

# REPORT

## ON THE ANALYSIS OF FOREIGN INSURANCE BUSINESS OF AUSTRIAN INSURANCE GROUPS

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## MANAGEMENT SUMMARY - DEUTSCH

Gegenstand des vorliegenden Berichtes ist das ausländische Versicherungsgeschäft österreichischer Versicherungsgruppen. Der erste Teil enthält eine Analyse der für österreichische Versicherungsgruppen relevanten Versicherungsmärkte, wobei der Fokus auf den makroökonomischen Rahmenbedingungen, dem Entwicklungsstand und der Struktur der Versicherungsmärkte sowie der Position und dem Geschäftsumfang österreichischer Versicherungsgruppen in diesen Märkten liegt. Der zweite Teil des Berichts befasst sich mit einer Detailanalyse von Schlüsselmärkten. Als Schlüsselmarkt werden jene Märkte definiert, deren Prämienanteil (i.e. in einem bestimmten Markt erzielte verrechnete Prämien im Verhältnis zum gesamten im Ausland erzielten verrechneten Prämienvolumen) über 3% liegt.

Die Analyse basiert auf Daten von Tochterunternehmen und Beteiligungen, Prämien von Zweigniederlassungen bzw. dem freien Dienstleistungsverkehr wurden nicht berücksichtigt. Österreichische Versicherungsgruppen sind in mehr als 28 Europäischen Versicherungsmärkten tätig. Um die Analyse dieser Märkte übersichtlicher zu gestalten, werden ausschließlich für die Zwecke der gegenständlichen Analyse die Länder vier geographischen Segmenten zugeordnet:

Westeuropa (WE)	Zentraleuropa (CE)	Südosteuropa (SEE)	Osteuropa (EE)
Deutschland	Estland	Albanien	Georgien
Italien	Lettland	Bosnien-Herzegowina	Moldawien
Liechtenstein	Litauen	Bulgarien	Russland
Schweiz	Polen	Kosovo	Türkei
	Slowakei	Kroatien	Ukraine
	Tschechien	Mazedonien	Weißrussland
	Ungarn	Montenegro	
		Rumänien	
		Serbien	
		Slowenien	
		Zypern	

Aus der makroökonomischen Perspektive ergab sich für die (Rück-) Versicherungsindustrie in 2015 wieder ein Jahr, welches durch moderates makroökonomisches Wachstum gekennzeichnet war. Die Entwicklungen auf den Finanzmärkten waren von Interventionen der EZB und sich daraus ergebenden weiteren Unsicherheiten geprägt. Es bestehen weiterhin Gefährdungspotentiale für die globale Wirtschaft, die sich beispielsweise aus politischen Entwicklungen, dem Brexit-Referendum sowie der Migrationsproblematik ergeben.

Im Hinblick auf das Versicherungsgeschäft, verringerte sich das Prämienwachstum in den reiferen Märkten, wohingegen deutliche Prämiensteigerungen in den jungen Versicherungsmärkten zu beobachten waren. Wachstum in der Lebensversicherung wurde vor allem in Südosteuropa erzielt, wohingegen insbesondere in Polen (Rückgang bei den

Einmalerlägen) und Tschechien (Abschaffung der Steuerabzugsfähigkeit bei Einmalerlägen) Rückgänge zu verzeichnen waren. Bezüglich des Nichtlebensversicherungsgeschäftes, war bis auf Osteuropa in allen geographischen Segmenten ein Prämienwachstum zu beobachten. Der Prämienrückgang im Segment Osteuropa ist vor allem auf Marktentwicklungen in Russland zurückzuführen.

Im Jahr 2015 stammte rund 47% des Prämienvolumens österreichischer Versicherungsgruppen aus dem Ausland, wobei das geographische Segment Zentraleuropa den größten Prämienanteil aufweist. Das Prämienvolumen aus dem ausländischen Geschäft verringerte sich gegenüber 2015 um rund 0,85%.

Der Entwicklungsstand der Versicherungsmärkte, der mittels der Indikatoren Versicherungsdichte (Prämien pro Einwohner) und Versicherungsdurchdringung (Prämienvolumen in % des BIP) gemessen wird, differiert erheblich zwischen geographischen Segmenten und Versicherungszweigen. Die Versicherungsmärkte im Segment Westeuropa sind als wesentlich entwickelter einzustufen als die Märkte der anderen geographischen Segmente. Im Vergleich zum Segment Osteuropa sind die Versicherungsmärkte des Segments Zentraleuropas bereits auf einem höheren Entwicklungsstand; Die Märkte Südosteuropas liegen diesbezüglich etwa im Mittelfeld, wobei aber Kroatien und Slowenien bereits ein höheres Niveau erreicht haben. Ebenso weist Zypern, das dem Segment Südosteuropa zugeordnet wurde, einen höher entwickelten Versicherungsmarkt auf.

In einigen Ländern halten österreichische Versicherungsgruppen einen hohen Marktanteil und nehmen daher eine dominante Position auf den lokalen Versicherungsmärkten ein. Im Segment Zentraleuropa weisen österreichische Versicherungsgruppen insbesondere in der Slowakei sowie in Tschechien hohe Marktanteile auf und nehmen bedeutenden Marktpositionen sowohl im Lebens- als auch Nichtlebensversicherungsgeschäft ein. In Osteuropa und Südosteuropa sind österreichische Versicherungsgruppen vor allem in der Lebensversicherung stärker positioniert, wobei zu berücksichtigen ist, dass die Lebensversicherungsmärkte in diesen Ländern teilweise (noch) recht klein sind und österreichische Gruppen relativ früh in die Märkte eingestiegen sind. In Albanien dominieren österreichische Versicherungsgruppen den Versicherungsmarkt, sowohl im Lebens- als auch im Nichtlebensversicherungsgeschäft. In Westeuropa hingegen, spielen österreichische Versicherungsgruppen keine wesentliche Rolle auf den lokalen Märkten, nur in Liechtenstein wird ein erwähnenswerter Marktanteil auf dem Lebensversicherungsmarkt gehalten.

Folgende sieben Märkte wurden als Schlüsselmärkte definiert und eine detaillierte Analyse im Hinblick auf makroökonomische Bedingungen, Struktur und Entwicklung des Versicherungsmarktes sowie die politischen, rechtlichen und regulatorischen Rahmenbedingungen wurde vorgenommen:

- Tschechien
- Italien
- Polen
- Slowakei
- Rumänien
- Ungarn
- Kroatien

## MANAGEMENT SUMMARY - ENGLISH

Subject to this report is the foreign insurance business of Austrian insurance groups. In the first part, an analysis of the insurance markets relevant for Austrian insurance groups is carried out, focusing on the macroeconomic framework, development and structure of the insurance markets and position and exposure of Austrian insurance groups in these markets. The second part is dedicated to a detailed analysis of key insurance markets. An insurance market is defined as key market if total premium share (i.e. gross written premiums of Austrian insurance groups generated in an insurance market compared to total foreign gross written premiums of Austrian insurance groups) lies above 3%.

The analysis is based only on the figures of subsidiaries and related undertakings. Exposure-data of branches and free provision of services are not included.

Austrian Insurance Groups are active in more than **28 European insurance markets**. In order to streamline the analysis of these markets, the countries are just for the purpose of this analysis clustered in 4 geographical segments:

Western Europe (WE)	Central Europe (CE)	South Eastern Europe (SEE)	Eastern Europe (EE)
Germany	Czech Republic	Albania	Belarus
Italy	Estonia	Bosnia Herzegovina	Georgia
Liechtenstein	Hungary	Bulgaria	Moldova
Switzerland	Latvia	Croatia	Russia
	Lithuania	Cyprus	Turkey
	Poland	Kosovo	Ukraine
	Slovakia	Macedonia	
		Montenegro	
		Romania	
		Serbia	
		Slovenia	

From the **macroeconomic point of view**, the worldwide (re)insurance industry experienced in 2015 again a year of moderate economic growth. Financial markets were dominated in 2015 by Central Bank interventions, divergent Monetary Policies and uncertainty. Many downside risks to the global economy remain (e.g. worldwide political developments, Brexit referendum and migration).

With regard to **insurance business**, premium growth slowed in advanced markets, but it accelerated in emerging markets. A growth in life insurance business was driven by countries in South Eastern Europe, whereas a decline was observed for Poland (reduction in single premium business) and the Czech Republic (removal of tax deductibility on single premiums). Referring to non-life insurance business, an increase in premiums was observed for Western, Central and South Eastern Europe. In contrast, non-life premium volume in Eastern Europe declined, mainly due to market developments in Russia (Non-life business is not pursued by Austrian groups in Russia).

In 2015, nearly 47% of gross written premium volume was generated outside of Austria, whereas Central Europe being the geographical segment with the highest share of premiums. A comparison of the figures of 2014 and 2015 shows that gross written premiums of Austrian insurance groups in foreign markets declined by about 0.85%.

The **development status of insurance markets**, as measured by the indicators insurance penetration and insurance density differs significantly among geographical segments and lines of business. The insurance markets of Western Europe show a higher maturity level as the markets in the other geographical segments. Compared to Eastern Europe, insurance markets in Central Europe already show an elevated development stage. The insurance markets of South Eastern Europe can be considered being in an intermediate position, however, Croatia and Slovenia already moved to a higher level. Also Cyprus, which is shown in the segment South Eastern Europe has a quite well developed insurance market.

In some countries Austrian insurance groups have a high **market share** and therefore a dominant position on the local insurance market. In Central Europe, Slovakia and Czech Republic are the countries with the highest market shares of Austrian groups with the particularity of significant market positions in life and non-life insurance. In Eastern Europe and South Eastern Europe, Austrian insurance groups have much stronger positions on the life insurance market. This results from the fact, that life insurance markets are still smaller and Austrian insurance groups entered into those markets rather early. In Albania, Austrian insurance groups dominate the insurance market in both lines of business. In Western Europe, Austrian insurance groups do not play a significant role on the local markets. In Liechtenstein only a more significant market share in the life insurance sector can be observed.

The following seven markets were defined as key markets and a detailed analysis considering macro-economic conditions, structure and development of the insurance market, as well as the political, legal and regulatory framework has been carried out (see chapter 3).

- Czech Republic
- Italy
- Poland
- Slovakia
- Romania
- Hungary
- Croatia

# 1 ANALYSIS OF FOREIGN INSURANCE BUSINESS

The analysis of the foreign insurance business consists of two parts: Section 2.1. gives an update on the macroeconomic framework and conditions of the whole area and Section 2.2. provides an analysis of the insurance markets considering the status of development of the insurance markets, market characteristics and the market position of Austrian insurance groups.

## 1.1 Macroeconomic Framework and Conditions

**The worldwide (reinsurance) insurance industry experienced in 2015 again a year of moderate economic growth.** The global real gross domestic product (GDP) increased by 2.5%, which was above the annual average after the crisis of 2.2 % (see Table 1). Trade, financial markets and foreign exchange markets were negatively affected in 2015 by several events including worsening of the economic climate in Greece, stock market crisis in China as well as economical and geopolitical tensions in emerging markets.

Growth of advanced markets accelerated more than in emerging markets, which were affected by a slowdown in economic development given political instabilities and low commodity prices.

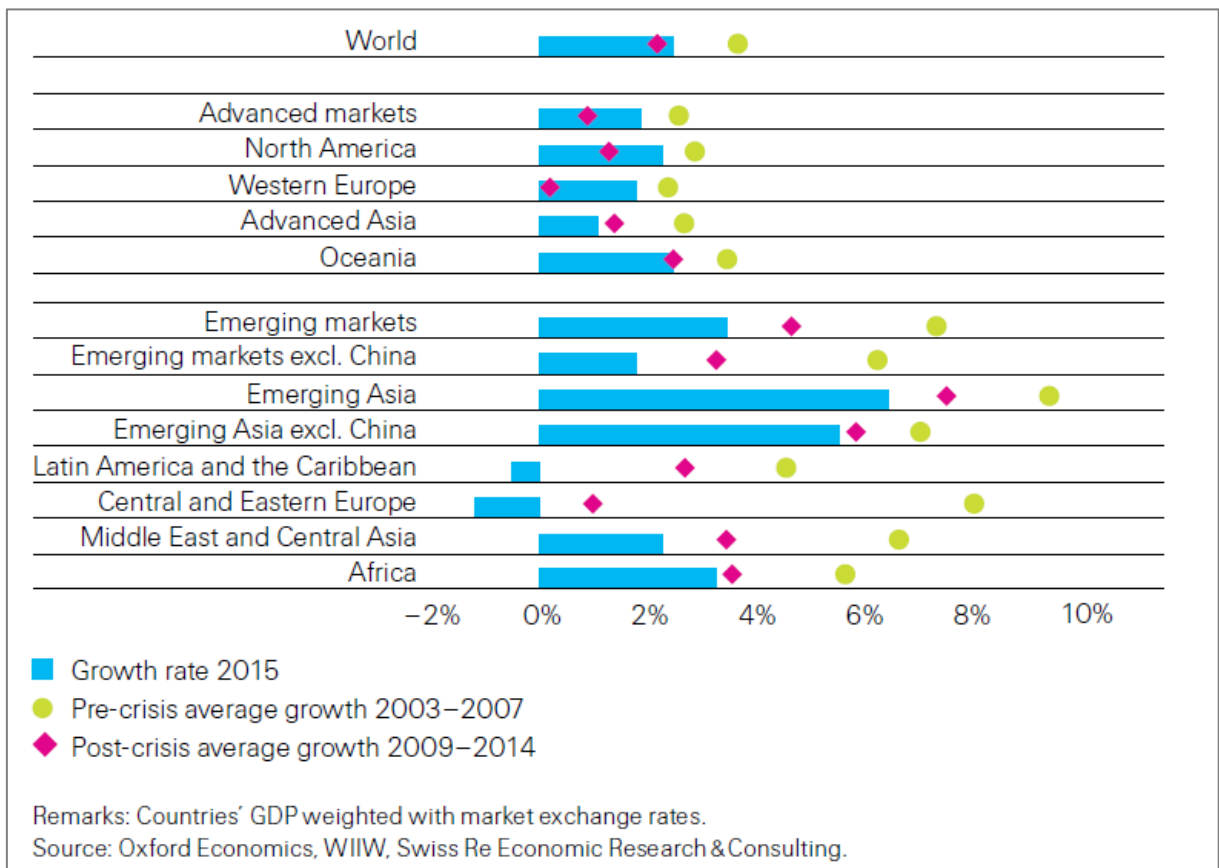


Figure 1 Real GDP growth by region in 2015, and pre- and post-financial crisis average



In West Europe growth improved in 2015 to 1.8% (2014: 1.4%) supported by low interest rates, low oil prices and a relatively weak euro. Growth is still below the pre-crisis growth but exceeded the post-crisis average growth to a quite large extent.

**Financial markets were dominated in 2015 by Central Bank interventions, divergent Monetary Policies and uncertainty.** Level of interest rate reached a record low as European Central Bank (ECB) and Bank of Japan (BoJ) continued their path of expansive and unconventional monetary policy due to persistent risks of deflation. In contrast the US Federal Reserve (FED) made a step towards a normalization of monetary policy by increasing interest rates in December 2015. Nevertheless Inflation fell almost to zero in the US, Euro area and UK mainly caused by low commodity prices especially oil prices in 2015. Investment environment stagnated globally due to uncertainty in combination with monetary tightening by the Fed and another year of low yield in developed countries.

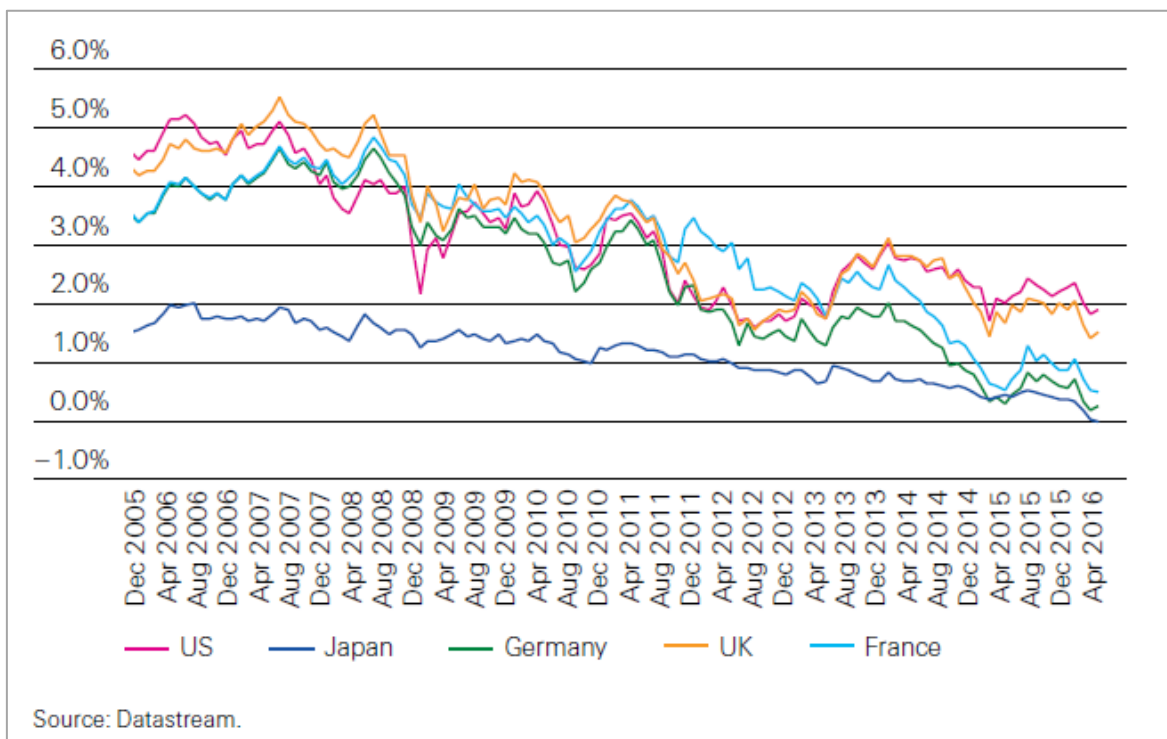


Figure 2 Long-term interest rates, December 2005 to April 2016

**Many downside risks to the global economy remain.** 4 major challenges are prospected for the global economy, which will produce periods of market volatility combined with moderate global growth in 2016 and 2017:

*Further raising of  
interest rates in the  
US*

*China continues  
path of opening its  
capital markets*

*Persistent low level  
of commodity prices*

*Worldwide political  
developments  
continue to create  
uncertainty*

Regarding Europe issues including the consequences of the Brexit referendum, migration, volatile financial markets, the necessary balance sheet adjustments in a number of sectors and the sluggish pace of implementation of structural reforms will continue to dampen the economic recovery. Emerging Europe is projected to continue growing at a broadly steady

pace, though with some slowing in 2016. Russia, which continues to adjust to low oil prices and Western sanctions, is expected to remain in recession in 2016.

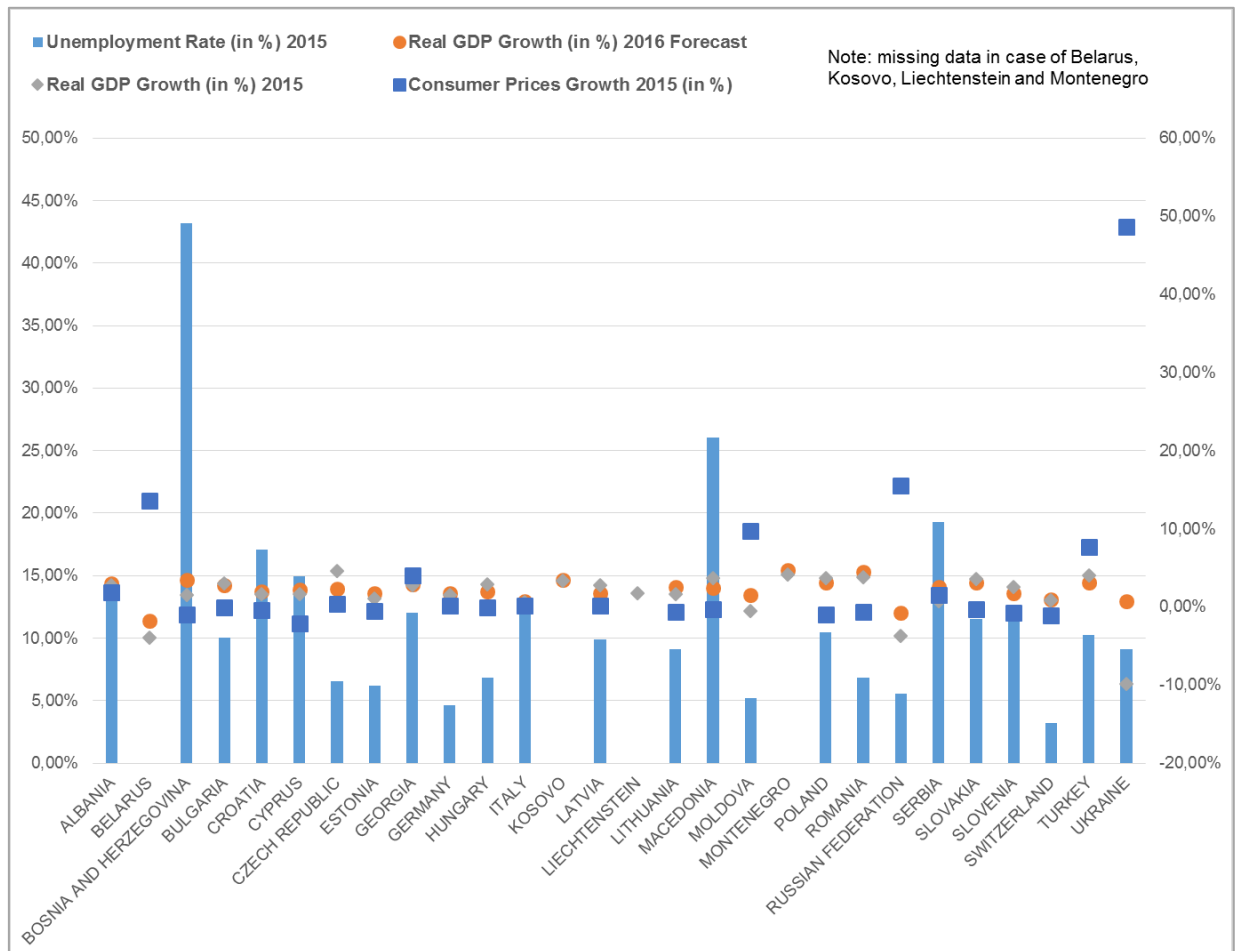


Figure 3 Macroeconomic indicators<sup>1</sup>

<sup>1</sup> (Sources: S&P Global; Swiss Re sigma; WEO April 2016 IMF)

## 1.2 Foreign Insurance Markets

Austrian Insurance Groups are active in more than **28 European insurance markets**. In order to streamline the analysis of these markets, the countries are clustered in 4 geographical segments:

Western Europe (WE)	Central Europe (CE)	South Eastern Europe (SEE)	Eastern Europe (EE)
Germany	Czech Republic	Albania	Belarus
Italy	Estonia	Bosnia Herzegovina	Georgia
Liechtenstein	Hungary	Bulgaria	Moldova
Switzerland	Latvia	Croatia	Russia
	Lithuania	Cyprus	Turkey
	Poland	Kosovo	Ukraine
	Slovakia	Macedonia	
		Montenegro	
		Romania	
		Serbia	
		Slovenia	

Figure 4 Segmentation of countries

In 2015, Austrian insurance groups generated total gross written premiums of 19.57 bn Euro (domestic and foreign business), which means a slight increase of 0.72% compared to 2014.

As can be seen from the table below, nearly 47% of gross written premium volume was generated outside Austria, whereat Central Europe is the geographical segment with the highest share of premiums. A comparison of the figures of 2014 and 2015 shows that gross written premiums of Austrian insurance groups in foreign markets declined by about 0.85%.

	2015		2014		CHANGE GWP AT Groups 2015/2014	
	Gross Written Premiums (in Bn. €) AT Groups	Ratio <sup>1)</sup>	Gross Written Premiums (in Bn. €) AT Groups	Ratio <sup>1)</sup>		
<b>AUSTRIA</b>	<b>10,37</b>	<b>53,02%</b>	<b>10,16</b>	<b>52,27%</b>	↑	2,14%
<b>FOREIGN MARKETS</b>	<b>9,19</b>	<b>46,98%</b>	<b>9,27</b>	<b>47,73%</b>	↓	-0,85%
WE	2,49	12,74%	2,40	12,34%	↑	3,93%
CE	4,74	24,24%	5,06	26,03%	↓	-6,21%
SEE	1,59	8,11%	1,41	7,27%	↑	12,41%
EE	0,37	1,89%	0,40	2,08%	↓	-8,47%
<b>Total</b>	<b>19,57</b>	<b>100,00%</b>	<b>19,43</b>	<b>100,00%</b>	↑	0,72%

1) Domestic and Foreign business only includes Austrian insurance Groups with foreign business operations. In comparison to shown results: Domestic Gross written Premiums including all Austrian insurance companies 17,07 Bn. € (2014) and 17,34 Bn. € (2015).

Figure 5 Domestic and Foreign business operations of Austrian insurance groups per segment<sup>2</sup>

Although it has to be considered that changes in the scope of the groups may influence the figures for premium volume, general market tendencies can be analyzed.

<sup>2</sup> (2014-2015) (Source: FMA Reporting Local GAAP per 31.12.)

The development of market gross written premiums in these countries by geographical segment is shown in the following table:

	2015			2014			CHANGE GWP 2015/2014		
	Gross Written Premiums (in Bn. €)			Gross Written Premiums (in Bn. €)					
	Life	Non-Life	Total	Life	Non-Life	Total	Life	Non-Life	Total
AUSTRIA	8,65	8,69	17,34	8,54	8,53	17,08	↑ 1,30%	↑ 1,80%	↑ 1,55%
FOREIGN MARKETS	248,50	206,98	455,48	244,80	203,72	448,52	↑ 1,51%	↑ 1,60%	↑ 1,55%
WE	231,79	166,39	398,18	227,63	162,64	390,27	↑ 1,83%	↑ 2,31%	↑ 2,03%
CE	11,67	13,14	24,81	12,31	12,48	24,80	↓ -5,22%	↑ 5,28%	↑ 0,07%
SEE	2,11	6,08	8,19	1,95	5,78	7,73	↑ 8,26%	↑ 5,15%	↑ 5,93%
EE	2,93	21,37	24,30	2,90	22,82	25,72	↑ 1,03%	↓ -6,35%	↓ -5,52%
Total	257,16	215,67	472,82	253,34	212,25	465,60	↑ 1,51%	↑ 1,61%	↑ 1,55%

Figure 6 GWP Development 2014-2015 per Segment<sup>3</sup>

### Premium growth slowed in advanced markets, but it accelerated in emerging markets.

Major reason for a minimal premium growth in advanced countries in Western Europe was a contraction in Germany (only 0.1%) and Liechtenstein (-3.8%). Premiums in Central Europe are stagnating (growth of 0.07%) because of the markets Poland, Slovakia and Czech Republic. South Eastern Europe premiums increased 2015 in total by 5.9% driven by markets like Albania, Macedonia and Serbia (growth of above 17%).

In general life premiums declined in the region driven by Czech Republic and Slovakia, but the Baltic markets continued to improve. The premium decline should halt in 2016 as economic growth continues. However, savings products remain unattractive due to low interest rates. Non-life premiums fell especially in the Eastern Europe markets Russia, Belarus and Ukraine in 2015. In almost all other CE, SEE and EE countries, premiums were up.

**Life premiums grew (1.5%) driven by countries in South Eastern Europe (8.3%). Poland (-3.9%) and Czech Republic (-10%).** The Majority of decline in Poland is coming from single premiums savings products due to low interest rates and a new tax on interest payments for short-term products to policyholder. In Czech Republic premiums fell as a removal of tax deductibility on single premiums made these less attractive. Life premiums also declined in Hungary and Slovakia. In contrast, many markets like Romania, Bulgaria and Slovenia continued to improve. In most EU member states of the CE and SEE region life premiums will remain under pressure, but could stabilize with continued strong growth. However, savings products will remain unattractive due to still-low interest rates.

**Non-life premiums in Western, Central and South Eastern Europe grew, in contrast Eastern Europe's non-life volume declined by 6.3% in 2015.** Almost exclusively due to Russia, the region's largest market, where premiums declined by 12.8% as the economy contracted. Non-life premiums also declined in the Ukraine (-17.9%), Belarus (-21.2%) and Moldova (-9.5%), while almost all other markets grew. Underwriting profitability in the region overall remained under pressure even though there were no major natural catastrophes.

**Economic recovery in CE, SEE and EE (excluding Russia and Ukraine) is expected to continue in 2016**, leading to lower unemployment and increased consumption, and in turn

<sup>3</sup> (Sources: FMA Reporting Local GAAP per 31.12.2015; Swiss Re sigma; xprimm FY2015/FY2014 CEE, CIS, SEE Overall Market Data; xprimm FY2015/FY2014 CEE, SEE Life/Non-Life Insurance Market Data)

stronger premium growth. Non-life sector profitability in CE and SEE will remain mixed. Regulatory changes, such as the insurance tax in Poland, could hurt overall profitability.<sup>4</sup>

The above mentioned tendencies can be observed looking at the development of gross written premiums by market.

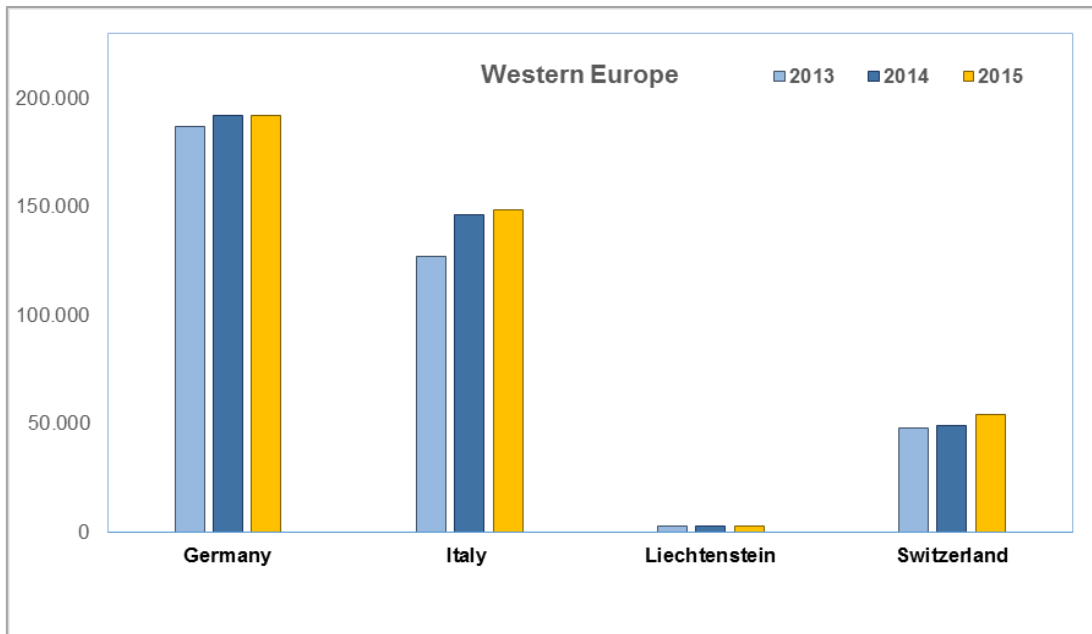


Figure 7 Premium Development in Segment WE (in million €) 2013-2015<sup>5</sup>

The advanced markets Germany (0.1%) and Italy (1.5%) recorded a minimal growth. In Germany this was mainly driven by a drop in new business especially in life and a drop in single premiums. In Italy growth flattened in life and non-life after two years of strong growth as sales of endowments in life slowed. Non-life in Italy declined by 2.7% driven by a 6.8% drop in Motor liability (reflects the fall in new car sales). Liechtenstein rose by 6% (Euro basis) and Switzerland 10.8% (Euro basis).<sup>6</sup>

<sup>4</sup> (Source: Swiss Re sigma No 3/2016)

<sup>5</sup> (Source: Swiss Re sigma)

<sup>6</sup> Both results are influenced by currency effects. Premium development in local currency: Switzerland grew by 0.2% and Liechtenstein declined by 3.7%.

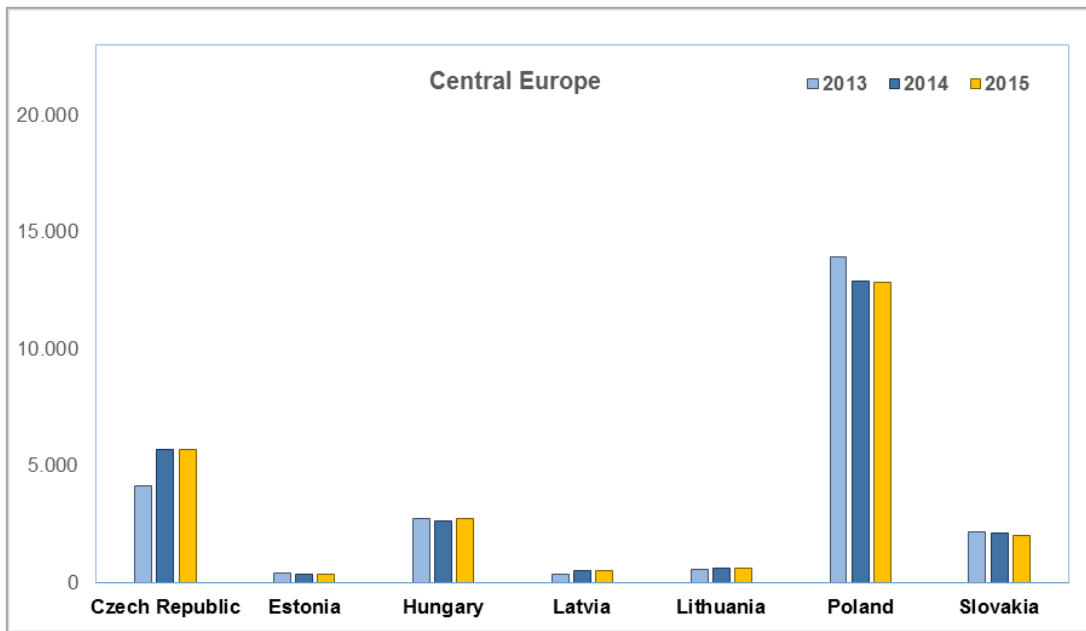


Figure 8 Premium Development in Segment CE (in million €) 2013-2015<sup>7</sup>

Except the Baltic markets plus Hungary all CE markets including Poland and Czech Republic with a large premium volume declined in 2015. This was mainly driven by deterioration in life business driven by Czech Republic and Slovakia. In contrast, the Baltic markets continued to improve in both lines of business.

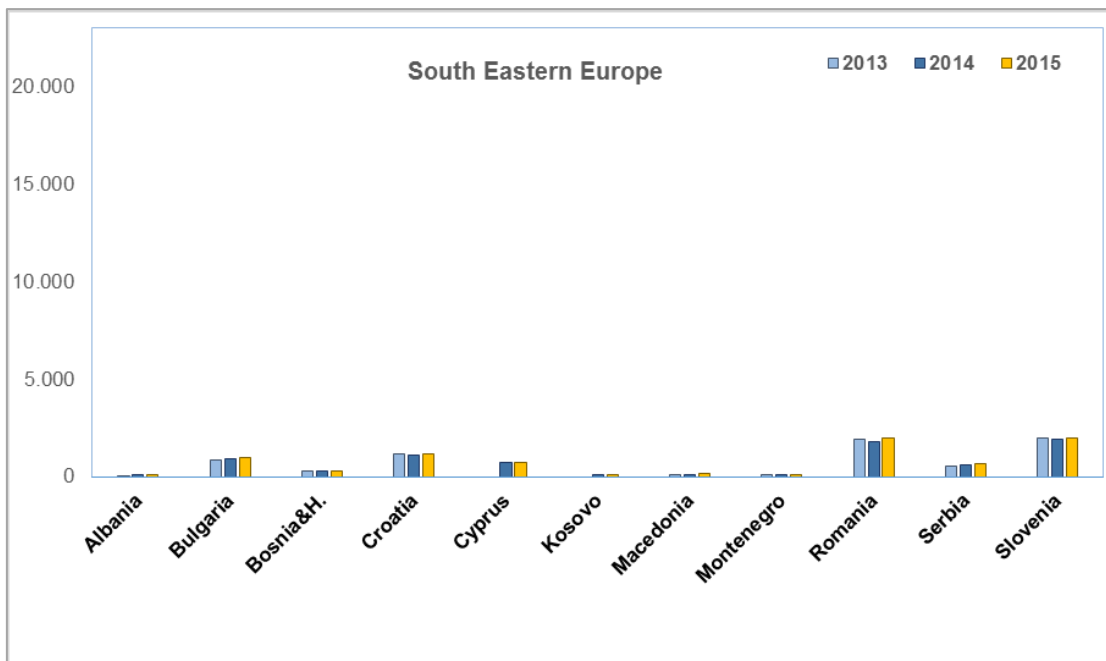


Figure 9 Premium Development in Segment SEE (in million €) 2013-2015<sup>8</sup>

<sup>7</sup> (Sources: xprimm FY2015/FY2014 CEE Overall Market Data)

<sup>8</sup> (Sources: xprimm FY2015/FY2014 CEE, SEE Overall Market Data)

The markets in the South Eastern Segment could continue their growth path with overall high growth rates. Regarding Lines of Business only Croatia (-1.9%) and Kosovo (-1.6%) recorded a decline in non-life business. In particular the markets Albania, Serbia and Bulgaria grew strongly in 2015.

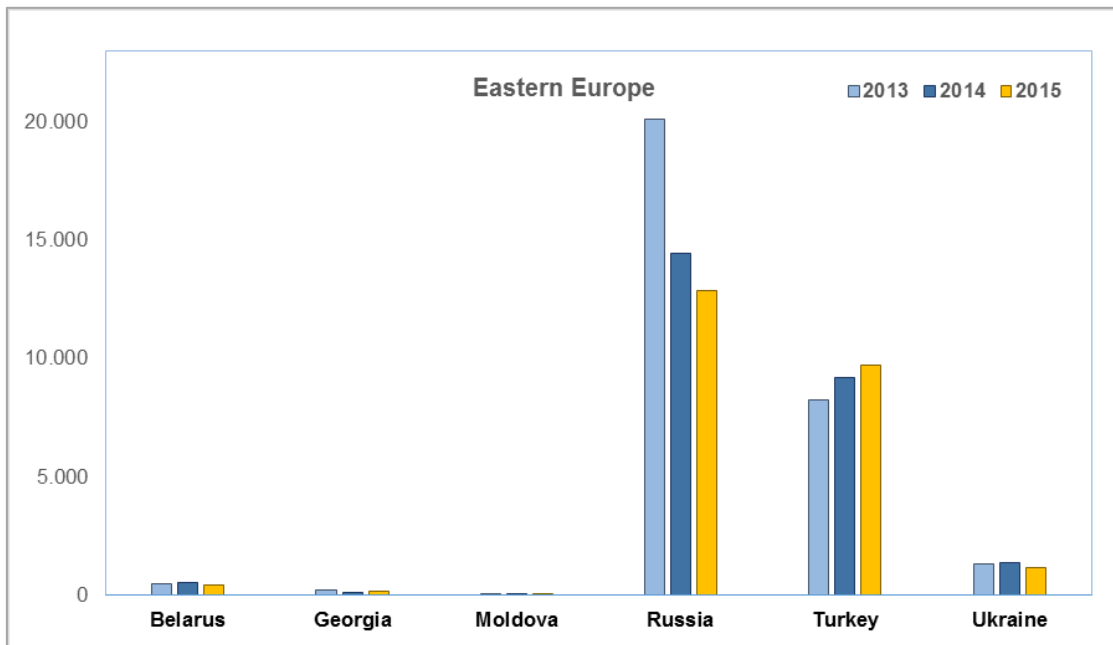


Figure 10 Premium Development in Segment EE (in million €) 2013-2015<sup>9</sup>

Eastern Europe markets demonstrate a notably heterogenic development in 2015. Except Turkey (6%) and Georgia (2.9%), which increased their premium volume in 2015, almost all other markets recorded a sharp decline in GWP. In general the EE insurance markets are negatively impacted by ongoing economic difficulties resulting from low oil prices, in case of Russia with sanctions due to the Ukraine conflict, high inflation and declining real incomes.

<sup>9</sup> (Sources: xprimm FY2015/FY2014 CIS, SEE Overall Market Data)

The development of premium volume gives a good indication on market tendencies. However, in order to analyze the development status and future potential of an insurance market, the two indicators “insurance penetration” and “insurance density” are used. Insurance density provides information on insurance premiums per capita. If insurance density is still low, the insurance market is not well developed and future potential might be high. Insurance penetration is calculated as the relationship of gross written premiums to the GDP and gives an indication on the importance of the insurance sector for the whole economy.

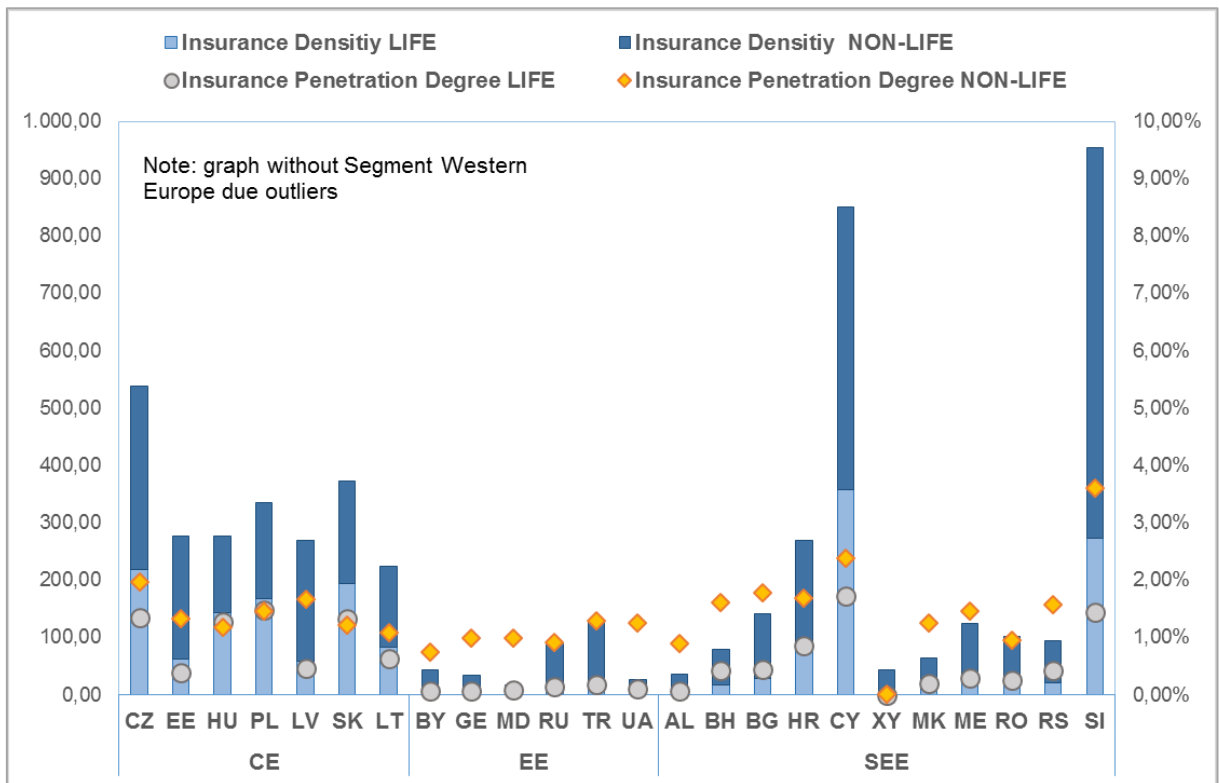


Figure 11 Insurance Density and Insurance Penetration (life & non-life) per segment 2015<sup>10</sup>

**The development status of insurance markets differs significantly among geographical segments and lines of business.** Especially the life insurance market is not yet well developed in Eastern Europe and South Eastern Europe.

In the following diagram the relevant parameters for the analysis of the development status of an insurance market are put together. The size of the bubbles reflects gross written premium volume and therefore the actual size of the insurance market.

<sup>10</sup> (Sources: S&P Global; Swiss Re sigma; WEO April 2016 IMF; xprim FY2015/FY2014 CEE, SEE Life/Non-Life Insurance Market Data)



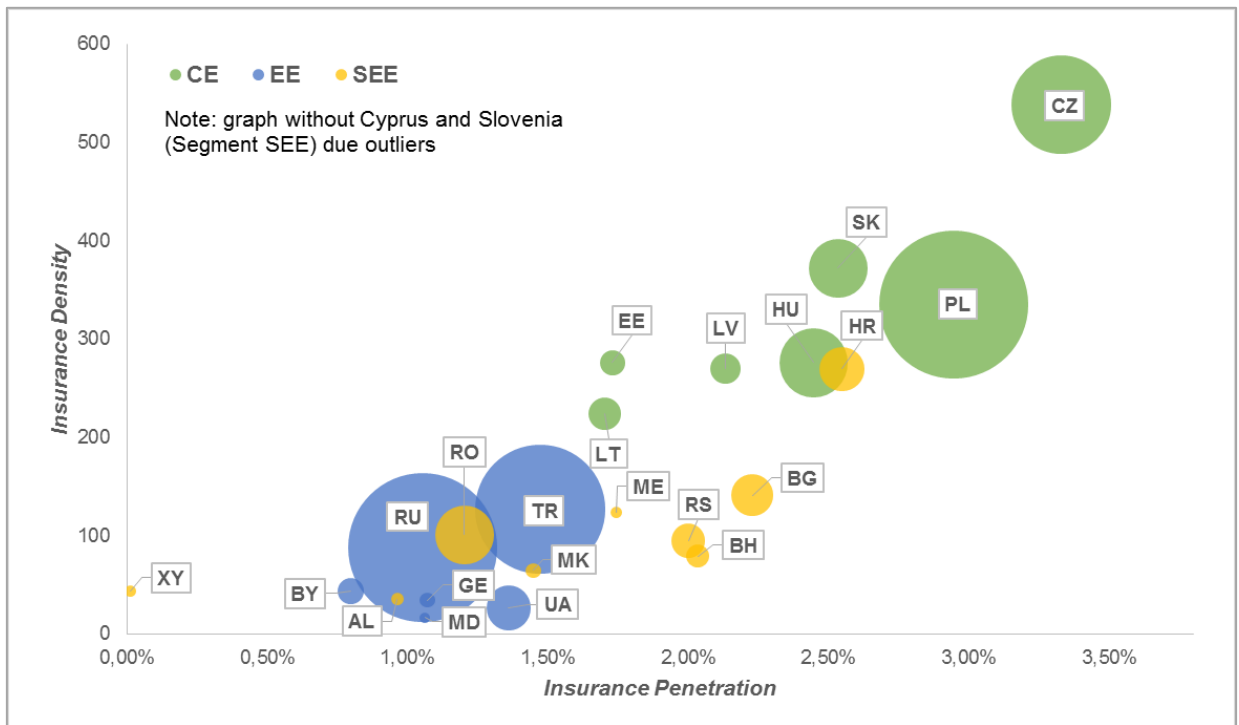


Figure 12 Insurance Density, Insurance Penetration and GWP per Country 2015 (Segment CE, EE, SEE)<sup>11</sup>

It can be observed that Russia, Turkey, Poland and Czech Republic are the biggest markets at the moment. Compared to Eastern Europe, insurance markets in Central Europe already are much more developed. The insurance markets of South Eastern Europe are in between, however, Croatia and Slovenia already moved to a higher level (insurance penetration in Slovenia lies above 5% and insurance density above 900 Euro). Also Cyprus, which was put in the segment South Eastern Europe has a quite well developed insurance market (insurance penetration over 4% and insurance density over 800 Euro).

<sup>11</sup> (Sources: S&P Global; Swiss Re sigma; WEO April 2016 IMF; xprimm FY2015/FY2014 CEE, CIS, SEE Overall Market Data)

As the insurance markets of Western Europe are much more mature as the markets in the other geographical segments, a separate diagram has been prepared for this region. In this diagram, also den indicators for Austria and the European Union are included.

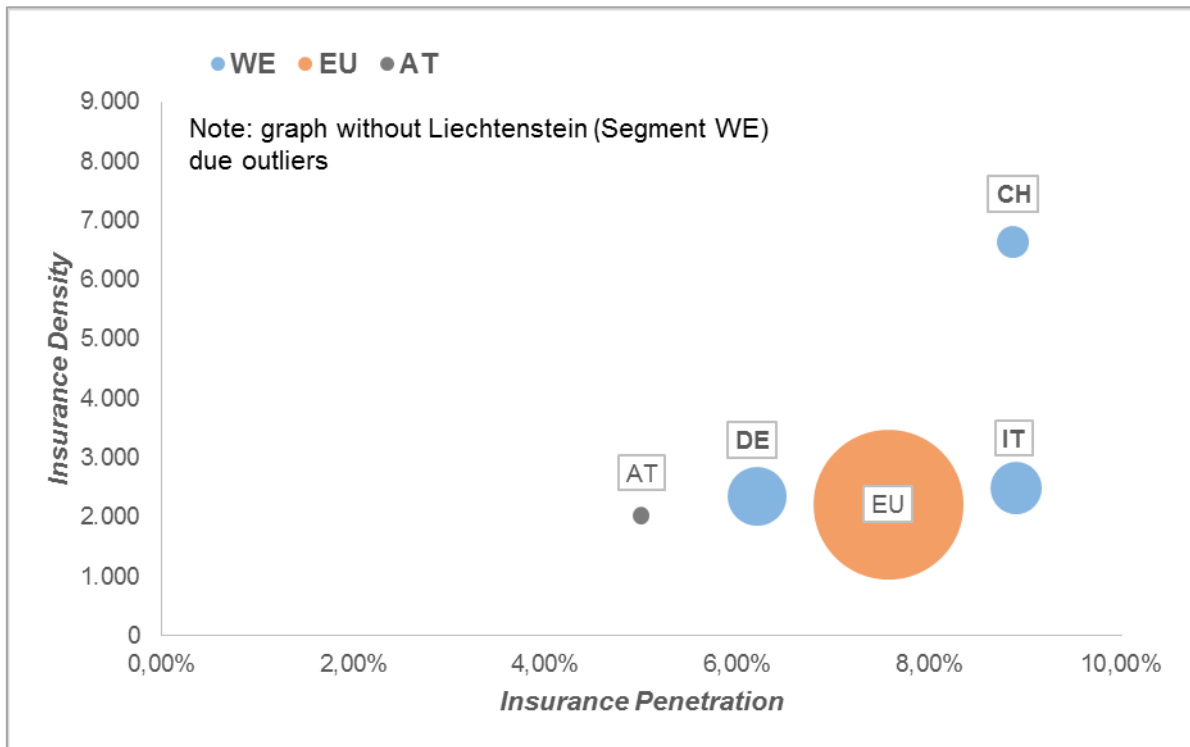


Figure 13 Insurance Density, Insurance Penetration and GWP per Country 2015 (Segment WE)<sup>12</sup>

<sup>12</sup> (Sources: S&P Global; Swiss Re sigma; WEO April 2016 IMF)

In some countries Austrian insurance groups have a high market share and therefore a dominant position on the local insurance market. However, there are significant differences with regard to lines of business.

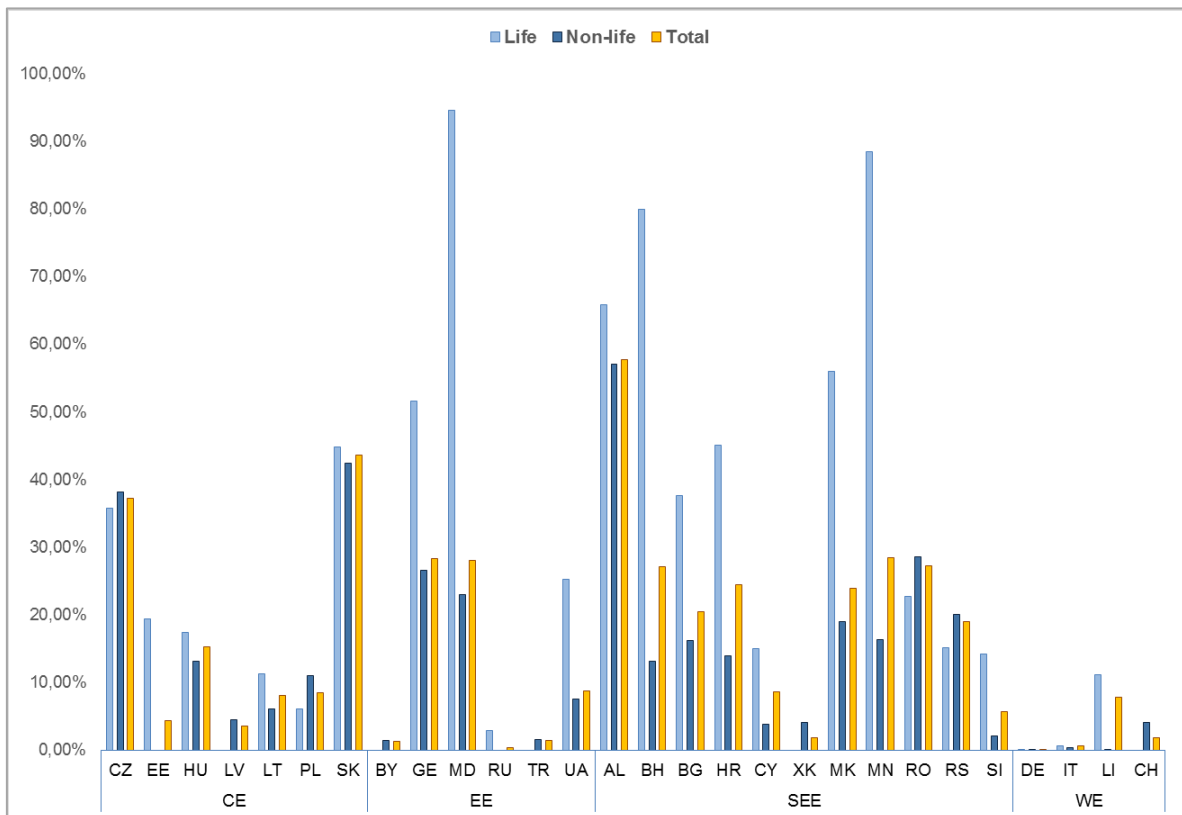


Figure 14 Market share of Austrian Insurance Groups per Segment 2015<sup>13</sup>

In Central Europe, Slovakia and Czech Republic are the countries with the highest market shares of Austrian groups with the particularity of significant market positions in life and non-life insurance.

In Eastern Europe and South Eastern Europe, Austrian insurance groups have much stronger positions on the life insurance market. This results from the fact, that life insurance markets are still smaller and Austrian insurance groups entered into those markets rather early. In Albania, Austrian insurance groups dominate the insurance market in both lines of business.

In Western Europe, Austrian insurance groups do not play a significant role on the local markets, only in Liechtenstein a more significant market share in the life insurance sector can be observed.

<sup>13</sup> (Sources: Swiss Re sigma; xprim FY2015 Regional rankings (Full length life/non-life insurance ranking))

## 2 ANALYSIS OF KEY MARKETS

Out of the 28 countries, where Austrian insurance groups carry out insurance business, seven key markets were defined. All markets are categorized according to the premium share, i.e. the relation of gross written premiums generated in a market to total foreign gross written premium volume. Countries with a premium share above 3% are defined as key markets.

According to this methodology, the following markets were classified as key markets:

- Czech Republic
- Italy
- Poland
- Slovakia
- Romania
- Hungary
- Croatia

For these markets an in-depth analysis is carried out considering macro-economic conditions, structure and development of the insurance market as well as the political, legal and regulatory framework.

## 2.1 Czech Republic

Country		Performance Indicators 2015 <sup>1)</sup>	
Czech Republic	Macro	Population (mil)	10,54
		Real GDP Growth	4,61%
		Real GDP Growth Forecast 2016	2,30%
		Unemployment rate	6,52%
		S&P Credit Rating	AA-
	Insurance market total	Premium Total (mil)	5.676,04
		Life	2.309,55
		Non-Life	3.366,49
		Premium growth	-0,35%
		Insurance Penetration	3,33%
		Insurance Density	538,52
	AT Groups	Premium share	23,88%
		Market share	37,20%

1) Sources: Czech Insurance Association (CAP); Czech National Bank (CNB); FMA Reporting Local GAAP per 31.12.2015; S&P Global

Figure 15 Key Performance Indicators 2015 Czech Republic

**Dynamic growth eases but remains solid amid sluggish price dynamics.** After a strong performance 2015 (Real GDP growth 4.6%) growth slowed down in first quarter 2016 (3% Real GDP growth), but still a better economic environment can be observed than expected. Decline is attributed to relatively strong investments into residential and industrial facilities. Unemployment rate is very low (6.5% 2015; 6% 2014). In first quarter of 2016 the trade surplus represents 7.8% of GDP. In nominal CZK terms the growth rates of exports and imports are less impressive because of ongoing strengthening of the Czech currency.

Future GDP growth will be driven by moderate growth and wages in 2016. Besides arising risks Czech Republic is considered with a positive outlook.<sup>14</sup>

**The Insurance market is facing a GWP Stagnation in total in 2015.** Thereby life recorded a decrease of -10% with exception of personal injury insurance which grew for 5%. Besides non-life grew by 7.6%, also supported by motor cover sales. Claims decreased by -3% whereas life Claims by -10% and non-life Claims increased with 6.5%.

The insurance market results in 2015 are strongly affected by the appreciation of Czech Koruna towards Euro and the different statistical approaches used by CNB and the Insurance bureau (CAP) – for example CNB calculates APE (single/10y) instead of full sum of single premium. In single premium business Czech Republic shows the most significant decline; 250.000 Contracts less in 2015 mostly due to change in tax deductibility regulation.

In contrast, non-life increased driven by MTPL (+6.9%) mostly due to higher number of cars. But overall the prices stagnating and MTPL insurance continues to record a loss. Additionally MTPL shows currently a shift away from pricing competition towards service competition including a stronger individualization of contracts.

<sup>14</sup> (Sources: wiiw Monthly Report July/August 2016; OeNB Focus on European Economic Integration Q2/16)

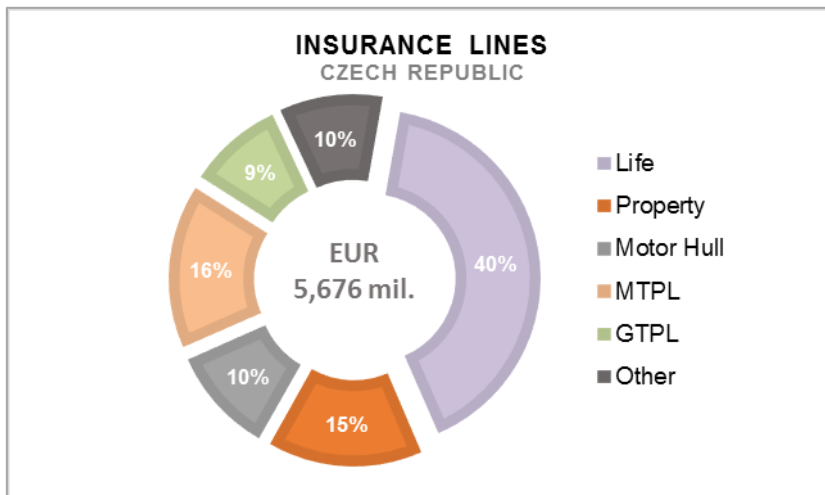


Figure 16 Insurance Lines in Czech Republic 2015<sup>15</sup>

Market Composition: Life currently 40.7% (2014: 45%) and non-life 59.3% (2014: 55%), of which MTPL covers 15.7% and Casco 10%. Premium growth in non-life is equally distributed over the Lines of Business.

Czech Republic is the market with the highest premium share of Austrian groups. Main issues are currently regulatory changes in tax law creditability of life insurance (Removal of tax exception concerning life insurance policies). As a consequence life insurance is less attractive for customers, especially unit-linked and index-linked life insurance. Another issue is the highly competitive MTPL market including recent notable service competition with MTPL assistance services. Other major risks stemming from legal changes are the regulation of commissions for intermediaries and the legal act dealing with MTPL insurance.

<sup>15</sup> (Source: xprimm Insurance Report Year VIII – Issue 1/2016(14) - May)

## 2.2 Italy

Country		Performance Indicators 2015 <sup>1)</sup>	
Italy	Macro	Population (mil)	59,80
		Real GDP Growth	0,64%
		Real GDP Growth Forecast 2016	0,70%
		Unemployment rate	11,92%
		S&P Credit Rating	BBB-
	Insurance market total	Premium Total (mil)	148.738,00
		Life	112.518,00
		Non-Life	36.219,00
		Premium growth	1,50%
		Insurance Penetration	8,90%
		Insurance Density	2.487,26
	AT Groups	Premium share	11,95%
		Market share	0,59%

1) Sources: FMA Reporting Local GAAP per 31.12.2015; S&P Global; Swiss Re sigma

Figure 17 Key Performance Indicators 2015 Italy

**Economy returned to growth in 2015 (first time since sovereign debt crisis), but still moderate growth of 0.6%.** Recovery driven by strong stimulus due to monetary expansion, fiscal policy and fall in oil prices. GDP growth, which had weakened in the second half of 2015, picked up again in the first quarter of 2016. Economic activity remains below the pre-crisis levels by 8 percentage points. By contrast, Germany, France and as well the Euro area have now overtaken the pre-crisis levels. Domestic demand, which had subtracted 9.5 percentage points from GDP growth in the previous four years, was the main contributor in 2015. In 2015 employment grew by 0.6%, current unemployment rate of 11.9%. The general government deficit decreased from 3.0% of GDP in 2014 to 2.6%, reflecting a drop in interest expenditure; the debt-to-GDP ratio increased slightly, given a reduction in the Treasury's available liquidity.

Future macroeconomic environment will be impacted by the strengthening of domestic demand and is prospected to come up against a persistently weak external environment, which could dampen the recovery even beyond the direct effects on foreign trade, triggering a slowdown in investment.<sup>16</sup>

**In general the Italian insurance market is strongly regionally segmented between north and south.** Over the last year due to stronger push of life products (allowances for life insurance) and heavier tax burdens regarding real estate cash flows were shifted to life insurance. A key property of the Italian market is reflected in the big private exposure in government bonds and Italian stocks, which is reflected also in the design of insurance with profit business. The worsening economic situation (reduced productivity, disposable income and high unemployment, especially youth unemployment) led to pressure on certain non-life insurance products as for example MTPL due to a reduction of new car sales. Furthermore non-life insurance in the southern part of the country is strongly influenced by adverse customer behavior and fraudulent activities.

<sup>16</sup> (Source: Banca d'Italia Annual Report 2015)

Currently, only one Austrian Insurance Group has insurance subsidiaries in Italy but these contribute significantly to the premium volume of the whole group.

Italy enacted on the one hand a new law on tariffs and compensation for personal damages and on the other hand a new regulation on distribution network. Other relevant developments include legal changes in taxation: changes in taxation of real estate (-), corporate and personal income tax (-) and tax burden for pension products (+).



## 2.3 Poland

Country		Performance Indicators 2015 <sup>1)</sup>	
Poland	Macro	Population (mil)	38,40
		Real GDP Growth	3,65%
		Real GDP Growth Forecast 2016	3,10%
		Unemployment rate	10,49%
		S&P Credit Rating	BBB+
	Insurance market total	Premium Total (mil)	12.859,70
		Life	6.459,04
		Non-Life	6.400,66
		Premium growth	-0,21%
		Insurance Penetration	2,94%
		Insurance Density	334,89
	AT Groups	Premium share	11,85%
		Market share	8,54%

1) Sources: FMA Reporting Local GAAP per 31.12.2015; National Bank of Poland; Polish Financial Supervision Authority (KNF); S&P Global

Figure 18 Key Performance Indicators 2015 Poland

### A sustained weak foreign trade performance could become main worry for the future.

Export growth with 6.5% and import growth 3.3% remain stable, but lower than 2014 due to lower investment growth. Given the current development (including first quarter 2016) with unfavorable trade performance despite sustained real and nominal currency depreciation and falling unit labor costs might demonstrate an emerging peak in cost competitiveness growth as reliable source of growth. This puts Poland in 'a middle-income-trap' and requires future economic and social policies. GDP growth 3.7% in 2015.

Decline in gross fixed capital formation (GFCF) (1.8% first quarter 2016); decline due to completion of infrastructural projects co-financed by EU transfers. Given accelerated public consumption growth as well as rising employment and nominal wages the increase in household consumption (3.2% first quarter 2016) does not seem impressive; but private consumption is predicted to rise in the future.

Regarding the political and legal environment Poland enacted a wealth tax for banks and insurance since 1.1.2016 of yearly 0.44% of their balance sheet total. In addition the Government decided against a compulsory conversion of foreign currency loans (esp. Swiss franc), this would have cost banks 15 billion Euro.<sup>17</sup>

<sup>17</sup> (Sources: wiiw Monthly Report July/August 2016; OeNB Focus on European Economic Integration Q2/16)

**Insurance Market in Poland recorded a GWP change of -0.21%.** Life decreased by -3.97% and non-life grew by +3.9%. The claims in life decreased by -4.89% and non-life increased by +12.14%. The overall profit reduced by 14.3%.

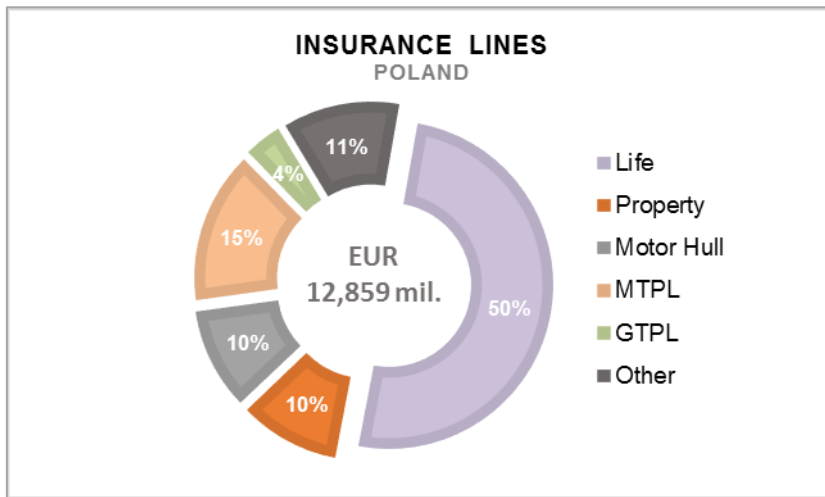


Figure 19 Insurance Lines in Poland 2015<sup>18</sup>

Increased popularity of unit linked products - short term single premium deposit products unattractive due to low yield and capital gain tax since 01.01.2015.

Non-life Premiums in Poland, one of the largest market in Central Europe, were up 3.9% as demand for and prices of motor insurance picked up, and liability insurance bounced back strongly. MTPL emerges serious concerns – a guideline of Polish Financial Supervision Authority (KNF) towards claims adjustments and considerable increase in payments in personal damages contributed to a historic greatest loss in MTPL (Loss of -235 million Euro). Latest developments show slight premium increases though still hesitant development. In addition new tax plans on treatment of victims of accidents would burden MTPL further; which would further increase number of uninsured drivers (approx. 250.000 drivers are uninsured in Poland). In general premiums are under pressure and the insurance market is driven by strong competition between local subsidiaries and foreign branches. Last issue of the market refers to insurance premium adequacy in relation to the claims, especially in the motor insurance.

One of the major risk driver of the polish insurance market regards the issue of conflict of interest within the insurance distribution, in particular in the field of bancassurance. Main issue is misselling, level of commissions and a high level of surrender fees concerning unit-linked products (proceedings of UOKIK are ongoing).

Two Austrian insurance groups carry out business via insurance subsidiaries in Poland. The Polish market should benefit from a strengthening economy, falling unemployment and rising disposable incomes, but the introduction of a new tax on banks' and insurers' assets could negatively impact demand and insurer profitability, depending on whether the cost can be passed on to consumers. Other future risks involve UOKIK proceedings and rising claims in MTPL.

<sup>18</sup> (Source: xprimm Insurance Report Year VIII – Issue 1/2016(14) – May)

## 2.4 Slovakia

Country		Performance Indicators 2015 <sup>1)</sup>	
Slovakia	Macro	Population (mil)	5,43
		Real GDP Growth	3,60%
		Real GDP Growth Forecast 2016	3,10%
		Unemployment rate	11,50%
		S&P Credit Rating	A+
	Insurance market total	Premium Total (mil)	2.019,80
		Life	1.054,49
		Non-Life	965,32
		Premium growth	-4,07%
		Insurance Penetration	2,53%
		Insurance Density	371,97
	AT Groups	Premium share	9,67%
		Market share	43,64%

1) Sources: FMA Reporting Local GAAP per 31.12.2015; National Bank of Slovakia (NBS); S&P Global

Figure 20 Key Performance Indicators 2015 Slovakia

**Strong economic performance continues benefiting from EU funds spending.** GDP growth 2015 of 3.6%; growth accelerated in 2015 with GFCF (gross fixed capital formation) given the EU structural funds spending. Household consumption grew by 2.5% (less than expected from positive trends in the labor market). Unemployment rate declined to 11.5%; automotive sector remains main contributor to growth and largest industrial sector. Budget deficit rose to 3% of GDP (target: 2.5%), after a decline each year from 2011. Measures initiated by previous government came into force, as reduction of VAT rate for basic foodstuffs and gas rebates, which contributed to consumer price deflation. Parliamentary elections in March 2016: new four-party coalition government promises to create new jobs, reduce unemployment and decrease corporate tax rate by 1 percentage point to 21%. <sup>19</sup>

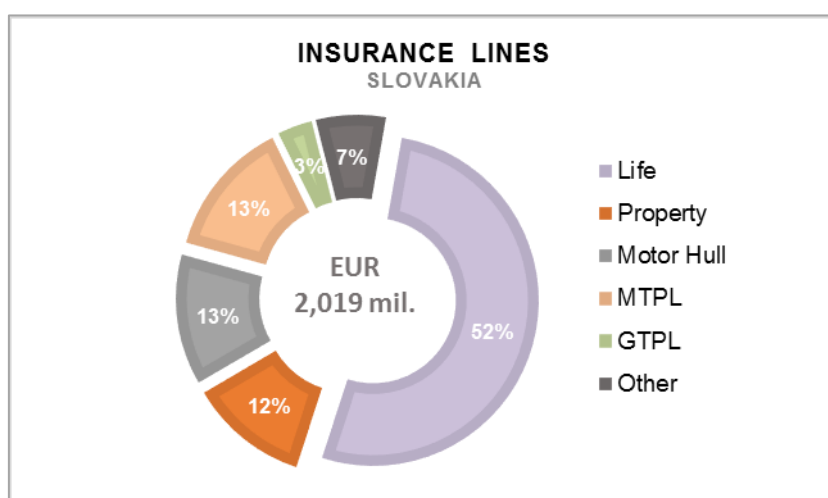


Figure 21 Insurance Lines in Slovakia 2015 <sup>20</sup>

<sup>19</sup> (Sources: wiiw Monthly Report July/August 2016; OeNB Focus on European Economic Integration Q2/16)

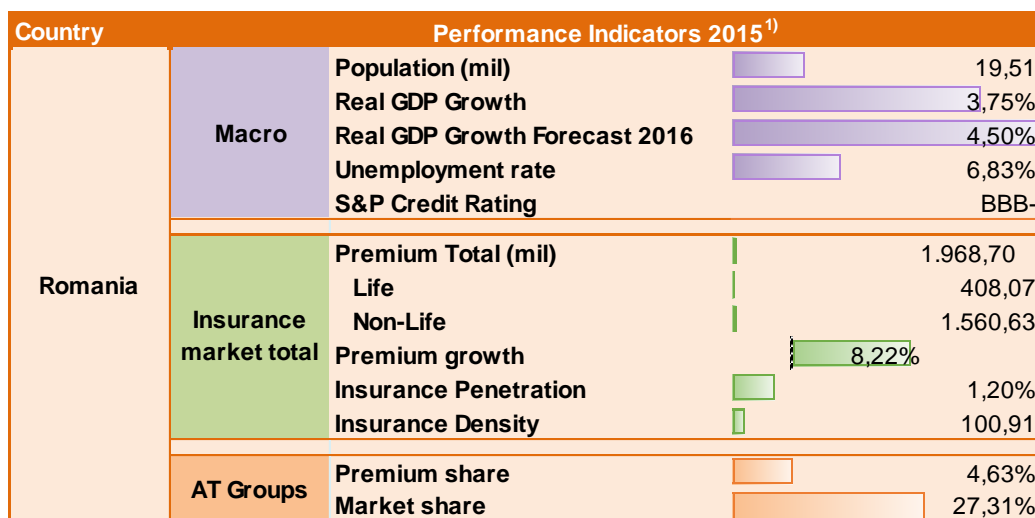
<sup>20</sup> (Source: xprimm Insurance Report Year VIII – Issue 1/2016(14) - May)

**The Insurance Market in Slovakia noted a drop in GWP of -4.07% in 2015;** thereby life declined by -9.61% due to the 18% depreciation of unit-linked sub segment. Though non-life noted an increase of +2.81%. The Claims in life -10.81% decreased, beside non-life +9.93% increased.

Reduction of profits y-o-y by 20% because insurance companies have to cope with unpleasant claim developments in MTPL plus life insurance companies are affected mostly by low yield in life. Nevertheless life market in Slovakia is still strong (see graph above).

Three Austrian insurance groups have insurance subsidiaries in Slovakia. One of the main future issues is the increase in a special tax for regulated institutions with profit over 3 million Euro to 6% which will be enacted on 1.1.2017. This will have a negative effect on overall profitability of Austrian insurance groups working in Slovakia. In addition there is a new tax law introduced that imposes an 8% premium-tax for all non-life lines of businesses, which may lead to higher prices in non-life insurance.

## 2.5 Romania



1) Sources: Financial Supervision Authority(FSA); FMA Reporting Local GAAP per 31.12.2015; National Bank of Romania (BNRO); S&P Global

Figure 22 Key Performance Indicators 2015 Romania

**Strong but unbalanced growth given no major effect on industrial production as well as political uncertainty.** Real GDP growth 3.8% in 2015 and unemployment rate 6.8%. Household consumption and investments (GFCF) were the major growth driver (in 2015 8.9%) due to fiscal and wage policy measures; domestic demand growth boosted imports and contributed negatively to GDP.

Fiscal stimuli includes a raise in minimum wage to RON 1,250 (280 Euro) and VAT cut (rate 24% to 20%) since 2016 and an even more drastic cut for foodstuff in mid-2015. National Bank of Romania (BNR) calculated a 71% pass-through coefficient for lower VAT rate, pushes inflation into negative (-0.4% 2015; -2.1% in Feb. 2016), but BNR projects to become positive again. Although no major effects by consumption boom noticeable in industrial production yet. BNR kept policy rate at 1.75% since May 2015 to towards e.g. potential risks initiated by fiscal and wage policy stance.

Regarding political and legislative developments in Romania – main legislative initiatives in the financial sector: give-in-payment law – allows retail mortgage borrowers to return real estate collateral to banks in exchange for writing off their loans. In general the government confirmed this year's parliamentary elections for 11 December 2016.<sup>21</sup>

<sup>21</sup> (Sources: wiiw Monthly Report July/August 2016; OeNB Focus on European Economic Integration Q2/16)

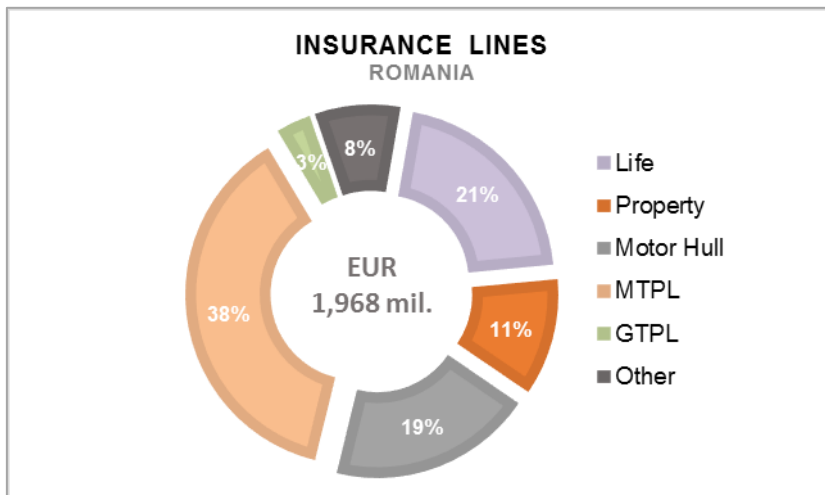


Figure 23 Insurance Lines in Romania 2015<sup>22</sup>

**The Insurance Market in Romania grew by +8.22% in GWP** (including ASTRA for the first half of the year; ASTRA operations were ceased on 26th August 2015). Both life +10.79% and non-life +7.56% increased; MTPL +17.44%; Claims life -2.2%; non-life -6.52% and MTPL +3.47%.

MTPL is seen as the main driver for the premium growth in 2015. Mostly due to the 15% hike in new car sales plus increases in MTPL Premium. Health represents a marginal business and health reform is still pending.

Currently, three Austrian insurance groups operate in Romania. A main relevant issue in Romania includes the giving-in-payment law which would increase uncertainty on economic policymaking, investments and credit growth. Another issue with an effect on Austrian groups is the constant modification of the legislative framework concerning MTPL insurance (Maximum admissible premium/tariffs through emergency legislation). Especially the regulation on maximum premium in MTPL will put again pressure on the overall market profitability after consolidating tendencies picked up in consequence of the failure of the two insurance companies Astra and Carpatica.

<sup>22</sup> (Source: xprimm Insurance Report Year VIII – Issue 1/2016(14) - May)

## 2.6 Hungary

Country		Performance Indicators 2015 <sup>1)</sup>	
Hungary	Macro	Population (mil)	9,86
		Real GDP Growth	2,94%
		Real GDP Growth Forecast 2016	2,00%
		Unemployment rate	6,83%
		S&P Credit Rating	BB+
	Insurance market total	Premium Total (mil)	2.719,21
		Life	1.413,32
		Non-Life	1.305,89
		Premium growth	2,67%
		Insurance Penetration	2,45%
		Insurance Density	275,78
	AT Groups	Premium share	3,46%
		Market share	15,31%

1) Sources: Association of Hungarian Insurance Companies (MABISZ); FMA Reporting Local GAAP per 31.12.2015; National Bank of Hungary; S&P Global

Figure 24 Key Performance Indicators 2015 Hungary

**Economic growth and fiscal consolidation supported by EU funds and monetary policy in 2015.** After GDP growth of 2.9% the Hungarian economy suffered in first quarter of 2016 under combined adverse effect of outgoing EU cohesion policy-related investment – setback of performance in automotive cluster and unfavorable business investment environment.

The sectoral distribution of growth showed strong heterogeneity. Extreme decline in construction (-28%) due to end of EU-financed projects. Main problem: temporary weakening in automotive industry (1/3 of industrial output). Drop in investments is not only explained by EU-dependent investment decline, drop in less EU-dependent business sector investment (Forecast 2016: drop to -6% investments) as well.

Labor shortage due to mass migration of Hungarian workers to Western Europe, in addition upward pressure on wages which leads to consumption growth (main contributor to economic growth). The Hungarian Central Bank (MNB) reduction in bank tax since 2016 including plans of a further reduction for 2017 contribute to gradual easing of credit constraints.<sup>23</sup>

**Insurance market in Hungary increased in GWP by 2.7%.** Insurance line life declined by -2.6%; thereby unit-linked is more or less stagnating, but other life insurance components show a decrease. In contrast, non-life rose by +9%. The claim development shows an increase by 3.6%, hereby life: +1.6% and non-life: +7.6%. In general the market's portfolio contracts increased by 5.8%. MTPL boosted premium growth in Hungary, as rates in motor and number of car sales increased.

<sup>23</sup> (Sources: wiiw Monthly Report July/August 2016; OeNB Focus on European Economic Integration Q2/16)

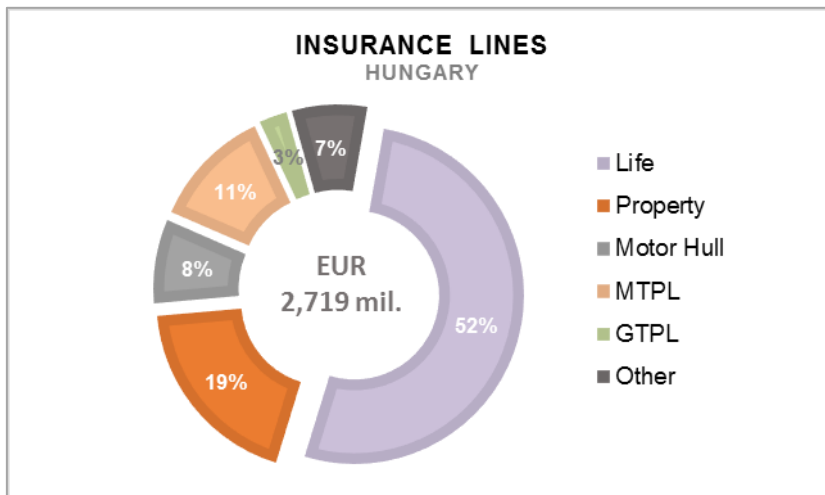


Figure 25 Insurance Lines in Hungary 2015<sup>24</sup>

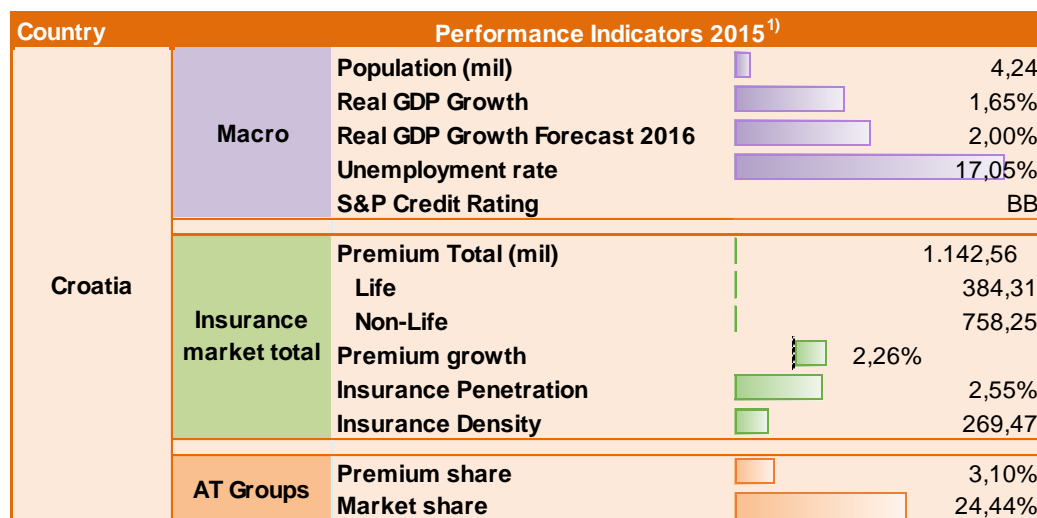
Market Composition: Life accounts for 52% and non-life for 48%, which is mainly composed of Property 19%, MTPL 11.5% as well as Casco 8%.

Three Austrian insurance groups have insurance subsidiaries in Hungary, whereas the main premium share is generated in life. Life insurance premium growth is predicted to likely remain under pressure, with low interest rates continuing to discourage savings. However, the national bank of Hungary is considering stricter fee limits on unit-linked products in an attempt to ensure cost transparency for consumers, and this could provide a boost to life insurance sales. A legal risk regarding the insurance market is premium adjustments in MTPL, which should not only be possible once a year but ongoing. The National regulation on ethical life insurance products and changes in tax regulation (MTPL, pension insurance) are a potential risk for the Austrian groups.

<sup>24</sup> (Source: xprimm Insurance Report Year VIII – Issue 1/2016(14) - May)



## 2.7 Croatia



1) Sources: Croatian Insurance Bureau; Croatian National Bank; FMA Reporting Local GAAP per 31.12.2015; S&P Global

Figure 26 Key Performance Indicators 2015 Croatia

**Economic recovery amid deterioration of political situation.** Slight economy recovery in 2015 GDP growth 1.7% (after 6 years of recession). Main drivers of growth were domestic demand and export gains. GDP growth is prospected for the next 3 years between 1.8-2.2%.

Private consumption recovers, conversion of Swiss franc loans might stimulate consumption additionally. Public consumption is still constrained under efforts to decrease deficit to 2.2% of GDP (EU Excessive Deficit Procedure). Current deficit of GDP in 2015 3.2%. 2015 the primary budget balance had turned positive for the first time in more than a decade.

Concerning the current political developments the Prime Minister was dismissed by parliament and new elections took place in September 2016. (National conservative HDZ won, Social Democrats 2nd place). Regarding financial institutions the government enacted a law to convert Swiss franc loans – conversion costs banks 8 billion Euro, some banks demand a compensation.<sup>25</sup>

**Gross written premium show growth in total of 2.2%.** Life increased by +11.36% in contrast non-life declined by -1.91%. This is mostly stemming from MTPL with falling tariffs and sums up in a drop in premiums of -13.3%. Other non-life business lines like Casco grew by +11.3%; Credit fell by -18% as well as Good in Transit by -13%. The markets overall Claims increased by 4.5%.

<sup>25</sup> (Sources: wiiw Monthly Report July/August 2016; OeNB Focus on European Economic Integration Q2/16)

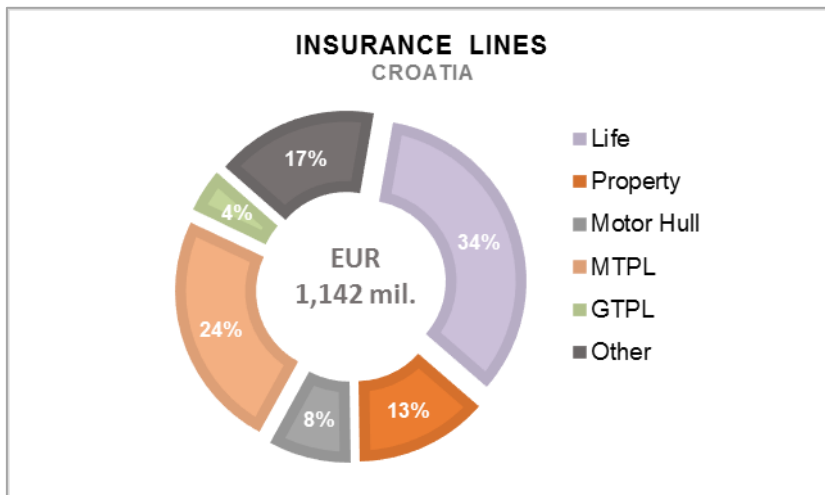


Figure 27 Insurance Lines in Croatia 2015<sup>26</sup>

The market is composed of life with 34% and non-life with 64%. In comparison to year before the life share increased and especially in the non-life segment Motor insurance decreased to 32% (2014: 36%). The MTPL development that policies increased while premium went down is a result after continuous tariffs liberalization, and is ongoing as average premium decreased by 18%. All Austrian Insurance Groups are operating in the Croatian market.

<sup>26</sup> (Source: xprimm Insurance Report Year VIII – Issue 1/2016(14) - May)