insurance market in CEE and some of the NIS. Meyer *et. al.* found that while the former state monopolies continued to see their market shares erode as a result of increased competition from both local and foreign firms, they have been able to retain their dominant position within the local market. Evidence was also provided that in those host countries where foreign insurers were permitted to operate, these entities have been able to secure significant shares of the local market. This was noted to be the case in both Hungary and Latvia. To a lesser extent this was also the situation in the Czech Republic, Slovakia, and Estonia. It was also shown that non-life insurance continued to be of greater importance than life cover. The former being driven by strong activity in motor insurance, as it is in Western Europe. Moreover, life insurance was increasingly seen to be a good form of investment, especially in those countries of CEE where a certain degree of economic stability was more prevalent. It was also presumed that the life insurance business would benefit greatly from pending reforms in State pension systems.

More recently, Baur *et. al.* (2000), again on behalf of Swiss Re, examined the impact of globalization on the insurance industry in emerging markets. In the context of some select member countries of CEE and the NIS, the authors addressed the evolution of the competitive environment as well as the role of foreign insurers and market entry strategies employed. In concluding, Baur *et. al.* suggested that there were a number of pros and cons associated with the process of liberalization in such emerging markets. In terms of the perceived benefits, it was presumed that the opening up of the local insurance market could assist in the creation of more efficient and productive domestic capital markets and that foreign insurers had a fundamental role to play within this process. On the negative side of the equation it was suggested that there were local fears, possibly exacerbated by nationalism, that an over-reliance on foreign insurers could be detrimental to a number of customer segments, indigenous insurers, and the financial integrity of the host country itself.

Before concluding this literature review it is worth noting several other important sources of data on the insurance sector in CEE and the NIS, such as the *AXCO Insurance Market Report* series; the *Eastern European Insurance* newsletter[7]; and various materials produced by host country sources (local insurers' associations and/or government supervisory authorities). These sources, especially the latter, have proved invaluable in the creation of this paper. However, before continuing further it is necessary to address the nature of insurance in the region under communism.

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[7]This newsletter was previously called the *East European Insurance Report (EEIR)*.

3. Insurance À La Communism

In order to appreciate the nature of the insurance industry in the countries of CEE and the NIS that exist today one must examine and understand how it functioned previously under the communist system.

Following the adoption of the *Stalinist* economic model across the Soviet Union[8] during the 1920s, the State took control of all aspects of the economy. In CEE, the communist authorities enacted this program of nationalization during the late 1940s. Consequently, in the field of insurance the State became the sole provider and thus exerted a monopoly over the market.

[8]The exceptions to this were the three Baltic States (Estonia, Latvia, and Lithuania) and Moldova, which had their own insurance systems nationalized following their annexation by the Soviet Union in the 1940s.

In some instances the State operated a two-tier insurance system, one through a *State-owned enterprise (SOE)* that was responsible for handling all domestic insurance and another SOE which dealt with all forms of insurance that required an element of foreign (hard) currency due to the international nature of the coverage. For example, in the case of the former Soviet Union, *Gosstrakh (State Insurance)* was founded in 1921 to handle all domestic and international insurance business on behalf of the State. However, in 1947 responsibility for international business was transferred to the newly created SOE called *Ingosstrakh (International State Insurance)*. In 1958, the State further refined the role of Gosstrakh by dividing the firm into separate operating units for each of the 15 Republics, although Gosstrakh retained central control of these via the Ministry of Finance.

A number of countries in CEE had also established similar two-tier systems, although some at a much later date than in the Soviet Union. For instance, in a fairly liberal yet communist Hungary, the State insurer was *Állami Biztosító (ÁB)(State Insurance)*, which had acted as the sole provider of both domestic and international insurance in the country since taking over these duties from the Ministry of Finance in 1954. In 1986, as part of further reform measures, the State enacted legislation that partially liberalized the country's insurance industry by removing ÁB's monopoly with the formation of a second State-owned insurer, *Hungária Biztosító (Hungarian Insurance)*. Government legislation specified that ÁB retain the bulk of the life insurance policies while Hungária took over the portfolios of foreign trade insurance, motor liability, and reinsurance accounts. Hence, these two State providers exercised duopoly control over the Hungarian insurance market.[9]

The situation in the former Yugoslavia is also worthy of note due to the complex manner in which its own insurance system evolved. In Yugoslavia the State insurer was *DOZ (State Insurance Establishment)*, established during the 1940s to transact all domestic and international insurance business. In the early 1960s DOZ’s monopoly position was abolished and replaced by 128 communal insurance establishments spread throughout the country. Poor performance and national interests led to the restructuring of the system during 1968 into 11 insurance and reinsurance firms based in each of the respective republics. This created two amalgamated insurer/re-insurers, two sole re-insurers, and seven sole insurers.[10]

In regard to international coverage, in CEE and the Soviet Union the State provider offered insurance for foreign based construction projects, export credits, State property located on foreign territory, as well as marine and aviation cover. Furthermore, given the nature of these types of insurance and the associated risks involved they were placed on the international

[9]For further details of the evolution of the Hungarian insurance market see Pye, R. B. K. (1999) *Az Oroszlán visszatért Budapestre: A Generali csoport Magyarországon (A-D)*, pp. 59-92.

[10]For further details on the evolution of the Yugoslav insurance market see Rajičić, B. (1997) *Property and Personal Insurance*, pp. 75-90.

reinsurance markets, often via internationally known insurance brokers such as Lloyd's of London.

As for domestic insurance, the State provider offered customers both life and non-life products. Life insurance policies were widely available to citizens, usually through arrangements made between the State provider and the respective SOE for which the individual was employed. Under this system appropriate premium payments were simply deducted directly from the wages of those employees participating in the scheme. However, it should be noted that such policies were often very simplistic in nature and of limited value and utility.

Generally non-life policies focused on motor, household, as well as numerous compulsory types of insurance. Non-life policies were paid for in the same manner as life policies and they too were quite basic and of limited and restricted scope, especially given the reality of a continuous shortage economy experienced during the 1970-80s. In the case of motor insurance, which was a compulsory line, it tended to concentrate on the aspect of liability for many of the same reasons cited above. Most other types of non-life coverage were seen as non-essential under the communist system since the State guaranteed the basic needs of the citizenry in terms of healthcare, education, employment, and pensions.

In addition, compulsory insurance, such as third party motor and agriculture related policies, had a very unique character. Although a number of forms of compulsory insurance are common in Western countries, in the People's Democracies of CEE and the Soviet Union these types of insurance were widely viewed by the general public as another form of taxation and subsequently resented. This was despite the fact that such policies, especially agricultural ones, generated heavy losses for the State provider.

It should be noted that compulsory insurance functioned in a way that was very different from what would be expected by Western insurers. In the Western model, compulsory insurance imposes an obligation on the individual to purchase a policy and make his/her premium payments. Yet, this and other insurance concepts were interpreted quite differently in the countries of CEE and the Soviet Union. There the obligation to sell the policy and obtain the respective premium was on the agent of the State insurer and his/her failure to collect it did not relieve the State of its responsibility to cover any losses that might arise. In the event of such a claim, the State would merely deduct the prescribed premium payment from the amount of the claim settlement.

Finally, given the ownership structure of the SOE there was little need for commercial insurance coverage since the State replaced any losses incurred directly. The sole exception to this was commercial activities related to international operations, which were covered by the respective State provider for such services.

Overall, the domestic insurance system was controlled by the State provider, which established premiums at almost arbitrary levels for each of the few products it offered and for which the State was the sole underwriter. Therefore, the premiums charged bore very little correlation, if any at all, to the actual risks involved given the nature of the coverage. Premium payments were used to offset both losses incurred via claims during the year and the operating expenses of the provider. Subsequently, surpluses from operations were absorbed by the State and deficits were guaranteed by it. In the situation of non-life products there was little or no attempt to estimate or provide for future liabilities that had not materialized during the course of the year.

4. The Insurance Market in CEE and the NIS

4.1 The Market in Transition: Post 1989/91

At the outset of the transition process hopes were high that some of the countries of CEE would be able to transform their systems to a Western standard within a relatively short period of time. In fact, some over optimistic pundits were predicting that certain countries would be able to catch-up to economic levels of the West within a decade. However, such wild expectations soon faded as the nature and scope of the immense undertaking of economic, political, and social transition became more evident. This was especially the predicament as the Soviet Union disintegrated as a single body with the creation of the NIS.

While not within the scope of this paper, it is worth noting some key aspects of the transition as they pertain to the economic dimension of the process.[11] Shortly after the reforms began, economic conditions within the countries of CEE and the NIS deteriorated fairly rapidly. More specifically, there was a sharp decline in industrial production; high rates of inflation, and in some cases even hyperinflation; new market exchange rates replaced State controlled ones; and a drastic decline in *gross domestic product (GDP)*. Yet, with the benefit of hindsight this scenario was probably inevitable following the collapse of the traditional CMEA[12] trading zone as well as the sudden demise of central planning, both of which formed the foundation on which the command economy structure had been built.

4.2 The Size and Potential of the Market

[11]The paper by Wyplosz (2000) provides a fairly good overview of the transition process in CEE and the NIS.

[12]The term *CMEA* stands for *The Council for Mutual Economic Assistance*, or COMECON as it was more often referred to in the West. Stalin first established the CMEA in 1949 as a regional trading bloc dominated by the Soviet Union. The CMEA was comprised of the following members: Albania (which left the CMEA in 1961 over growing tensions with the Soviet Union), Bulgaria, Cuba, Czechoslovakia, German Democratic Republic (East Germany), Hungary, Mongolia, Poland, Romania, Vietnam, and the Soviet Union. At the start of 1991, with the dissolution of the Soviet Union, the CMEA was effectively abolished.

The insurance industry was also badly affected by these adverse conditions. In fact, as reform efforts got underway in CEE (1989-92) and the NIS (1991-93) there was a sharp decline in the level of both insurance premiums and volume. Pohl (2000), of Munich Re, postulated that during this period premium income in most of CEE contracted by as much as 45% while Balkan member countries of that grouping and Russia experienced more than a 70% reduction. Pohl also contends that during the same period only Poland and Slovenia were able to show a positive increase in premium income, which he contributed to an initially low base level as well as strong growth in the life insurance sector.[13]

[13]See Pohl, K. (2000) *Changing Insurance Products for the Changing Markets – Aligning Insurance Products with Economic Growth*, pp. 3.

However, as previously noted, such estimates should be treated with a degree of caution given three main concerns: data availability, reliability, and comparability. The former two concerns are especially relevant to the early stages of the transition process while the third one is crucial to conducting any meaningful type of analysis. Given this situation, it is essential that each of these three concerns be addressed in any review of data on the insurance industry in CEE and the NIS.

4.2.1 Data Availability

Exhibit 1 provides a review of the data available on premium income in local currencies for the host countries of CEE and the NIS between 1989-98. In terms of data availability, at first glance it is quite apparent that there are a number of gaps in the information provided for specific host countries which coincide with the early phase of the transition process (1989-93). Yet, this should not be surprising given the magnitude of changes to the system that resulted in a significant breakdown in reporting structures. This problem was most acute in respect to the dissolution of the former Soviet Union into the NIS. Hence, the NIS found themselves not only responsible for their own economies, some for the first time ever, but also had to develop internal structures to ensure their proper governance.

4.2.2 Data Reliability

As to the second concern, that of data reliability, it has often been stated that data accuracy in CEE and the then Soviet Union suffered as a result of the nature of the command style economy as practiced under the communist system. In many instances the fabrication of data became fairly common practice as individuals sought to placate the power structure by satisfying the objectives set out in the State's plan, which were often based on optimistic best case scenarios. After the switch to a market economy this practice was partially continued, although by the use of underestimating, as a means of alleviating tax burdens.

Another factor affecting data reliability was that the State insurance provider(s) operated as a direct extension of the Ministry of Finance. As previously noted, in this unique relationship the State covered any losses as well as absorbing all profits on an annual basis. Thus, insurance under the communist system was more a matter of rationalized bookkeeping than a risk assessment exercise as it is in the West. As such, there is a distinct possibility that data was subjected to some degree of manipulation as well as suffering from a general lack of proper attention given the low level of importance attached to it.

While the issue of data reliability mainly pertains to data reported during the Communist era and the initial years of the transition period, it must be remembered that old ways often die-hard. This might especially be the plight of those host countries that have yet to make significant progress along the road to transition and in which there is still a high degree of centralized authority.

4.2.3 Data Comparability

Despite such shortcomings, the data presented in **Exhibit 1** does provide us with some interesting insights into how the insurance sector in CEE and the NIS has developed since the onset of the transition process. For example, if we take CEE as a case in point, it is apparent that the insurance industry in these countries experienced some significant adjustments between 1991-92, which corresponds to the early phase of the process of transformation. These adjustments resulted in a contraction of premium income for both the Czech Republic and Slovakia in 1991 and for Hungary in 1992. Alternatively, it would appear that Poland, Romania, and Slovenia each experienced a positive rate of growth in premium income from the outset of the transition. If this assumption were correct then it would tend to partially support Pohl's (2000) earlier point with regard to positive growth rates achieved in both Poland and Slovenia during the early phase of the transition period.

This brings us to the third point of concern, that of data comparability. In order to get a complete and accurate picture of the evolution of the insurance industry in CEE and the NIS it is necessary to examine a number of factors. These include the use of a common denominator to evaluate premium income across host countries; a breakdown of premiums by insurance types; an analysis of average annual growth rates; and insurance density and penetration rates. Therefore, it is expedient to discuss each in order.

a. Use of a Common Denominator

While premium income in local currency provides us with a picture, it is far from a complete one. **Exhibit 2** provides a basis for comparison of premium income in CEE and the NIS between 1989-98 using a common currency denominator, namely US Dollars.

In discussing this data it is appropriate to re-examine examples cited earlier of continuous positive growth rates in Poland, Romania, and Slovenia during the early phase of the transition process. In Poland this does indeed appear to be the case. In fact, Poland has not only posted a positive annual growth rate in premium income during the early stage of the transition process (1989-93) but has also managed to do so for the entire period studied (1989-98). Yet, an examination of both Slovenia and Romania tells a different story. In Slovenia, the level of premium income amounted to $417.4 million (SIT 11.5 billion) during 1991. This level of premiums marginally contracted (by 3%) in 1992, before expanding again to $418.9 million (SIT 47.4 billion) in 1993. This would seem to refute Pohl's statement about Slovenia achieving a continuous positive annual growth rate in premium income during the early phase of the transition. In Romania, the situation was far more serious whereby extremely adverse economic conditions and the drastic devaluation of its currency, the Lei, resulted in a dramatic decrease in premium income in dollar terms. To be more specific, in 1989 premium income in Romania was $496 million (ROLei 7.4 billion) but as local conditions worsened the level of premium income steadily eroded through to 1993 when it reached an annual low of $60.4 million (ROLei 45.9 billion), representing an 88% contraction over the period.

On the basis of these three host country cases, the benefits associated with using a common denominator become quite evident in providing a clearer picture of how the insurance industry in CEE and the NIS has developed since the process of transformation started. However, even this still provides us with only part of the overall picture, as it is necessary to employ other means to examine the data. One such method is to analyze the data on the basis of its composition between life and non-life sectors.

b. Breakdown of Insurance Activity by Type

The data presented in **Exhibit 2** also provides us with a breakdown of premium income for 1989-98 by life and non-life insurance. A review of this data reveals the sheer dominance of the non-life sector. However, it is proper to conduct an analysis of this situation in two stages. First, by examining the development of the insurance industry during the first five years of the transition process (1989-93) when the most significant host country adjustments occurred. Secondly, reviewing the data as a complete series (1989-98) so as to appreciate how the insurance industry has evolved over the ten year period studied as well as its future direction.

In the case of CEE, an examination of the available host country data between 1989-93, the early phase of the transition process, shows that non-life insurance averaged 85.3% of total premium income generated with life accounting for the remaining 14.7%. Even excluding both Albania, which didn't start offering life cover until as late as 1996, and Yugoslavia (Serbia & Montenegro), for which period data is not available, the averages for non-life and life insurance in CEE were still only slightly higher at 83.7% and 16.3% respectively.

It should be noted that motor insurance, primarily *motor third party liability (MTPL)*, has been a key source of premium income within the non-life branch. This has been a direct result of increased car ownership within the region and the corresponding need for such cover, which has remained compulsory in nature. Yet, the compulsory nature of MTPL has also created a situation whereby host country governments have established premium rates of coverage, which in the opinion of the many local insurers' have been set at artificially low levels that do not reflect economic reality of the operating environment.

As for the life sector, while the level of premiums generated for these products have been relatively low this branch of insurance has been growing steadily over the years, especially when you take into account its virtual non-existence under the former communist system. On the basis of average life insurance as percentage of total premium income for the 1989-93 period, the countries of CEE can be subdivided into three host country groupings. These groupings include a top level of host countries with average activity in the life sector greater than or equal to 21%, a middle band ranging from 11-20%, and a bottom grouping with activity equal to or less than

10%. Forming the top band of life activity are the Czech Republic (31.7%), Slovakia (27%), and Romania (23.4%). The second tier is comprised of Poland (18.7%), Hungary (16.6%), and Bulgaria (14.9%). The final grouping representing very low activity in the life sector includes Slovenia (8.3%), Croatia (3.4%), and FYR Macedonia (3.1%). Although is should be noted that life activity in the latter two host countries is based on limited data and relatively low amounts of activity in dollar terms.

For a picture of the non-life sector during the same period, all that is required is some simple math skills that lead to a reversal of the rank order of the three host country groupings. Thus, the clear dominance of the non-life sector over life becomes quite apparent in host countries such as FYR Macedonia (96.9%), Croatia (96.6%), and Slovenia (91.7%). Once again, these high levels of non-life insurance primarily stem from heavy activity in motor insurance.

In order to examine the continuity of the trend, it is reasonable that we view the data of the earlier period, 1989-93, in conjunction with the data from the second five-year period, that of 1994-98. On this basis it becomes clear that the trend for the non-life sector to dominate the life sector remains relatively the same for the CEE group of countries, with life averaging just 17.6% of total premium income and non-life 82.4% between 1989-98.

In reviewing life insurance as an average of total premium income for the entire 1989-98 period studied, it is interesting to note some changes to the composition of the three host country groupings, some of which are fairly pronounced. Both the Czech Republic (28.9%) and Slovakia (28.7%) retain their positions within the top tier of host countries in CEE with premium income for life insurance greater than or equal to 21%. Increased life activity in both Hungary (29.4%) and Poland (24.9%) means they also join this top grouping. Bulgaria (19.7%) moves to the top edge of the second tier grouping of life activity in the range of 11-20%. Also joining this second grouping are both Romania (13.9%), which drops one level down, and Slovenia (13.2%), which with increased life business moves up from the third tier. Showing some modest improvements in the life sector but still remaining in the bottom tier of activity, with life averaging equal to or less than 10% of total premiums, are Croatia (7.8%) and FYR Macedonia (7.6%). Also entering this bottom grouping are Albania (1.7%), Bosnia-Herzegovina (0.8%)[14], and Yugoslavia (Serbia & Montenegro)(0.6%). Yet, it should be clarified that in the last two countries cited the almost non-existent activity in the life sector is directly associated with the severe economic conditions that have been ongoing since the dissolution of the former Yugoslavia.

An examination of insurance data for the NIS between 1989-98 shows a perpetuation of the trend whereby the volume of premium income for non-life cover prevails over life, although it is not as pronounced as in the case of CEE. For instance, the life sector seems to be fairing well in Latvia (23%) and more so in Lithuania (34.6%). In fact, Lithuania had the highest average for life insurance as a percentage of total premiums during the 1989-98 period studied, not only in the NIS but also in comparison to the countries of CEE. Although, it should be pointed out that during this period the average annual value of life business in Lithuania was extremely low in dollar terms at just $12.9 million. The average annual rate in neighboring Latvia was slightly higher at $13.8 million and Estonia had the lowest dollar value of the three Baltic States with an average annual of just $6.3 million.

[14]Please note that the data on premium income for Bosnia-Herzegovina is based solely on that reported for the Federation of Bosnia and Herzegovina and does not take into account insurance activity in the Republic of Srpska for which data was unavailable.

As for the Eastern European grouping of Belarus, Ukraine, Moldova, and the Russian Federation, between 1989-98 period the average annual for life insurance was 24.8% and non-life cover amounting to 75.2%. At first glance it would seem that the life insurance sector is fairly buoyant in some of these countries, especially in Russia and Moldova. However, in the case of Russia the data on life insurance activity is rather misleading, as it has been estimated that as much as 99% of activity in life insurance stems from various tax avoidance schemes.[15] As for the situation in Moldova, one must bear in mind the severe economic conditions in that country that has greatly reduced the real value of life policies and subsequently led to an upsurge in policy surrenders. Moreover, the Moldovan insurance market is extremely small in terms of total premium income and therefore more comparable with the insurance markets of Albania, Belarus, Estonia, and Yugoslavia (Serbia & Montenegro).

To put this all into proper perspective, as previously noted the world total insurance business was valued at $2.2 trillion in 1998, of which the average for life insurance as a percentage of total premiums was 58.7% with non-life claiming the remaining 41.3%. In 1998, Europe as a whole[16], with $699.5 billion in premiums, accounted for almost 33% of the world total with life and non-life insurance averaging 57.5% and 42.5% respectively. In comparison, during 1998 the insurance market in CEE and the NIS as a whole generated total premiums of just over $15 billion, which equated to just over 2% of the total European market and less than 1% of the world total. Taking this a step further, in 1998 Belgium with a population of just less than 10.2 million generated premiums valued at $17.7 billion.[17] Thus, the disparities become quite evident.

In summary, a breakdown of premium income by insurance type shows the clear dominance of the non-life sector over life. It is also apparent, from the available data, that the life sector in the countries of CEE and the NIS is vastly underdeveloped, although it does show signs of growth, especially in those host countries that have been able to achieve a certain degree of economic stability. Overall, this represents a potentially great opportunity to insurers already operating there as well as those seeking entry to these markets. Moreover, one should not overlook the potential that the non-life sector represents, especially with regard to the introduction and/or expansion of various non-life products. Given this situation is it proper to conduct an analysis of growth rates in CEE and the NIS in order to evaluate the potential of these markets.

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[15]Both Ruf-Fiedler (1998) and AXCO (1999a) have previously made this point in their own individual reports on the nature of the life insurance market in Russia.

[16]Swiss Re specifies by name a number of countries from CEE and the NIS as part of their calculation for Europe as a whole. From CEE, this includes Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, and Yugoslavia. For the NIS, this includes Latvia, Russia, and Ukraine. It is assumed that some of the other countries of CEE and the NIS are covered within Swiss Re's use of the *'Other Countries'* category, although specific details are not available.

[17]See Codoni, *op. cit.,* pp. 22-27.

c. An Analysis of Average Annual Growth Rates

Exhibit 3 provides a profile of average annual growth rates of premium income relative to GDP in the countries of CEE and the NIS between 1994-98. It should be noted that both Bosnia-Herzegovina and Georgia have been excluded from this analysis due to the issue of data availability, while for the same reason calculations for FYR Macedonia have been adjusted to compensate for a lack of data in 1998. GDP data has been utilized as a means of comparing and contrasting insurance activity in terms of overall host country performance. For the sake of data comparability, all data has been translated into a common denominator of US Dollars.

Even at first inspection it becomes apparent that the average annual growth rates for insurance have in most examples cited exceeded GDP growth rates, and in some instances greatly surpassed them. From the available data on the 20 host countries covered, five countries show GDP growth rates stronger than insurance activity (Bulgaria, Albania, Ukraine, Croatia, and Belarus); in one instance premium income and GDP average annual growth rates are almost equally balanced (FYR Macedonia); and the remaining 14 host countries show insurance growth rates stronger than that of GDP. Only Bulgaria posted a negative growth rate during the period covered at -8.2%, which was primarily the result of an upheaval within the sector as well as extremely adverse economic conditions in general.

As for those 14 host countries where the average annual growth rates for insurance activity surpassed that of GDP, two general categories emerge, namely host countries with premiums as a percentage of GDP less than or equal to 50% and those greater than 50%. Host countries with an average annual insurance growth rate less than or equal to 50% of GDP in ascending order include Lithuania (33%), Estonia (35%), Czech Republic (39%), Hungary (43%), Poland (47%), and Slovakia (50%). It can be surmised that such moderate growth levels of insurance premiums relative to levels of GDP would support the view of a more balanced economic structure within this group of host countries. Moreover, if this is correct then it would seem to be a positive development since four out of these six countries (Czech Republic, Estonia, Hungary, and Poland) in this grouping are currently seeking admission into the *European Union (EU)* with the first wave of expansion currently scheduled for 2002. Conversely, given the position of Slovenia, which is also a candidate for first round entry to the EU and not a member of this grouping, the opposite might be the case. Those host countries with an average annual insurance growth rate of greater than 50% of GDP include Slovenia (59%), Russia (64%), Latvia (68%), Romania (79%), Azerbaijan (80%), Moldova (80%), Kazakhstan (82%), and Yugoslavia (Serbia & Montenegro)(96%). It is interesting to note that despite the fact that economic conditions in majority of these host countries have been far from favorable, and in several examples extremely adverse, the growth of the insurance sector in relation to GDP has been quite significant. Yet, this situation might point to evidence of structural imbalances in the economic development of these host countries.

In terms of the average annual growth rates for insurance premiums in CEE and the NIS between 1994-98, four host country groupings emerge: those with average annual growth rates greater than or equal to 51%; between 36-50%; 21-35%; and those less than or equal to 20%. As already noted Bulgaria was the only host country to post a negative growth rate for the period and has thus been excluded from this aspect of the analysis. In the top group of host countries, with an average annual growth rate greater than or equal to 51%, include Azerbaijan, Kazakhstan, and Yugoslavia (Serbia & Montenegro). Yet, in the case of the first two host countries, one should bear in mind that the level of premium income in relative dollar terms was extremely low at the beginning of 1994, at $609 thousand and $4.4 million respectively. In conjunction, both host countries experienced a sharp devaluation in the value of their own currencies between 1994-95.[18] As for Yugoslavia (Serbia & Montenegro), while the exchange rate has remained relatively stable since 1994 due to continued government intervention, a period of rampant hyperinflation between 1992-94 not only obliterated insurance funds but also destroyed the very concept of insurance. Consequently, the market had to begin anew from relatively nothing.[19] Forming the second host country grouping with an average annual growth rate for insurance premium between 36-50% are Latvia, Moldova, Lithuania, and Estonia. Here it is interesting to note the fairly tight grouping of the three Baltic States. The third tier, with activity in the 21-35% range, is comprised of Romania, Belarus Poland, Slovenia, and Slovakia. The final grouping, those less than or equal to 20%, is composed of the Czech Republic, Russia, Croatia, Hungary, Ukraine, FYR Macedonia, and Albania.

In summation, examining the average annual growth rates of premium income in CEE and the NIS between 1994-98 it is evident that the insurance industry does show signs of improving. The fact that 14 host countries have insurance growth rates greater than that of GDP is also promising. This would also support a positive relationship between insurance expenditure and economic stability within a host country. Although, in those host countries with premiums as a percentage of GDP greater than 50% it would appear that the economic structure suffers from a degree of instability.

d. Insurance Density and Penetration Rates

In order to round out a picture of the evolution of the insurance markets in CEE and the NIS it is prudent to examine both insurance density and penetration rates. Both measures employ local host country factors to chart the relative progress of insurance. It can also be used to gauge the impact of both life and non-life branches.

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[18]Based on average annual exchange rates for the US Dollar, between 1994-95 the Azerbaijani *manat* devalued by 67% while the Kazakh *tenge* devalued by 41%.

[19]Both Zarkovic (1998) and AXCO (1999b) detail the dire economic conditions for insurance operators in Yugoslavia (Serbia & Montenegro) since the dissolution of the former Yugoslavia.

To be more specific, *insurance density rates* measure premium volume in relation to a host country's own population, i.e. how much money per capita is spent annually on insurance related products. This measure is a useful indicator, as generally host country populations remain constant over short periods of time, which is also the case in CEE and the NIS between 1989-98, although in many cases their population levels have been gradually decreasing. For the purposes of comparison, premiums are converted into a common denominator, typically US dollars. As such this measure is subject to possible deviations due to fluctuations in exchange rates. **Exhibit 4** provides a profile of annual insurance density rates for individual host countries within CEE and the NIS between 1989-98, while **Exhibit 4a** and **4b** provide similar information for both life and non-life branches respectively.

An examination of this data shows that insurance density rates in a number of host countries have been increasingly steadily during the 1989-98 period studied. In CEE, Poland was the only host country able to maintain a continuous positive rate of growth in relation to insurance density for the entire 1989-98 period covered with an annual average of $54.97 per capita being spent on insurance. In the NIS, the three Baltic States and Kazakhstan also achieved positive growth rates, but over a shorter period of time and from much lower base levels. This is especially the case in regard to Kazakhstan that had only achieved an insurance density rate of $3.58 during 1998, while in contrast Poland's was over thirty-two times higher at $115.53 for the same year.

However, as previously noted most host countries have experienced some negative fluctuations in premium income at one point and in some instances two separate incidents of digression or a period thereof. Consequently, density rates for individual host countries have also suffered from these fluctuations. It is also evident that the life sector has experienced far more volatility than the non-life sector.

Based on the data in **Exhibit 4** we can address the variety of deviations that exist. In regard to single deviations, both the Czech Republic and Slovakia experienced a drop in insurance density rates from 1990-91. In the Czech Republic, the decrease in insurance density was just under 18% for this period, while in Slovakia the situation was much more pronounced with a decrease of just under 52%. Romania's insurance density rates suffered a period of digression between 1989-93, first gradually and later rapidly before bottoming out at an annual average of $2.65 per individual in 1993, after which they began to increase. In respect of multiple deviations, both Belarus and FYR Macedonia experienced decreases in their insurance density rates between 1992-93. Subsequently, both countries showed positive growth rates up until 1996-97 when density rates decreased yet again.

Further examination of the data on insurance density rates on the basis of individual annual averages for the 1989-98 period reveals a number of host country groupings. These can be classified into four levels of activity: those with greater than $61 spent annually on insurance products, between $26-60, $16-25, and $15 or less. Those host countries achieving tier one status, individuals spending more than $61 per annum on insurance related products, in rank order include Slovenia ($341.45), Croatia ($120.86), Czech Republic ($102.40), Hungary ($83.23), and Slovakia ($68.10). The second tier grouping in the $26-60 range is comprised of Bosnia-Herzegovina ($56.58), Poland ($54.97), FYR Macedonia ($51.78)[20], Estonia ($36.57), and Latvia ($29.71). It is interesting to note that in the case of Bosnia-Herzegovina as much as 90% of this activity stems from motor insurance, primarily MTPL, while thus far life products have generated very little interest from locals. Host countries on the third level of insurance density, with activity between $16-25, include Russia ($22.49), Bulgaria ($21.26), and Yugoslavia ($17.59). The final tier, those with a density of $15 or less, is composed of Lithuania ($12.55), Romania ($8.66), Ukraine ($4.88), Belarus ($4.12), Moldova ($3.26), Albania ($3.11), Kazakhstan ($1.65), Azerbaijan ($1.01), and Georgia ($1.01).

For the countries of CEE as a whole, the average insurance density rate for insurance related products during the 1989-98 period was $77.50, with life insurance amounting to less than a fifth of this amount. In the NIS, the average density for total insurance activity for the same period was only $11.72, with the life sector forming a more substantial element of the total but still quite low in relative dollar terms. Examining the three Baltic States by themselves, the average was slightly better with per capita spending on insurance at $26.27, but once again life insurance playing a minor role.

Yet, if 1998 is anything to go by we can see that insurance density rates for most of the countries of CEE, and to a lesser extent in the NIS, seem to have improved over the years since the process of transition began. In fact, by 1998 a core group of countries in CEE had exceeded the $100 per capita threshold, namely Slovenia, Czech Republic, Croatia, Poland, Hungary, and Slovakia. The rest of CEE fell into the bottom two tiers of density activity (less than or equal to $25 insurance per capita/year). In terms of the NIS, only the situation in the three Baltic States and Russia looks somewhat favorable, although insurance density ratings in the latter have been adversely affected by the massive devaluation of the Russian rouble during 1998.

For the sake of comparison, the highest insurance density rate in the world for 1998 occurred in Switzerland with per capita spending on insurance related products amounting to $4,654, of which 27.5% was spent on life insurance products and the remaining 72.5% on non-life. Staying in the context of Europe and moving further down the list to Greece, its insurance density rating for 1998 was $204 per person, which was the lowest insurance density rating for the whole of the EU. Out of this $204, Greeks spent 48% on life products and 52% on non-life insurance.[21] Only Slovenia, with an insurance density of $516 per capita in 1998, has been able to achieve density levels comparable to EU member countries, and this mostly on the basis of non-life cover which

[20]Due to a lack of available data for 1998, the calculation for FYR Macedonia has been based on five years of activity data (1993-97).

[21]See Codoni, *op. cit.,* pp. 28.

accounted for 83% of the total figure. Accordingly, in respect of insurance density rates it would seem that a clear gap exists between East and West.

However, as noted earlier, density rates are subject to exchange rate volatility, which could partially explain some host country differences. Moreover, because purchasing power generally differs between host countries, as do the costs associated with various insurance products, this too could account for host country differences. Given this situation it is necessary to evaluate premium income levels in relation to another host country measure, namely GDP, which is utilized to calculate insurance penetration rates.

Insurance penetration rates measure insurance activity in terms of premium volume as a share of GDP in a respective host country. As such, it measures the significance of the insurance industry in comparison to a host country's total domestic economic activity. It is a useful measure because it is not affected by currency fluctuations as the calculation utilizes only the national currency of a given host country with respect to both premium income and GDP. **Exhibit 5** provides a profile of insurance penetration rates for individual host countries within CEE and the NIS between 1989-98, while **Exhibit 5a** and **5b** provide similar information for both life and non-life branches respectively.

Overall, a review of the data in **Exhibit 5** shows that while insurance penetration rates have predominately increased during the period there have been fluctuations in a number of host countries, some of which could be viewed as slight hiccups in the growth process. Nevertheless, by the close of 1998 five individual host countries (Albania, Belarus, Croatia, FYR Macedonia, and Romania) had still yet to surpass their penetration rates peaks at the beginning of the period covered. For example, the penetration rate for Romania was 0.93% in 1989, and collapsed thereafter to a low of 0.23% in 1994, after which it began to recover. Still, by 1998 the penetration rate achieved was just 0.71%, still below its peak for the period.

A review of the data on insurance penetration rates on the basis of individual annual averages for the 1989-98 period reveals a number of host country groupings. These can be categorized into four main bands of activity: those greater than 3.0% of GDP, between 1.4-3.0%, 1.0-1.39%, and countries with insurance less than 1.0% of GDP. Those host countries in the top band with average insurance activity above 3% of GDP include Slovenia (3.98%) in first place followed by Croatia (3.14%), and then FYR Macedonia (3.1%)[22]. Composing the second tier, with activity between 1.4-3.0% of GDP, are Czech Republic (2.53%), Slovakia (2.31%), Hungary (2.14%), Bulgaria (1.7%), and Latvia (1.49%). Falling into the third band of activity, with insurance accounting for between 1.0-1.39% of GDP, are Estonia (1.19%), Russia (1.15%), and Yugoslavia (Serbia & Montenegro)(1.09%). The final grouping of those host countries below 1% of GDP spent on insurance include Moldova (0.81%), Ukraine (0.64%), Lithuania (0.63), Albania (0.56), Romania (0.54%), Belarus (0.48%), Azerbaijan (0.25), Kazakhstan (0.12%), and Georgia (0.1%).

For CEE as a whole, the average insurance penetration rate for both life and non-life activity was 2.08% of GDP during the 1989-98 period. In contrast, the NIS as a group only achieved an average annual penetration rate of 0.69%, of which the three Baltic States on their own posted a rate of 1.1%. As previously noted, the contribution of the life sector to overall insurance activity has been very minimal, with a penetration rate in CEE of just 0.33% (16% of the total 2.08%) and the NIS with a mere 0.23% (33% of the total 0.69%). However, in some of the more economically developed and stable host countries of CEE the outlook for the life sector does show promise.

In comparison, according to Swiss Re[23] the insurance penetration rate for total insurance activity in Switzerland during 1998 was 12.61% of GDP, with the life sector accounting for 9.14% and non-life 3.47%. This placed Switzerland in third position in the world rankings for penetration rates for the year, just behind South Africa (20.63%) and South Korea (13.87%), the number one and two respectively. To date, none of the countries of CEE or the NIS look set to achieve comparable penetration rates in the life sector. Yet, in the non-life sector, Slovenia has been able

[22]Due to a lack of available data for 1998, the calculation for FYR Macedonia has been based on five years of activity data (1993-97).

[23]See Codoni, *op. cit.,* pp. 29.

to achieve Western European standards with a penetration rate of 3.93% of GDP achieved during 1998.

Taking the point further it is relevant that we examine the situation in Greece again. In Greece, the insurance penetration rate for 1998 was 1.79% of GDP, the lowest insurance penetration rating for the whole of the EU, with life activity amounting to 0.93% and non-life the remaining 0.86%. This is comparable to a number of countries of CEE in respect of both life and non-life cover. Moreover, some of these same host countries have posted higher penetration rates in relation to both. Accordingly, in terms of penetration rates the region does show signs of improvement and thus would seem to have the potential of closing the gap between the East-West insurance divide.

5. A Profile of the Competitive Environment

In providing a profile of the competitive environment for insurance in CEE and the NIS, three areas of concern are addressed, namely an overview of the legal environment for insurance; a profile of the key players by individual host countries; and the role of foreign insurers. While each of these three topics could each warrant a paper in its own right, for the purpose of this paper only the key issues will be addressed.

5.1 The Legal Context

Given the upheaval brought about by the process of transformation, each of the countries of CEE and the NIS have had the opportunity to dramatically reshape their legal environments. Faced with this challenge some host countries have sought to adopt a Westernized system, some to rehabilitate the Communist era system, and others have attempted a hybrid of the two. Nevertheless, the creation of an effective and efficient legal environment has proven to be a difficult task, especially with regard to the establishment of laws governing private commercial activities where there has been a general shortage of practical experience. Moreover, the absence of commercial codes, specifically in the NIS, tended to compound the situation. Where commercial codes were available, as in CEE and the three Baltic States, the legal environment suffered from their outdated nature. This has meant that the path to legal reform has been an arduous one.

The development of an efficient and effective legal environment for insurance has also proven to be a difficult task. While responsibility for insurance activities has remained under the auspices of the Ministry of Finance, in most situations the State's role has changed dramatically. Undoubtedly, the key change has been the realignment of the insurance industry away from State control to that of an open market, with a variety of insurers offering products in a competitive environment. A fundamental element of this shift has led to the adoption of the Western principle of insurance whereby premium rates are directly correlated to the nature of the coverage and the associated risks involved. Moreover, many host countries have already sought to reduce, partly or in full, their controlling interests in former State insurers via privatization. Consequently, in these host countries the State's role is now concentrated primarily in a supervisory capacity. Yet, not all host countries have chosen this path.

During the early 1990s some members of CEE[24] as well as the three Baltic States, entered into accession talks with the EU. This was followed by each host country signing an agreement with the EU aimed at furthering the process of integration. As a result, the legal context for insurance and its supervision in each of these host countries is increasingly being harmonized in accordance with EU directives, of which three generations have already been established[25]. Moreover, these directives form part of a concerted effort by the EU to create a single market for all financial services.

In practical terms, one aspect of EU insurance directives signals a clear division between life and non-life activities, with separate legal entities licensed to operate in each category. For the majority of host countries aspiring to join the EU (Bulgaria, Czech Republic, Hungary, Lithuania, Romania, Slovakia, and Slovenia) this still poses a problem due to the existence of *composite insurers*, which are licensed to offer both life and non-life products. In accord with EU directives there has also been a significant reorientation of insurance classes in both life and non-life branches along EU lines, which should minimize some of the problems associated with data comparability between host countries. However, it should be noted that for the purpose of longitudinal analysis this would compound the problem. Finally, with the creation of a single insurance market and a subsequent reduction in licensing activities, supervisory authorities will focus their attention more on the issue of solvency control, which, given some high profile cases, should be welcomed by the industry and customers alike.

Allowing for some minor host country deviations, this process of harmonization and convergence of insurance regulations will eventually create an almost homogeneous market for insurance services. It is projected that this more unified environment will benefit the variety and quality of products offered as well as the terms of business. Hence, if those countries of CEE and the NIS that are currently seeking EU membership are successful in their bids then they too will form part of this single insurance market.

In the remaining member countries of CEE and the NIS, existing legislation governing insurance activities and their supervision still remains a by-product of the Communist era. In practical terms, insurers continue to be licensed by the respective Ministry of Finance, via the supervisory authority, and insurance classes generally remain divided between voluntary and compulsory

[24]These select members of CEE refer to Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia.

[25]For an overview of the EU's three generations of insurance directives see Birkmaier, U. and Helfenstein, R. (2000) *Europe in focus: Non-life markets undergoing structural change*, pp. 9-16.

types of coverage. Yet, thus far moves towards harmonization of legislation and supervision activities towards Western standards in the remaining member countries of CEE and the NIS have been less fruitful. For example, in 1994 the Russian Federation signed a partnership and cooperation agreement with the EU, also pledging to harmonize parts of its own insurance legislation in accordance with EU directives. One key aspect of this agreement was the opening up of the Russian market to foreigners, which under existing law restricted foreign ownership to no more than 49% in a local insurer. However, very poor operating conditions for insurers as well as strong lobbying efforts by the *All-Russian Insurers' Alliance (ARIA)* have so far delayed the full implementation of this agreement, especially in regard to allowing foreigners to have equal or control majority shareholdings in local insurers.

However, in many respects the insurance industry in CEE and the NIS as a whole faces the same set of problems, although they are much more pronounced in those host countries experiencing difficult economic conditions. In general, supervisory authorities across the region lack the necessary authority to police their own markets. Moreover, they are also hampered by a number of resource issues, which despite the best intentions of supervisory staff makes proactive supervision difficult if not impossible. The issue of minimum share capital requirements is also a fundamental concern, especially in those host countries that have experienced bouts of inflation (or worse yet, hyperinflation) that have left statutory levels of share capital at extremely low levels. This in turn has left a number of undercapitalized insurers offering services when in fact, in the best interests of the consumer, their licenses should be withdrawn. Accordingly, a profile of this new market environment is warranted.

5.2 A Profile of the Key Players

A profile of leading insurers in CEE on the basis of market share at the end of 1998 is presented in **Exhibit 6a,** while a profile of leading insurers in the NIS on the same basis is given in **Exhibit 6b**. Market share data is given for 21 host countries, for which insurance activity by type is available for 11 of them.

By examining these two exhibits it becomes clear that in general the insurance markets of CEE and the NIS remain heavily concentrated within the hands of a key few players. Given this situation, it is appropriate to describe some general characteristics of the data set, such as the composition and traits of the leading three insurers, any trends in respect to the life and non-life sector, and differences that might exist between CEE and the NIS.

In terms of composition and traits, in 17 out of the 21 host countries, State insurers' still retain a leading (1st Place) position in the local market in relation to market share held. While many of these State insurers have yet to be fully privatized, they have been converted to joint stock companies with, in most cases, the State retaining a controlling block of shares. Nevertheless, a comparison of market share data for earlier years would support the proposition that the former

State insurers' command of the local market continues to diminish[26], although in a few host countries this situation might have stabilized somewhat. For example, *Oranta, Kyiv*, the former State monopoly insurer in the Ukraine, had a market share of 16.5% in 1995; by 1997 its market share had increased to a high of 20.5%, before apparently settling at 11.5% in 1998.

Another important issue is market dominance. In general, the number one insurers control a commanding share of their local market. Using 40% as a threshold level for market share, there are relatively few exceptions to this scenario. The most concentrated insurance market is that of Albania, for which the *Instituti I Sigurimeve (INSIG)(Insurance Institute of Albania)* held a market share of 100% in 1998.[27] At the other end of the spectrum is *Kazakinstrakh (Kazak Insurance)*, which was the leading insurer in Kazakhstan with a market share of just 9.1%. It also seems evident from the 11 host countries for which a breakdown by insurance type is available that most of this concentration occurs in the non-life sector, although there are some exceptions (Bulgaria, Estonia, and Latvia).

As for the composition and traits of the other four host countries (Georgia, Latvia, Russia, and Yugoslavia [Serbia & Montenegro]), it is evident that the former State insurer has lost its dominant position within the local market. In both Georgia and Yugoslavia (Serbia & Montenegro) the State insurer, *Georgian Gosstrakh (Geogian Insurance)* and *Dunav Osiguranje (Dunav Insurance)* respectively, have simply dropped from the top spot into second position. In Latvia, the former State monopoly was held by *Latva*, which in 1994 ceded its entire non-life portfolio to its joint venture partner *Balta*. While in 1998 Balta, with a market share of 20%, held the top position within the non-life sector, Latva had just slipped to third place in the life sector with a market share of 18.2%. The situation in Russia is somewhat different in that the two State insurers, *Rososstrakh* (formerly Gosstrakh) and Ingosstrakh, have generally remained in the list of top ten Russian insurers, but have had to struggle in a very fragmented market. To be more specific, at the beginning of 1998 a total of 2,334 firms were registered to conduct insurance business in the Russian Federation. While by the start of 1999 this number had decreased to 1,866, it still meant that a large number of insurers were each competing for market share under adverse operating conditions.

One other aspect of leading (1st Place) insurers worthy of note is that in only two host countries (Hungary and Latvia) have insurers with foreign capital participation achieved poll position in relation to market share held. In Hungary, *Nationale-Nederlanden Hungary*, established in 1991 by the *ING Group* of the Netherlands, did this in the life sector with a market share of 37.5%. In the non-life branch, the former State insurer Hungaria which was acquired by the *Allianz Group*

[26]Both Bayerische Rück (1998) and Meyer *et. al.* (1998) support this proposition in their own analysis of market share data for CEE and the NIS.

[27]Please note that INSIG lost its monopoly over the Albanian insurance market in 1996. It has also been reported during 1999 that two new insurers were granted licenses by the Albanian Government to operate.

of Germany via the process of privatization in 1992, achieved this with a 44% share of the market. The situation in Latvia has already been discussed in the preceding paragraph.

An examination of the other two top market leaders (2^{nd} and 3^{rd} Places) shows the strength of insurers with foreign capital participation. In fact it is quite clear where host country legislation permits, foreign operators have been able to take control of a good share (on average between 15-20%) of the overall local market. This situation is most pronounced in Hungary, which was the first country to really liberalize its insurance market and allow foreigners to enter during the late 1980s. By 1998 the top three insurers, all with significant foreign capital participation, controlled 61.9% of the total Hungarian insurance market. These same top three foreign owned insurers controlled 71.5% of the life market and 71.9% in the non-life segment. Moreover, 19 out of the 22 insurers licensed to operate in Hungary during 1998 were registered with significant foreign capital. These same 19 insurers controlled 92% of the total Hungarian insurance market during the year.

The situation in Belarus represents a similar scenario, whereby *Belingosstrakh*, of which Ingosstrakh of Russia owns a significant shareholding, captured second place in the rankings with a market share of 4.6%. In comparison, *Belgosstrakh State Insurance*, the former monopoly that remains under State control, held a market share of 46.4%. Yet, the Belarussian insurance market remains quite fragmented with a number of active insurers holding market shares between 1-2%. Also, as previously noted the insurance market in Belarus is relatively small in terms of overall value.

On the subject of market concentration, the data clearly shows that the leading three insurers have the power to exert significant influence over their respective markets. The degree of this control amounts to an average of 60% in the countries of CEE and the three Baltic States. In respect of the insurance markets in the remaining NIS, the top three insurers' command of the local market ranges from a low of 19.5% in the Russian Federation to a high of 68.7% in Moldova.

In regard to any trends in respect to the life and non-life sector, most of the concentration of the top three insurers resides in the life side of the business. Further, it is interesting to note that in the majority of observations this control over the life sector is held by the former State insurer. Indeed, this is an interesting finding as it could be considered proof of the ability of former State insurers to develop new lines of business. Also, given the abolition of most compulsory product lines the ability to adapt has not only been a key to survival for insurers but also one for achieving success in the local market.

Another trend to note in regard to type of insurance activity is the proliferation of foreign insurers into the life sector. Examining the data on the 11 host countries for which a breakdown by insurance type is available reveals a spread of foreign insurer's within the life sector. The same is also true for the non-life sector, but to a lesser degree.

As for regional differences between CEE and the NIS, as stated, the insurance markets of the former tend to be more concentrated while the latter, with the exception of the three Baltic States which generally follow the trend identified in CEE, are more fragmented. In terms of overall business in CEE (see **Exhibit 6a**) the insurance markets of Albania, FYR Macedonia, and Yugoslavia (Serbia & Montenegro) are extremely concentrated. A similar situation exists in Poland, although to a somewhat lesser extent.

In regard to market concentration, on the basis of a threshold level of 70% of market share or greater controlled by the top three players in CEE, the life sector is the most concentrated in Bulgaria (91.9%), Poland (90.9%), Czech Republic (85.4%), Romania (80.2%), and Slovenia (77.2%). Utilizing the same criteria for non-life insurance, in CEE the concentration is most pronounced in Slovenia (80.2%), Slovakia (80%), Croatia (78.2%), Czech Republic (78.1%), and Poland (76.2%). Here it is interesting to note that three host countries of CEE have concentrated markets in both the life and non-life sectors, namely the Czech Republic, Poland, and Slovenia.

In light of EU accession criteria, this situation could present a problem in relation to their bids for EU membership.

In regard to the NIS (see **Exhibit 6b**), the insurance markets of Kazakhstan, the Russian Federation, and Ukraine appear to be rather fragmented whereas the others tend to be quite concentrated. For example, in Estonia and Lithuania the top three insurers control a combined market share of more than 70%, but only in the life sector.

There are a number of forces responsible for this general trend of market concentration in the countries of CEE and the Baltic States and market fragmentation in the NIS. In CEE, there are two aspects to this phenomenon: the role of former State insurers; and insurers with foreign capital. Taking the former State insurers, these firms were already well established in their respective home markets. Accordingly, when the transformation began they were in a good position to weather the market contractions of the early phase of the process (1989-93). Moreover, many former State insurers have proven to be quite resilient to foreign competitors while others have either avoided such confrontations on account of restrictive legislation. Other former State insurers have embraced foreigner capital, out of necessity and/or choice.

As for the role of insurers with foreign capital, the more successful foreign entrants moved early and aggressively and leveraged their know-how to full effect. Also, a key ingredient to their success was a long-term perspective of the market that placed market share considerations above short-term return-on-investment criteria. Yet, these are traits that not every foreign player possessed hence the uneven level of performance achieved amongst them.

In the case of the NIS, the sudden demise of the Soviet Union also meant the end of the vast branch network of both Gosstrakh and Ingosstrakh. While the latter suffered less damage, the nationalization by the NIS of various branches of the former State network and their subsequent transformation into national insurers created a vacuum in the market which other insurers soon filled. This situation is compounded by inadequate insurance legislation, especially in regard to the establishment of acceptable levels of share capital. Subsequently, it has led to a glut of would-be insurers all fighting for the same business.

For example, in the case of Russia previously noted, there were over 2,300 insurers licensed to operate during the course of 1998, and many others doing so illegally. As a result of this situation the Insurance Supervisory Department at the Russian Ministry of Finance seems to be faced with the endless task of chasing down illegal operators, suspending and/or withdrawing licenses, and generally trying to protect the interests of consumers. Compounding this further is the Russian Federation’s restrictive legislation that severely limits the role of foreign insurers within the market, which may have hampered its development along Western standards. Given these circumstances, it is no small wonder that the local market has remained so fragmented.

In concluding this point it is worth noting the significant changes that have occurred since 1998 to the list of leading insurers. During the course of 1999 there were three significant events. In Lithuania the former State insurer, *Lietuvos Draudimas,* was privatized and sold to a consortium led by the Danish insurance group, *Codan*. On the basis of 1998 data this puts Codan in a commanding position in both the Lithuanian life and non-life sectors. Also during 1999 Polish authorities finally sold a 30% stake in the two former State insurers, *Powszechny Zakład Ubezpieczeń (PZU)/PZU na Życie*, to a consortium led by *Eureko*. However, politics have greatly hampered the implementation of this deal and at the time of writing Eureko waits in limbo as the strategic investor. During the same year *QBE International* of Australia continued its foray into some of the more unexploited and/or unexplored markets of CEE and the NIS with the acquisition of a majority stake in *Cia de Asigurare pe Actiuni (ASITO)*, the Moldovan State insurer. Based on 1998 market data this deal gives QBE control of ASITO's 40% share of the Moldovan insurance market. In the first half of 2000 QBE International continued its expansion program with the acquisition of a majority stake in *Osiguruvanje I Reosiguruvanje Makedonija*, the former State monopoly insurer in the FYR Macedonia, which commands the local market with a 94% share. In light of these developments a more detailed discussion of the role of foreign insurers in CEE and the NIS is warranted.

5.3 The Role of Foreign Insurers

It has often been said that insurers are not pioneering investors, they tend to follow clients rather than act as trailblazers. Hence, in many cases the expansion of foreign insurers into new markets would be described by a push and pull equation. Under this equation insurers are pulled by the potential threat of loosing clients to competitors if they failed to follow them into new markets. On the other side of formula, insurers are pushed by those same competitors both to keep pace with them while continuing to expand their respective market shares, or at least maintain the status quo.

Yet, the process of globalization is affecting creating a significant impact on the insurance industry, and consequently the push and pull equation cited. On the push side, following existing clients around the world is no longer enough as insurers must also seek out new sources of growth on their own, i.e. customers. At the same time insurers are pushed to make every effort to streamline their operations via the more effective and efficient use of resources in order to achieve competitive advantage.[28] In terms of additional pull factors, these include consumer demand, capital requirements, and know-how factors, all of which stem from host country

[28]The study by Katrishen and Scordis (1998) found that multinational insurers achieve limited economies of scale as a result of their international diversity, but only up to a certain point. The authors also proposed that the more international oriented insurers actually suffer from diseconomies of scale.

markets.[29] In turn, these pull factors benefit the development of the host country insurance market.

In the context of emerging markets like those of CEE and the NIS, three main pull factors function as follows. The demand for cover from the local population creates not only a need but also an opportunity that foreign and domestic players seek out. Consequently, a competitive environment develops that under the former system was seriously lacking. This results in the introduction new products and services, the expansion of existing ones, and the terms of business become more standardized. As for the second pull factor of capital requirements, foreign insurers, as do other foreign investors, in establishing local operations bring much needed capital into the host country, which given the previously low levels of domestic savings in the region was often in short supply. Foreign insurers use this capital to cover risks, meet solvency requirements, and provide investment for the future. Finally, given their international experience and expertise foreign insurers can be a source of technical and managerial know-how that not only benefits their own organization but also reshapes the entire industry in accordance with the fundamental principles of risk assessment and profitability.

In the context of push factors, foreign insurers have been motivated by a number of considerations to engage in *foreign direct investment (FDI)* in one or more of these host countries of CEE and the NIS. The motivations of foreign investors have been well documented by previous studies on the subject include opportunities within the local market (market factors); the chance to gain first mover advantages and/or to follow customer firms (strategic position factors); the overall stability of the host country and its attitude towards foreign capital (investment climate factors); as well as the opportunity to reduce costs and increase profit levels (financial efficiency factors).[30]

These findings tend to substantiate the push and pull equation as modified by the process of globalization already cited. Yet, it is fitting that in closing this discussion of the role of foreign insurers that more practical concerns be addressed.

In those countries of CEE and the NIS permitting foreign insurers to operate and to which a certain degree of economic stability has been present, there has been a dramatic influx of foreign entrants since the transition process began in 1989. Some foreign insurers with foresight were already engaged in talks with State insurers during the late 1980s about the feasibility of establishing local joint ventures in the field of insurance. Yet, in most host countries of the region the nature of the transition process not only opened the doors to a range of investment forms –

[29]For further discussion of this topic see Baur *et. al.* (2000) *Emerging markets: the insurance industry in the face of globalisation*, pp. 7-13.

[30]For further details on the motivational and locational factors of FDI see Pye, R. (1998) *Foreign Direct Investment in Central Europe: Experiences of Major Western Investors*, pp. 378-389.

from minority shareholdings all the way through to the establishment of wholly-owned subsidiaries – but it also spelt the end to the State's monopoly position within the market. Hence, in most of CEE as well as the three Baltic States, and to a somewhat lesser extent in the remaining NIS, the outlook for foreign insurers would appear to be favorable. However, as any successful foreign insurer in the region would tell you, a key to their success has been and remains a long-term perspective of the market.

6. Conclusions

It has now become quite clear that the legacy of 40 years of the Communist system in CEE, and some 70 years for most of the NIS, has left a profound mark on the region and its inhabitants. The process of economic, social, and political transition was never going to be an easy task. While some countries have made considerable progress, others seem to be stranded in no-man's land with little movement evident.

This is also the case with regard to the evolution of the insurance industry in the countries of CEE and the NIS. Three main trends emerge from this study. First, those host countries with the most advanced insurance industries have liberalized their insurance markets early on; adopted international standards of risk management; created and/or adopted an effective and efficient legal environment for insurance; permitted foreign entrants into the sector; and sought to reduce, partly or in full, their controlling interests in former State insurers via the process of privatization. Both Hungary and Latvia have achieved this *trailblazer* status, although their process of development is still far from complete. The second trend to emerge involves those host countries that have yet to fully implement the measures noted above and which as a result constitutes a *stuck-in-the-middle* grouping. Accordingly, these countries risk being left behind or possibly falling into the third category. Host countries within this second grouping include Croatia, Czech Republic, Estonia, Lithuania, Poland, Slovakia, and Slovenia. Finally, the remaining host countries fall into a third grouping characterized as *bringing-up-the-rear* for they have yet to take the necessary steps to transform their insurance industries in accord with international standards. There are a variety of reasons for this scenario, some of which include adverse economic conditions, political concerns fueled by nationalism, an inadequate legal environment, a shortage or lack of insurance know-how, or a combination thereof.

Given this situation, the policy implications are different for each host country grouping, although some commonalties exist. One key commonality between the first two groupings is that they have each sought to internalize, to varying degrees, the EU's three generations of insurance directives. That is not to say that the EU's insurance directives represent the ideal vehicle for transformation, rather they are simple a better guide to development than what these countries previously had. Another common factor between these first two groupings has been their stated desire to join the EU in the forthcoming expansion program. Yet, to achieve this those currently *stuck-in-the-middle* will have to make concerted efforts to fully implement the necessary measures. For those EU hopefuls that fall within the *bringing-up-the-rear* grouping, they will have to overcome even more obstacles, some of which may be beyond their immediate control, as well as demonstrate a determination to truly transform their insurance industries in line with international standards. For the remaining host countries, the choice is clear: to remain in the past with the legacy of an antiquated insurance system that proved inadequate even with State support or to move forward with the rest of the world in development of a world-class industry.

At the outset, this paper had two main objectives. First and foremost, to provide an overview of the development of the insurance industry in the countries of CEE and the NIS since the onset of the transition process. In doing so, this paper has sought to redress the shortage of research on this important third pillar of the financial services sector. This study has shown that an examination of the insurance industry in regard to transition economies requires the use of multiple means of analysis. In relation to market size and its potential it is necessary to consider three main concerns: data availability, reliability, and comparability. Further to the issue of comparability is the use of a common denominator to evaluate premium income across host countries; a breakdown of premiums by insurance types; an analysis of average annual growth rates; and insurance density and penetration rates. It is also pertinent to examine the nature of the competitive environment in terms of the legal context of insurance; a profile of the key players in individual host countries; and the role of foreign insurers. Only by combining these factors can we gain a full and accurate picture of how the insurance industry in CEE and the NIS has developed since the onset of the transition.

A second objective of this paper was to serve as the first step in what is intended to be a comprehensive longitudinal study of the evolution of the insurance sector in these transition economies that will provide in-depth coverage of individual host country markets. Moreover, also in terms of future research, it is the aspiration of this researcher that this paper will serve as a catalyst to others, especially within the academic community, to engage in further research and discussion of the insurance industry, and the financial services sector in general. It is hoped that this paper has fulfilled the first objective while second element will be addressed in the near future.

Exhibit 1, Premium Income (in Local Currency) by Insurance Type in CEE and the NIS, 1989-98

Host Country		Year														
(in millions	Currency	1989			1990			1991			1992			1993		
of Local Currency)	Unit	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life
Albania	ALL										270	-	-	1,204	0	1,204
Bulgaria	BGL										2,237	77	2,161	5,664	1,492	4,173
Czechoslovakia:	CSK	22,664	6,021	16,643	23,269	7,859	15,410									
Czech Republic	CZK				16,104	6,164	9,940	14,403	4,632	9,771	16,821	5,222	11,598	23,396	5,905	17,491
Slovakia	SKK				7,165	1,695	5,470	5,659	1,745	3,914	6,265	1,832	4,433	8,075	1,971	6,104
Hungary	HUF	30,047	4,571	25,476	39,797	4,356	35,441	62,213	12,814	49,399	58,950	7,685	51,265	73,398	16,920	56,478
Poland	PLN	60	11	50	701	52	649	1,483	208	1,275	2,082	542	1,540	3,096	887	2,209
Romania	ROL	7,398	2,802	4,596	7,716	2,943	4,773	10,951	1,781	9,170	20,196	3,141	17,055	45,894	4,395	41,499
Yugoslavia:	YUD	3,149	24	3,125												
Bosnia-Herzegovina	BAKM															
Croatia	HRK													1,654	56	1,598
FYR Macedonia	MKD													2,412	75	2,337
Serbia & Montenegro	SXM															
Slovenia	SIT							11,519	780	10,739	32,902	2,457	30,445	47,415	5,015	42,400
USSR/NIS:	SUR	18,103	10,346	7,757												
Azerbaijan	AZM										40	-	-	485	-	-
Belarus	BYR													7,092	459	6,633
Estonia	EEK				11	7	4	13	7	6	72	16	57	191	32	159
Georgia	GGL															
Kazakhstan	KZT															
Latvia	LVL													15	5	10
Lithuania	LTL													56	26	30
Moldova	MDL										1	-	-	8	-	-
Russian Federation	RSR							13.7	8.4	5.3	103.5	23.6	79.8	1,109.0	488.0	621.0
Ukraine	UAH													9	4	5

continued...

Exhibit 1, Premium Income (in Local Currency) by Insurance Type in CEE and the NIS, 1989-98 (cont'd)

Host Country (in millions of Local Currency)	Currency Unit	Year 1994 Total	1994 Life	1994 Non-Life	1995 Total	1995 Life	1995 Non-Life	1996 Total	1996 Life	1996 Non-Life	1997 Total	1997 Life	1997 Non-Life	1998 Total	1998 Life	1998 Non-Life
Albania	ALL	1,123	0	1,123	1,344	0	1,344	1,508	57	1,451	1,211	43	1,168	1,538	66	1,471
Bulgaria	BGL	12,180	3,637	8,543	18,300	6,256	12,149	37,119	8,433	28,685	195,463	18,082	177,382	232,810	28,298	204,512
Czechoslovakia:	CSK															
Czech Republic	CZK	29,088	7,418	21,670	33,732	9,225	24,507	40,243	10,989	29,254	47,986	12,690	35,296	55,637	15,089	40,548
Slovakia	SKK	8,983	2,118	6,865	10,706	2,554	8,152	13,786	3,545	10,241	16,968	4,723	12,245	21,282	6,487	14,795
Hungary	HUF	94,005	24,115	69,890	119,014	35,449	83,565	152,741	48,247	104,494	194,654	63,753	130,901	245,543	89,759	155,784
Poland	PLN	4,147	1,284	2,862	5,583	1,852	3,731	8,210	2,790	5,420	12,323	4,073	8,250	15,589	5,378	10,210
Romania	ROL	163,942	16,144	147,798	289,826	31,473	258,353	550,035	53,586	496,449	1,304,041	80,758	1,223,283	2,414,840	199,447	2,215,393
Yugoslavia:	YUD															
Bosnia-Herzegovina	BAKM				53	0	53	69	0	69	122	0	122	132	4	127
Croatia	HRK	2,711	94	2,618	2,804	157	2,646	3,096	257	2,839	3,516	396	3,120	4,072	590	3,481
FYR Macedonia	MKD	4,280	243	4,036	5,056	400	4,657	5,026	506	4,521	4,899	553	4,346	-	-	-
Serbia & Montenegro	SXM	501	-	-	957	-	-	2,066	12	2,054	2,907	23	2,884	2,454	11	2,443
Slovenia	SIT	62,962	9,031	53,931	102,375	15,151	87,224	121,814	20,127	101,687	129,589	22,878	106,711	154,046	26,302	127,744
USSR/NIS:	SUR															
Azerbaijan	AZM	873	-	-	17,271	-	-	38,769	-	-	54,737	-	-	55,717	-	-
Belarus	BYR	88,344	6,966	81,378	456,871	21,488	435,383	763,723	20,524	743,199	1,249,599	30,631	1,218,968	2,460,192	208,966	2,251,225
Estonia	EEK	345	33	311	548	43	505	797	64	733	1,054	128	926	1,223	206	1,017
Georgia	GGL										5.6	0.2	5.5	9.0	-	-
Kazakhstan	KZT	158	-	-	682	-	-	1,000	-	-	3,342	-	-	4,215	43	4,172
Latvia	LVL	18	5	13	32	9	23	41	9	31	65	9	57	84	10	74
Lithuania	LTL	107	53	54	124	53	71	185	54	130	253	58	195	396	67	330
Moldova	MDL	28	15	12	66	27	39	97	50	47	137	67	70	100	32	68
Russian Federation	RSR	7,539.0	4,298.0	3,241.0	23,167.0	4,962.8	18,204.2	29,056.8	7,758.2	21,298.6	36,570.3	8,075.6	28,494.7	42,660	12,404.2	30,256.0
Ukraine	UAH	144	61	83	244	61	183	318	33	284	408	19	390	789	13	776

Note: Wherever possible the researcher has utilized data obtained directly from host country sources (local insurers' association and/or the respective supervisory authority).

Exhibit 2, Premium Income (in US Dollars) by Insurance Type in CEE and the NIS, 1989-98

Host Country (in millions of US Dollars)	Year 1989			1990			1991			1992			1993		
	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life
Albania										3.32	-	3.32	11.40	-	11.40
Bulgaria										96.02	3.29	92.73	205.23	54.04	151.19
Czechoslovakia:	1,500.93	398.74	1,102.19	1,292.72	436.61	856.11									
Czech Republic				894.65	342.42	552.23	488.24	157.01	331.23	594.38	184.54	409.84	801.24	202.24	599.00
Slovakia				398.07	94.19	303.88	191.84	59.15	132.69	221.37	64.73	156.64	262.17	64.00	198.17
Hungary	508.41	77.34	431.07	629.70	68.92	560.78	831.71	171.30	660.41	745.56	97.28	648.28	797.80	183.91	613.89
Poland	416.03	73.35	342.68	737.86	54.26	683.60	1,399.51	196.36	1,203.15	1,530.58	398.47	1,132.11	1,710.26	490.09	1,220.17
Romania	496.51	188.05	308.46	344.46	131.38	213.08	142.74	22.56	120.18	65.57	10.20	55.37	60.38	5.78	54.60
Yugoslavia:	1,874	14	1,859												
Bosnia-Herzegovina															
Croatia													462.01	15.77	446.25
FYR Macedonia													102.19	3.18	99.01
Serbia & Montenegro															
Slovenia							417.35	28.26	389.09	404.70	30.22	374.48	418.86	44.30	374.56
USSR/NIS:															
Azerbaijan										2.71	-	-	4.04	-	-
Belarus													26.37	1.71	24.66
Estonia				-	-	-	-	-	-	5.98	1.28	4.70	14.46	2.41	12.05
Georgia															
Kazakhstan															
Latvia													22.33	7.04	15.29
Lithuania													13.03	6.05	6.98
Moldova										4.97	-	-	5.27	-	-
Russian Federation							401.62	245.88	155.74	457.79	104.48	353.31	1,089.39	479.37	610.02
Ukraine													187.50	83.33	104.17

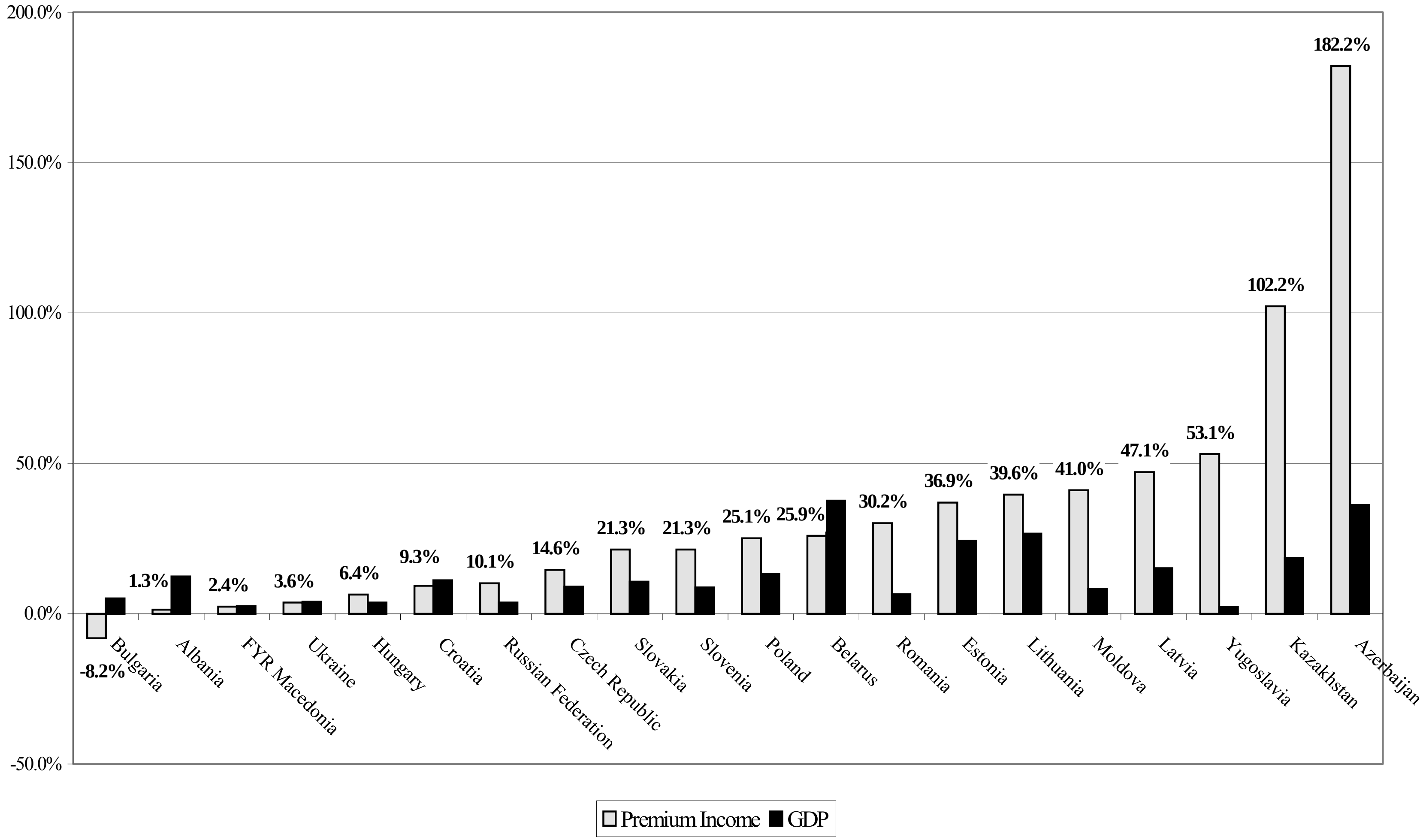
continued...

Exhibit 2, Premium Income (in US Dollars) by Insurance Type in CEE and the NIS, 1989-98 (cont'd)

Host Country (in millions of US Dollars)	1994			1995			1996			1997			1998		
	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life
Albania	11.77	-	11.77	14.45	-	14.45	14.40	0.55	13.85	8.10	0.29	7.81	10.25	0.44	9.81
Bulgaria	225.13	67.22	157.91	273.88	93.10	180.78	208.65	47.41	161.24	116.21	10.75	105.46	132.28	16.08	116.20
Czechoslovakia:															
Czech Republic	1,010.02	257.57	752.45	1,268.12	346.80	921.32	1,484.98	405.49	1,079.49	1,513.76	400.32	1,113.44	1,722.52	467.16	1,255.36
Slovakia	280.72	66.20	214.52	360.47	86.00	274.47	449.05	115.46	333.59	505.01	140.58	364.43	604.59	184.28	420.31
Hungary	894.44	229.45	664.99	946.81	282.01	664.80	1,000.93	316.17	684.76	1,042.04	341.29	700.75	1,144.73	418.46	726.27
Poland	1,826.75	565.80	1,260.95	2,297.66	762.11	1,535.55	3,040.74	1,033.42	2,007.32	3,757.01	1,241.62	2,515.39	4,466.71	1,541.08	2,925.63
Romania	99.05	9.75	89.30	142.56	15.48	127.08	178.36	17.38	160.98	181.44	11.22	170.22	271.91	22.46	249.45
Yugoslavia:															
Bosnia-Herzegovina													2.46	0.00	2.46
Croatia	451.89	15.60	436.29	536.11	30.11	506.00	570.20	47.39	522.81	570.82	64.34	506.48	640.19	92.80	547.40
FYR Macedonia	99.07	5.63	93.44	133.07	10.52	122.55	125.97	12.68	113.29	98.37	11.10	87.27	-	-	-
Serbia & Montenegro	11.61	-	-	25.18	-	-	51.77	0.30	51.47	58.25	0.46	57.79	45.10	0.19	44.91
Slovenia	488.84	70.12	418.72	863.93	127.86	736.07	899.66	148.65	751.01	811.46	143.26	668.20	927.43	158.35	769.08
USSR/NIS:															
Azerbaijan	0.61	-	-	3.91	-	-	9.01	-	-	13.74	-	-	14.40	-	-
Belarus	24.10	1.90	22.20	39.62	1.86	37.76	57.45	1.54	55.91	47.71	1.17	46.54	53.05	4.51	48.54
Estonia	26.51	2.56	23.95	47.68	3.72	43.96	66.43	5.37	61.06	75.84	9.22	66.62	86.77	14.64	72.13
Georgia										1.22	0.03	1.19	1.53	-	-
Kazakhstan	4.39	-	-	11.19	-	-	14.66	-	-	44.20	-	-	53.63	0.55	53.08
Latvia	32.34	9.59	22.75	60.45	17.06	43.40	73.99	17.20	56.79	112.61	14.66	97.94	142.92	17.36	125.56
Lithuania	26.75	13.25	13.50	30.96	13.21	17.75	46.12	13.57	32.55	63.30	14.56	48.74	99.07	16.63	82.44
Moldova	6.71	3.74	2.97	14.25	5.86	8.39	21.10	10.95	10.15	29.80	14.57	15.23	18.58	5.93	12.65
Russian Federation	3,419.15	1,949.31	1,469.84	5,078.26	1,087.86	3,990.40	5,668.51	1,513.50	4,155.01	6,321.58	1,395.96	4,925.62	4,352.88	1,265.53	3,087.35
Ukraine	450.56	191.55	259.01	166.23	41.49	124.74	173.67	18.28	155.39	219.57	9.98	209.59	322.10	5.25	316.85

Note: Wherever possible the researcher has utilized data obtained directly from host country sources (local insurers' association and/or the respective supervisory authority).

Exhibit 3, Average Annual Growth Rates for CEE and the NIS, 1994-98



Notes: GDP growth rates in US Dollars are based upon EBRD data using appropriate average annual exchange rates. For FYR Macedonia, due to a lack of available data for 1998 the premium income growth rate is calculated on the basis of the 1994-97 period.

Exhibit 4, Insurance Density in CEE and the NIS: Life & Non-Life

					Year					
Host Country	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Albania				1.00	3.39	3.50	4.28	4.24	2.36	2.98
Bulgaria				11.17	24.19	26.61	32.50	24.88	13.93	15.53
Czechoslovakia:	71.72									
Czech Republic		57.48	47.36	57.61	77.56	97.72	122.74	143.88	147.80	169.47
Slovakia		75.14	36.32	41.72	49.24	52.50	67.20	83.65	94.33	112.80
Hungary	48.79	60.75	80.32	72.19	77.38	87.04	92.40	98.01	102.43	112.95
Poland	10.70	19.40	36.65	39.95	44.52	47.44	59.55	78.76	97.23	115.53
Romania	21.49	14.86	6.15	2.85	2.65	4.36	6.28	7.88	8.06	12.03
Yugoslavia:										
Bosnia-Herzegovina							37.10	45.80	70.50	72.90
Croatia					96.66	94.53	112.16	126.68	134.69	160.41
FYR Macedonia					48.20	46.29	61.60	57.94	44.85	na
Serbia & Montenegro						5.42	11.66	23.81	26.61	20.46
Slovenia			208.68	213.00	210.48	245.64	434.13	467.60	436.27	515.81
USSR/NIS:										
Azerbaijan					0.55	0.08	0.52	1.20	1.82	1.89
Belarus					2.70	2.52	4.03	5.70	4.61	5.14
Estonia		na	na	3.83	9.48	17.59	31.95	45.01	51.88	59.68
Latvia					8.57	12.65	23.89	29.58	45.40	58.14
Lithuania					3.49	7.19	8.33	12.43	17.08	26.75
Georgia									0.82	1.19
Kazakhstan						0.26	0.68	0.90	2.82	3.58
Moldova				1.14	1.21	1.54	3.28	4.76	6.70	4.17
Russian Federation			1.38	3.08	7.34	23.10	34.32	38.40	42.83	29.50
Ukraine					3.39	8.68	3.22	3.39	4.32	6.26

Notes: Insurance Density (premium income in US Dollars / population). Premium income figures given in US Dollars are based upon the appropriate average annual exchange rates reported by the EBRD. Population figures are based upon Euromonitor data.

Exhibit 4a, Insurance Density in CEE and the NIS: Life

	Year									
Host Country	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Albania								0.16	0.08	0.13
Bulgaria				0.38	6.37	7.95	11.05	5.65	1.29	1.89
Czechoslovakia:	19.05									
Czech Republic		22.00	15.23	17.89	19.58	24.92	33.57	39.29	39.09	45.96
Slovakia		17.78	11.20	12.20	12.02	12.38	16.03	21.51	26.26	34.38
Hungary	7.42	6.65	16.54	9.41	17.84	22.33	27.52	30.96	33.55	41.29
Poland	1.89	1.43	5.14	10.40	12.76	14.69	19.75	26.77	32.13	39.86
Romania	8.14	5.67	0.97	0.44	0.25	0.43	0.68	0.77	0.50	0.99
Yugoslavia:										
Bosnia-Herzegovina							0.00	0.00	0.00	0.6
Croatia					3.30	3.26	6.30	10.53	15.18	23.25
FYR Macedonia					1.50	2.63	4.87	5.83	5.06	na
Serbia & Montenegro								0.14	0.21	0.09
Slovenia			14.13	15.91	22.26	35.23	64.25	77.26	77.02	88.07
USSR/NIS:										
Azerbaijan					na	na	na	na	na	na
Belarus					0.16	0.18	0.18	0.15	0.11	0.44
Estonia		na	na	0.82	1.58	1.70	2.49	3.64	6.31	10.07
Latvia					2.70	3.75	6.74	6.88	5.91	7.06
Lithuania					1.62	3.56	3.55	3.66	3.93	4.49
Georgia									0.020	na
Kazakhstan						na	na	na	na	0.04
Moldova				na	na	0.86	1.35	2.47	3.28	1.33
Russian Federation			1.66	0.70	3.23	13.17	7.35	10.25	9.46	8.58
Ukraine					1.41	3.69	0.80	0.36	0.20	0.10

Notes: Insurance Density (premium income in US Dollars / population). Premium income figures given in US Dollars are based upon the appropriate average annual exchange rates reported by the EBRD. Population figures are based upon Euromonitor data.

Exhibit 4b, Insurance Density in CEE and the NIS: Non-Life

	Year									
Host Country	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Albania				1.00	3.39	3.50	4.28	4.08	2.28	2.85
Bulgaria				10.79	17.82	18.66	21.45	19.23	12.64	13.64
Czechoslovakia:	52.67									
Czech Republic		35.48	32.13	39.72	57.98	72.80	89.17	104.59	108.71	123.51
Slovakia		57.36	25.12	29.52	37.22	40.12	51.17	62.14	68.07	78.42
Hungary	41.37	54.10	63.78	62.78	59.54	64.71	64.88	67.05	68.88	71.66
Poland	8.81	17.97	31.51	29.55	31.76	32.75	39.80	51.99	65.10	75.67
Romania	13.35	9.19	5.18	2.41	2.40	3.93	5.60	7.11	7.56	11.04
Yugoslavia:										
Bosnia-Herzegovina							37.10	45.80	70.50	72.30
Croatia					93.36	91.27	105.86	116.15	119.51	137.16
FYR Macedonia					46.70	43.66	56.73	52.11	39.79	na
Serbia & Montenegro								23.68	26.40	20.37
Slovenia			194.55	197.09	188.22	210.41	369.88	390.34	359.25	427.74
USSR/NIS:										
Azerbaijan					na	na	na	na	na	na
Belarus					2.54	2.34	3.85	5.55	4.50	4.70
Estonia		na	na	3.01	7.90	15.89	29.46	41.37	45.57	49.61
Latvia					5.87	8.90	17.15	22.70	39.49	51.08
Lithuania					1.87	3.63	4.78	8.77	13.15	22.26
Georgia									0.80	na
Kazakhstan						na	na	na	na	3.54
Moldova				na	na	0.68	1.93	2.29	3.42	2.84
Russian Federation			1.05	2.38	4.11	9.93	26.97	28.15	33.37	20.92
Ukraine					1.98	4.99	2.42	3.03	4.12	6.16

Notes: Insurance Density (premium income in US Dollars / population). Premium income figures given in US Dollars are based upon the appropriate average annual exchange rates reported by the EBRD. Population figures are based upon Euromonitor data.

Exhibit 5, Insurance Penetration in CEE and the NIS: Life & Non-Life

	Year									
Host Country	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Albania				0.51%	0.96%	0.60%	0.60%	0.54%	0.36%	0.34%
Bulgaria				1.11%	1.90%	2.31%	2.09%	2.12%	1.15%	1.22%
Czechoslovakia:	2.98%									
Czech Republic		2.89%	1.92%	1.99%	2.34%	2.55%	2.52%	2.63%	2.86%	3.06%
Slovakia		2.93%	1.77%	1.89%	2.18%	2.04%	2.07%	2.40%	2.59%	2.96%
Hungary	1.73%	1.91%	2.49%	2.00%	2.07%	2.15%	2.12%	2.22%	2.28%	2.39%
Poland	0.51%	1.25%	1.80%	1.81%	1.99%	1.97%	1.93%	2.26%	2.76%	2.96%
Romania	0.93%	0.92%	0.50%	0.33%	0.23%	0.33%	0.40%	0.50%	0.52%	0.71%
Yugoslavia:										
Bosnia-Herzegovina							1.99%	1.67%	2.06%	1.92%
Croatia					4.24%	3.11%	2.85%	2.89%	2.82%	2.93%
FYR Macedonia					4.08%	2.93%	2.99%	2.85%	2.65%	na
Serbia & Montenegro						0.37%	0.62%	1.32%	1.75%	1.38%
Slovenia			3.30%	3.23%	3.30%	3.40%	4.61%	4.77%	4.46%	4.74%
USSR/NIS:										
Azerbaijan					0.31%	0.05%	0.16%	0.28%	0.36%	0.35%
Belarus					0.77%	0.54%	0.40%	0.43%	0.35%	0.37%
Estonia		na	0.71%	0.56%	0.89%	1.16%	1.35%	1.52%	1.64%	1.67%
Latvia					1.02%	0.88%	1.36%	1.43%	1.99%	2.23%
Lithuania					0.48%	0.63%	0.51%	0.58%	0.66%	0.93%
Georgia									0.08%	0.13%
Kazakhstan						0.04%	0.07%	0.07%	0.20%	0.24%
Moldova				0.52%	0.36%	0.48%	0.87%	1.10%	1.37%	0.99%
Russian Federation			0.98%	0.54%	0.64%	1.23%	1.46%	1.32%	1.41%	1.59%
Ukraine					0.60%	1.20%	0.45%	0.39%	0.44%	0.76%

Notes: Insurance Density (premium income in US Dollars / GDP). Premium income figures given in US Dollars are based upon the appropriate average annual exchange rates reported by the EBRD. GDP figures are also based upon EBRD data.

Exhibit 5a, Insurance Penetration in CEE and the NIS: Life

	Year									
Host Country	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Albania								0.02%	0.01%	0.01%
Bulgaria				0.04%	0.50%	0.69%	0.71%	0.48%	0.11%	0.15%
Czechoslovakia:	0.79%									
Czech Republic		1.11%	0.62%	0.62%	0.59%	0.65%	0.69%	0.72%	0.76%	0.83%
Slovakia		0.69%	0.55%	0.55%	0.53%	0.48%	0.49%	0.62%	0.72%	0.90%
Hungary	0.26%	0.21%	0.51%	0.26%	0.48%	0.55%	0.63%	0.70%	0.75%	0.87%
Poland	0.09%	0.09%	0.25%	0.47%	0.57%	0.61%	0.64%	0.77%	0.91%	1.02%
Romania	0.35%	0.35%	0.08%	0.05%	0.02%	0.03%	0.04%	0.05%	0.03%	0.06%
Yugoslavia:										
Bosnia-Herzegovina							0.00%	0.00%	0.00%	0.06%
Croatia					0.14%	0.11%	0.16%	0.24%	0.32%	0.42%
FYR Macedonia					0.13%	0.17%	0.24%	0.29%	0.30%	na
Serbia & Montenegro						na	na	0.01%	0.01%	0.01%
Slovenia			0.22%	0.24%	0.35%	0.49%	0.68%	0.79%	0.79%	0.81%
USSR/NIS:										
Azerbaijan					na	na	na	na	na	na
Belarus					0.05%	0.04%	0.02%	0.01%	0.01%	0.03%
Estonia		na	0.40%	0.12%	0.15%	0.11%	0.11%	0.12%	0.20%	0.28%
Latvia					0.32%	0.26%	0.38%	0.33%	0.26%	0.27%
Lithuania					0.22%	0.31%	0.22%	0.17%	0.15%	0.16%
Georgia									0.00%	na
Kazakhstan						na	na	na	na	0.002%
Moldova				na	na	0.27%	0.36%	0.57%	0.67%	0.32%
Russian Federation			0.60%	0.12%	0.28%	0.70%	0.31%	0.35%	0.31%	0.46%
Ukraine					0.25%	0.51%	0.11%	0.04%	0.02%	0.01%

Notes: Insurance Density (premium income in US Dollars / GDP). Premium income figures given in US Dollars are based upon the appropriate average annual exchange rates reported by the EBRD. GDP figures are also based upon EBRD data.

Exhibit 5b, Insurance Penetration in CEE and the NIS: Non-Life

	Year									
Host Country	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Albania				0.51%	0.96%	0.60%	0.60%	0.52%	0.35%	0.33%
Bulgaria				1.07%	1.40%	1.62%	1.38%	1.64%	1.04%	1.07%
Czechoslovakia:	2.19%									
Czech Republic		1.78%	1.30%	1.37%	1.75%	1.90%	1.83%	1.91%	2.10%	2.23%
Slovakia		2.24%	1.22%	1.34%	1.65%	1.56%	1.58%	1.78%	1.87%	2.06%
Hungary	1.47%	1.70%	1.98%	1.74%	1.59%	1.60%	1.49%	1.52%	1.53%	1.52%
Poland	0.42%	1.16%	1.55%	1.34%	1.42%	1.36%	1.29%	1.49%	1.85%	1.94%
Romania	0.58%	0.57%	0.42%	0.28%	0.21%	0.30%	0.36%	0.45%	0.49%	0.65%
Yugoslavia:										
Bosnia-Herzegovina							1.99%	1.67%	2.06%	1.86%
Croatia					4.10%	3.00%	2.69%	2.65%	2.50%	2.51%
FYR Macedonia					3.95%	2.76%	2.75%	2.56%	2.35%	na
Serbia & Montenegro						na	na	1.31%	1.74%	1.37%
Slovenia			3.08%	2.99%	2.95%	2.91%	3.93%	3.98%	3.67%	3.93%
USSR/NIS:										
Azerbaijan					na	na	na	na	na	na
Belarus					0.72%	0.50%	0.38%	0.42%	0.34%	0.34%
Estonia		na	0.31%	0.44%	0.74%	1.05%	1.24%	1.40%	1.44%	1.39%
Latvia					0.70%	0.62%	0.98%	1.10%	1.73%	1.96%
Lithuania					0.26%	0.32%	0.29%	0.41%	0.51%	0.77%
Georgia									0.08%	na
Kazakhstan						na	na	na	na	0.24%
Moldova				na	na	0.21%	0.51%	0.53%	0.70%	0.67%
Russian Federation			0.38%	0.42%	0.36%	0.53%	1.15%	0.97%	1.10%	1.13%
Ukraine					0.35%	0.69%	0.34%	0.35%	0.42%	0.75%

Notes: Insurance Density (premium income in US Dollars / GDP). Premium income figures given in US Dollars are based upon the appropriate average annual exchange rates reported by the EBRD. GDP figures are also based upon EBRD data.

Exhibit 6a, Leading Insurers in CEE at the end of 1998

	1st Place		2nd Place		3rd Place	
Host Country	**Name of Insurer**	**Market Share (%)**	**Name of Insurer**	**Market Share (%)**	**Name of Insurer**	**Market Share (%)**
Albania	INSIG[1]	100.0%				
Bosnia-Herzegovina	Sarajevo Osiguranje[1]	32.7%	Croatia Osiguranje[2]	18.1%	Bosna Osiguranje	12.8%
Bulgaria						
Life	DZI-General Insurance[1]	74.5%	Phoenix AD	9.3%	Allianz Bulgaria-Zhivot[2]	8.1%
Non-Life	DZI-General Insurance[1]	27.3%	Bulstrad[1]	22.1%	Allianz Bulgaria[2]	19.8%
Croatia	Croatia Osiguranje[1]	58.5%	Euroherc Osiguranje[2]	7.4%	Osiguranje Zagreb	6.2%
Life	Osiguranje Zagreb	21.3%	Croatia Osiguranje[1]	20.6%	Prima Osiguranje[2]	18.9%
Non-Life	Croatia Osiguranje[1]	64.9%	Euroherc Osiguranje[2]	8.6%	Allianz Zagreb[2]	4.7%
Czech Republic	Ceská Pojištovna[1]	58.4%	Ceská Kooperativa[2]	9.2%	IBP	5.8%
Life	Ceská Pojištovna[1]	52.3%	Nationale-Nederlanden Zivotní[2]	18.9%	IBP	14.3%
Non-Life	Ceská Pojištovna[1]	60.7%	Ceská Kooperativa[2]	12.0%	Allianz[2]	5.4%
FYR Macedonia[3]	Osiguruvanje I Reosiguruvanje Makedonija[1]	93.9%	Vardar	4.3%	Tabak	1.4%
Hungary	Hungária[1 2]	30.5%	ÁB-Aegon Általános[1 2]	17.7%	Nationale-Nederlanden Hungary[2]	13.7%
Life	Nationale-Nederlanden Hungary[2]	37.5%	ÁB-Aegon Általános[1 2]	24.4%	Providencia Osztrák-Magyar[2]	9.7%
Non-Life	Hungária[1 2]	44.0%	Providencia Osztrák-Magyar[2]	14.0%	ÁB-Aegon Általános[1 2]	13.9%
Poland						
Life	PZU na Zycie[1]	63.6%	Commercial Union TU Zycie[2]	18.0%	PAPTUnZir Amplico-Life[2]	9.3%
Non-Life	PZU[1]	58.9%	TUiR Warta[1 2]	13.2%	TUR Polisa[2]	4.1%
Romania	Asigurarea Românească - Asirom[1]	43.3%	Astra[1]	11.1%	Asigurari Ion Tiriac - ASIT[2]	7.9%
Life	Asigurarea Românească - Asirom[1]	44.1%	Nederlanden Asigurari de Viata Romania[2]	22.0%	S.A.R.A. Merkur[2]	14.1%
Non-Life	Asigurarea Românească - Asirom[1]	43.2%	Astra[1]	12.1%	Asigurari Ion Tiriac - ASIT[2]	8.7%
Serbia & Montenegro[3]	DDOR Novi Sad	41.7%	Dunav Osiguranje[1]	33.7%	Lovcen	3.0%
Slovakia	Slovenská[1]	59.0%	Kooperativa[2]	7.9%	Allianz[2]	7.3%
Life	Slovenská[1]	51.9%	AMSLICO První Americko-Slovensko[2]	12.8%	Nationale-Nederlanden[2]	11.1%
Non-Life	Slovenská[1]	62.7%	Allianz[2]	8.7%	Kooperativa[2]	8.7%
Slovenia	Zavarovalnica Triglav[1]	43.0%	ZZZ Slovenije	19.9%	Zavarovalnica Maribor	15.0%
Life	Zavarovalnica Triglav[1]	39.6%	Zavarovalnica Maribor	27.0%	Merkur Zavarovalnica[2]	10.7%
Non-Life	Zavarovalnica Triglav[1]	43.7%	ZZZ Slovenije	24.0%	Zavarovalnica Maribor	12.5%

Sources: Wherever possible the researcher has utilized data obtained directly from host country sources (local insurers' association and/or the respective supervisory authority).

Notes: 1 = Former State Insurer (Monopoly/Duopoly); 2 = Insurer with significant foreign capital; and 3 = Based on data for 1997 due to lack of data for 1998.

Exhibit 6b, Leading Insurers in the NIS at the end of 1998

	1st Place		2nd Place		3rd Place	
Host Country	**Name of Insurer**	**Market Share (%)**	**Name of Insurer**	**Market Share (%)**	**Name of Insurer**	**Market Share (%)**
Belarus	Belgosstrakh State Insurance[1]	46.4%	Belingosstrakh[2]	4.6%	TASK	4.4%
Estonia						
Life	Eesti Elukindlustus[1]	43.8%	Hansapanga Kindlustus	16.6%	AB Elukindlustus[2]	14.4%
Non-Life	Eesti Varakindlustus[1]	21.3%	Leks Kindlustus[2]	15.6%	ASA Kindlustus	11.7%
Georgia	Aldagi	19.7%	Georgian Gosstrakh[1]	16.6%	Georgian Insurance	13.8%
Kazakhstan	Kazakinstrakh[1]	9.1%	Neftyanaya SK	9.0%	Kommesk-Omir	7.4%
Latvia						
Life	Ezerzeme	23.8%	Salamandra Baltik	18.8%	Latva[1]	18.2%
Non-Life	Balta[2]	20.0%	Austrumu Alianse	17.9%	Baltijas Transporta Apdroøinâøana	9.8%
Lithuania	Lietuvos Draudimas[1]	52.0%	Drauda[2]	8.1%	Ukio Draudimas	5.5%
Life	Lietuvos Draudimas[1]	70.0%	Lietuvos Draudimas - Gyvybes Draudimas	17.7%	Draudos Gyvybes Draudimas[2]	5.5%
Non-Life	Lietuvos Draudimas[1]	48.4%	Drauda[2]	9.7%	Ukio Draudimas	6.6%
Moldova	Cia de Asigurare pe Actiuni (ASITO)[1]	40.0%	Asito-Trafic	17.9%	AFES-Moldova[2]	10.8%
Russian Federation	Spasskie Vorota	11.1%	ROSNO	5.3%	Promeshlenno Strakhovaya Kompaniya	3.1%
Ukraine	Oranta, Kyiv[1]	11.5%	AKV Garant	9.5%	Zakhid-Reserv	5.8%

Sources: Wherever possible the researcher has utilized data obtained directly from host country sources (local insurers' association and/or the respective supervisory authority).

Notes: 1 = Former State Insurer (Monopoly/Duopoly) and 2 = Insurer with significant foreign capital.

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