

# What lies ahead for insurance companies?\*

## Review of the V. International Insurance Conference of the Association of Hungarian Insurance Companies (MABISZ)

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The Association of Hungarian Insurance Companies (MABISZ) held its Fifth Conference on 6 November 2015, traditionally and rightfully qualified as “international” in light of the numerous foreign speakers at the event. The presence of decision-making and supervisory organs attests to the broad acceptance of the conference, which provides a platform for high-level, meaningful debate on the current topics affecting the insurance industry.

The conference’s agenda included a discussion of opportunities in the health insurance market, European regulatory changes affecting insurance companies, and the experiences of the period elapsed since the introduction of the tax relief on pension insurance.

*Gábor Zombor*, Minister of State for Health at the Ministry of Human Capacities, gave the keynote address. The insurance industry was keenly anticipating hearing about the current plans affecting insurance. The Minister of State said that the government areas responsible for healthcare were firmly committed to establishing clear, transparent conditions within the field of publicly funded healthcare. Without prejudice to this criterion, privately funded investments in healthcare were nevertheless welcome. The Minister of State also offered an opportunity for consultation for the insurance industry to discuss the potential further role of private insurance companies.

*Dániel Palotai*, the MNB’s Executive Director for Monetary Policy, gave an overview of the macroeconomic situation and the role of unit-linked insurance products. The most

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\* The views expressed in this paper are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.

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encouraging assessment for conference attendees from the vantage of the insurance market was most likely the fact that prudential considerations have led to higher savings than before the crisis and are projected to remain elevated going forward. This may drive sales of pension insurance products, and the MNB has crafted a pension insurance recommendation to foster this objective, the results of which are already apparent. TCI<sup>P</sup> (total cost indicator) values have already dipped below the level specified in the recommendation and the TCI<sup>P</sup> is decidedly positive for one quarter of pension insurers. As a point of criticism, it was mentioned that the decline in TCI<sup>P</sup> was typically not achieved by insurance companies by way of reducing acquisition costs. The insurance industry also confirmed that the TCI system introduced in the context of self-regulation five years ago has by now been legitimised in its own right and has become a reference point for assessing the cost of unit-linked insurance products.

MABISZ President *Anett Pandurics* then gave a brief overview of the current state of the Hungarian insurance market. Although no significant changes have occurred in the past period, there are promising signs looking ahead. These include the rise in revenues on regular premium life insurance in 2014 H1 (+10.1 per cent), the first increase of this kind which has been seen in a long time, and an increase in the proportion of insurance premium reserves in households' financial assets (+4.8 per cent). The sector closed the first six months of the year with premium revenue of HUF 435 billion, a slight increase. The industry is also preparing for the tasks dictated by European regulation, the most important of which is the revision of the IMD (Insurance Mediation Directive) regulating the distribution of insurances, and the regulation focusing on PRIIPs (Packaged Retail and Insurance-based Investment Products). Every member state faces the dilemma of whether it is warranted to go beyond the minimum European harmonisation requirements, factoring in the degree of development of the market in question. In her presentation, the President also emphasised that the Hungarian insurance industry ascribes great importance to communicating the positive social role of insurance and to reinforcing consumer protection. With regard to the latter, the sector operates an increasingly broad toolset (customer service, TCI, MTPL Aggregator, official information, Reference System, etc.) in the framework of MABISZ.

The MNB'S Executive Director in charge of the supervision of financial organisations *Kornél Kisgergely* summed up the MNB's insurance supervision strategy and methods for the audience. The objective of insurance sector supervision is to increase utility for the national economy, to create a transparent range of services, to foster a competitive insurance system, to support modern self-reliance solutions and to create guarantee mechanisms for potential crisis situations. Looking ahead, Solvency II-based supervision will bring new challenges calling for flexible regulation, a new supervisory mentality and individualised supervisory audits. These all call for a new approach, for which the MNB proposes supervision based on Business Model Analysis (BMA) which permits the elaboration of a supervisory programme tailored to the attributes of individual institutions.

The MNB'S Executive Director in charge of consumer protection and market surveillance *András Bethlendi* gave a presentation on current consumer protection issues and discussed the recently renewed toolset adopted by the MNB's supervisory branch and the ongoing additions to this toolset. An important objective for the near future is continuous market product monitoring and the identification of unfair contract terms, and thus there may be an increasing emphasis on product focus in the context of supervision. The improvement in the number of complaints lodged with insurance companies and their management is a positive development, however the main consumer protection risks affecting the sector remain unchanged: misselling, inadequate information, claim settlement shortcomings and the absence of product transparency. Issues stemming from online sales and electronic administration represent new challenges, which the MNB recommendation on online insurance intermediation and comparison websites that is currently being drafted aims to address.

Following a short coffee break, *Dávid Győri*, managing director of Xallis Consulting, presented the findings of a recent study on consumer attitudes regarding private health insurance. A large proportion of participants in the representative study deemed that the two most contentious factors – lack of funding and waiting lists – could be addressed through for-profit private insurance companies. It was on this note that the conference's first panel discussion was opened, which aimed to define the role of private funded services within healthcare. The panel participants formulated their hopes with reference to the opening presentation: that supplementary elements funded by private insurance companies would have a place in the currently changing health insurance system, in accordance with the aforementioned consumer expectations. However, they confirmed that this would necessitate laying down numerous detailed rules in the future. (Participants: *Patrícia Farkas* Head of Health Insurance Department/Signal, *András Juhos* member of the Management Board /UNIQA Biztosító Zrt., *Zoltán Pál* Deputy CEO/Generali Biztosító Zrt., *Gábor Karai* Managing Director/Advance Medical Hungary Kft., *Zoltán Takács* CEO/Főnix-Med Zrt., moderator: *János Bartók* CEO/MetLife Biztosító.)

Deputy CEO of Qualysoft Zrt., *Zoltán Kővári*, chose a topical subject, examining when online sales would fulfil expectations. The presentation confirmed the widely assumed correlation that more and more customers are obtaining information online, but remain hesitant to make online purchases. In the case of financial products, customers often expressly demand personal consultation prior to making a decision.

The lunch break was followed by a presentation by *Koppány Nagy*, Director of the Directorate Insurance, Pension Funds, Financial Enterprises and Intermediaries Supervision of the MNB, focusing on changing European regulation. The often-mentioned Solvency II regulation still poses numerous challenges for the insurance industry, especially in the area of detailed rules. In the interests of successful introduction of the new system, the MNB is working to support preparation by market participants, holding consultations, coordinating quantitative impact assessments and analysing their findings. In addition,

MNB experts are also involved in the elaboration of Hungarian and international regulation, the latter by participating in the EIOPA committees. The speaker also emphasised that – in response to the requirements of Solvency II – the focus of supervision must necessarily shift to being business model based. The revision of the Insurance Mediation Directive (IMD) is an equally important issue and will redefine the regulation of the market in several respects, in particular through expectations for greater transparency.

Then *Nicolas Jeanmart*, Head of Non-Life, Life & Macro-Economics of Insurance Europe, shared the tasks and dilemmas currently faced by European insurers. Not surprisingly, the current regulatory developments covered in the previous presentations were also addressed (Solvency II, IMD2). A new element compared to the preceding presentations was that the insurance industry must address the challenges arising from new technologies (mentioning the example of self-driving cars) and current issues of environmental protection and pollution.

*Hawes Janine*, Director of KPMG, gave an overview of the now evergreen issue of Solvency II, presenting the current status of EU member states in the process of adapting, taking into account the fact that on a European scale, this affects 5,300 insurance companies. The presentation also stated that the relevant requirements – referring to the EIOPA Guidelines – have not yet been fully disclosed. During this phase, Pillar 3 involves the most uncertainty, in terms of both resources and timing.

The topic of the traditional international panel discussion was linked to this presentation. Representatives of European sister associations (FFSA, GDV, UNSAR, VVO, moderator: *Gábor Hanák*, Director, KPMG) shared their experiences on the challenges of Solvency II. The international guests did not attempt to hide their opinion – also shared with *Szabolcs Disziter*, representing the EIOPA – that the flood of detailed rules represents a serious challenge for markets.

The next presentation was held by *László Gáti*, marketing and sales director at OTP Alapkezelő Zrt., who addressed the current issues of insurance asset management. All market participants face the challenges stemming from the persistently low interest environment, and the changes in investor mentality and risk appetite in the wake of the crisis. Among the possible responses to the challenges, both domestic and international figures confirm the spread of actively managed portfolios. It remains to be seen, however, whether the choice of asset fund can be left up to customers or whether they will be more satisfied with portfolios optimised for the long term, which are actively overseen by asset managers.

The second Hungarian panel discussion summed up the lessons learned from the introduction of the tax relief on pension insurance. (Participants: *István Csonka* Sales Deputy CEO/Groupama Garancia Biztosító Zrt., *Gyula Horváth* Deputy CEO/Aegon Magyarország Zrt., *András Kozek* Deputy CEO/Allianz Hungária Zrt., *Zsolt Raveczky* CEO/

Erste Biztosító Zrt., *Imre Sztanó* Chief Sales Officer/ING Biztosító Zrt., moderator: *Péter Kuruc* Head of the Life- and Bank Insurance Division, K&H Biztosító Zrt.) The competition-neutral option for receiving tax relief on pension insurance was deemed unequivocally positive by the representatives of the life insurance market. Market participants anticipate a gradual rise of the pension insurance market, which nevertheless hinges on an ongoing educational effort both from the insurance industry and decision-making and regulatory bodies. Panel participants also addressed the sensitive matter of annuity service payments. They concluded that although the broadest possible spread of this form of service would be socially desirable, many questions must still be answered both on the demand and supply side before an optimal solution can be reached.

MABISZ Secretary-General *Molnos Dániel* opened and closed the event. As attested to by the above summary, the conference offered a meaningful and enriching programme for attendees. The Secretary-General expressed his hopes that insurance companies, decision-makers and the representatives of supervisory bodies will continue their constructive common thinking in the best interest of the Hungarian insurance market and customers.