

# The Insurance Sector in Bulgaria – Recent Developments and Future Prospects

Iva TANEVA\*

University of National and World Economy, Bulgaria

## Abstract

*This paper aims to present the mechanism of Bulgarian insurance. The sales channels (distribution), policy, the ways of working and the history of the industry are explained. The purpose is to follow the path of development objectives and to identify future ones. In the situation "multi-speed Europe" is important to think about what will happen in the future and how we can take advantage of the events to come. Inequality is an incentive and Bulgaria must prove that can scale particularly regarding pension and insurance companies. These highly successful industries should be stimulated and this report aims to consider ways this to be a fact.*

## INSURANCE - NATURE, CHARACTERISTICS AND FUNCTIONS ECONOMIC NATURE OF INSURANCE

Insurance originates from Latin and means "free of care". As an economic category, it focuses on security. It is necessary because society can not progress without risk. As one of the ancient economic categories, insurance has a pronounced public purpose - compensation of damages in realizing the hazards, accompanying the human society.

To occur an insurance relation, an insurance contract should be concluded. The insurance contract is, by its nature an electoral, consensual, formal, bilateral and independent legal transaction for the concluding of a voluntary insurance. The insurance company, when concluding the contract, adopts rights and obligations. The obligation is expressed in payment of compensation, which reimburses the material affected property. Not losses are covered, but damages - material and non-material. The principal obligation of the insured is to pay the (insurance) premium.

The insurance contract is the source of establishment of an insurance relationship. It is a subject to the civil law and is of standard scope.

In order to conclude the insurance contract, it is necessary to have five basic indications. They correspond to the stages through which the contacts between the candidates for the conclusion of the insurance contract and the insurer (the insurance company) pass. They are:

### Property interest

If there is no interest in particular insurance, no insurance contract is concluded.

---

\* **Corresponding address:** Iva TANEVA, University of National and World Economy, Sofia, Bulgaria. **Email:** iva.taneva11@gmail.com

In 1883, an English judge tried to determine for the first time what is to be understood by "insurance". According to him, the insurance of a "fire insurance" is not the bricks neither other building materials, it is the interest of the candidate for insurance towards the insurance object. If it is established that the insured person has no interest and is not the owner, the lessee or the user of the destroyed property by a certain probable evidence (evidence of unforeseeable circumstances), then it means that he has not suffered any damage. Therefore, the insurance contract is negligible and no rise is given to insurance relationships.

### **Highest degree of trust between the parties (principle of trust)**

The insured party is obliged to report every "essential fact", as each fact is significant if it can influence the prudent insurer's decisions when determining the premium rates or whether to insure this risk at all.

The principle of the highest trust between the parties has several conditions. One of them is to report all the risk circumstances when signing the contract. Another essential condition is the obligation of the insured party to keep the insured object in the same condition as it was by the time of conclusion of the insurance. Every change has to be reported to the insurer.

### **Causal link**

The cause of occurrence of a damage is an important part of the insurance contract. Some causes lead to an insurance payment, others do not.

In this case, of importance is the factual rather than the immediate cause. In other words, it is important for the insurer is important whether he has triggered the "domino principle"; Whether the last tile of the domino has fallen as a result of the first one falling.

A classical definition of cause is given by a judgment in Case from 1908: "The actual cause is an active, valid cause that provokes a chain of events, leading to a certain result without the intervention of any lateral force ...".

The first thing that interests every insurer in the course of investigation of the circumstances of an event, is a chain of events.

It should be noted that every insurance contract contains exceptions clauses - listing the risks which are not subject to insurance protection to the particular kind of insurance. Sometimes the list of exceptions is so detailed that it gets the impression that almost nothing can be insured. The reason for this is the fact that insurers take responsibility only for known, foreseeable risks. The term used in some insurance contracts "all risks" or "to (cover) all risks" leads to confusion, because if these contracts should be examined more closely, it appears a very long list of exceptions, for which the insurer doesn't take responsibility.

Standard (traditionally) excluded risks include:

- (A) deliberate actions by the insured or his representatives;
- (B) normal wear of the insured property;
- (C) damages, caused by delays in the delivery of the cargo or the vessel;

(D) damage caused by radioactive radiation.

Furthermore, under a marine insurance contract they are usually excluded, but upon additional agreement they can be insured:

- (A) military risks (a broad concept, including both civil war and revolution, explosion of old mines, etc.);
- (B) risks caused by strikes;
- (C) malicious action by third parties (in particular- terrorists).

### **Compensation (reimbursement) of actual damages**

The meaning of this principle consists in the following: the compensation paid by the insurer has to return the insured into the financial situation, which he had before the occurrence of the event, that caused the damage.

The problem is to be determined with precision "up to stotinka" in what condition the insured person was. In property insurance, the main reference point is the value of the insured object. The subject should be assessed (determination of its insurance value), then to be insured for an insured sum that may be different from the insurance value.

The application of an "excess" in the payment of damages is a peculiarity of the insurance contract, which affects the amount of the insured sum, the insurance premium and the insurance payment. "Excess" is that part of the damage that is not subject to compensation.

In property insurance, the limit of insurer's liability is the insured sum. In liability insurance, these are the liability limits of the insurer for each damage and / or total for one year. Damages that are over the limit are not subject to payment.

The scope of the risks included in the insurance contract, as well as the excess and the liability limits (insured sum) are the major price-setting factors in the insurance.

### **Subrogation**

Subrogation is a transfer to the insurer who has paid the insurance compensation, the right to an action, which the insured has to a person liable for damages, paid as a result of concluded insurance.

That right of action is transferred to the insurer only within the scope of the insurance compensation paid by him. Under subrogation, the insurer replaces the insured in relation to one obligation. For redresses the transfer of the rights of the creditor to another person does not apply.

### **FUNCTIONS OF THE INSURANCE**

The economic essence of insurance, as well as all other economic categories, can be fully revealed through the functions they perform.

The main functions of insurance are:

- (A) compensation, indemnification of individuals and entities affected by the damaging impact of the accidental disasters, accidents and risks of

- scientific and technological development, by allocation of the damage between all the participants of the insurance group;
- (B) protection of citizens' live and working capacity;
  - (C) conduction of a preventive action.

The first major function expresses the main point in the essence of property insurance, namely compensation, indemnification and allocation of damage, as a consequence of accidental disasters and accidents.

The second major function is linked to the insurance for individuals. In order to support all economic sectors, the insurance must be used to protect the most important productive force - the workforce, the people. The life and health of people can not be regained by the insurer's monetary compensation, but in a number of cases it can be supported by the corresponding payment. Insurance is thus an addition to the public security and social assistance.

The third main function is not linked to compensation, but to the prevention of the occurrence of risks or to the limitation of the damage they cause. The preventive function aims to prevent the destruction of national goods. That is why, in the course of his historical development, the human searched for the most appropriate ways to combat the devastating impact of the forces of nature. The palette of means to combat the unexpected and unfavorable impact of the natural forces is diverse. Despite this variety, two generalized forms are known, one of which is the economic protection.

In the foreign literature instead of economic protection is used the term "prevention". It includes the protection and the limitation of the losses related to an occurred insurance event.

Economic protection, however, includes prevention (prevention of unfavorable property damage) and repression (limitation) of unfavorable property consequences, i.e. it is a wider concept.

The recovery function of the insurance does not make the economic protection unnecessary. Once it is assumed that insurance has a recovery function, it has to finance the protection of the property. Through insurance, the economic protection does not become unnecessary and vice versa the economic protection does not make the insurance unnecessary, nor its implementation held back or diminish the importance of the proposed insurance protection.

The additional functions can be formulated as follows: Mobilization of financial assets; Redistributive; Control; Educative; Credit function.

## **INSURANCE INTERMEDIARIES IN BULGARIA**

As we have already clarified, the insurance is an activity of providing insurance coverage of risks under an insurance contract, consisting in the collection and spending of funds intended for the payment of compensations and other sums of money upon occurrence of events or fulfillment of conditions stipulated in a contract or by the law, as well as directly related with this activities. The activity is regulated by the Insurance Code. A precondition for the occurrence of an insurance service is the conclusion of an insurance contract between the client and the insurance company.

The service is of a special kind, intangible, and can be used after an insurance event occurs. Its main distinctive feature is that the consumption precedes the realization, namely: the insurance is concluded before it is known whether an insurance event will occur. The insurance services are disposed on the insurance market.

The components of the insurance market are: Insurance companies; Insurance intermediaries; consumers of insurance services; insurance services; legal regulations and insurance relationships.

The activity of insurance can be carried out both directly by the insurance company and through insurance intermediaries: insurance brokers and insurance agents, which build the external sale network of insurance. Namely through the agent-brokerage network the insurers provide their services to the general public. The activity of intermediaries does not take place in the office of an insurance company, but outside it. This activity is based on a built-up network of contributors who are dependent, professional agents and brokers of the insurance company.

In accordance with Art. 150. (1) of the Insurance Code: Insurance and reinsurance intermediaries are insurance brokers and insurance agents who, for payment, perform insurance and / or reinsurance mediation. [1]

The insurance broker is a key figure in the insurance company's sale program. Through personal contact, he shapes insurance interests and contributes to the marketing of insurance services.

The main difference between a broker and an agent is that they have different scopes of powers to conclude insurance contracts, and as well that the agent works for one insurer only and the insurance broker can work for several or even for all certified insurers.

## **A RETROSPECTIVE REVIEW OF THE DEVELOPMENT OF THE INSURANCE MARKET IN BULGARIA**

"In the beginning of the 1990s, in the absence of regulations for performing insurance activities on the insurance market, many participants entered (more than 110 traders with subject of activity "insurance" are registered in the Ministry of Finance), a substantial part of which lacking in professionalism and clear visions of the nature and importance of the business they are carrying on. At the same time on the insurance market entered also persons, which business could not be identified as such complying with the law, and they imposed unique insurance methods - the so-called "force insurance". All this seriously undermined the reputation of the insurance market and has made a lasting impression in society that insurance services are not aimed at protecting the interests of consumers, and through them radically different and dubious goals are pursued. The manifestation of these negative events along with the long-standing monopoly of the state insurer on the Bulgarian market and the imposed compulsory insurances (perceived by a large part of the Bulgarian citizens as a form of taxation) permanently repelled the Bulgarian citizens from the demand for insurance protections and significantly contributed to the forming and the maintaining of a low "insurance culture". With the adoption of the Insurance Act in 1997, the recovery of insurance supervision and its institutional building (in 1998), the

following important objectives were achieved: • the necessary prerequisites for the functioning of a regulated, transparent, stable and predictable market were created; 27 insurers were certified and those who did not obtain or did not request a license went into liquidation or insolvency proceedings; "the power insurers" were removed from the market. With the subsequent development of regulations related to the implementation of European insurance legislation and good global practices in corporate governance and the actuarial profession, a modern and effective regulatory framework has been created, contributing to the development of the insurance market. The modern regulatory framework, the stable and predictable macroeconomic environment, as well as the favorable tax conditions have led to the restructuring of property ownership in the insurance and entry of institutional foreign investors - 25 insurers (out of 36) are part of European insurance and financial groups. Also, from the beginning of 2009, the first pure reinsurer operates from its head office in Bulgaria after moving its activities from Cyprus. "[2]

### **CURRENT STATE OF THE INSURANCE MARKET IN BULGARIA**

6.6 billion BGN – this is the amount estimated for the funds, managed by the insurance companies in Bulgaria as at December last year (2016). As compared to the previous year, 2015, an increase to the amount of 501,8 million BNG is observed., in per cent – by 8,2 % and by 1,7 % to the third quarter of 2016 according to BNB data. [3]

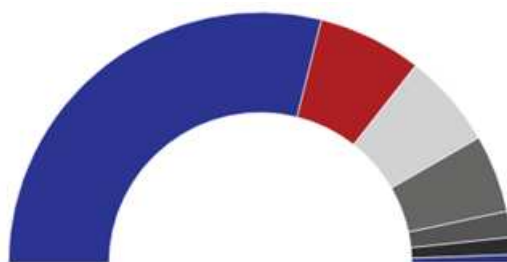
### **AMOUNT AND STRUCTURE OF THE ASSETS**

The assets of life insurance companies increased by 10.4% to 1.8 billion BGN at the end of December 2016 compared to a year earlier. Compared to the end of September 2016, they increased by 2.7 million BGN (0.1%). Their relative share in the total amount of assets at the end of December 2016 was 27.7% against 27.1% at the end of the fourth quarter of 2015 and 28.1% at the end of September 2016.

The funds managed by non-life insurance companies, including the reinsurance companies, increased by 7.4% on an annual basis to 4.8 billion BGN at the end of December. They increased by 2.3% compared to the end of September 2016.

At the end of December 2016, the relative share of the assets of non-life insurance companies in the total amount of assets of the insurance companies was 72.3% against 72.9% at the end of the fourth quarter of 2015 and 71.9% by the end of September 2016.

Over the instruments included in the assets of the insurance companies, at the end of December 2016 prevail the holdings of securities, other than shares, which on an annual basis increased by 10.1% to 3.5 billion BGN.

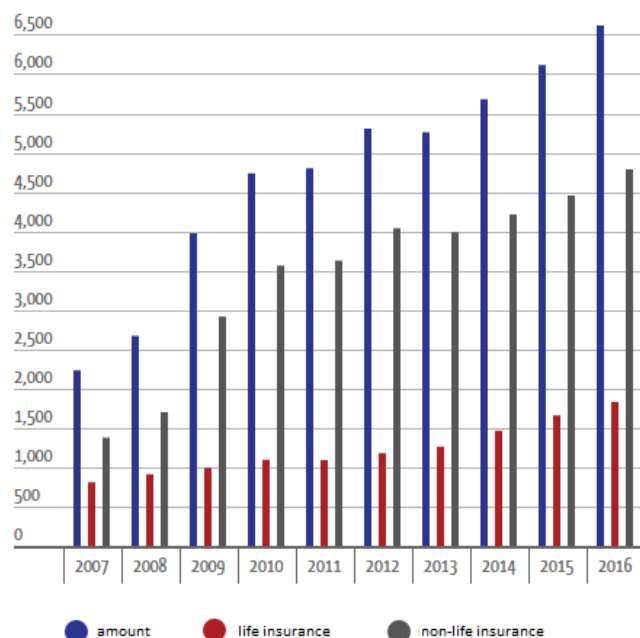


SOURCE: Bulgarian National Bank,  
www.bnb.bg

In comparison with the end of December 2015, deposits increased by 16.2% to 752.8 million BGN, shares and other forms of ownership increased by 16.6% to 822.2 million BGN and the funds in “receivables from Insurance transactions” decreased by 6% to 640.4 million BGN.

At the end of the fourth quarter of 2016, the relative share of securities other than shares was 52.1% against 51.2% at the end of the same quarter of 2015, of deposits - 11.4% against 10.6 % at the end of December 2015, shares and other equity - 12.4% against 11.5% at the end of December 2015 and receivables from insurance transactions - 9.7% against 11.1% at the end of the fourth quarter of 2015.

In the currency structure of the assets of the insurance companies, major share have the assets in BGN, which are 37.9% of the total amount of assets at the end of December 2016 compared to 41.5% one year earlier. The assets in EUR are 33.1%, the assets in USD are 4.3% and in other currencies - 24.6% against 24.5% at the end of December 2015.



SOURCE: Bulgarian National Bank,  
www.bnb.bg

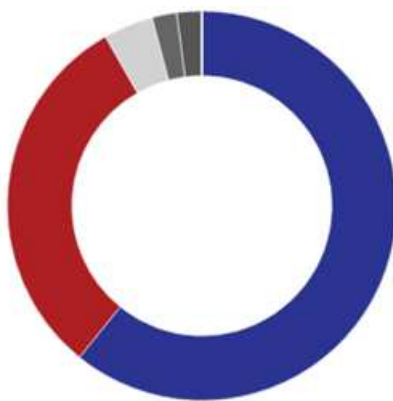
Regarding the geographical structure of the insurers' assets on an annual basis at the end of December 2016, the investments in Bulgaria increased by BGN 67.9 million BGN (2.1%) to BGN 3.3 billion BGN. Their relative share is 50.3% at the end of December 2016, against 53.3% at the end of the same month in 2015.

The funds invested in the European Union countries grew on an annual basis by 14.3% to 2.95 billion BGN and their relative share at the end of December 2016 was 44.6% compared to 42.2% in the previous year Year.

### AMOUNT AND STRUCTURE OF LIABILITIES

The external finance of the insurance companies at the end of December 2016 amounted to 6.6 billion BGN. The equity was 2.04 billion BGN, increasing by 5.1% compared to the end of December 2015. Its share in the amount of liabilities at the end of the fourth quarter of 2016 was 30.8% against 31.7 % one year earlier.

At the end of December 2016, insurance technical reserves increased on an annual basis by 11.2% to 3.9 billion BGN. Their share in the amount of liabilities was 59.3% as of December 2016, against 57.7% in the end of December 2015.



SOURCE: Bulgarian National Bank,  
www.bnb.bg

### INSURANCE TECHNICAL PROVISIONS

Obligations to residents included in the insurance technical provisions amounted to 2.604 billion BGN at the end of the fourth quarter of 2016. Their relative share in the total amount of insurance technical provisions was 66.4%. Obligations to households and non-profit organizations grew by 8.6% to 1.9 billion BGN.

At the end of the fourth quarter of 2016, their relative share in the total amount of insurance technical provisions was 50.1%. On an annual basis, the obligations to the non-financial corporations sector increased by 4% to 531.1 million BG and were 13,5% of the insurance technical provisions.

Obligations to money financial institutions (MFIs) increased by 1.6% for one year to 78.2 million BGN at the end of December 2016. Their relative share in the total amount of insurance technical provisions was 2% at the end of December 2016.



Obligations to non-residents ("rest of the world" sphere) increased by 19.9% to 1.3 billion BGN at the end of the fourth quarter of 2016. Their share in the total technical insurance provisions at the end of December 2016 is 33.6%.

## **CHALLENGES FACED BY INSURANCE BUSINESS**

### **‘Insurtech Companies – A risk for the market Share of Insurers’**

Such startups rely on new technologies and a better understanding of customer needs.

'The global insurance industry is estimated at nearly 5 trillion USD, but insurance companies face the risk of losing a share of this market due to new players. The reason is that their speed of modernization is much slower than in other financial services, "said Bloomberg TV Bulgaria, by reference to a "Business Insider"'s study. [6]

This however creates opportunities for a group of companies called Insurtech or companies for insurance technologies. To increase the industry efficiency, such startups rely on new technologies and a better understanding of customer needs.

Business Insider Intelligence has done a research on the subject, as the main findings are the following:

- Currently, the greatest development opportunities are in the USA and Europe, because the regions have a large and mature insurance industry
- The products and services of the insurance technology target mainly the small customers, i.e. the small business
- Most companies for insurance technologies are acting as developers. This means that they offer products and services that help insurers and reinsurers to improve their processes and to serve their customers better.
- Among the major players in the insurance industry, brokers are the most threatened one. The reason for this is that insurance technology companies can easily carry out their services and solve major problems for the industry faster than the insurers themselves.

Insurance companies also implement innovations. In particular, insurers and reinsurers invest in insurance and finance technologies. At the same time, they improve their own digital interface towards customers, increasing the threat to brokers. "[4], [5]

## **CONCLUSION**

**In conclusion, I can take up the following position:** The insurance in Bulgaria goes through many and risky stages. Given the current situation, we can say that we are enjoying a relatively stable and progressively improving climate in the sphere of the pension and insurance market. From now on, Bulgarian insurance companies have to fight for a better image among their foreign counterparts and to improve their ratings. In current conditions of hypothetical implementation of the idea of a more pronounced "Multi-speed Europe", this would be a great challenge for a part of the

Bulgarian companies. My opinion is that the international cooperation in such situation could contribute to the improvement of the market conditions and to the increase of competitiveness for companies.

#### **REFERENCES**

1. Insurance Code, 2016
2. Financial Supervision Commission, 2017, <http://www.fsc.bg>
3. Bulgarian National Bank, 2016, <http://www.bnb.bg/>
4. Investor, 2017, <http://www.investor.bg>
5. Capital, 2017, <http://www.capital.bg/>
6. Business Insider, 2017