

THE NON-LIFE INSURANCE MARKET IN BULGARIA – 15 YEARS AFTER THE COUNTRY'S ACCESSION TO THE EUROPEAN UNION

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Abstract: The main aim of the study is to establish the state and development of the leading insurance industry in our country – Non-Life Insurance, as well as to outline its importance as an economic sector and to determine its market structures after Bulgaria's accession to the European Union in 2007.

The article traces the dynamics of gross written premiums realised by insurers in Non-Life Insurance during the period 2007-2021. The place of Non-Life Insurance in the Bulgarian economy has been established through the indicators "insurance penetration" and "insurance density". Its product structure for the same period has also been studied.

As a result of the research, it is concluded that Non-Life Insurance in Bulgaria occupies a small share of the country's economy; Bulgarian citizens do not spend enough money on insurance, and the product structure of the market is dominated by Motor Insurance.

Keywords: insurance market, Non-Life Insurance, insurance penetration, insurance density, product structure, structural changes

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Part I. Introduction

The changes that took place in Bulgaria after 1989 also affected the insurance market. Insurance companies reoriented their activities mainly in Non-Life Insurance, with an emphasis on motor insurance. The share of life insurance fell sharply. At the same time, the insurance legislation was not adequate to the changes.

Bulgaria's application for full membership in the European Union imposed legislative changes in the insurance business. The Insurance Code, adopted at the end of 2005, defined the supervisory function of the state, the participants in the insurance market and the products they offer.

The admission of Bulgaria as a full member of the European Union on 1 January 2007 was related to expectations for rapid development of the economy in general and insurance in particular.

The main goal of the study is to establish the state and development of the leading insurance industry in our country – Non-Life Insurance, to outline its significance as an economic sector and to determine its market structures. The period from Bulgaria's accession to the European Union in 2007 to the present day is considered. Achieving this goal would be possible by calculating relevant indicators such as: gross written premiums; insurance penetration; insurance density; integral coefficient of structural changes in Non-Life Insurance.

Part II. Literature Review

The accession of the countries of Eastern Europe to the European Union affects the development of their economies in general and their insurance markets in particular. There are some basic key indicators used in analysing the development of insurance market - gross written premiums, insurance penetration ratio, insurance density, product structure of Non-Life or Life Insurance, etc. The book of Paneva, A. "Insurance market" (Paneva, 2017) considers three main groups of indicators that allow for analysis of the state of the insurance market and the competitive environment. These groups include: indicators for market structures; indicators for assessing the competitive environment; indicators about state of insurance and its place in the national economy.

H. Draganov, J. Bliznakov, and G. Dimitrova (Draganov, Bliznakov, & Dimitrova, 2001) consider the place of insurance in the Bulgarian economy

in terms of gross domestic product, gross written premiums, number of population, insurance penetration and insurance density during the period 1997-1999. This early study shows an increase in the values of the above mentioned indicators and a raise of the share of insurance in national economy.

In Bulgaria, after the country's accession to the European Union, the insurance activity has continued its development. In the paper of R. Erusalimov (Erusalimov R., 2016), the problems of the insurance market after the country's membership in the EU have been defined and analysed. The same author, using the indicators insurance penetration and insurance density, defines the place of insurance in the economies of Bulgaria and Romania after the crisis (Erusalimov, R., 2020).

A. Paneva (Paneva, 2018, pp. 453-480) analyses the insurance market through monitoring the dynamics in the distribution of gross written premiums by sections and classes of insurance. At the same time, by calculating the integral coefficients of structural changes, she estimates the changes in the structure of the product portfolio of Bulgarian insurance companies in the period 2012-2017.

In recent years, the "COVID-19 phenomenon" has had impact on Bulgaria's economic development, including the development of insurance market. The extent to which the restrictive measures, imposed by the state on the spread of the COVID-19 virus, affect the development of the most concluded voluntary insurance on the Bulgarian Non-Life Insurance market – Motor Casco Insurance, is considered in the article by R. Erusalimov and N. Iliev (Erusalimov & Iliev, 2022). As a result of the study, it was proved that the measures imposed by the state did not significantly affect the development of Motor Casco Insurance in Bulgaria, but simply slowed down its pace. At the same time, there is a significant reduction in the number of road accidents, especially in 2020, which also affects the reduction of insurance payments.

The accession of the other Eastern European countries to the EU has also an impact of the development of their insurance markets. In their study, Born, P. and Bujakowski, D (Born & Bujakowski, 2019) considered the development of insurance markets in 18 post-communist European countries over a 10-year period. Doing this, they estimate static and dynamic models to test the relationship between economic transition indices and insurance density and penetration.

Non-life insurance penetration could be seen as a measure for non-line insurance demand. Poposki, K et al. (Poposki, Kjosovski, & Stojanovski,

2015, pp. 20-37) examine the determinants of the penetration of Non-Life Insurance in eight countries in Southeast Europe. Empirical results provided the evidence that the number of passenger cars per 1,000 people, GDP per capita and rule of law positively and significantly influence the non-life insurance penetration.

The two indicators - insurance density and insurance penetration are part of the study about the influence of macroeconomic environment on the development of the insurance industry of the Visegrad group countries. The results of the Brokešová and Vachálková research (Brokešová & Vachálková, 2016, pp. 63-72), which focused on the insurance sector in four Central European countries, show that the development of Non-Life Insurance is more sensitive to the macroeconomic environment.

Part III. Data and Methodology

The analysis of the Bulgarian insurance market covers the period 2007 – 2021 and is carried out on the basis of the official statistics on annual gross written premiums, published by the Financial Supervision Commission's website (Financial Supervision Commission, 2022). Data on gross domestic product and number of population published by the National Statistical Institute are also used (National Statistical Institute, 2022). The data are shown in the official currency of Bulgaria, the Bulgarian lev ⁴.

A key indicator that is taken into account when assessing the insurance services market in Bulgaria is **gross written premiums**. It is one of the starting points in analysing the state and development of insurance, outlining its importance as an economic sector and defining market structures.

The significance of insurance for the national economy is determined on the basis of the **insurance penetration ratio**. It is calculated as a percentage of the ratio of gross written premiums and gross domestic product for a given period (usually one year), expressed in comparable currencies.

Insurance density (gross written premiums per capita) gives an idea of what amount of money is spent on insurance on average by the population of the country. In the present study, the indicator is calculated in Bulgarian leva as the gross written premiums, expressed in monetary units, for a certain period (one year) and the population during the same period.

⁴ Bulgaria has been on the currency board since 1997, and the exchange rate of the Bulgarian lev is fixed against the exchange rate of the euro. One Bulgarian lev is exchanged for 0.511292 euros.

To establish the state and trends of the insurance market, it is important to analyse the **product structure** of Non-Life Insurance. It is formed on the basis of the relative shares of the different types of insurance belonging to the section "Non-Life Insurance". In the present study, the classes (types) of insurance are presented according to the classification used by the Financial Supervision Commission.

The degree of change in the structure of the Non-Life Insurance portfolio during the analysed period is determined on the basis of the integrated coefficient of structural changes, calculated on a fixed base in 2007.

Part IV. Analyses and Results

The main indicator reflecting the development of insurance is gross written premiums of insurers. In the beginning, after the accession of Bulgaria to the European Union, there was a favourable trend for rapid development of the economy and insurance in particular. However, due to the global financial crisis of 2008, this trend has turned in a negative direction (see Table 1).

According to the data in Table 1, 2009 was the first year during which the crisis affected Bulgarian insurance. The decline in gross written premiums lasted until 2012, and the levels of 2008 were reached in 2015.

The adverse effects of the global financial crisis have led to changes in the regulation of the insurance market. This was imposed by the European Union Solvency II Directive, the main purpose of which is to avoid the bankruptcy of insurance companies (Directive 2009/138/EC of The European Parliament and of The Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), 2009). At the end of 2015, a new Insurance Code came into force, according to which the requirements for the solvency of insurance companies were increased. The imposed "stress tests" on the financial condition of the insurance companies operating on the Bulgarian market increased the confidence of consumers of insurance services. The insurance companies realised a growth in their premium income. Thus, according to forecast data, in 2021 the premium income reached BGN 2 639 466 875, which is an increase of 67.79% compared to 2015 and 108.06% compared to the base year 2007.

Conclusions about the state and development of the insurance market can be made on the basis of the indicators "insurance penetration" and "insurance density" (see Table 1).

Table 1.
Indicators for the state of Non-Life Insurance in Bulgaria for the period 2007 - 2021

Indicators \ Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Gross domestic product in billion BGN	63,5	72,8	73,1	74,4	80,7	82,2	82,0	83,9	89,3	95,1	102,3	109,7	119,8	120,0	132,7
Population at the end of the year (million people)	7,64	7,61	7,56	7,50	7,33	7,28	7,25	7,20	7,15	7,10	7,05	7,00	6,95	6,92	6,52
Gross written premiums in Non-Life Insurance (in billion BGN)	1,27	1,53	1,46	1,37	1,36	1,34	1,42	1,43	1,57	1,62	1,75	2,08	2,41	2,44	2,64
Market share of Non-Life Insurance (in %)	83,44	84,63	86,64	84,68	84,40	83,29	82,31	80,81	80,08	79,09	80,31	82,41	82,87	84,67	81,29
Rate of change of GDP on chain variants	118,4	114,7	100,5	101,7	108,4	101,9	99,7	102,4	106,5	106,5	107,6	107,2	109,1	100,2	110,7
Rate of change of GWP on chain variants	119,7	120,8	95,1	94,4	99,1	98,1	106,5	100,8	109,7	103,0	108,0	119,1	115,9	101,1	108,2
Insurance penetration (in %)	2,00	2,11	1,99	1,85	1,69	1,62	1,74	1,71	1,76	1,70	1,71	1,90	2,01	2,03	1,99
Insurance density (in BGN)	166,0	201,6	192,6	183,2	185,9	183,4	196,5	199,2	219,9	228,1	248,1	297,5	347,2	352,6	404,8

Source: Financial Supervision Commission and National Statistical Institute.

*According to forecast data.

The dynamics of the indicator "insurance penetration", which characterises the significance of insurance as an economic sector in the period 2007 - 2021, generally follows the outlined trend in gross written premiums realised by non-life insurers. The highest value of the indicator was reported in 2008 – 2.11%, and by the end of the analysed period it failed to be exceeded. After the initial upward trend, with the manifestation of the global financial crisis, a permanent decline in the values of the indicator began, which lasted until 2012. As the effect of the crisis weakened, there was a growing importance of Non-Life Insurance for the development of the national economy, and in 2019 and 2020 the insurance penetration even exceeded the initial value for the period of 2%. However, the insurance penetration calculated on the basis of the forecast data for the gross written premiums for 2021 of 1.99% shows a slight decrease in the values compared to 2020. Despite the generally positive trend regarding the dynamics of insurance penetration, at this stage its values are still low and the development of Non-Life Insurance cannot be expected to have a significant impact on the economic development of the country.

Another important indicator that gives an idea of the development of Non-Life Insurance is the insurance density. Based on this indicator, information is obtained on the amount of income that the average consumer spends to provide insurance protection. After the initial increase in insurance density in 2008, as a result of the manifestation of the global financial crisis, a trend of constant decline in the values of the indicator began, which continued over the next 4 years. After 2012, the trend reversed and the insurance density increased more than twice for the analysed period. However, it should be noted that the values of the indicator are influenced by both the development of Non-Life Insurance (characterised by changes in gross written premiums) and the number of the population. During the analysed period the Bulgarian population was constantly decreasing and from 7 640 238 people in 2007 it reached 6 520 314 people in 2021. The main reason for this is the aging population of the country and the higher mortality rate among people of the so-called "third age", who are less likely to take out insurance. Due to the faster rate at which the population was declining, even in years of decreasing gross written premiums, an increase in insurance density was observed (such as 2011). The constant increase of the price of the most widely purchased insurance product – the compulsory Motor Third Party Liability Insurance – also had an impact. This is due to constantly increasing over time limits of liability under compulsory insurance, which inevitably led to an increase in the amount of insurance premiums. For example, in the case of non-material and material damage due to bodily injury or death, the limits for each event per injured person increased from BGN 700 000 in 2007 to BGN 10 420 000 in 2021, and in the case of two or more

victims – from BGN 1, 000, 000 in 2007 to BGN 10, 420, 000 in 2021. There was also an increase in the limits of liability of the insurer in case of damage to property – from BGN 200, 000 in 2007 to BGN 2, 100, 000 in 2021. For these reasons, it cannot be assumed that the doubled insurance density means a double increase in the consumption of insurance services.

The Non-Life Insurance market in Bulgaria is characterised by a variety of insurances. In accordance with the Insurance Code and the provisions of the Financial Supervision Commission for the period 2007-2021, insurance companies operating in Non-Life Insurance in Bulgaria report premium income on seventeen types of insurance, whose product structure is shown in Table 2.

The product structure of Non-Life Insurance is not static. It undergoes changes over time under the influence of various factors. The data in Table 2 show that motor insurance, represented by only two insurances ("Land Vehicles"⁵ and "Motor Vehicle Liability"), is ahead of all others in terms of gross written premiums. The market shares of these two insurances, during the period considered, varied between 68.30% and 74.41%. The reasons for this imbalance are many and complex. It is a fact that after the political and economic changes in the country, since 1989, the value system of Bulgarian citizens has changed including in terms of the need and benefits of insurance. The car has become the most valuable item on which insurance protection must be provided. The insurance companies reoriented their activities and placed a strong emphasis on car insurance. Those processes were provoked by the chaos in which the state was at the time and the lack of specialised legislation in the field of insurance to outline the framework and provide guidelines for development. The attempts made by the government, through legal regulation of insurance relations (eight years after the changes), failed to overcome this imbalance. Until 2011, consumer interest was focused on the voluntary motor insurance "Casco". The global financial and economic crisis, which began in 2007, has led to a slowdown in economic development, rising unemployment, limited purchasing power, and widespread distrust in financial institutions. In such a situation, consumers of insurance services direct their financial resources to the purchase of compulsory insurance products. Thus, in 2011 the two insurances, forming the motor insurance, changed their market positions. The market share of the compulsory motor third party liability insurance exceeds that of the traditional leader of the insurance market before then – the Motor Casco Insurance, and this trend continues till the end of the observed period. The outlined change is due to several reasons. Although motor insurance is the leading one in the country, it shows insufficient knowledge of the nature and purpose of the insurances included in it. Many people cannot distinguish between "Motor Casco (Hull) Insurance" and "Motor Third Party Liability Insurance". Once they have taken

⁵The insurance is popular under the name "Casco" of the vehicle.

out compulsory motor third party liability Insurance, according to the Insurance Code, the insured persons believe that insurers are also liable to cover damage to their own cars. Therefore, most consumers prefer only to take out compulsory insurance. During the period there is an increase in the limits of liability under the compulsory liability insurance, which naturally leads to an increase in its price, gross written premiums realised on it, and hence its market share. In addition to the increased cost of compulsory motor liability insurance, a factor in reducing the share of motor hull insurance is the impact of the global financial crisis. The reduced solvency of Bulgarian citizens has affected the conclusion of voluntary insurance products. Due to the complex action of the stated reasons for the structural changes in motor insurance, for the period of analysis the market share of the compulsory motor third party liability insurance is constantly growing, and the share of the voluntary motor insurance "Casco" significantly decreases.

The third most important insurance during the period (2007 – 2021) is the insurance "Fire and natural disasters and other property damage". It mainly covers risks threatening the buildings and household property of citizens. Until the changes of 1989 in Bulgaria there was a state monopoly in insurance, and the insurance of residential buildings was mandatory. Bulgarian citizens paid the insurance premium by paying the tax on their property. Most of the insured persons realised that they had insurance coverage only when an insured event occurred. Although at that time there was almost 100% insurance coverage for residential buildings, their occupants did not have established habits regarding the voluntary taking out of this insurance. After the democratic changes and the abolition of the state monopoly in insurance, the insurance of buildings and household property almost disappeared and it took several years for the voluntary insurance to be accepted as useful by the Bulgarian citizens. Gradually, the insurance "Fire and natural disasters and other property damage" gained popularity not only among legal entities but also among individuals. For the period there was a stability of the market share occupied by this insurance until 2015. The decrease of over 6% over the next four years is due to the increased gross written premiums in the compulsory "Motor third-party liability" insurance, in connection with the above-mentioned increased liability limits. The insurance "Fire and natural disasters and other damage to property" deteriorated its market position during the analysis period, but in our opinion will still develop. The epidemic caused by Covid-19 left many people in their homes. The "home office" phenomenon is becoming more common. For this reason, people are expected to think about the security of their homes and the property in them. With an appropriate advertising and explanatory programme, we believe that more and more citizens will realise the usefulness of this type of insurance.

Table 2.
Product structure of Non-Life Insurance (in %) for the period 2007 – 2021

Year Class of Insurance	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Accident	1,72	1,78	1,70	1,74	1,82	1,94	1,79	1,87	2,10	1,96	2,18	1,93	1,82	1,95	2,06
Sickness	0,0014	0,0021	0,0028	0,0024	0,01	0,03	2,57	3,05	2,77	2,75	2,96	2,55	2,72	2,88	2,99
Land vehicles (other than railway rolling stock)	44,15	45,04	41,37	36,10	32,51	31,18	28,84	30,07	30,78	31,61	32,37	29,48	27,02	26,77	26,86
Railway rolling stock	0,30	0,50	0,02	0,03	0,28	0,27	0,25	0,38	0,33	0,45	0,40	0,30	0,27	0,22	0,34
Aircraft	0,71	0,46	0,82	1,06	1,04	1,10	0,65	0,51	0,64	0,38	0,35	0,23	0,21	0,22	0,20
Ships	1,34	1,43	0,70	0,62	0,51	0,54	0,63	0,81	0,41	0,27	0,22	0,19	0,18	0,21	0,27
Goods in transit	1,48	1,19	0,88	0,99	1,11	1,09	1,11	1,09	1,09	1,12	1,21	0,86	0,79	0,86	0,89
Fire and natural forces and other damage to property	19,03	16,94	19,08	19,01	18,99	19,45	18,44	18,60	18,78	16,86	16,36	13,66	12,31	12,75	12,86

Year Class of Insurance	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Motor vehicle liability	24,41	25,05	30,24	35,08	38,57	39,14	40,71	38,35	37,52	38,35	37,70	44,92	45,16	44,28	44,08
Aircraft liability	0,68	0,51	0,62	0,67	0,66	0,51	0,59	0,54	0,53	0,09	0,07	0,28	0,23	0,16	0,24
Liability for ships	0,17	0,13	0,18	0,18	0,16	0,12	0,08	0,09	0,09	0,32	0,33	0,02	0,02	0,02	0,02
General liability	2,42	2,07	1,94	2,20	2,16	2,44	2,38	2,42	2,38	2,48	2,39	1,82	1,75	2,07	2,18
Credit	0,74	1,96	0,81	0,58	0,60	0,65	0,53	0,55	0,54	0,38	0,34	0,33	0,24	0,22	0,25
Suretyship	0,27	0,23	0,19	0,28	0,22	0,06	0,07	0,05	0,23	1,20	0,91	1,29	4,81	5,20	3,15
Miscellaneous financial loss	1,82	2,03	0,78	0,74	0,55	0,42	0,43	0,48	0,74	0,59	1,01	0,97	0,76	0,55	0,71
Legal expenses	0,00001	0,00008	0,0003	0,0003	0,0003	0,11	0,0004	0,0004	0,0004	0,0003	0,0002	0,0002	0,07	0,09	0,10
Travel assistance	0,76	0,69	0,67	0,72	0,82	0,95	0,93	1,14	1,07	1,18	1,21	1,18	1,64	1,56	2,82

Source: Financial Supervision Commission and National Statistical Institute.

*According to forecast data.

Particular attention should be paid to “Sickness” insurance. Its share is constantly growing – from almost zero at the beginning of the period to 3% at its end. The changes made in 2012 to the Health Insurance Act are the main reason for the drastic change (Health Insurance Act). These changes required the existing specialised health companies, operating on the insurance basis, to be licensed as insurers or to transfer their portfolios to licensed insurance companies. This has led to an increase in the number of Non-Life Insurance companies offering sickness insurance, thus sharply increasing premium income and the share of health insurance.

The market shares of the other thirteen types of insurance are insignificant and their total share for the period is 10.9%.

To determine the degree of changes in the product structure of Non-Life Insurance, which occurred in the period 2007 - 2021, an integral coefficient of structural changes was calculated on fixed base in 2007 (see Table 3).

Table 3.

Coefficient of structural changes in the Non-Life Insurance on fixed base for the period 2007 - 2021

Year	Coefficient of structural changes
2007	-
2008	0,0357
2009	0,0861
2010	0,1761
2011	0,2407
2012	0,2583
2013	0,2971
2014	0,2672
2015	0,2526
2016	0,2542
2017	0,2426
2018	0,3351
2019	0,3691
2020	0,3649
2021	0,3596

Source: Authors' calculations based on the data in Table 2.

The values of the calculated integral coefficient of structural changes, compared to the base year 2007, show that in the individual years the structure of the Non-Life Insurance market changes and moves away from the base year. The observed structural changes vary. In 2008 they were very

weak, in 2009 – weak, and in 2010 – moderate. From 2011 to the end of the period, the changes in the product structure of Non-Life Insurance compared to 2007 are characterised as significant (Petrov, Todorov, & Ivanov, 2009, p. 370). They reflect the changes in the market positions of the most widely taken out insurances in the Non-Life Insurance section discussed above.

Part V. Conclusion

Insurance in Bulgaria, despite the country's fifteen-year EU membership, still occupies a very small share of the Bulgarian economy, and Bulgarian citizens continue to spend insignificant funds on insurance. The global financial crisis in 2008 had a negative impact on the Bulgarian Non-Life Insurance market and a decline in gross written premiums was registered for the period 2009-2012. Subsequently, for the rest of the observed period 2013-2021, there has been a gradual increase in premium income, and even the COVID-19 crisis has not stopped this growth.

The results of the “insurance penetration” indicator, which characterises the significance of insurance as an economic sector, follow the outlined trend in the gross written premiums realised by non-life insurers. As the effects of the global financial crisis weaken, there is a growing importance of Non-Life Insurance for the development of the national economy. However, despite the positive trend, the values of insurance penetration are still low, i.e. the development of Non-Life Insurance does not have a significant impact on the economic development of the country.

The values of the indicator “insurance density” in Non-Life Insurance are affected by changes in gross written premiums and population size. Due to the constant decrease of the population and the increase of the realised gross written premiums, an increase of this density is observed. The reasons for this can be found both in the aging population, who is less likely to take out insurance, and in the constant increase in the price of the most popular compulsory “Motor third-party liability” insurance. That is why it cannot be assumed that the doubled insurance density means a double increase in the consumption of insurance services.

The product structure of Non-Life Insurance in Bulgaria shows that motor insurance is ahead of all other types of insurance in terms of gross written premiums. The values of the integral coefficient of structural changes, calculated in comparison to the base year 2007, show that in the individual

years the structure of the Non-Life Insurance market changes and moves away from the base year.

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BUSINESS **management**

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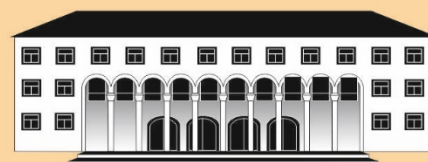
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