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## CHANGES OF THE DOMESTIC INSURANCE MARKET FROM THE ECONOMIC TRANSITION PERIOD UNTIL PRESENT

Eke Zsolt – Pataki László

### **Abstract**

The importance of the topic studied is generally given by the increasing significance of self-care, caused by the disadvantageous climate change disasters. This study is related to that because it shows additional information about the field in question through the investigation of past procedures as well as present- day data, this way providing more accurate findings.

The insurance market has gone through profound changes during the period of the change of regime and after that as well, both in quality and quantity. In this study We are pointing out the most important changes of the division market based on the findings of mathematical and statistical research, from the '80s to present time.

**Keywords:** Self-care; regime; statistical analysis; quantitative and qualitative changes

**JEL codes:** G22, O10, E44

## Introduction, goals

The presented study aims at highlighting the particularities of the changes in the Hungarian insurance market in the period of the regime, divided into six relatively homogeneous parts:

- 1985-1990, period of initial growth,
- 1991-1995, period of high inflation,
- 1996-2000, period of the most significant development,
- 2001-2007, interval of decreasing growth,
- 2008-2012, period of retraction,
- 2012-2015, years of recovery, still in progress even today.

We find this topic important, because the financial crisis highlighted the problem that the individual investors are far more affected by this crisis (Illés & Márki 2000, Banyár 2003, Szekeres 2010, Pandurics & Illés 2015) than institutional investors with proper professional and empirical background. Because of that the importance of life- segment, traditional and investment, unit linked- type insurance products increased as the clients paid more attention life to self-care which had a high relevance as the government limited its contribution to that area. (Adorján et al. 2004).

On the other hand, we can say about the non-life insurances that the natural damage frequency (damage rate per unit contract) and the average of damage (the average loss payment date of an injury) of the continually changing climate are showing an upward trend (Asztalos 1997, Czegle 1996) (Fig 1, Fig 2).

It is important to highlight that the macro correlation of the actuarial is only true if there is an appropriate size of the risk community, that is why a proper transformations of the market is crucial.

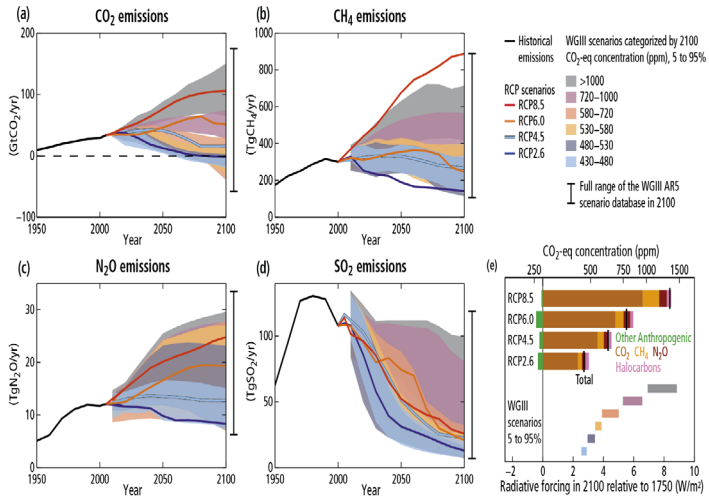


Figure 1: Emission and concentration changes, greenhouse gases

Source: IPCC (2014)

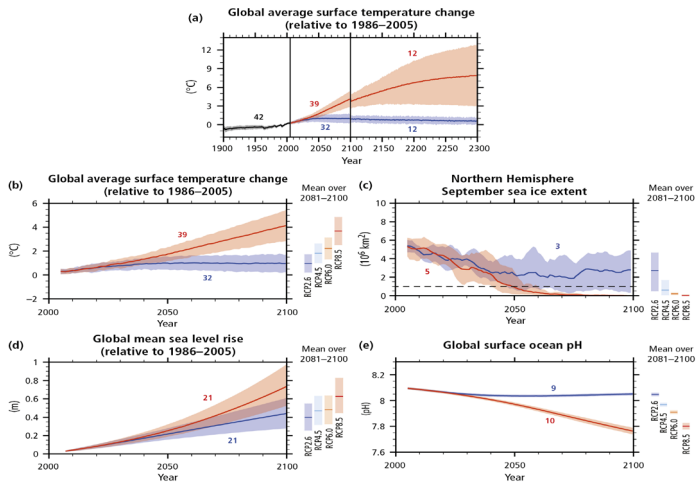


Figure 2: Expected changes of Earth's average temperature and other adverse effects

Source: IPCC (2014)

According to the IPCC (Intergovernmental Panel on Climate Change) reports, thanks to a quantitative accumulation of greenhouse gases, global warming is already significant. According to recent reports by 2100 the Earth's average temperature can rise by 5 degrees.

As a consequence, there is a significant increase in the number and intensity of extreme meteorological phenomena, as we can see in Figure 3 and 4:

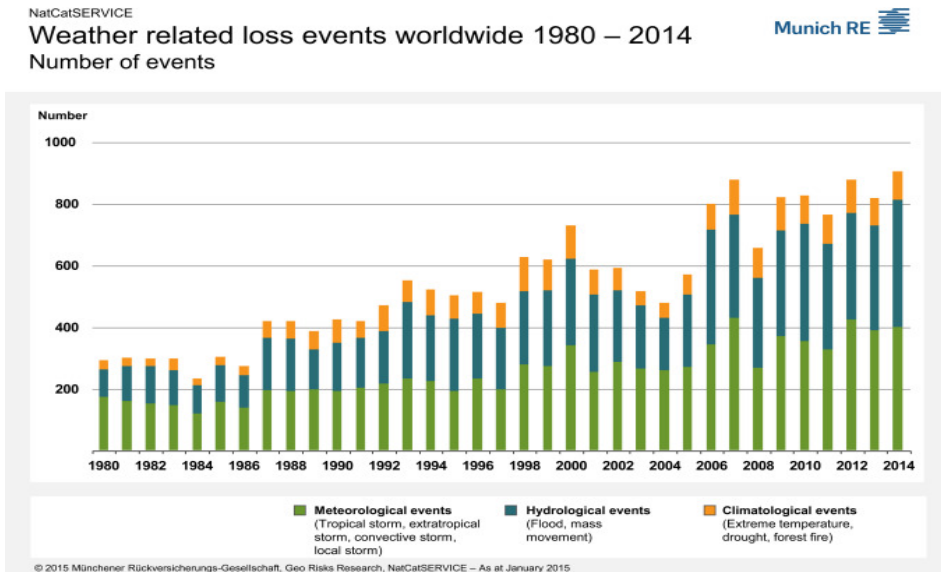


Figure 3: Change in weather-related damages 1980-2014

Source: Hoppe (2016) p.74.

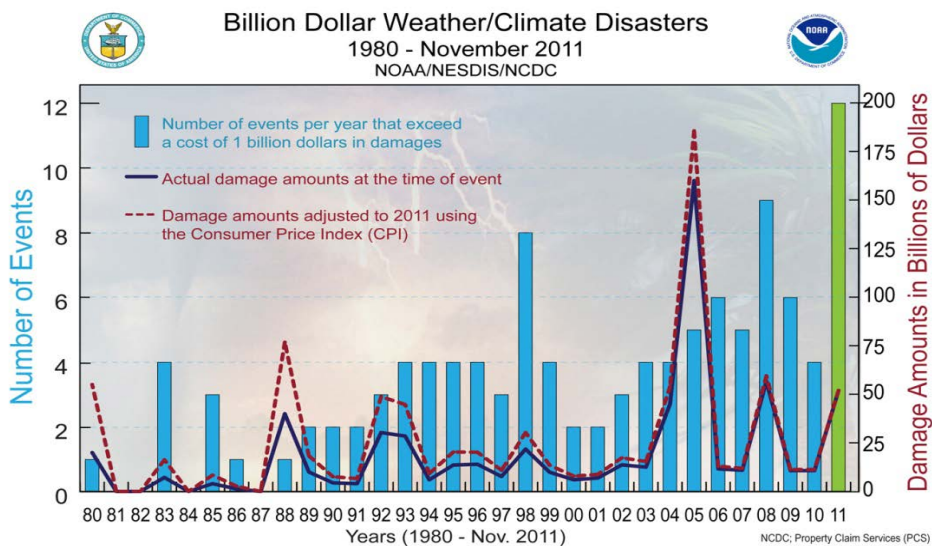


Figure 4: Damage caused by weather/climate disasters in Billion \$ (1980-2011)

Source: [http://www.noaaneews.noaa.gov/stories2011/20111207\\_novusstats.html](http://www.noaaneews.noaa.gov/stories2011/20111207_novusstats.html)

Based on the details above, it is clear that the importance of self-care in the field of property insurance has increased significantly, and it is only going to grow in the future (Ébli 1991, 1993a, 1993b). This is enhanced by the reduction of the extent of involvement of the government, which has been typical since the change of regime (Horinka & Luttenberg 2005, Futó 2016). A good example of this is the state-subsidized agriculture insurance scheme, the new version has recently been introduced (Baranyi & Pataki 2006, Baranyi 2009).

Besides the general importance of the topic, it is also crucial to consider the period of the change of regime and the later periods, because understanding the processes of the past helps apprehend the phenomena of the present and the future, therefore gives us the opportunity to improve the effectiveness of potential interventions. These thoughts gain further importance as although 2014 has been the second year to show increasing tendency regarding annual total premium income, the scale of insurance penetration

(security expenditures as percentages of GDP) in Hungary is still around one third of the Western-European average (3%) (Eke et al. 2014).

The insurance and insurers' importance of the economy in recent decades have undergone significant changes, and also major focus shifts have taken place in the economic life of their role as well. Besides the conventional roles of the insurance, (spreading risk, long-term savings management, and through this the role taking in the field of self-care) the insurance companies' occupational role has become increasingly important, as well as their role in financing (Illés & Megyeri, 2010). Highlighted on the financial side, the most important role is the role in financing the public debt, because assets of insurers nearly two-thirds have been placed in recent years in government securities. The insurance industry is not only taking part in strengthening the general government with financing the public debt, but also in significant income tax liabilities. In all that, with regards to the VAT, non-deductibility of input VAT gets involved as well.

## The changes in the insurance market during the change of regime

### Market concentration

Market concentration had reached its theoretical maximum in the insurance industry in 1986, before the change of regime with the sole presence of the Állami Biztosító. In 1986 it became possible to found insurance companies, thus the Hungária Biztosító was established. There was no real market competition since the new, artificially created participant inherited vehicle, corporate asset and international insurance portfolio from the Állami Biztosító, designating the area of operation for both of them. The market opened up completely in 1988, in the same year when the composite Garancia Biztosító and the Atlasz Biztosító, which specialised in travel insurances, were founded. (Závodnyik 2004). After that, the number of participants had risen sharply and by 2000, it reached 20, the value specific to the domestic insurance market (Pataki & Eke 2011). The exact changes are illustrated in Figure 5.

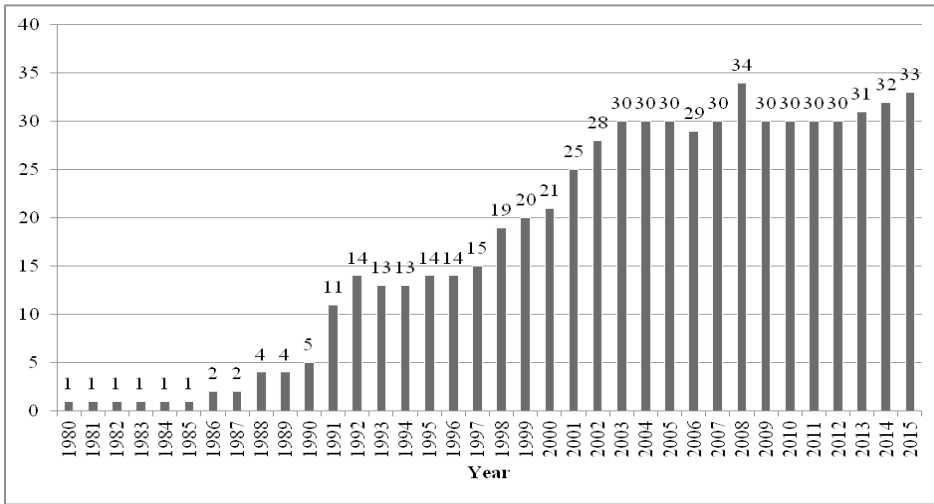


Figure 5: The change in the number of domestic insurance market operators between 1980-2015

Source: Based on data of MABISZ

## Overall premium income of the sector

The period of the change of regime is studied in six different periods that can be divided in the light of the given circumstances

- 1985-1990: statist period: the period of one-party rule, characterized by a lack of market liberalization,
- 1991-1995: period of path finding: the former values and rules had loosened, but were not yet replaced by anything new,
- 1996-2000: Years of consolidation: solidifying market liberalization conditions,
- 2001-2007: the period of further development, hallmarked by the intensification of the European integration, with the crucial step of the 2004 entry,



- 2008-2012: period of the financial crisis, declining fee income,
- 2013- ....: the recovery period, which has lasted until present.

The changes in the aggregate insurance premiums for the periods are illustrated by Figures 6. 7. 8. 9. 10. 11.

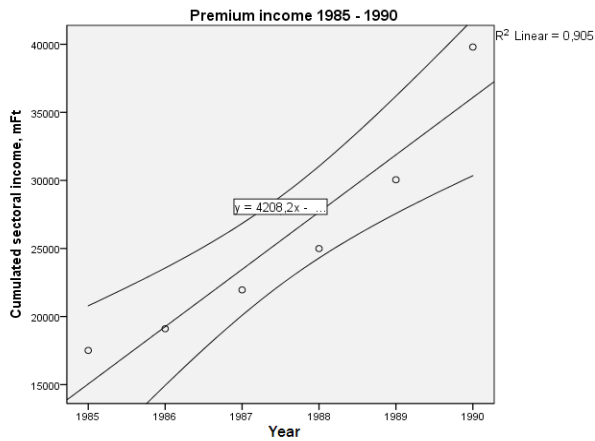


Figure 6: Changes in premium income in Hungary between 1985 and 1990

Source: Based on data of MABISZ, own edit, tool: SPSS program

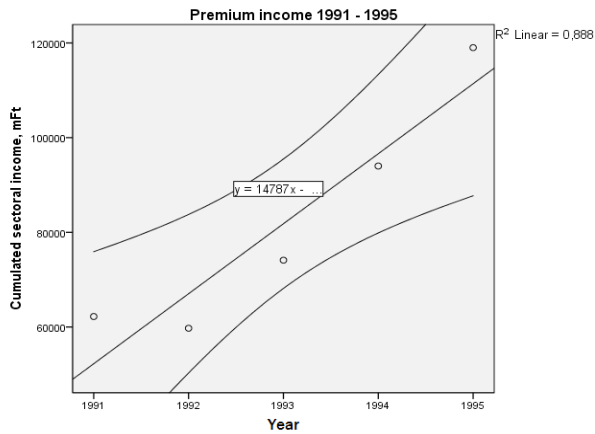


Figure 7: Changes in premium income in Hungary between 1991 and 1995

Source: Based on data of MABISZ, own edit, tool: SPSS program

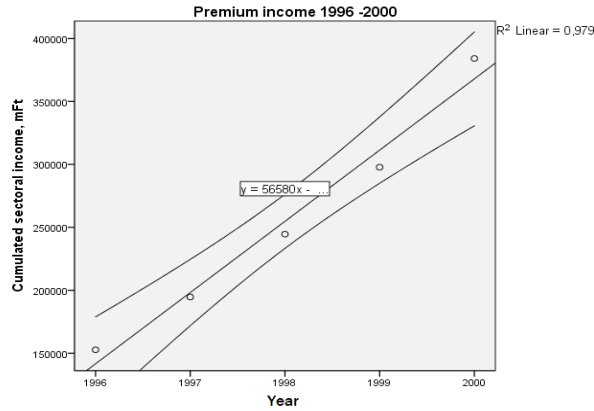


Figure 8: Changes in premium income in Hungary between 1996 and 2000

Source: Based on data of MABISZ, own edit, tool: SPSS program

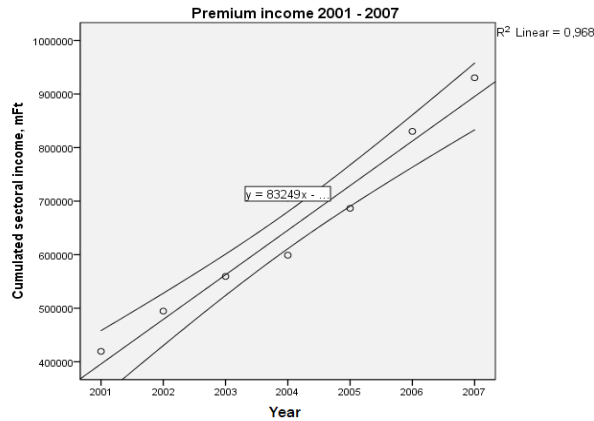


Figure 9: Changes in premium income in Hungary between 2001 and 2007

Source: Based on data of MABISZ, own edit, tool: SPSS program

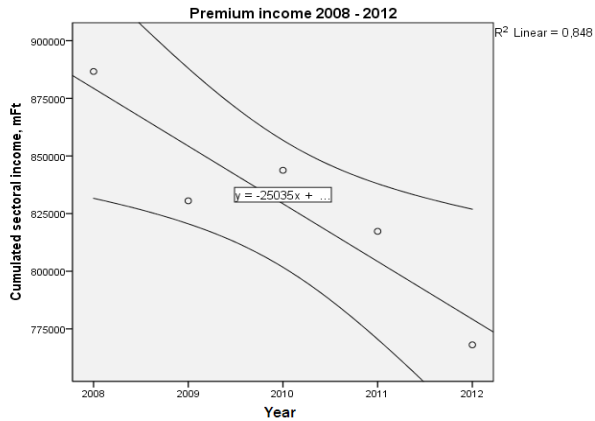


Figure 10: Changes in premium income in Hungary between 2008 and 2012

Source: Based on data of MABISZ, own edit, tool: SPSS program

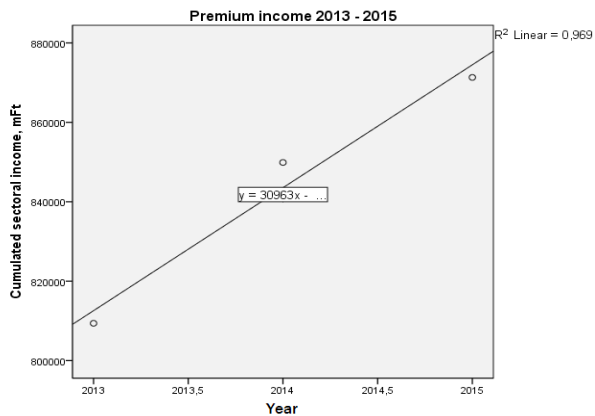


Figure 11: Changes in premium income in Hungary between 2013 and 2015

Source: Based on data of MABISZ, own edit, tool: SPSS program

Looking at the six figures, it is clear that the steepness of the trendline matched to the cumulative premium income data are apparently approximately the same. This is true even for the period 2008-2012, but with the opposite sign (upper and lower curves are the confidence intervals). But it is striking that the scale of the y-axis charts are not the same:

- Between 1985 and 1990, 40 billion HUF,
- On the chart illustrating data from 1991-1995, 120 billion HUF,
- On the chart of the period between 1996 and 2000, 400 billion HUF,
- Between 2001 and 2007, 1000 billion HUF,
- Between 2008 and 2012, 900 billion HUF,
- Between 2013 and 2015, 880 billion HUF were the highest value.

The equation of the trendlines noted on the graph shows the same: the average annual premium income

- 4,2 billion HUF in the first period,
- 14,8 billion HUF in the second period,
- 56,6 billion HUF in the third period,
- 83,2 billion (!) HUF in the fourth period,
- -25 billion HUF in the fifth period,
- 31 billion HUF in the sixth period, which is still continue at the present.

Based on the data the conclusion could be drawn that the dynamics of the growth of the insurance market, excluding the period of the financial crisis, was exemplary in the inspected phase. If the data is illustrated on a graph, this tendency becomes more prominent (Fig. 12)

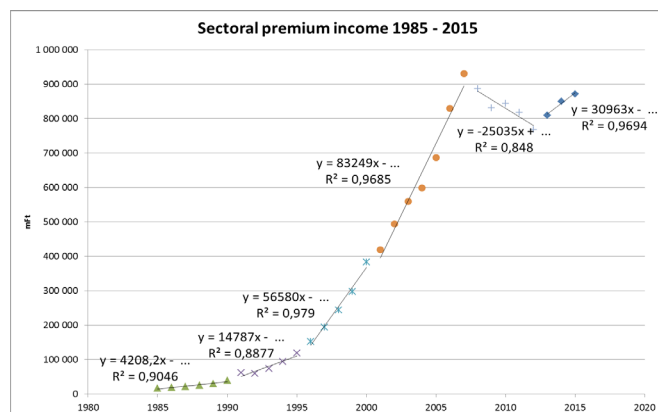


Figure 12: Changes in premium income in the examined periods in Hungary

*Based on data of MABISZ, own edit, tool: Microsoft Excel*

Let us examine what lies in the background, and also how it contributes to an actual increase of the studied data.

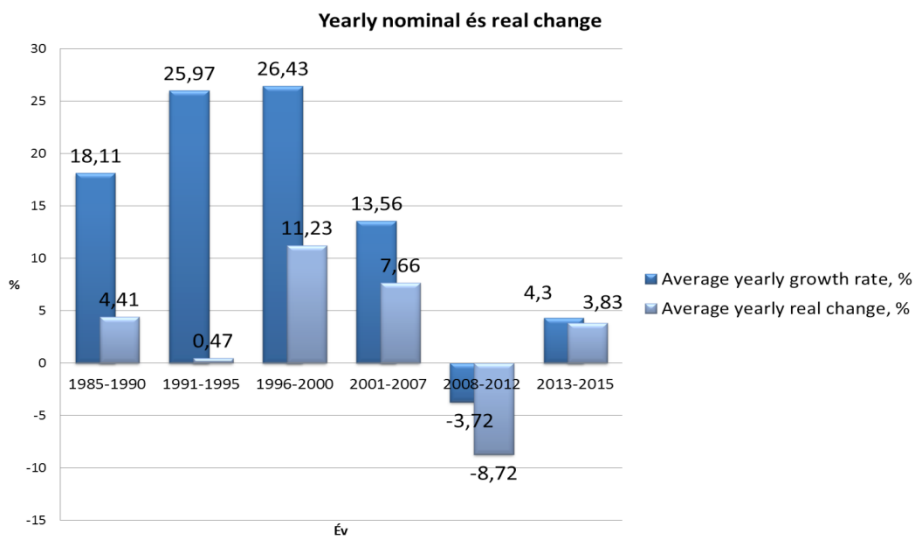
## Growth rate

Based on the data of the Table 1, the increase of the sector cumulative premium income was significant nominally in all periods except one, although adding the average inflation to the model of the period, the development is of a different scale: but observable in every phase (Fig 13)

- Between 1985-1990 only 4,41%,
- Between 1991-1995 just 0,47%,
- Between 1996 and 2000 is the most, 11,23%,
- Between 2001 and 2007 the number is almost 8, exactly 7,66% was the average annual development,
- Between 2008 and 2012 there was a huge decrease in the critical period, -8,72% was observed,
- in the positive, present time against 3,83% was the average annual growing.

**Table 1: The cumulative premium income terms, the average annual change in nominal and real terms for years between 1985 and 2015**

| Year | Insurance revenue, m Ft | Changes from the previous year, m Ft | Changes from the previous year, % | Average changes of the yearly period | Average inflation of the period | Real change |
|------|-------------------------|--------------------------------------|-----------------------------------|--------------------------------------|---------------------------------|-------------|
| 1985 | 17 511                  |                                      |                                   |                                      |                                 |             |
| 1986 | 19 106                  | 1 595                                | 9,11%                             |                                      |                                 |             |
| 1987 | 21 957                  | 2 851                                | 14,92%                            |                                      |                                 |             |
| 1988 | 24 990                  | 3 033                                | 13,81%                            | 18,11%                               | 13,70%                          | 4,41%       |
| 1989 | 30 047                  | 5 057                                | 20,24%                            |                                      |                                 |             |
| 1990 | 39 797                  | 9 750                                | 32,45%                            |                                      |                                 |             |
| 1991 | 62 213                  | 22 416                               | 56,33%                            |                                      |                                 |             |
| 1992 | 59 742                  | -2 471                               | -3,97%                            |                                      |                                 |             |
| 1993 | 74 114                  | 14 372                               | 24,06%                            | 25,97%                               | 25,50%                          | 0,47%       |
| 1994 | 94 005                  | 19 891                               | 26,84%                            |                                      |                                 |             |
| 1995 | 119 014                 | 25 009                               | 26,60%                            |                                      |                                 |             |
| 1996 | 152 741                 | 33 727                               | 28,34%                            |                                      |                                 |             |
| 1997 | 194 654                 | 41 913                               | 27,44%                            |                                      |                                 |             |
| 1998 | 244 591                 | 49 937                               | 25,65%                            | 26,43%                               | 15,20%                          | 11,23%      |
| 1999 | 297 756                 | 53 165                               | 21,74%                            |                                      |                                 |             |
| 2000 | 384 090                 | 86 334                               | 28,99%                            |                                      |                                 |             |
| 2001 | 419 470                 | 35 380                               | 9,21%                             |                                      |                                 |             |
| 2002 | 494 589                 | 75 119                               | 17,91%                            |                                      |                                 |             |
| 2003 | 559 435                 | 64 846                               | 13,11%                            |                                      |                                 |             |
| 2004 | 599 035                 | 39 600                               | 7,08%                             | 13,56%                               | 5,90%                           | 7,66%       |
| 2005 | 686 516                 | 87 481                               | 14,60%                            |                                      |                                 |             |
| 2006 | 830 228                 | 143 712                              | 20,93%                            |                                      |                                 |             |
| 2007 | 930 341                 | 100 113                              | 12,06%                            |                                      |                                 |             |
| 2008 | 886 636                 | -43 705                              | -4,70%                            |                                      |                                 |             |
| 2009 | 830 540                 | -56 096                              | -6,33%                            |                                      |                                 |             |
| 2010 | 843 787                 | 13 247                               | 1,59%                             | -3,72%                               | 5,00%                           | -8,72%      |
| 2011 | 817 316                 | -26 471                              | -3,14%                            |                                      |                                 |             |
| 2012 | 768 072                 | -49 244                              | -6,03%                            |                                      |                                 |             |
| 2013 | 809 392                 | 41 320                               | 5,38%                             |                                      |                                 |             |
| 2014 | 849 891                 | 40 499                               | 5,00%                             | 4,30%                                | 0,47%                           | 3,83%       |
| 2015 | 871 318                 | 21 427                               | 2,52%                             |                                      |                                 |             |



**13. Figure: Change in premium income in the two study periods**

*Source: Based on data of MABISZ and KSH, own edit*

## Conclusions

The present days' phenomena how numerical data can be influenced by the circumstances, is proved by the study, how an observed phenomenon reevaluates, for example in the light of inflation. It appears that the fastest pace of the real growth was apparent in the period between 1996 and 2000, as the market conditions solidified, after the disadvantageous phenomena of the transitional phase (decline in real wages, rising unemployment, etc.) it can be traced back to the strengthening of the economy, increase in earnings.

Regarding further phases with the decrease of the inflation, the real development is unbroken until 2007, it falls back during the period of the financial crisis ( from 930 billion HUF of 2007 to 768 billion HUF of 2012), and showing increasing tendency in the year of 2013 and 2014 it reached 849 billion HUF, and 871 billion HUF in 2015.

The core measure, the insurance penetration is still only 3%.

The evolution of the „crisis behavior” of the population could be seen clearly in the premium income in the years 2008-2009, that is, first people cut back on their expenses beyond their vital needs, that is why the premium income of the insurances decreased. The impact of the financial crisis was noticeable in 2008’s premium income data, but the strongest effect occurred in the first half of 2009. In those particular six months, premium income decreased by 13.33% compared to the same semester of the previous year. It was interesting to observe the differences between the setbacks of various branches of insurance premium income. In the „life” branch the relapse was 23%, while in the “non-life” branch it was only 3%.



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