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# GLOBALIZATION OF INSURANCE INDUSTRY

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**Abstract.** The article investigates the influence of globalization on insurance industry which reduced amount of national insurance companies and increased foreign branches in three Baltic countries and in Slovenia. Analysis of statistic data on concentration level showed the trend of growing competition between insurance companies of countries investigated. Insurance contributes significantly to economic growth by improving the investment climate and promoting efficient mix of activities of economy than would be undertaken in the absence of risk management instruments. From other side economic growth and wealth are the most important determinants for insurance market growth and penetration. In this paper, the authors investigate the insurance density and penetration in dependence of economic growth and globalization in three Baltic countries: Lithuania, Latvia, Estonia and Slovenia. The findings of the paper show that level of economic growth and demand of insurance services in all states varies: the insurance density in Lithuania last year was at 1,6 %, while the average cost of insurance per capita was 204 euros. Latvian insurance market penetration and density was respectively 1,5 % and 185 euros, Estonian – 1,7 % and 259 euros, Slovenian - 5,1% and 920 euros, while the average penetration and density in the EU countries of Central and Eastern European region was 2,6 % and 334 euros. This reflects the ongoing different impact of globalization on their insurance markets, due to changes in security traditions, appearance of new insurance types and financial literacy of the population.

**Keywords:** insurance, economic growth, personal income, density, penetration.

**JEL Classification:** D31, G22, O47

## 1. Introduction

The research of insurance globalization in EU countries confirms its importance in directing it towards steady increase and reflecting global trends. Special attention in this paper has been dedicated to the analysis of indicators of living quality and insurance density and penetration as basic indicators of market globalization in three Baltic countries: Lithuania, Latvia, Estonia and the Republic of Slovenia from 2010 to 2015. The subject of this research is an overview and analysis of the relationship between the growth of economy and the globalization of insurance markets in these countries. The main goal of the research is to obtain results on the influence of globalization processes in development of the insurance industry comparing different EU countries. In the research were applied methods of analysis and synthesis. The research results confirm the significance of the relationship between globalization trends and changes in the insurance markets of EU countries, hence providing a background for further research in this area. Object of the research: the relationship between economic growth and insurance spending in the Baltic States and Slovenia.

## 2. Overview of Theoretical Researches

The influence of globalization on the different industries is often analyzed issues in recent years (Dudzevičiūtė et al., 2014), (Podoabă, 2015), (Dudzevičiūtė et al., 2016). The dynamics of changes and conditions induced in the environment by globalization largely determine the ways in which insurance companies are operating. The special importance of research on the influence of globalization on insurance companies is reflected by the fact that business operations of these companies largely define the growth of economy, which directly influences economic and social development of the country. As insurance companies are the typical representatives of financial activities, which have specific importance in the market, so it is vital to analyze the influence of the globalization processes on their activity. This issue is strongly emphasized in the case of transitional economies of different European Union countries, since the success of reforms largely depends on the efficiency of the financial sphere and its complementariness within international, global courses. These issues were investigated by several authors, one of them Liedtke Patrick (2007) investigated the connection between the modern courses and trends in the financial market through the prism of insurance activities, with special attention to the ability of insurance companies to adjust themselves to the courses and trends that globalization as a global process stimulates. The conclusions derived by the author could be reduced to the general notion that there is a strong correlative interconnection between globalization and insurance activities and that the trends of globalization are reflected in the insurance business. The eclectic paradigm (Dunning, 2000) predicted that companies decide to go international when they possess some company-specific advantages. This paradigm is actually a conglomerate of resource-advantage theory, international trade theory, and transaction cost-analysis theory. Later refinements of this theory involved business, technological and political developments in the 1990s and tried to explain globalization in terms of dynamics with their increasing positive dynamic position, which is one of the most important factors for global social and economic development. Dunning pointed out the significance of the content and quality of a country's social capital, its environmental integrity, its policies towards bribery and corruption, its acceptance of the need for transparent and accurate information, and the respect of the business organization for the law, particularly in relation to the enforcement of inter-firm contracts (Dunning, 2005). The processes of globalization significantly influence paths and trends in further development of economy. The article analyzes the condition on the local insurance markets of EU countries and their possibilities for the further development.

## 3. Global Influence and Regulatory Tasks

The Global Federation of Insurance Associations (GFIA), was established in October 2012 and has 40 member associations, which represent the interests of (re)insurers in 60 countries. They account for more than $4 trillion of insurance premiums worldwide, or 87% of the global total (Insurance Europe, Annual Report 2015–2016). The establishment of such body is more crucial than ever to have a means for national and regional insurance associations to work collectively to convince national policymakers that international standards could do far more harm than good to the economy and consumers if they undermine other goals that global G-20 leaders seek to achieve. A major focus for insurers worldwide is International Association of Insurance Supervisors (IAIS) development of quantitative insurance capital standards (ICS). In 2015 the IAIS carried out an extensive consultation on the ICS. Stakeholders from around the world responded and highlighted a wide range of concerns and challenges. While the International Accounting Standards Board now is finalizing international accounting standard for insurance, it is still uncertain whether it will be possible to develop as truly international solvency capital standard. Although the insurance industry was not responsible for the last financial crisis, it was impossible to disregard insurance when developing new regulatory requirements at global level (Van Hulle, 2015), thus the Financial Stability Board wanted a level playing field between banking and insurance regulation in order to avoid regulatory arbitrage. Furthermore, once it was agreed that there could also be global systemically important insurers (G-SIIs), it became necessary to define the additional capital that these insurers need to hold in order to distinguish them from other insurers. How to do this in the absence of an internationally-agreed capital standard was the question. In terms of implementation of the ICS, things are not easy. For the EU, it is unlikely that changes will be considered before the agreed deadlines for the revision of Solvency II and — given the investment made in its development — any changes are likely to be refinements rather than fundamental (Van Hulle, 2015). Other countries, such as Australia, Brazil, Canada, China, Japan and Mexico have carried out, or are in the process of developing, similar reforms to create strongly risk-based solutions. It will also be difficult for many of them to fundamentally change their approach. For the US, it is already difficult to agree nationally on who is in charge of developing solvency rules for large insurance groups. It is thus unlikely that the introduction of an ICS will come without difficulties there.

Therefore, examining of various insurance markets in the EU countries is interesting from both theoretical and practical point of view, showing the consequences of globalization to insurance market. Since 1990 the markets of investigated countries Lithuania, Latvia, Estonia and Slovenia, have been attracting more and more global insurance and reinsurance companies, what are the results of the liberalization, de-monopolization and privatization of national insurance markets, economic and political reforms, creation of conditions for the free flow of capital, achievement of economic growth as well as the integration into the European Union in 2004. From Table 1 we can see changes in number of insurance enterprises acting in the reviewed countries:

*Table 1. Changes in the number of insurance enterprises, 2005-2014*

| | **Estonia** | | **Lithuania** | | **Latvia** | | **Slovenia** | |
|---|---|---|---|---|---|---|---|---|
| | **2005** | **2014** | **2005** | **2014** | **2005** | **2014** | **2005** | **2014** |
| 1 National enterprises | 11 | 12 | 24 | 10 | 17 | 7 | 16 | 16 |
| 2 Branches of third (non-EU/EEA) countries | - | - | - | - | - | - | - | - |
| 1 + 2 Total under national supervision | 11 | 12 | 24 | 10 | 17 | 7 | 16 | 16 |
| 3 Branches of EU/EEA countries | 4 | 4 | 3 | 14 | 3 | 14 | 2 | 6 |
| 1 + 2 + 3 Total activity in the country | 15 | 16 | 27 | 24 | 20 | 21 | 18 | 22 |
| Branches in EU/EEA countries | - | - | 1 | 4 | 3 | 9 | - | - |
| Branches in third (non-EU/EEA) countries | - | - | - | - | - | - | - | - |

*Source: EIOPA-statistical annex-insurance 2005-2014*

During the period of 2005-2014 is observed significant decrease of national insurance enterprises in Lithuania from 24 to 10 and in Latvia from 17 to 7. In Estonia and Slovenia, on the contrary: the total number of insurance companies under national supervision increased as in Slovenia was stable. The number of branches in the European Union and European Economic Area (EEA) increased in Lithuania from 1 to 4, in Latvia from 3 to 9. The number of branches from EU and EEA countries was increasing in all countries 3-4 times, except Estonia – 4 branches. Regarding Slovenia, this country has been the most developed country both generally and in the domain of the insurance and reinsurance market. On this market are operating 22 companies, of which 16 are national companies (Goran, 2010). The concentration ratio as gross written premiums of the largest 3, 5 and 10 companies as a per cent of total written premiums in the domestic sector, is shown in Table 2:

*Table 2. Concentration ratio of life and non-life insurance enterprises, %*

| | | ***Largest 3,5,10 companies*** | **2005** | **2010** | **2014** |
|---|---|---|---|---|---|
| **Estonia** | *Life enterprise* | CR-3 | 87,3% | 87,0% | 79,7% |
| | | CR-5 | 100% | 100% | 100% |
| | | CR-10 | 100% | 100% | 100% |
| | *Non-life enterprise* | CR-3 | 82,6% | 62,2% | 79,0% |
| | | CR-5 | 97,5% | 83,2% | 98,0% |
| | | CR-10 | 100% | 98,4% | 100% |
| **Lithuania** | *Life enterprise* | CR-3 | 75,0% | 64,2% | 50,5% |
| | | CR-5 | 93,7% | 88,3% | 57,0% |
| | | CR-10 | 100% | 99,3% | - |
| | *Non-life enterprise* | CR-3 | 64,1% | 59,0% | 46,4% |
| | | CR-5 | 79,7% | 80,7% | 46,6% |
| | | CR-10 | 95,9% | 95,3% | - |
| **Latvia** | *Life enterprise* | CR-3 | 80,0 | 98,3 | 100 |
| | | CR-5 | 100 | 100 | - |
| | | CR-10 | - | - | - |
| | *Non-life enterprise* | CR-3 | 54,2 | 73,6 | 90,0% |
| | | CR-5 | 71,8 | 86,4 | 100% |
| | | CR-10 | 99,2 | 100 | - |
| **Slovenia** | *Life enterprise* | CR-3 | 71,5% | 67,7% | 59,8% |
| | | CR-5 | 84,7% | 81,4% | 77,9% |
| | | CR-10 | - | 99,3% | 99,2% |
| | *Non-life enterprise* | CR-3 | 79,1% | 69,9% | 66,4% |
| | | CR-5 | 96,1% | 88,2% | 86,8% |
| | | CR-10 | 99,90% | 99,8% | 99,8% |

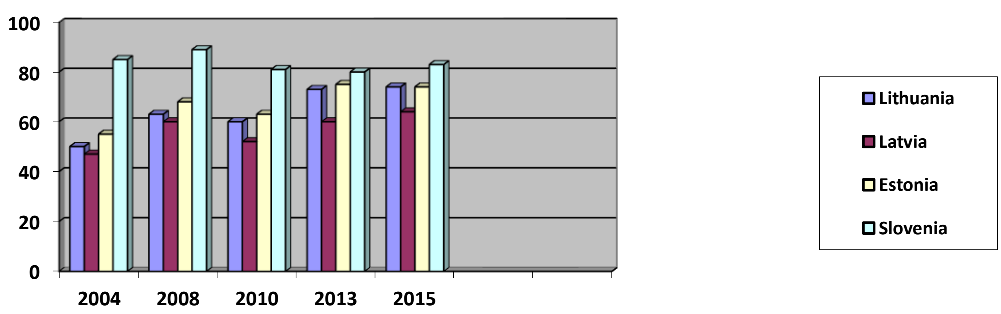
*Source: EIOPA-statistical annex-insurance, 2005-2014*

The statistical data represented in Table 2, allow to compare the concentration levels of each investigated country. Analysis of statistic data showed, that the insurance market is highly concentrated in Latvia, where top three insurers had 100% of life insurance market and 90% of non-life in 2014 (AAS "Balta", AAS "Baltikums", AAS "Gjensidige Baltic"). In Estonia: the top three insurers are holding 79,7% of the life insurance market share (Compensa Life, Vienna Insurance Group SE, Mandatum Life Insurance) and 79% (AAS Gjensidige Baltic Eesti filiaal, AS Inges Kindlustus, ERGO Insurance SE) of non-life in 2014 (International Insurance Fact Book, 2016). Concentration of insurance market in Lithuania and Slovenia in comparison with Latvia and Estonia is substantially lower: in Lithuania 50,5% of life insurance market share belong for three companies and in non-life – 46,4% in 2014. In Slovenia - subsequently: 59,8% and 66,4% in life and non-life insurance markets. Concentration level of life insurance market among 3 largest companies in all countries during the researched period 2005-2014 was decreasing, except in Latvia, where this indicator increased from 80% in 2005 to 100% in 2014 and in non-life market from 54,2% to 90%. This reflects the dissimilar growth of competition level between insurance companies. In Lithuania in life insurance market the main players are Swedbank, SEB gyvybes, Aviva Lietuva, Ergo Lietuva gyvybes, Compensa Life Vienna. In non-life insurance market there were Lietuvos Draudimas, BTA, PZU Lietuva, Ergo, Gjensidige Baltic (International Insurance Fact Book, 2016). In Slovenia there are five leading non-life insurance companies (Triglav, Vzajemna, Adriatic Slovenica, Maribor, Triglav Health) which had 99,8% of non-life insurance market and five companies (Triglav, Modra, Maribor, Adriatic, Slovenica) were holding 99,25% of life insurance market (International Insurance Fact Book, 2016).

## 4. The trends of insurance spending and economic growth

Economic growth means an increase in real Gross domestic product (GDP), which is a measure for the economic activity. It is defined as the value of all goods and services produced less the value of any goods or services used in their creation. The euro area real GDP in the first quarter of 2016 increased by 0,6% quarter-on-quarter, which is a much better result than predicted. As a result, in the first quarter of 2016 year, GDP was 1,7% higher than a year ago and **has finally exceeded the pre-crisis level.** Growth continued to be fostered by increased private underpinned by the stimulating monetary policy of the Euro system, improved labor market indicators, as well as the continued relatively low oil prices. Growth was reduced by the weakened external demand or our export capacity, which, to a certain degree as also determined by the geopolitical situation. Even though the Euro system implements an active and stimulating monetary policy, implementation of a reasonable fiscal policy and carrying out of structural reforms continue to be important factors in developing sustainable growth. Insurance contributes significantly to economic growth by improving the investment climate and promoting efficient mix of activities of economy than would be undertaken in the absence of risk management instruments. From other side economic growth and wealth are the most important determinants for insurance market growth and penetration. In Figure 1 the volume index of GDP per capita in Purchasing Power Standards (PPS) of investigated countries is expressed in relation to the European Union (EU28) average set to equal 100.

*Figure 1. GDP per capita in Purchasing Power Standards (PPS) of Baltic countries and Slovenia in 2004-2015, Index (EU28 = 100)*




*Source: Eurostat data, 2016*

Figure 1 show that GDP per capita was growing in all Baltic countries in period of 2004-2015 year, as in Slovenia this indicator slightly dropped. The global economic and financial crisis has affected the economic development of all the EU countries. In 2009, all the EU countries' groups reported decline in real GDP per capita. Among Baltic countries the highest GDP per capita was in Estonia, second result was in Lithuania and the lowest in Latvia. Economic growth is an important macro-economic objective because it enables increased living standards and helps create new jobs. For example, Lithuania despite a slowdown in 2014, due to subdued export markets and economic stagnation in Russia, GDP growth is still expected to gather pace in 2015. After expansion estimated at 2,9% in 2014, faster export increases as EU markets pick up gradually, and the impact of lower interest rates, as they move into line with the rest of the Eurozone will help to lift Lithuania's growth to about 3,6% in 2015. In 2016 - 2018, the expected growth will be 4, 5% - 5% a year. Such Lithuania's growth will outrun the Eurozone's average three times. If similar trends will appear in neighboring Baltic countries, too, therefore, the Baltic region, which is only about 0, 8% of the total Eurozone's GDP will become its growth flag-bearer (Swedbank, 2016). According to experts, although near-term prospects are held down by the external challenges and threats, longer-term prospects, however, remain promising. As EY and "Oxford Economics" evaluated, Lithuania's small and relatively open economy responded well to the global financial crisis and the subsequent recession, with substantial "internal devaluation" helping to restore competitiveness much faster than in most other EU countries (Eurozone business environment). For assessment of the development level of the insurance market the most frequently are used such indicators as the insurance penetration rate in the economy and insurance density. Penetration rate indicates the level of development of insurance sector in a country.

The penetration rate of insurance in the economy is a synthetic indicator which shows the contribution of the insurance sector to the gross domestic product (GDP) and is calculated as the ratio between the amount of direct total insurance premiums and gross domestic product. Insurance penetration is a commonly recognized indicator of insurance activity. Insurance density is used as an indicator for the development of insurance within a country and is calculated as ratio of total insurance premiums to whole population of a given country (Nagy, 2012).

*Table 3. Insurance density and penetration in 2014*

| Countries | Population, million | Density, €/person | Penetration, % |
|---|---|---|---|
| Lithuania (LT) | 2,921 | 204 | 1,6 |
| Latvia (LV) | 1,986 | 185 | 1,5 |
| Estonia (EE) | 1,300 | 259 | 1,7 |
| Slovenia (SI) | 2,060 | 920 | 5,1 |

*Source: authors' calculations based on Eurostat data*

The Table 3 above shows, that insurance density as ratio of total premiums to whole population of a given country, it is significant differences between Baltic countries and Slovenia: Slovenia with almost similar population has 5, 1% insurance penetration level, while the average penetration and density in the EU countries of Central and Eastern European region was 2, 6 % and 334 euros in 2014.

*Table 4: The evolution of insurance penetration level in 2000-2014, %*

| Countries | 2000 | 2005 | 2009 | 2010 | 2014 |
|---|---|---|---|---|---|
| 1. Lithuania | 1,0 | 1,5 | 1,7 | 1,6 | 1,6 |
| 2. Latvia | 2,0 | 1,8 | 1,7 | 1,5 | 1,5 |
| 3. Estonia | 1,7 | 2,3 | 2,6 | 2,0 | 1,7 |
| 4. Slovenia | 4,4 | 5,4 | 5,9 | 5,8 | 5,1 |
| EU(28) | 8,4 | 8,0 | EU(27)8,5 | 7,52 | 7,46 |

*Source: Insurance Europe, 2016*

Analyzing the data of Table 4, which represent the evolution of insurance penetration of separate country we can see, that in 2014 year Slovenia had the highest insurance penetration level (5,1%) in comparison with Baltic countries, where this indicator varied from 1,5 to 1,7. However their initial conditions in 2010 year were quite different: if insurance penetration in Lithuania was only 1%, therefore in Slovenia – 4,4%, in Latvia - 2%, in Estonia - 1,7%. During the investigated period from 2000 to 2014 year this indicator tended to grow till 2009 year: to 5, 9% in Slovenia, to 2, 6% in Estonia, to 1, 7% in Latvia and Lithuania. However, due to the global financial crisis affect decreased to 1,6% in Lithuania, 1,5% in Latvia, 1,7% in Estonia and 5,1% in Slovenia in 2014. This reflects the ongoing different impact of globalization on their insurance markets, due to changes in security traditions, appearance of new insurance types and financial literacy of the population.

## 5. Conclusion

1. The growing presence of business globalization and its associated consolidation, deregulation, new distribution channels and new customer demands, are only a few of the key forces leading to the reorganization of business dealings of present day insurance companies with regard to capital allocation, product development, processing of damage claims, and enhancement of business efficiency.
2. The influence of globalization on the insurance industry was analyzed in scientific researches, which investigated the connection between the modern courses and trends in the financial market through the prism of insurance activities, with special attention to the ability of insurance companies to adjust themselves to the courses and trends that globalization stimulates.
3. The globalization led to establishment of Global Federation of Insurance Associations, which is more crucial than ever to have a means for national and regional insurance associations to work collectively to convince national policymakers in preparing international standards for the goals, which global G-20 leaders are planning to achieve.
4. As consequence of globalization on insurance market in three Baltic countries and in Slovenia was observed decrease of national insurance companies and increase of foreign branches. Analysis of statistic data on concentration level showed the trend of growing competition between insurance companies of countries investigated.
5. Insurance contributes significantly to economic growth by improving the investment climate and promoting efficient mix of activities of economy than would be undertaken in the absence of risk management instruments. From other side economic growth and wealth are the most important determinants for insurance market growth and penetration.
6. For assessment of the development level of the insurance market the most frequently are used such indicators as the insurance penetration rate in the economy and insurance density. Analysis of these indicators in countries investigated showed that in 2014 year Slovenia had the highest insurance penetration level of 5,1% in comparison with Baltic countries, where this indicator varied from 1,5% to 1,7%. This reflects the ongoing different impact of globalization on their insurance markets, due to changes in security traditions, appearance of new insurance types and financial literacy of the population.

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