



DEVELOPMENT OF THE LIFE INSURANCE SECTOR IN THE BULGARIAN ECONOMY

Tz. Andreeva*

Department of Finance, Faculty of Finance and Accounting, University of National and World Economy, Sofia, Bulgaria

ABSTRACT

This study focuses on the following aspects in the development of the life insurance sector in Bulgaria:

- Prospects for the life insurance sector based on the market statistical and factual information;
- Savings in life insurance as an alternative to other investments (bank deposit, pension fund);
- The link between life insurance with health insurance accident and illness, as well as with health insurance from the National Health Insurance Fund;
- Additional tax deductions for individuals and legal entities who have taken out life insurance;

The purpose that is set is to track and analyze life insurance developments in Bulgaria.

As a result, a good notion of the market specifics and development is achieved.

Concluded are the prospects for the market development.

Keywords: health insurance, accident insurance, illness insurance, savings

JEL: D81

INTRODUCTION

Life insurance is an integral part of daily life and family budgets in developed countries with insurance traditions. Life insurance is part of the so-called "three pillars" of the economy, which includes state social security, voluntary pension insurance and life insurance.

Worthy of consideration is the level that this type of insurance occupies in the total share

***Correspondence to:** Tzvetelina Andreeva, Ph.D, Department of Finance, Faculty of Finance and Accounting, University of national and world economy, Sofia, 8 December Str., e-mail: tzvetelina.andreeva@gmail.com, authors phone +359 888 24 66 24

of this economic activity in public life, as well as the trends in the development of insurance as a whole, and in particular of life insurance in Bulgaria.

Life insurance and Health Insurance

Life insurance with savings is of interest and can be compared as a financial instrument to a bank deposit. The Life insurance guarantees the exact amount of the saved money paid in the form of insurance premium, as well as the period after which it is received, through the concluded insurance contract. Depositing money in the bank cannot provide this guarantee.

Life insurance with savings has additional returns like the bank interest rates, but it is formed by lower risk instruments to provide

sufficient security. Insurance companies on principle invest conservative in secure instruments on financial market. Though depending of the type of product interest can be guaranteed or not. Furthermore, there are particular types of products, i.e. investment life products by which the money invested and the interest are not guaranteed and depend on investment result.

Life insurance creates a financial discipline for saving that can allow future needs to be served or used at policy termination, including by retirement age for supplementary retirement insurance (pension life insurance) beyond the pension fund. Besides saving, life insurances have the advantage that the insurer takes the responsibility to pay a fixed amount of money (the sum insured) negotiated in the contract in case of some risks like death, accident and other, during the insurance period, when a need arise for the client, and this payment can be more than the actual saved money.

In addition to typical risks covered in life insurance like death due to accident or illness, disability due to accident and other, insurers can also include some health insurance services/ coverage to make the product attractive and service all client needs in case of the occurrence of the covered risk event.

Health insurance has a positive impact on the development of the life insurance sector in Bulgarian. In recent years, this type of insurance has been developing. Life insurance growth on Bulgarian market is accomplished mainly through health insurance. On the one hand this is due to the issues in the local health system. On the other hand, given the low interests, even the lack of any by the classic life insurance products due to the low and negative bank interest rates, there is a retreat from the classic savings products and a shift to investment life products. The latter are successfully sold mainly through bank distribution channels.

Health insurance and mandatory social insurance

There are two types of health insurances: accident and illness. Both classes of insurance are lines in both non-life and life insurance. On Bulgarian market they can be practiced by a non-life and/ or life insurance company.

Health insurance like life insurance is a voluntary insurance, private use of packages of medical services. These packages are offered by various insurance companies which are in competition. Accordingly, they vary according to the type and degree of cover, price, quality of services, etc.

The quality of health services and the speed of administrative services that the health insurances provides are far better than those of the National Health Insurance Fund (NHIF). The use of health insurance does not eliminate the obligation to pay mandatory health insurance to the NHIF. Health insurance products are paid to upgrade the services offered by the NHIF. Unlike life insurance, there is no saving or accumulation of premiums or less risk coverage. The focus is on additional health services and goods for which an insurance premium is paid. There is no saving. In terms of profitability the premiums paid for the insurance are considered as an expense for the client, if it is a company.

Health insurance can be issued individually, but it is often offered by employers as an additional social benefit to their employees. Group policies form the major part of income from health insurance on the market. A serious prerequisite for increasing the share of health insurances is the ability to benefit from tax relief.

According to Art. 208 of the Corporate Income Tax Act "the contributions for voluntary health insurance made by the employer for each insured employee, up to 60 BGN monthly, are deducted from the taxable profit of the company." In order health insurance to be recognized as company expenses, all employees with an

employment contract must be insured without exceptions.

Insurance companies also offer additional health coverage to their life insurance. It covers daily expenses for hospital treatment or emergency medical care. In order to receive these services, a person must have a life insurance contract. This is additional health coverage to an insurance product other than health insurance.

Insurance companies in Bulgaria also front products where the consumer can be treated abroad, such as the Best doctors insurance product. Costs for the treatment of cancer and other critical illnesses even transplants are covered. The company also covers the cost for the travel of the insured and a companion. Of course, when concluding a contract for these product, the insured person must be healthy, have not concealed any illness in which case the insurer will not pay.

What are the benefits and the risks?

More and more companies are realizing that it is more profitable to retain their key personnel through compelling social benefits than to let them look out for competitive opportunities. Otherwise, it may be that all the time and money invested in training are lost if the in-house know-how falls into the hands of competitors.

Then what are these compelling benefits in which to invest. Undoubtedly, the strongest social gain is health care. Health insurance is an extremely convenient and modern tool for providing such care to employees.

Companies whose employees are protected by health insurance coverage emit a signal of stability to other market entities - competitors, counterparties and customers.

What is the premium?

The premium ranges from BGN 15 to BGN 60 per month, depending on the following factors:

- How many people are insured - the more, the lower the price;
- Average age of insured persons;
- Male/ female ratio;

- Coverage included (i.e. what type of medical expenses can be covered if needed);
- Limits (i.e. the maximum amounts that can be paid);
- Form of service - subscription (the client uses medical centers from the list of the insurance company) or reimbursement of costs (the client visit the medical institution/ specialist and then the company redeems the costs);
- the so called "loss ratio". When renewing the health insurance contract, the insurance company can raise prices if it had to pay amounts too often and higher than expected. The most common reason is customer misuse of the service. On the other hand, if the claims paid were below a certain threshold (of the loss ratio in question), insurance companies may offer a discount on renewal;

Saved expenses:

- The health insurance fully covers the obligation for annual preventive examinations in occupational medicine, and the examinations are by no means a pro forma (unlike the mass incorrect practices of companies specializing in occupational medicine);
- The company has control over the hospitalisation of the staff and will not have to waste time with the lumpy NHIF service;

Benefits:

- The cost for contraction of health insurance compared to the benefits of having loyal, motivated and productive employees. This increases the cost of competition to take away a key employee. That is the time and money already spent finding, hiring and training this employee; then the time and money to find, hire and train a new person; the account also includes the lost benefits over the whole period, any commotion and company information carried over to the competition.

Other advantages:

- **Memorable effect:** when a person is sick/ injured, he/ she is most vulnerable. If he or she receives the first quality of health care at that moment, he or she will emotionally experience the security that the employer

gives him. This leads to the pursuit of retaining the benefit, i.e to loyalty;

- **Magnifying effect:** An employee can also include his or her family in the Insurance. And if it comes to a common agreement with the whole company, the price will come out favorable. Family protection, through Health Insurance, creates a sense of security and trust in the company;

- **Lasting effect:** health care is a much deeper gesture than receiving money or eating well at a corporate gathering. Superficial incentives lose their effect in the long run unless their dose is increased, while Health Insurance is not such a superficial incentive;

- **Increased work capacity:** when employees are healthy and do not waste time and nerves in the health care system, they can concentrate on their work. Health insurance protects employees at all times for the period for which it is concluded. It provides peace of mind, security and predictability in their lives - all things that are so lacking in modern times and make people anxious and detached from the company's goals;

- **Unreasonable discontent:** a bonus can very quickly be spent on unimportant things but when a health problem occurs, the employee can say that he has no money because he works for a low pay (and not because he was not saving). Health insurance guarantees the availability of money in the event of a health need and prevents this bad feeling of frustration and insecurity.

Risks

a) fraud

- in the case of a health insurance contract, the relationship between the employees (as the insureds) and the insurance company (and / or the insurance broker) remains between them, as two parties. Any attempt of fraud by an employee cannot in any way affect the company. The only undesirable effect of employee misconduct can be an

increase in the cost of Health Insurance upon renewal of the contract. This happens when a company has information that employees abuse their right to use the service and uncommonly often claims are paid;

b) time/ squabbles

- the above goes for any possible confusion
- they only affect employees in the role of insured and the respective company / broker.

c) overpriced

The question is: Is it most profitable to make a contract for health insurance directly with the "provider" – i.e. the insurance companies?

The answer lies in understanding the role of insurance brokers. Insurance brokers are intermediaries but not in the bad sense of a reseller, which only increases the price of goods between the supplier and the client, but in the sense of a shop where you can look at the products of several competing companies and in which the seller consults for the advantages and disadvantages of each product. This is something that will not happen if you go directly to the insurance company.

The broker is also committed to protect the interests of his clients in the event of a dispute or misunderstanding with the insurance company.

Development of the life insurance sector

Life insurance has a smaller share in gross written premiums on the Bulgarian market compared to its' share on other markets. Round 17% of the written premiums on the market are from Life business, correspondingly 83% from Non-life. On many European and other markets the distribution is reversed and life insurance is dominant. Additionally, the insurance penetration rate is about 4 times lower than the values of this indicator in other developed member states. In the last 15 years, in terms of insurance penetration, we have almost achieved the indicator we had in 2008, but so far in this indicator as a market we are at the lowest level in Europe. However, in the last years the Bulgarian life insurance market has doubled,

demonstrating serious potential for development. The life insurance sector in Bulgaria is developing dynamically and customers consider it more and more as a necessity to protect their standard of living.

The following Table shows the market premium income and growth for the period from 2014 to 2020 (Table 1).

Table 1. Premium income and growth, data from the Financial supervision committee

	2014	2015	2016	2017	2018	2019	2020
Gross written premium in million BGN	341	392	428	446	448	499	442
Growth	11%	15%	9%	5%		11%	-11%

In 2019 the gross premium income from insurance reaches BGN 2.910 billion, incl. 499 million Life insurance. For the same year the profit of the insurers in the country is over BGN 147 million. Of these, BGN 28.6 million is the profit of Life Insurance. The gross premium income from Life Insurance in 2019 is approx. BGN 499 million or approx. 11% growth compared to 2018.

In 2020 there is a drop of 1% in the written premiums on the market, i.e. 2 880 billion total premium income, incl. 442 million and

11% drop in Life business. This is mainly due to the pandemic Covid-19 and associated economic instability.

The presence of foreign companies on the market has a positive influence. Their experience contributes to product development and distribution. Five of the ten companies hold 94% of the market share. The market leaders are: Allianz Bulgaria Life, DZI Life Insurance, Bulstrad Life Vienna Insurance Group and Uniqa Life. In the following graph is the market share per company in 2020 (Figure 1).

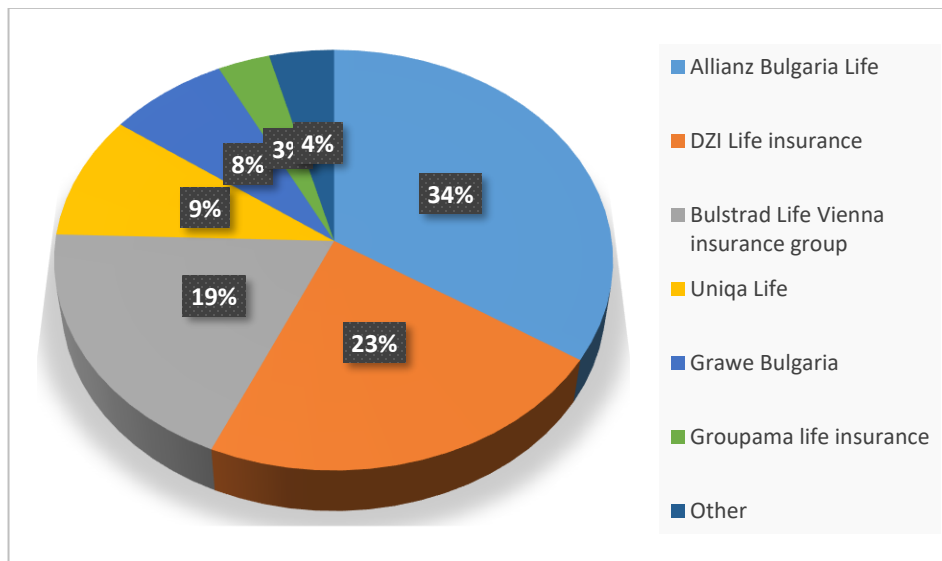


Figure 1. Market share per insurance company, data from the Financial supervision committee

In the next graph is the premium income structure per product type in 2020 (**Figure 2**).

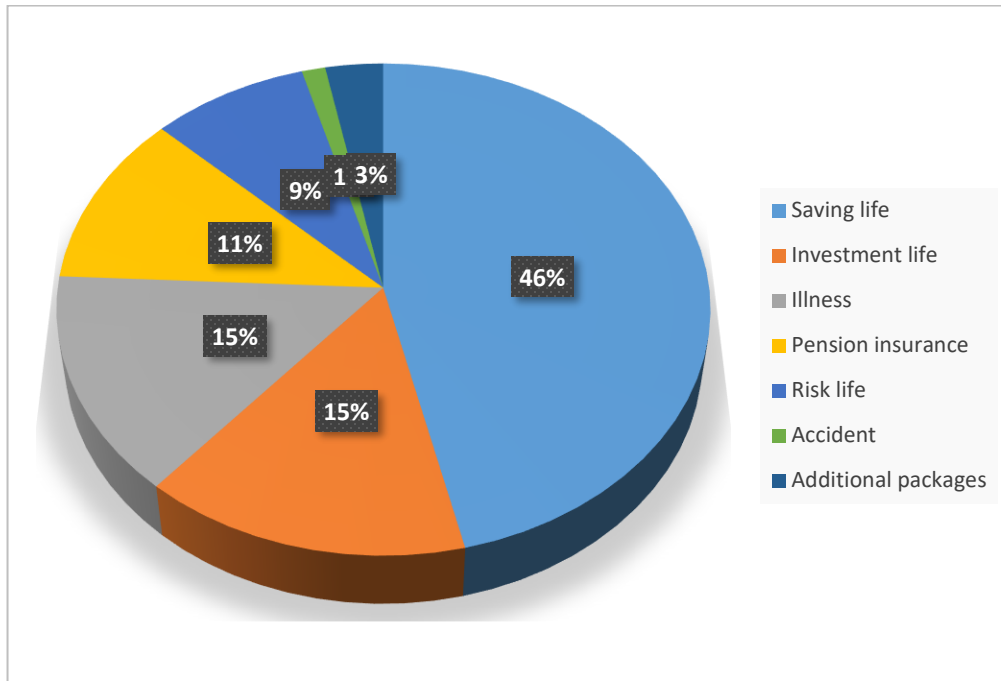


Figure 2. Market share per type of product, data from the Financial supervision committee

The last 5 years have seen market growth in all product segments except savings products. The largest growth is marked by the risk life insurance and health products. Health insurance is the main driver of growth in the sector. The leading companies develop products related to investment funds that are sold mainly via the bank distribution channel.

CONCLUSION

Life insurance on Bulgarian market sows dynamics of development especially in Health insurance. The market is growing in the last years. Nevertheless, there is a huge potential for expansion. The growth achieved is a positive sign for future market development. A macroeconomic stabilization and the associated increase in income, the increased business activity of most insurers, their desire to seek new market niches, diversify and renew their insurance products, can contribute to it.

Comparison with the share of life insurance in the gross premium income of the developed countries, where this indicator exceeds 45%, shows, however, how big is our lag in this aspect of market development. In Bulgaria, the trends that exist in the countries of Western and Central Europe are yet to manifest themselves on the market. In recent years, the number of insurance companies in Central and Eastern Europe has been steadily increasing, but at this stage reverse processes aimed at merging and consolidating businesses are beginning to take effect.

The reasons for the differences in the dynamics and condition of the insurance market in Bulgaria and in other European countries can be sought, both among the differences in the traditions of insurance services in different countries, and in the structure of the alternative - public insurance. In the future, with the accession of Bulgaria to the European Union and the rise in the average incomes of the

population, life insurance will have a greater share in the distribution of public capital and investment.

REFERENCES

1. Skipper, H. D., Kwon, W. J., Risk management and insurance, perspectives in a global economy, Sheridan Books Ins., 2007

ANDREEVA TZ.

2. Vaughan, E. J., Vaughan, Th., Fundamentals of risk and insurance, John Wiley & Sons, 2008
3. Insurance, The chartered institute of bankers, 3rd edition, London, 1996
4. E-magazine „Finance”, issue 1, 13.04.2019
5. www.fsc.bg