

INSURANCE MARKET IN POLAND, 2016–2018

CEE INSURANCE SERIES

Selected pages from the original report



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SUMMARY

- Poland has the largest insurance sector in the CEE with over € 13 billion in premium written p.a. and a 41 % regional GWP share.
- Despite recent stagnation, total insurance premium is expected to rebound and increase at ~4% p.a. through 2018.
- The non-life insurance segment is likely to grow thanks to increasing tariffs in car insurance. Also the improving situation of enterprises is expected to drive demand for specialized insurance products in the corporate sector including credit and liability insurance.
- In the life business, a better economic situation and improved sentiment in households sector will be offset by increasingly tight regulatory regime and low interest rate environment which will negatively impact new sales and premium income.
- Considering the extremely high competition among insurers, their profitability is likely to fall further and remain low in 2016-2017. As a consequence, a further industry consolidation and M&A activity seem to be inevitable.



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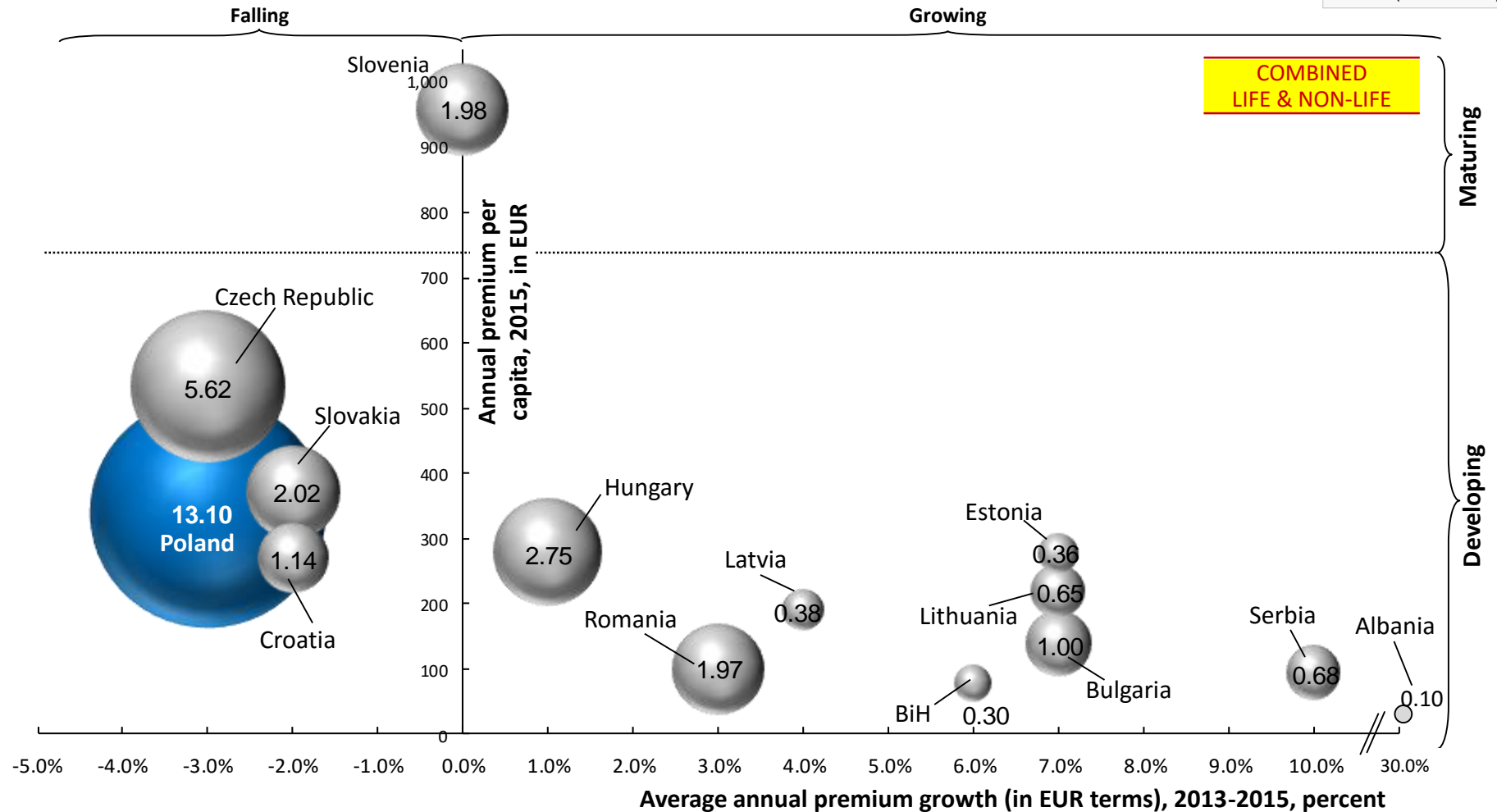
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POLAND HAS THE LARGEST INSURANCE MARKET IN CEE14*. HOWEVER, IT HAS BEEN SHRINKING RECENTLY

CEE14* insurance markets - Size vs. growth matrix, 2013-2015

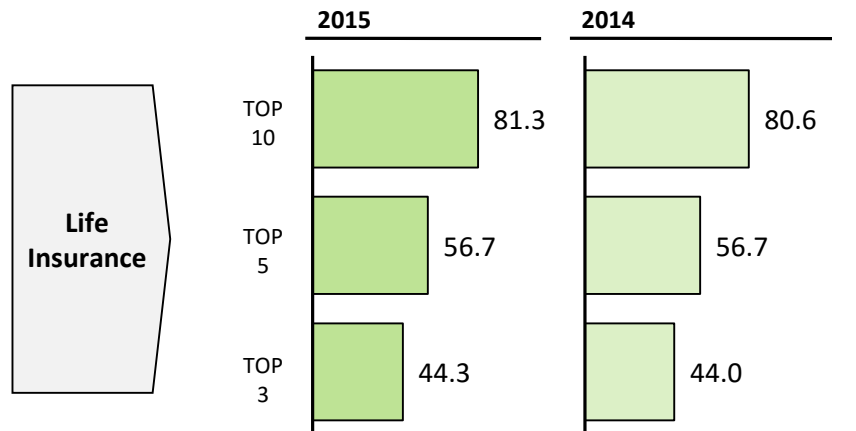
Total 2015 premium
(in billion EUR)



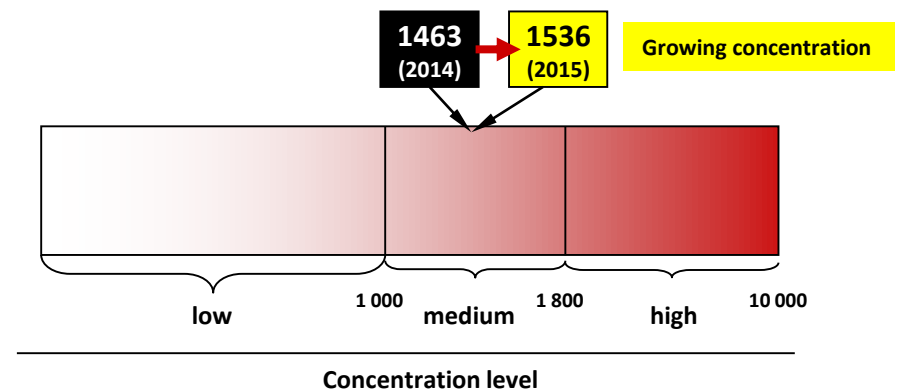
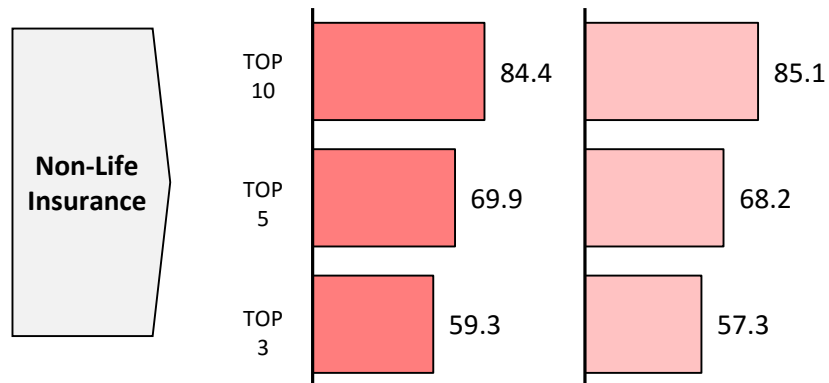
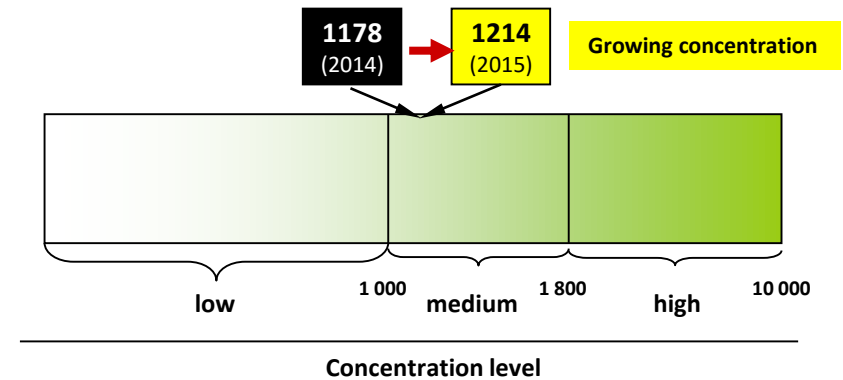
*Major 14 CEE countries. Russia, Ukraine, Belarus and FYR Macedonia not included
Source: National supervision authorities, IMF, Inteliace Research

CONCENTRATION RATIOS INCREASED IN 2015 BOTH IN THE LIFE AND NON-LIFE INSURANCE SEGMENTS

Share of top insurers by GWP
percent



Herfindahl-Hirschman* Index, 2014-2015
GWP concentration
nonlinear scale



*Markets in which the HHI is between 1000 and 1800 points are considered to be moderately concentrated, and those in which the HHI is in excess of 1800 points are considered to be concentrated.

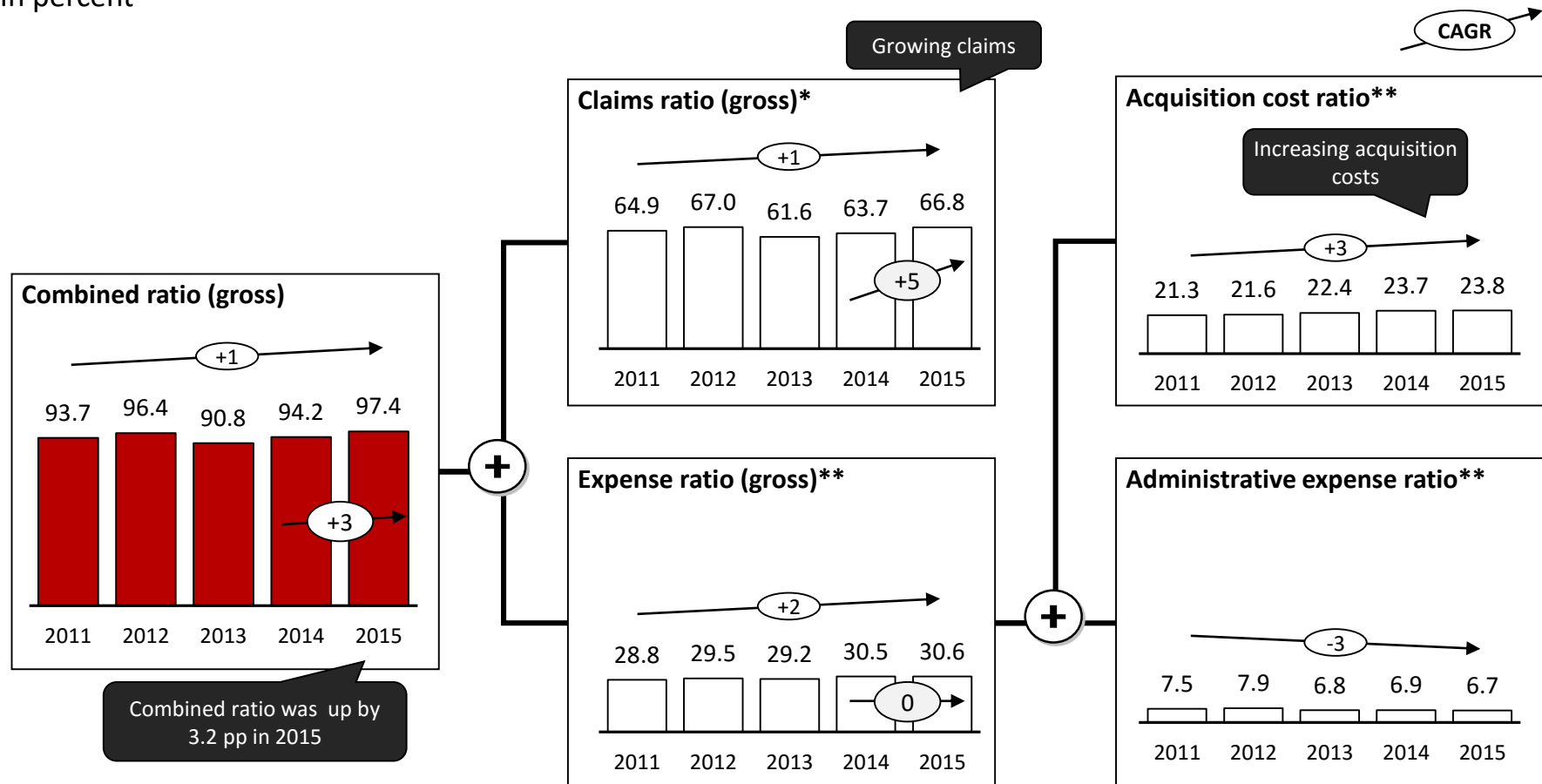
Source: KNF, Inteliace Research

THE COMBINED RATIO IN NON-LIFE WENT UP AGAIN BY 3.2 PP TO OVER 97% IN 2015

NON-LIFE
INSURANCE

Combined ratio, non-life business total, 2011-2015

In percent



* Based on premium earned (gross premium written less change in gross unearned premium provisions)

** Based on gross premium written

Source: Inteliace Research, KNF

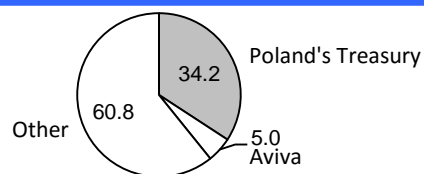
Background

- PZU is the largest traditional and local incumbent insurer with extremely high brand awareness (93%) in Poland.
- PZU's previously dominant position in the insurance market has been gradually eroding over time but this process has been reversed in 2014.

History

- 1991: State-owned insurer PZU converted to public joint-stock company.
- 1999: Partial privatization of PZU holding – 30% share in PZU SA sold to Eureko & Big Bank Gdański.
- 2003: Claims handling centralization.
- 2004: Launch of repair-shops network.
- 2009: Shareholder conflict resolved.
- 2010: IPO on the WSE.
- 2010/2011 Cost /employment restructuring.
- 2012 New Strategy: „PZU 2.0” adopted.
- 2012/2013 Entry into Latvia & Estonia.
- 2014 Acquisition of insurance businesses of RSA in Baltics and in Poland (Link4).
- 2014 Direct claims processing introduced.
- 2015 Stake in Alior bank acquired.

Shareholders, 1Q 2016 (share in %)



Products

- PZU offers ~80 various products in the non-life retail business. Products offered cover all 18 non-life insurance classes.
- Car insurance (MTPL+Casco) is dominating within non-life business with >60% share in the total GWP.
- „PZU Pomoc” – proprietary assistance service company is rounding up the traditional product offer.

Channels

- Own network: In total 414 branches.
- Exclusive agents: 9 k of which ~6 k in non-life.
- Multi-agents: 3.1k agents (all business lines).
- Brokers: 1000 brokers
- Employees: 800 employees dedicated to sales – mainly in the corporate segment.
- Bancassurance: cooperation with 10 banks and 6 strategic partners including telecoms and airlines.
- Cooperation with ~ 1.4 thousand repair shops.

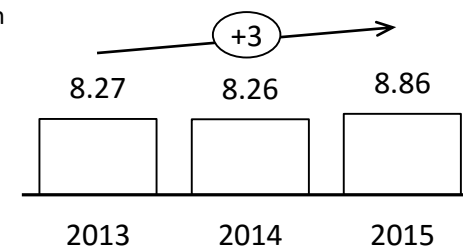
Customers

- PZU traditionally serves mass-market clients in retail business (mostly car and property) and all segments in corporate business.
- Total number of clients in the whole PZU Group (life + nonlife) exceeds 16 million of which 12 million use life insurance.

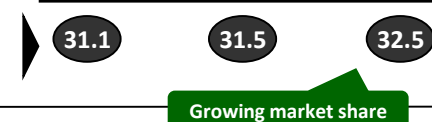
Results

Gross Premium Written

PLN billion

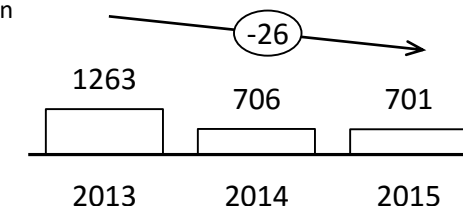


Market share* (percent)



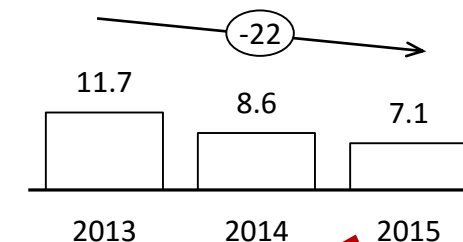
Net profit ***

PLN million



Return on Average Equity (ROAE) ***

Percent



*Non-life insurance share by gross premium written

**Compound Annual Growth Rate

*** Pro forma calculation based on figures derived from PZU Group financial statements.

Source: Company, Press, Inteliace Research

FX rates:

- For the purpose of conversion from local currency (PLN) into EUR for most values presented in this report, including premium written, annual results, etc., average exchange rates have been used
- Exchange rates used in the report:

EUR / PLN	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Average	4.03	3.90	3.78	3.52	4.33	3.99	4.12	4.19	4.20	4.19	4.18
End of period	3.86	3.83	3.58	4.17	4.11	3.96	4.42	4.09	4.15	4.26	4.26

Estimates and Forecasts:

- In some cases, recent or verified data was not available. Therefore, necessary short-term estimates have been calculated to fill the gaps. Estimates are always indicated with the letter “E”
- When preparing forecasts/estimates, we have built models using latest observed trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific factors considered important.

Multiple sources:

- In some cases, multiple sources of similar data exist. In this situation we always try to select the most appropriate one in our view. The source is indicated in the footer area of each slide. Nevertheless, in specific cases, before interpreting the data, it is recommended to get a good understanding on the methodology of data collection.

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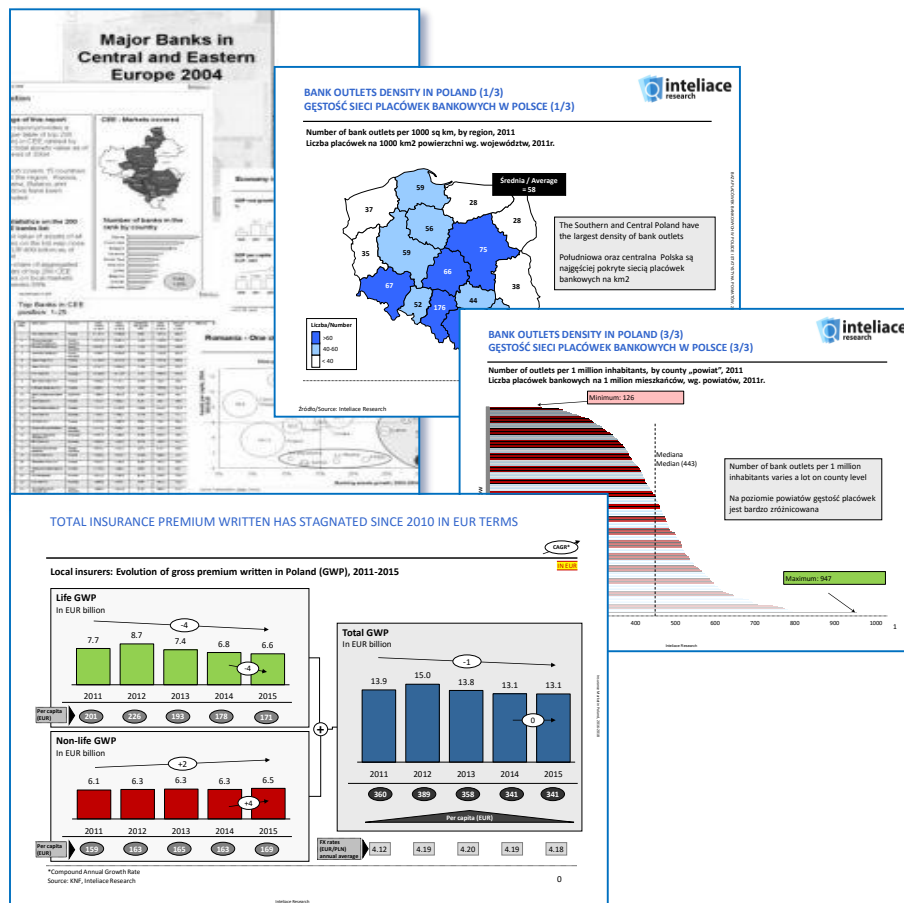
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