

**INSURANCE**

**MARKET**

**2003**

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## Highlights

### Legal environment

On May 22nd, 2003, a package of insurance laws was passed by the parliament, including the following acts:

- The Law on insurance activity,
- The Law on insurance mediation,
- The Law on compulsory insurance, Insurance Guarantee Fund and the Polish Motor Insurers' Bureau,
- The Law on insurance supervision.

The Laws are aimed to adjust the Polish legal system with respect to insurance to the requirements and standards of European Union's *acquis communautaire*.

### New market trends

- The year 2003 saw an increase in popularity of endowment insurance policies offered through banking branch networks. Such policies play the role of bank deposits, but are not taxed with the capital gains tax. Most often these policies were concluded for a definite period time (e.g. several months) and with an 'interest rate' known at the time of purchase (policy opening).
- An important event for the Polish automotive insurance market was the start of operations of Link4. The company sells its policies over telephone only, that is without an agency network – unusual for the Polish market. The company proposed an attractive financial offer, especially for customers entitled to big discounts for damage-free driving. As a reaction, many insurers decided to reduce their prices for automotive insurance.

#### Consolidation and market changes

- In the year 2003 foreign investors seriously verified their development plans regarding the insurance market in Poland. Some decided to go as far as pulling out of the market or radically corrected their previous plans. Together, such changes applied to 13 insurers operating prior to the year 2003.
- The two-year period of a board of trustees appointed by insurance supervision at Daewoo brought a success. The board of trustees attracted new, Polish investors, who took over a majority share and renamed the insurer to Polskie Towarzystwo Ubezpieczeń.

#### The market in figures

- 78 insurance market players collected the total premium of nearly PLN 25 bn.
- Insurers paid out damages equal to almost PLN 13 bn.
- The total value of insurers' assets reached almost PLN 66 bn.
- The financial result of insurance companies exceeded PLN 2 bn.
- 161,000 insurance agents were involved in customer acquisition.

## The number of insurance companies

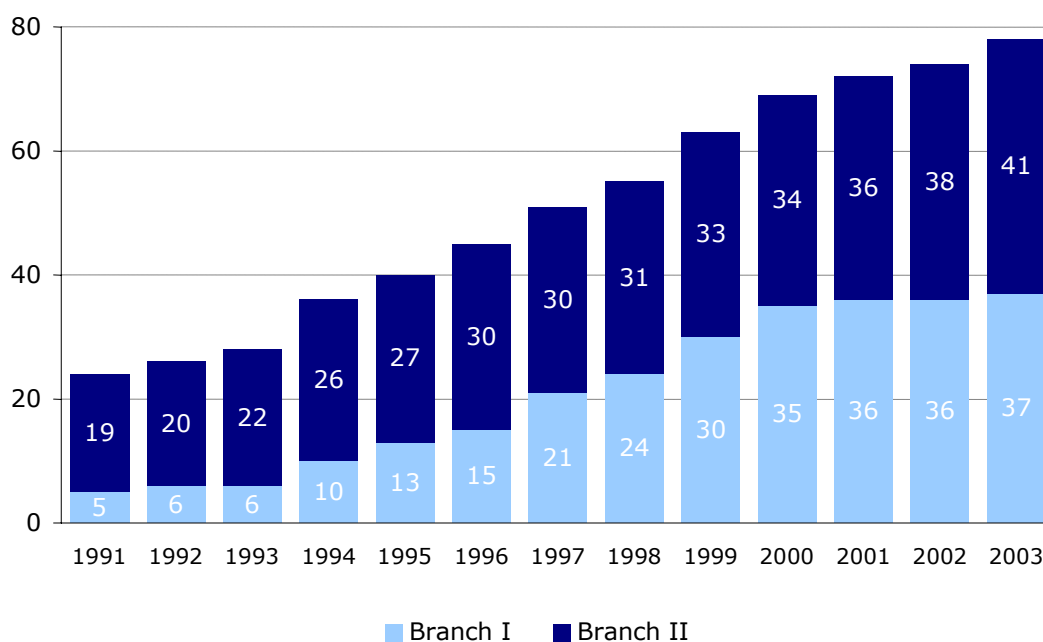
*In 2003, there were 74 independent licensed insurance companies in Poland and 4 'main branch' of foreign insurance companies*

As of the end of the year 2003, licences to conduct insurance activity in Poland were held by 74 insurance companies and 4 so-called 'main branches' of foreign insurers. 5 new licences were issued in 2003: 4 in insurance Branch II and one in Branch I. In one case only the investor decided to operate as a joint stock company. The others created mutual insurance companies or 'main branches' (two cases of each). These latter forms of operation had been far less popular in previous years.

The number of market players was also affected by mergers. Two of those were registered in 2003: Generali merged with Zurich in insurance Branch I, and Compensa with Heros in Branch II.

Owners of several Branch I insurers decided to pull out of the Polish market in 2003. Due to licence procedures, the insurance companies were deleted from the national court register only in 2004.

**Fig 1. The number of insurance companies in the years 1991-2003.**



Source: KNUiFE database

*Since end of 2003 insurance activity have been licenced by KNUiFE in Poland*

An event worth mentioning is the transfer of competencies with respect to licensing of insurance companies to the Insurance and Pension Funds Supervisory Commission (KNUiFE). The task had been previously within the competencies of the Ministry of Finance.

## Insurance balance sheet

The assets of insurance companies at the end of 2003 were equal to PLN 65.7 billion: 7.4 times less than Polish banking assets

In the year 2003, the balance sheet of insurance companies grew by PLN 8.3 bn, i.e. by more than 14%, with inflation at the level of 0.8%. It is worth stressing that the rate of asset growth in the insurance sector was much higher than that in the banking industry, whose assets rose from 466.5 bn to 489.2 bn zloties (by less than 5%). As of the end of 2003, banking assets were just 7.4 times those of insurance companies, compared to the ratio of 8.1 a year before. In many developed countries, that ratio is closer to a value of 1.5-3.

**Table 1. The balance sheet of the insurance sector (PLN mn)**

Item	1 Jan. 2003	31 Dec. 2003	change (%)
A. Intangible assets	326.0	406.9	24.8
B. Investments	45, 917.0	52, 724.1	14.8
C. Investments for the benefit of life assurance policyholders who bear the investment risk	4, 218.5	5, 830.2	38.2
D. Debtors	3, 745.2	3, 641.4	-2.8
E. Other assets	1, 573.3	1, 470.5	-6.5
F. Prepayments and accrued income	1, 604.3	1, 649.9	2.8
<b>TOTAL ASSETS</b>	<b>57, 384.4</b>	<b>65, 723.1</b>	<b>14.5</b>
A. Capital and reserves	10, 778.1	12, 560.5	16.5
B. Subordinated liabilities	-	5.0	-
C. Technical provisions	44, 707.5	50, 704.0	13.4
D. Reinsurers' share in technical provisions (negative value)	3, 907.5	3, 895.5	-0.3
E. Other provisions	1, 579.4	1, 196.7	-24.2
F. Deposits received from reinsurers	661.6	816.5	23.4
G. Creditors and special funds	2, 220.3	2, 844.3	28.1
H. Accruals and deferred income	1, 345.0	1, 491.7	10.9
<b>TOTAL LIABILITIES</b>	<b>57, 384.4</b>	<b>65, 723.1</b>	<b>14.5</b>

Source: KNUiFE database

80% assets are investments, while 77% of liabilities are technical provisions

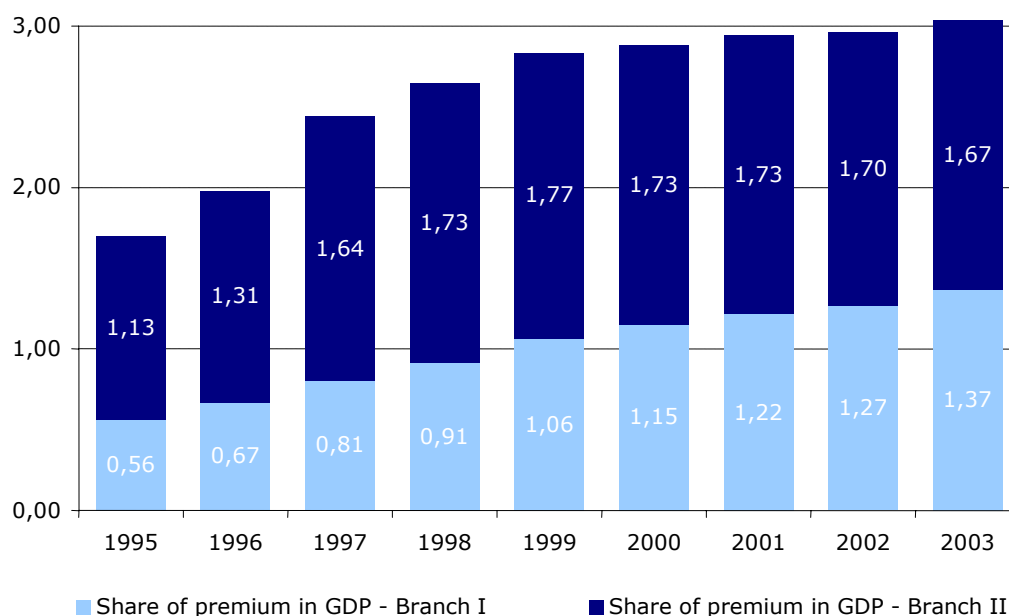
In the year 2003 the balance sheet of Branch I insurers increased by PLN 5.9 bn (17.7%). In the same period, in Branch II, the growth was PLN 2.5 bn (10.2%). Of the total insurance sector assets, the fastest growing were investments related to life policies, where the risk is borne by policyholders (Class 3 of Branch I), as well as intangible assets, which is probably a result of IT outlays and of business acquisitions. In liabilities, technical provisions were growing at a low rate, as the item rose by just 7% in Branch II.

## The share of premiums in GDP

*Written premium exceeded 3% of the GDP for the first time ever*

In 2003, gross value of written premiums in Poland amounted to 3.1% of the GDP. The increased importance of the insurance sector in the economy, measured by that relation, is connected with a continued, long-term growing trend in Branch I. Still, however, written premiums in life insurance are lower than in non-life insurance. In more developed economies, life insurance clearly dominates. In extreme cases (such as Japan) this segment pockets almost 4-times the total premium of non-life insurance. Most often, though, the relation is like 1.5-2.0 for Branch I. The year 2003 also witnessed continuation of the several-years-old trend towards gradual decrease in importance of non-life insurance in the economy, as measured by its share in the GDP.

**Fig 2. Share of premium in GDP, 1991-2003 (%)**



Source: KNUiFE database; Central Statistical Office

*Insurance is less important in Polish economy than in Hungary or the Czech republic*

However, the relations between premiums written in Insurance Branches I and II, as reported in Poland, are no different from those in other Central and Eastern European countries. Branch I premiums are always lower than those of Branch II, the relation being usually around 0.5-0.7. Poland is different from many countries of the region in the fact that the share of insurance premiums is still low in the relation to GDP. As per the data of 2002, Poland had the lowest share of insurance in the GDP among the Visegrad group countries.

## Premiums of Branch I insurers

*The biggest four Branch I insurers developed below the market rate in 2003*

In the year 2003, the rate of premiums growth in Branch I was high - nearly 13%, compared to less than 7% in the previous year. The group of four biggest insurers lost a bit of importance in 2003, and two companies of that group even reported reductions in the newly written premiums.

The fastest to grow were the premiums of insurance companies specialised in savings products, with a substantially reduced insurance component. Such products play the role equal to banking deposits in practical sense. The success of those quasi-deposits – sometimes called policy-deposits – was to a high degree a result of customers' intention to avoid the capital gains tax. A classic example here is a short-period endowment policy (often as short as several months).

**Table 2. Gross written premiums of Insurance Branch I (PLN mn)**

<b>Name</b>	<b>2002</b>	<b>2003</b>	<b>change (%)</b>
PZU Życie S.A.	4,898.3	5,127.7	4.7
Commercial Union Polska - TUnŻ S.A.	1,754.7	1,685.7	-3.9
PAPTUnŻiR Amplico-Life S.A.	1,027.8	1,047.5	1.9
TUnŻ ING Nat-Niederlanden Polska S.A.	926.4	907.2	-2.1
TUnŻ WARTA VITA S.A.	107.5	482.3	348.8
TU Allianz Życie Polska S.A.	172.0	290.0	68.6
Prumerica TUnŻ S.A.	174.6	194.2	11.2
Nationwide TUnŻ S.A.	18.8	192.4	923.2
TUnŻ EUROPA S.A.	17.0	169.5	895.7
TUnŻ Cardiff Polska S.A.	72.7	155.9	114.4
Others	731.7	914.7	25.0
<b>Total</b>	<b>9,901.6</b>	<b>11,166.9</b>	<b>12.8</b>

Source: KNUiFE database

*Premium for single-payment insurance grew by 1 billion PLN in 2003*

It is worth noting that in case of that type of products, a policy renewed after – say - 3 months means that statistically, gross written premiums of Branch I are augmented by further resources, although in reality no new money flows into the insurance sector. The growth of premiums in 2003 – when policy-deposits gained popularity – is thus inflated in comparison to previous years data. The growth of one-off premiums in 2003 (reflecting the trend) was PLN 1 bn year-on-year.

The premium dynamics in Poland is also inflated by inward reinsurance premiums received from abroad in the amount of approx. PLN 160 mn annually. Reinsurance of such scale was first reported in 2002.

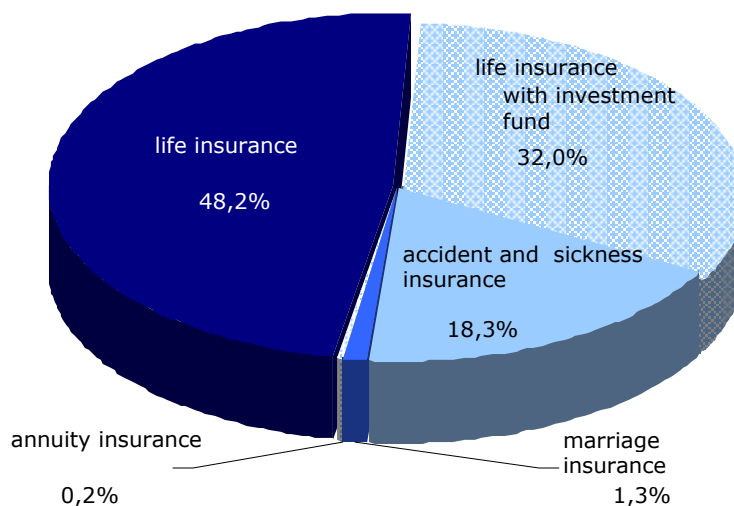
## The structure of premiums in Branch I

*Class 1 premiums represent half of the total premium in Branch I*

The premiums structure in Branch I did not undergo substantial changes. As in previous years, the majority of premiums were collected for Group 1 insurance. The premiums written in this group represented almost 48% of total new premiums in Branch I. This group has both life policies, endowment insurance and both products combined.

The big hit of the previous decade, which is Class 3 of Branch I products – policies with investment funds – account for almost 1/3 of the premiums collected in the Polish life insurance sector. It is worth mentioning that 3-4 years ago the market for insurance products with investment fund component went into a deep crisis with numerous customer resignations.

**Fig 3. The structure of Branch I premiums in the year 2003 (%)**



Source: KNUiFE database

*For many years Poles have virtually abandoned marriage and annuity products*

Next in the order of importance are Premium related to accident and sickness insurance. They represent almost 1/5 of all premiums collected. It should be well remembered that such insurance products are not sold free-standing in Poland – rather than that, they are bought as an option with other policies.

For many years, the remaining two classes of insurance products, i.e. marriage and annuity policies, are of marginal importance in the Polish life insurance market. Annuity products may gain more importance if they become used for paying out the capital gathered as additional pension savings.

## Premiums of Branch II insurers

*In 2003 a stagnant tendency in Branch II insurance was overcome*

Premiums grew by 2.5 percent in 2003 – much more than a year before, when it only advanced by 1%. This means that Branch II insurance managed to overcome the stagnant tendencies of 2002. That was despite the biggest two insurers reporting a decrease in written premiums.

The decrease, however, was not as deep as to revert the order of TOP-7 insurance companies. The leader, despite shrinking premiums, keeps claiming over 50% of the market. Among the biggest 10 insurers, the fastest growing were TU Allianz Polska S.A. and TUiR CIGNA STU S.A., with premiums growing by more than 40%.

**Table 3. Gross written premiums of Branch II (PLN mn)**

Name	2002	2003	change (%)
PZU S.A.	7,394.2	7,221.4	-2.3
TUiR WARTA S.A.	1,789.3	1,745.8	-2.4
STU Ergo Hestia S.A.	832.7	938.0	12.6
TU Allianz Polska S.A.	493.0	694.9	41.0
HDI SAMOPOMOC TU S.A.	358.6	379.9	5.9
UNIQA TU S.A.	324.6	329.2	1.4
Tryg Polska TU S.A.	274.9	303.9	10.6
TUiR CIGNA STU S.A.	153.7	216.5	40.8
PTU S.A.	214.2	212.0	-1.0
KU Filar S.A.	178.9	210.5	17.7
others	1,240.0	1,337.7	7.9
Total	13,254.1	13,589.2	2.5

Source: KNUiFE database

*The highest growth was reported in casco insurance*

The year 2003 saw the highest growth of premiums in *casco* insurance (Class 3) and in 'natural forces' insurance (Class 8), as well as third party insurance (Class 13). The biggest drop affected automotive third party products (Class 10) and third party insurance of ships (Class 12). Other high-growth classes were legal protection insurance (increase of 85%) and third party insurance of aircraft (62%). The last case may be referred to the impact of 11th September 2001 and to the continued growth of reinsurance rates for aircraft insurance. Classes 12 and 4 (rolling stock third party liability) noted the deepest drop in written premiums in 2003.

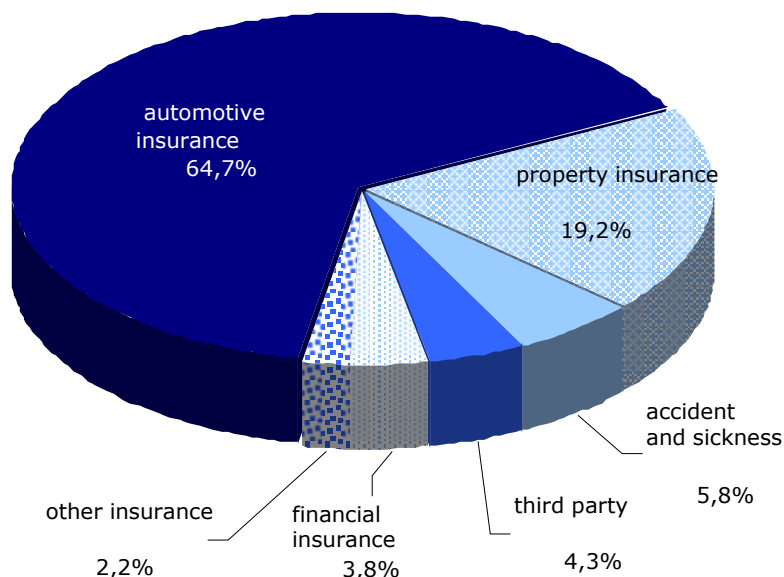
## The premiums structure in Branch II

*Poles spend most on automotive insurance*

The insurance of Branch II in 2003 was – just as in previous years - dominated by automotive 'casco' and third party policies. Considering that an important part of accident and sickness insurance transactions is made jointly with a basic automotive policy, the share of car-related insurance is probably even higher than the nearly 2/3 presented below.

The second most important Branch II segment is represented by insurance of property (both individual and corporate) against natural forces, theft, etc. These account for almost a fifth of the market. In 2003 Poles spent on such policies 150 million zloties more than in 2002.

**Fig 4. The premiums structure in Branch II, 2003 (%)**



Source: KNUiFE database

*Financial insurance and third party liability policies grew their combined market share from 7.1% to 8.1%*

Third party insurance and financial insurance, despite the high growth (over ten percent) are still a minor section of the Branch II market in Poland, with just over 8% of written premiums. Other insurance types are of marginal market importance.

The structure of Branch II premiums in the Polish market is very different from that in the European Union, where automotive insurance represents about a third of the market. Among the 'old' EU countries (before the 2004 enlargement) only Italy has an over-50% share of automotive policies.

## Gross claims in Branch I

*The growth rate of claims substantially exceeded the rate of premiums growth in 2003*

In the year 2003, the rate of gross claims in Branch I fell considerably: to 20%, down from almost 30% in 2002. Nevertheless, claims rose much faster than premiums. The growth of claims in 2003 exceeded slightly the sum of PLN 850 million, compared to nearly 1 billion a year before.

The increase in claims in 2003 had several reasons. In the first place, it must be remembered that a wave of resignations from insurance-investment fund policies continued. Another factor responsible were the outpayments for the deposit-policies described before. That latter factor in particular inflated the actual rate of claims in 2003, as this type of products was virtually non-existent before.

One more cause of the growth of claims was the increasingly frequent outpayments for contracts made during the insurance boom of the 1990-ies. These included both payments made after the completed insurance period (for term policies), and the growing death rate of older customers.

**Table 4. Gross claims, Branch I (PLN mn)**

<b>Name</b>	<b>2002</b>	<b>2003</b>	<b>change (%)</b>
PZU Życie S.A.	3, 035.4	3, 182.2	4.8
Commercial Union Polska 0 TUnŻ S.A.	597.6	795.1	33.1
TUnŻ ING Nat.-Niederlanden Polska S.A.	201.0	306.2	52.3
PAPTUnŻiR Amplico0Life S.A.	181.0	277.9	53.5
TUnŻ WARTA VITA S.A.	51.1	201.9	295.5
Prumerica TUnŻ S.A.	67.6	78.3	15.8
TU Allianz Życie Polska S.A.	28.9	51.2	77.1
TUnŻ Polisa0Życie S.A.	14.7	41.5	182.7
STUnŻ Ergo Hestia S.A.	18.8	36.1	91.9
Zurich TUnŻ S. A.	19.8	32.5	64.4
others	90.9	147.9	62.7
<b>Total</b>	<b>4, 306.7</b>	<b>5, 150.7</b>	<b>19.6</b>

Source: KNUiFE database

*The biggest insurance company pays out 3/5 of all the Branch I claims*

More than 60% of Branch I claims were paid by the market leader. It is worth noting that this insurer had the lowest growth rate of claims of all the Top-10 biggest insurance companies. The very dynamic claims growth rate of Warta Vita resulted from the previously mentioned trend to liquidate deposit-policy products, a specialty of that particular insurance provider.

## Gross claims in Branch II

*Reduced claims resulted from cost-reduction efforts*

Claims paid out by Branch II insurers dropped, compared to 2002, by PLN 180 million. For a big part that was a result of insurers' efforts to reduce costs, in the face of such phenomena as the slow premiums growth in 2002. The slower growth of claims is mainly related to the biggest two insurance companies. For the two, total claims were reduced by 182 million PLN. Their results substantially influenced the total market.

**Table 5. Gross claims, Branch II (PLN mn)**

<b>Name</b>	<b>2002</b>	<b>2003</b>	<b>change (%)</b>
PZU S.A.	4, 471.8	4, 329.9	-3.2
TUiR WARTA S.A.	999.6	959.8	-4.0
STU Ergo Hestia S.A.	535.2	557.0	4.1
TU Allianz Polska S.A.	260.5	265.7	2.0
HDI SAMOPOMOC TU S.A.	193.0	208.9	8.3
UNIQA TU S.A.	192.0	199.3	3.8
Tryg Polska TU S.A.	142.2	171.0	20.2
PTU S.A.	164.9	132.4	-19.8
TU Compensa S.A.	143.4	130.0	-9.4
PTR S.A.	101.8	109.6	7.6
others	591.5	552.5	-6.6
<b>Total</b>	<b>7, 796.0</b>	<b>7, 616.1</b>	<b>-2.3</b>

*Source: KNUiFE database*

In the nearest future, cost reductions consisting in the limiting of claims paid may be more difficult, due to such factors as the growing awareness of insurance customers in Poland, and the rise of legal firms specialised in obtaining claims payments satisfactory for customers. Also, the growing prices of new cars, following Poland's EU accession, will make it more difficult for insurers to maintain the decreasing trend in claims payments.

*Every day, Polish insurers pay out the claims equal to PLN 21 million*

Every day of the year 2003, an average of 21 million zloties were paid out to Polish customers for property insurance damages. Average daily payments for property insurance premiums amounted to PLN 37 mn, or almost 1 PLN per person per day.

## Investments of Branch I companies

Over 73% of money was invested in debt securities

The total investments of Branch I insurers reached 37 bn PLN in 2003. The great majority – nearly 97 percent – was made in Poland. Most resources – more than PLN 27 bn – were invested in debt securities. These accounted for 73% of all the investments. Assets to cover technical reserves in cases when the risk is borne by policyholder represented almost 16% of all deposits.

Notably, only 0.3% of total investments is represented by real estate. This kind of situation is a consequence of legal regulations. Only such real estate can be regarded as covering technical provisions that is not used by insurance companies to serve their own needs.

**Table 6. Investments of Branch I insurers\* (PLN mn)**

item	short term	long term	Total
A. Land and buildings	0.1	126.3	126.4
B. Investments in affiliated undertakings	19.1	1,171.7	1,190.8
C. Other financial investments, <i>incl:</i>	10,312.0	19,594.0	29,906.0
I. Shares and participating interests	1,554.6	76.9	1,631.5
II. Participation units, investment certificates of investment funds	223.4	28.9	252.3
III. Derivatives	-	-	-
IV. Other variable-yield securities	-	5.6	5.6
V. Debt securities and other fixed income securities	7,656.6	19,384.1	27,040.7
VII. Mortgage-secured loans	5.3	3.4	8.7
VIII. Other loans	2.2	64.7	66.9
IX. Term deposits with credit institutions	862.7	30.4	893.2
X. Other investments	7.2	0.0	7.2
D. Deposits with ceding undertakings	-	-	-
E. Total investments from the B-item of balance sheet assets	10,331.3	20,891.9	31,223.2
F. Total investments from the C-item of balance sheet assets	2,769.2	3,061.0	5,830.2
G. Total investments	13,100.5	23,952.9	37,053.4
a) domestic	12,979.7	22,891.2	35,870.9
b) foreign	120.8	1,061.8	1,182.6

Source: KNUiFE database

\* as of 31 December 2003

Stocks and shares are almost exclusively of short-term nature

Short term investments represented 35% of total investments as of end 2003. The majority of stocks and shares (over 95%) and term deposits at credit institutions (almost 97%), was classified by insurers as short term.

## Investments of Branch II insurers

Over 75 % of resources were located in debt securities

Total investments of Branch II insurance companies amounted to PLN 21.5 bn in 2003. Almost 99% of resources were invested in Poland. The majority of investments was represented by debt securities – valued at PLN 16 bn, they accounted for 75% of total invested resources. Investments in affiliates and subsidiaries of Branch I accounted for over 7% of Branch II investments. A slightly smaller part of Branch II investment portfolio was located in banking deposits. The almost exclusively short-term nature of such deposits results from their being a basic instrument of liquidity management at insurance companies.

**Table 7. Investments of Branch II insurers\* (PLN mn)**

item	short term	long term	Total
A. Land and buildings	9.5	152.7	162.2
B. Investments in affiliated undertakings	12.8	1,536.7	1,549.5
C. Other financial investments, <i>incl:</i>	10,551.6	9,211.3	19,762.9
I. Shares and participating interests	803.7	473.6	1,277.3
II. Participation units, investment certificates of investment funds	526.0	405.2	931.2
III. Derivatives	0.4	-	0.4
IV. Other variable-yield securities	17.5	1.5	19.0
V. Debt securities and other fixed income securities	7,721.6	8,314.9	16,036.5
VI. Mortgage-secured loans	-	0.1	0.1
VII. Other loans	6.1	11.6	17.7
VIII. Term deposits with credit institutions	31.8	3.2	35.0
IX. Other investments	1,444.3	1.3	1,445.6
X. Land and buildings	0.2	0.0	0.2
D. Deposits with ceding undertakings	18.4	7.8	26.2
E. Total investments from the B-item of balance sheet assets	10,592.3	10,908.6	21,500.9
F. Total investments from the C-item of balance sheet assets	-	-	-
G. Total investments	10,592.3	10,908.6	21,500.9
a) domestic	10,447.1	10,786.9	21,234.1
b) foreign	145.2	121.6	266.8

Source: KNUiFE database

\* as of 31 December 2003

Short term and long term investments are of equal importance

Compared to Branch I, investment funds participation units play a much bigger role in Branch II: 4.3% of all investments, compared to just 0.7% of the portfolio at life assurance companies.

Short term and long term investments were of similar importance for Branch II insurers – representing 49% and 51% of total investments respectively.

## Income and costs in Branch I

*Investment income decreased by over PLN 650 m in 2003*

The income dynamics of Branch I insurers in 2003 was for the largest part related to the increase in earned premiums, which rose by more than 1.2 bn PLN. Such premiums amounted to 75% of total income. Compared to the situation of 2002, investment income decreased by over 650 million zloties. The investment income share in total income was 23% in 2003.

**Table 8. Income and costs in Branch I (PLN mn)**

<b>Name</b>	<b>2002</b>	<b>2003</b>	<b>change (%)</b>
Total income	13, 878.5	14, 415.5	3.9
Earned premiums	9, 641.8	10, 858.1	12.6
Investment income	3, 986.6	3, 328.3	-16.5
Other technical income-net of reinsurance	37.0	58.3	57.5
Other operating income	212.4	170.6	-19.7
Extraordinary profits	0.6	0.2	-68.6
Total costs	13, 338.7	13, 276.9	-0.5
Claims incurred including changes in provisions (+/- change of provisions)	4, 391.2	5, 216.1	18.8
Change of other technical provisions-net of reinsurance	5, 029.0	4, 513.8	-10.2
Bonuses and rebates including change in provisions-net of reinsurance	20.9	6.7	-67.7
Net-operating expenses	2, 448.3	2, 324.8	-5.0
Investment charges	694.5	550.7	-20.7
Other technical charges - net of reinsurance	87.7	98.7	12.6
Change in equalisation provision	0.0	0.0	-
Other operating expenses	258.7	244.7	-5.4
Extraordinary losses	0.3	-0.1	-
Other mandatory profit reductions	407.9	321.6	-21.2
Net financial account	539.8	1, 138.6	110.9

*Source: KNUiFE database*

*73% of Branch I costs are claims and change of technical provisions*

The year 2003 saw a slight drop in the costs of Branch I insurers. The cost decrease would be deeper, if it was not for an almost 825 m PLN – rise in claims. More than 73% of Branch I insurers' costs was represented by claims, together with change of technical provisions in 2003. The total reduction of such costs as change of technical provisions and costs of insurance and investment operations reached more than 780 m zloties.

## Income and costs in Branch II

*Other technical income grew by almost 50%*

The increase in income of Branch II insurance companies in 2003 was connected for the biggest part with the growth of earned premiums, which rose by PLN 786 million. At the same time, the premiums represented 81% of total income. Compared to the situation of 2002, bank deposit revenues decreased by over 14 million zloties. The share of investment income in total income was 16% in 2003. Other technical income were growing fast, yielding an annual increase of 64 million PLN (approximately 48%).

**Table 9. Income and costs in Branch II (PLN mn)**

<b>Name</b>	<b>2002</b>	<b>2003</b>	<b>change (%)</b>
Total income	12, 822.8	13, 608.9	6.1
Earned premiums	10, 252.5	11, 006.0	7.3
Investment income	2, 193.2	2 179.5	-0.6
Other technical income - net of reinsurance	133.0	197.0	48.1
Other operating income	243.8	226.2	-7.2
Extraordinary profits	0.3	0.2	-32.5
Total costs	11, 900.1	12, 703.8	6.8
Claims incurred including changes in provisions (+/- change of provisions)	7, 116.3	7, 327.7	3.0
Change of other technical provisions-net of reinsurance	120.7	213.2	76.5
Bonuses and rebates including change in provisions - net of reinsurance	18.2	8.4	-53.8
Net – operating expenses	2, 863.4	3, 392.0	18.5
Investment charges	440.7	570.8	29.5
Other technical charges- net of reinsurance	390.5	454.4	16.4
Change in equalisation provision	126.2	-29.2	-
Other operating expenses	359.5	365.9	1.8
Extraordinary losses	0.1	0.1	30.0
Other mandatory profit reductions	464.5	400.6	-13.8
Net financial account	922.7	905.1	-1.9

Source: KNUiFE database

*Net – operating expenses increased by 500 million PLN*

Costs in Branch II were growing faster than income in 2003, mainly due to the costs of insurance operations, which increased by PLN 500 mn. High nominal growth also applied to investment charges (a rise of 130 mn PLN). Total costs grew by more than 800 million zloties.

## General profit and loss account – Branch I

*Branch I profit grew by almost 600 m*

In 2003, the technical account of Branch I insurance companies improved by PLN 385 mn. This largely contributed to improved financial result (by nearly 600 million PLN). All in all, the financial result of Branch I was over twice as good as a year before.

Despite the improved financial results, taxes paid by insurance companies decreased by a fifth, i.e. by 84 million zloties. In 2003, several companies achieved their first profits after a period of losses. Accounting for such past years losses allows to reduce current income tax. Effective rate of taxation for Branch I insurers declined from 43% in 2002 to 22% a year later. In the same period, the analogical ratio for Branch II remained at a stable 30%-33%.

**Table 10. General profit and loss account – Branch I (PLN mn)**

Lp.	item	2002	2003	change (%)
I	Technical account	741.4	1, 126.1	51.9
II	Net returns on investment transferred to the technical account	252.4	407.9	61.6
III	Other operating income	212.4	170.6	-19.7
IV	Other operating expenses	258.7	244.7	-5.4
V	Profit (loss) on operation activity	947.4	1, 459.9	54.1
VI	Extraordinary profits	0.6	0.2	-68.6
VII	Extraordinary losses	0.3	-0.1	-
VIII	Gross profit (loss)	947.8	1, 460.2	54.1
IX	Income tax	406.9	323.2	-20.6
X	Other mandatory profit reductions profit (increases of loss)	1.1	-1.6	-
XI	Net profit (loss)	539.8	1, 138.6	110.9
	The number of insurance companies with net financial profit	10	14	
	The number of insurance companies with net financial loss	25	21	

Source: KNUiFE database

*The number of insurance companies suffering losses decreased in 2003*

The number of profitable insurance companies increased from 10 in 2002 to 14 in 2003. The number of loss-making insurers decreased by 4.

The biggest four insurance companies are profitable, which confirms the rule observed in previous years saying that good financial results are related with the scale of operations.

## General profit and loss account – Branch II

*The technical account was positive for the first time in years*

In 2003, the technical account of Branch II insurers improved by more than PLN 175 mn – it was overall positive, for the first time in years. Despite the improvement, net profit of all the Branch II insurers declined by almost 18 million zloties (i.e. by slightly less than 2% of the 2002 results). Unrealised losses on investments grew by nearly 150 million PLN, while unrealised profits on investments dropped by almost 260 m – both of these had especially negative effect on the financial account of Branch II.

Taxes paid by insurers decreased by 1/8, i.e. by almost 59 million zloties, but – as mentioned before, effective rate of taxation remained virtually unchanged.

**Table 11. General profit and loss account - Branch II (PLN mn)**

Lp. item	2002	2003	change (%)
I Technical account	-98.4	77.1	-
II Investment income	1, 147.5	1, 393.4	21.4
III Unrealised profits on investments	1, 045.7	786.1	-24.8
IV Investment charges	337.5	319.7	-5.3
V Unrealised loss on investments	103.2	251.1	143.3
VI Net returns on investments transferred to the technical account	151.4	240.5	58.8
VII Other operating income	243.8	226.2	-7.2
VIII Other operating expenses	359.5	365.9	1.8
IX Profit (loss) on operations	1, 387.0	1, 305.6	-5.9
X Extraordinary profits	0.3	0.2	-32.5
XI Extraordinary losses	0.1	0.1	30.0
XII Gross profit (loss)	1, 387.2	1, 305.6	-5.9
XIII Income tax	460.3	401.6	-12.8
XIV Other mandatory profit reductions (increases of loss)	4.1	-1.0	-
XV Net profit (loss)	922.7	905.1	-1.9
The number of insurance companies with net financial profit	21	21	
The number of insurance companies with net financial loss	14	17	

Source: KNUiFE database

*Emergence of new insurance companies contributes to the growing number of loss-making insurers*

The number of profitable Branch II insurers remained unchanged in 2003, while the number of loss-makers increased. This follows the inflow of newcomers, who tend to report financial loss in the first years of operations.

## Agency agreements and insurance agents

*The general number of agency agreements changed by 1%*

A large proportion of insurers' products is distributed by agency networks. Agency agreements are signed both with business entities and with private individuals. The total number of agency agreements in 2003 changed by just 1% and amounted to 72,000. While no distinct change was visible in the total market scale, the breakdown into Insurance Branches shows a clear pattern. Branch II saw a growth of 2,000, while the number of agreements in Branch I declined by more than 1 thousand. In both cases that represents changes by 4%.

**Table 12. The number of agency agreements signed**

	Branch I	Branch II	Total
31 December 2000	42,015	42,140	84,155
31 December 2001	34,937	44,170	79,107
31 December 2002	28,114	43,210	71,324
31 December 2003	26,964	45,124	72,088

*Source: KNUiFE database*

Despite a fall in the numbers of individual insurance agents in 2003, still over 160,000 actively sell insurance in Poland. Notably, this is more than workforce numbers at the biggest Polish employers, incl. Poczta Polska (Polish Post) which employed approximately 100,000 people in 2003. The 'army' of agents is also bigger than the actual Polish military army.

**Table 13. Private individuals as insurance agents**

	31 Dec 2000	31 Dec 2001	31 Dec 2002	31 Dec 2003
Working for Branch I companies	119,134	99,565	81,509	78,265
Working for Branch II companies	41,511	70,118	95,736	82,381
Total	160,645	169,683	177,245	160,646

*Source: KNUiFE database*

*The least efficient agents are leaving the profession*

A long-term falling trend in the number of Branch I agents continued in 2003. The high number of agents in previous years was related to the OFE (National Pension Funds) campaign.

In Branch II the previous growing trend was reversed, with agent numbers falling by 14%. The main reasons should be looked for in efficiency audits conducted by companies, with the least efficient agents leaving the profession.

