SELECTED INDICATORS OF THE MOST INNOVATIVE INSURANCE COMPANIES IN SLOVAKIA AND THE CZECH REPUBLIC

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Abstract. This paper focuses on the comparison of selected indicators for the most innovative insurance companies in Slovakia and the Czech Republic in a certain period. The objective of this research are the essential characteristics of maturity of the insurance market and selected financial ratios analysis according to Standard and Poor's.

Key words: innovations, insurance industry, selected indicators.

Introduction – the most innovative insurance companies in Slovakia and the Czech Republic

Leading Austrian and American economist Shumpeter is referred to be the author of the term innovation which he defined in five basic types: new product launch, new method of production, the emergence of a new market, using a new source of primary inputs (raw materials, semi-finished products) and a change of entrepreneurial management (Molnar and Bernat 2006). The role of innovation is important in defining the concept of national competitiveness as the key capabilities of the nation/country to innovate and thus gain a competitive advantage (Porter 1990). Innovation can be defined as the introduction of new products and services or resources which they create on the market (Lundvall 1992). Innovation in services has a very special character. Services are intangible, include immediate interaction with the consumer and they also have specific aspects within the delivery of the product.

We can identify the characteristics of services which have an impact on their innovations. They are: inseparability of production from consumption; information intensity and the role of IT; improving quality and human resources; the role of organizational factors (Kubičková 2009). Many financial institutions have found out that innovation can be the key to success. Constant monitoring of clients' needs and adapting to present time with the new forms of electronic equipment create place for innovative products. Financial institutions encourage this idea with the competition Golden Coin, which has been held in Slovakia since 2005, and it provides an opportunity to compare and improve products of financial institutions with regard to the benefit of the client. The order in each category depends on the 62-member jury, consisting of financial journalists, academics, news agencies, economic servers, financial advisors, professional associations and societies carrying out the market research. Since 2013, there has been a separate category for insurance companies – The most innovative insurance company. The winner of the first two years was Allianz – Slovak Insurance Company, Slovakia Generali insurance company won the second place in both years and the 3rd place in 2013 – MetLife Amslico insurance company, in 2014 – AXA insurance company.

In the financial institutions of the Czech Republic a category Insurance Best Innovator project The best insurance company, awards of Hospodářské noviny, is focused on the innovations. The public votes online for the product which they consider innovative, the most interesting and useful. Leadership in the competition, which has existed since 2008, has been reached by the insurance, which can offer the best products and services, quality of communication, accessibility, shows good result indicating stability and benefits for the owners (shareholders). The winner of 2013 was UNIQA and Allianz insurance company in 2014.

The aim of this paper is to find out whether the insurance companies awarded with the most innovative insurance company in Slovakia and the Czech Republic have achieved better results in selected financial indicators than the largest insurance company in Slovakia – Vienna Insurance Group and the second largest insurance company in the Czech Republic – Kooperativa, which is also a part of VIG.

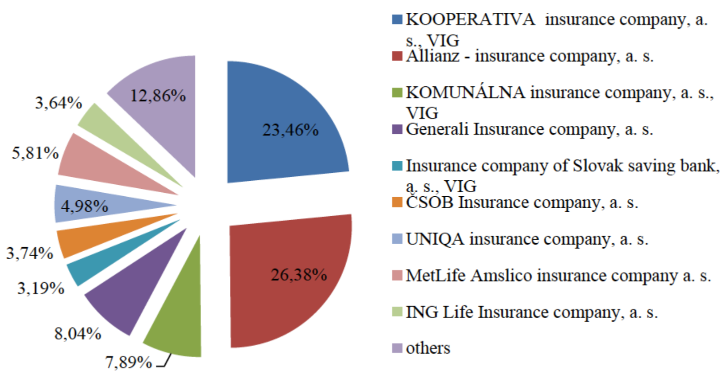
We choose these most innovative insurance companies in Slovakia and the Czech Republic in 2014 to check selected indicators: Allianz insurance company (ALL – SP, ALL – CZ). The second most innovative insurance company in Slovakia in 2014 was the Generali insurance company, which we also include in the sample and compare it with the Czech Republic Generali insurance company. These insurance companies have been awarded as the most innovative, are compared with the largest insurance company in Slovakia – Vienna Insurance Group and VIG (KOOP), in the Czech Republic – The Czech Insurance Company (ČP). The monitored period is 2009 to 2013.

1. Selected performance indicators of the insurance market

To assess the performance of the insurance market, the following indicators are used: total technical premiums, profitability of insurance companies, the loss ratio, claims paid, ratio of life to non-life insurance and technical reserves. In Slovakia, the premiums written was renamed to technical premium in 2008, while in the Czech Republic it remained as the premiums written.

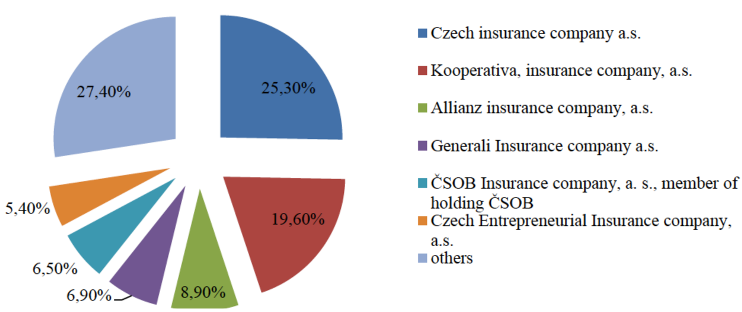
We monitor *total technical premium* by the shares of the monitored insurance companies. Allianz in Slovakia with its 26.38 % has the second largest share in Slovakia, Figure 1, in the Czech Republic Allianz reached the third largest share, with almost a third smaller percentage of (7.89 %) in comparison with Slovakia. Generali insurance company in Slovakia and the Czech Republic reached the fourth largest share of total technical premium written in the monitored countries, Figure 1 and 2.

Figure 1.The share of insurance companies in the total technical premium (from the year 2008) premiums written in Slovakia in 2013



Source: Own conception based on the SLASPO data.

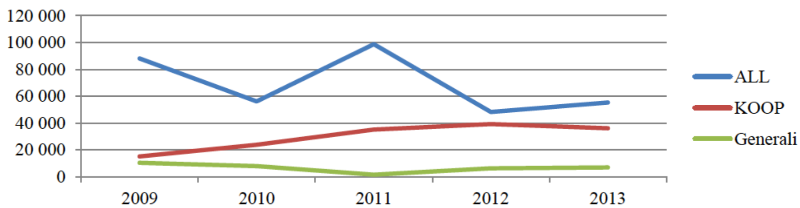
Figure 2.The share of insurance companies in the total technical premium in the Czech Republic in 2013



Source: Own conception based on ČAP data.

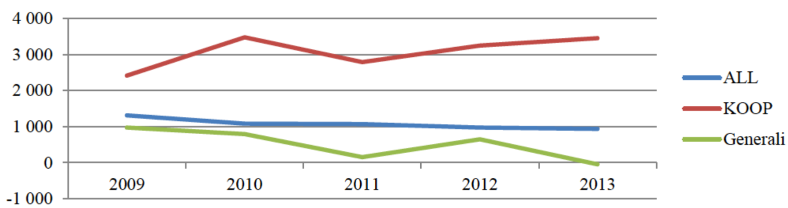
The main objective of insurance companies is to make a profit with satisfying the needs of clients. Profit of insurance sector in Slovakia, during the period (2009-2013) is strongly concentrated. The three largest insurance companies (out of 18) accounted for over 70% of the profits of the entire insurance sector, while their share in the assets of the insurance sector is only about 60%. Record high profit of insurance companies in Slovakia in 2011 affected negatively the 2012 changes in financial results in unit-linked insurance (investment life insurance) where investments achieved a slight loss. The financial result in 2012 was positive for all insurance companies, even it declined in about one third of insurance companies in-between the years. The Figure 3 shows the exception of the insurance company Generali, where profit in 2010 reached EUR 1.4 million, which succeeded four times more in the following year.

Figure 3.The financial results in selected insurance companies in Slovakia in thousands EUR



Source: Own conception based on the annual report data of the selected insurance companies.

Figure 4.The financial results in selected insurance companies in the Czech Republic in thousands CZK

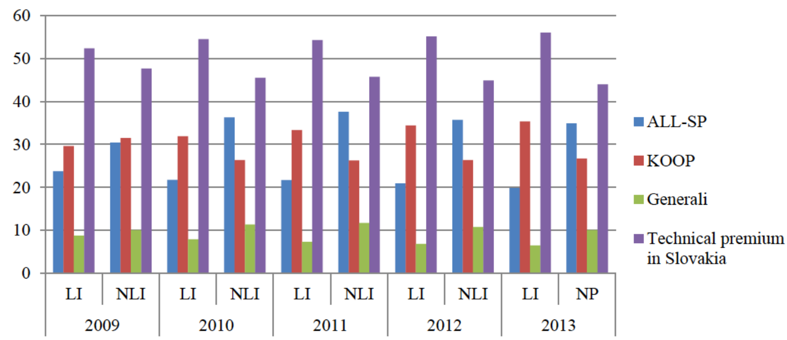


Source: Own elaboration based on the annual report data of the surveyed companies.

Market concentration is similarly high in the Czech Republic (towards the end of 2013 with 33 insurance companies), despite the share of both main groups PPF – Generali VIG, which fell to 61.8 % in 2013. The total volume of profits in insurance sector in the Czech Republic in 2013 fell by 4.7% to CZK 12 billion (Annual Report ČAP 2013), which is affected by the economic recession, increasing costs for the new legislative changes.

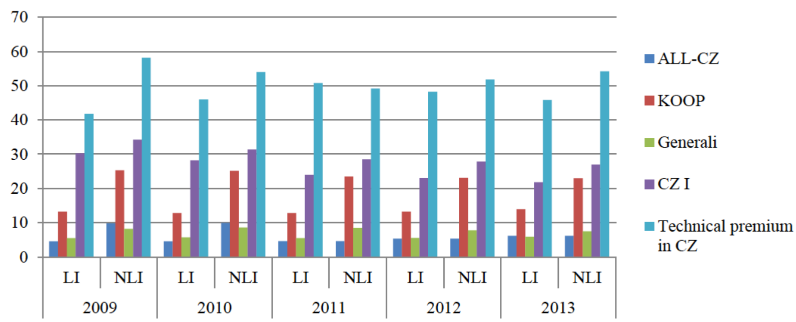
Another significant indicator is the developement of insurance *premiums written*. The standards of European countries in life insurance reach 60 % share, to which Slovakia has been successfully getting closer since 2008. In this year the life insurance share exceeded the total non-life insurance by 52% and in 2012 it was 55.13%. The Czech Republic still takes the opposite predominant ratio of non-life insurance over life insurance. Although in 2011 life insurance achieved a 50.8 % share in the following years it dropped (2012 – 48.2 % and 2013 – 45.8 %) as shown in the Figure 5 and 6.

Figure 5.The ratio of life insurance and non-life insurance in the global technical premium (till 2008 written) in Slovakia in the monitored insurance companies



Source: Own elaboration based on the annual report data of the surveyed companies.

Figure 6.The ratio of life insurance and non-life insurance on the global technical premium in the Czech Republic in the monitored insurance companies



Source: Own elaboration based on the annual report data of the surveyed companies.

2. Financial analysis in insurance industry

Total qualitative evaluation of insurance companies, which characterizes activities of insurance companies, is a content of the rating evaluation carried out by credit rating agencies. The most famous ones include: A.M. BEST, Standard & Poor›s, Moody›s, DUFF & PHELPS. Standard & Poor's (S & P) is concerned with financial analysis of insurance industry. Its insurance rating reflects whether financial capacity of insurer will cover future liabilities towards policy holders in accordance with the terms of the insurance contracts. The agency S & P focuses on the indicator of return on assets (ROA) with the indicator of return on equity (ROE) when evaluating the profitability.

3. Indicators of profitability analysis

Indicators of profitability analysis reflect the profitability of the business effort. The following items are reflected in their level and development: the level and development of liquidity, activity, debt and indicators of rentability synthesize them. For the designed profitability indicators it is common that they confront the result of corporate activities with the base (denominator), which most often expresses the amount of invested capital invested (Širá 2012).

Table 1. The development of the profitability indicators of the monitored insurance companies in Slovak republic in %

						S & P
ROA	2009	2010	2011	2012	2013	Not stated
ALL-SP	4,14	2,58	4,44	2,15	2,46	
KOOP	1,48	2,16	3,16	3	3,30	
Generali	1,88	1,44	0,27	1,12	1,24	
ROE						> 5 %
ALL-SP	16,25	10,27	17,55	8,88	10,65	
KOOP	6,73	9,96	14,82	13,04	14,13	
Generali	9,19	7,94	1,79	6,1	6,39	

Source: Own elaboration based on the annual report data of the surveyed companies.

Table 2. The development of the profitability indicators in the Czech Republic in %

						S & P
ROA	2009	2010	2011	2012	2013	Not stated
ALL	5,39	4,23	4,02	3,52	3,21	
KOOP	4,17	5,65	4,45	4,93	5,08	
Generali	5,34	4,13	0,85	3,35	-0,23	
ROE	2009	2010	2011	2012	2013	> 5 %
ALL	26,67	21,84	21,28	23,71	20,93	
KOOP	19,92	25,70	21,43	23,33	24,12	
Generali	40,86	31,55	9,15	28,76	-2,19	

Source: Own elaboration based on the annual report data of the surveyed companies.

Indicator ROA (net income /price of assets) is an assessment of the assets of the insurance company. Value of indicator in Slovakia is the highest in 2011 at 4.44% Allianz insurance company, EUR 0.0444 of net profit was accounted on the euro assets. In this indicator Generali insurance company in Slovakia reached the lowest value. In the Czech Republic KOOP insurance company has been achieving the best value of this indicator since 2010, we can observe the significant differences in the insurance company Generali in the studied years.

Indicator *ROE* (net profit/equity) is an assessment of equity and in accordance with the credit rating agency S & P it should reach more than 5%. This criteria was not achieved by Generali insurance company in 2011 in Slovakia. Monitored Czech insurance companies have higher values of this indicator compared to the monitored insurance companies in Slovakia. We can again observe significant differences in the values of this indicator in the insurance company Generali.

4. Indicators of balance sheet and a profit and losses report

Monitored indicators in the Table 3 have a common denominator – net premiums earned while in given indicators only the numerator is changing. The indicator – *asset leverage* shows the ratio of the average investments to net premiums earned and its value should be the highest according to the rating agency S & P. During the surveyed period these requirements correspond best with the results of Generali in the Czech Republic (from Table 3 and 4) and the lowest values are only in KOOP in Slovakia.

Table 3. Ratio indicators of financial analysis of monitored insurance companies in Slovakia in %

		2009	2010	2011	2012	2013	S & P
ALL-SP	asset leverage	327,42	333,39	340,76	343,79	355,96	The highest
KOOP		177,74	179,62	198,65	198,63	199,27	
Generali		255,06	274,05	283,42	304,96	329,92	
ALL-SP	reserve ratio	295,12	310,87	317,24	317,61	181,03	100-150 %
KOOP		173,04	183,72	202,82	200,83	194,18	
Generali		220,95	262,28	281,80	300,14	314,46	
ALL-SP	solvency ratio	110,38	116,91	120,43	118,95	115,65	30-50 %
KOOP		53,67	57,88	62,91	65,82	68,32	
Generali		66,17	71,55	62,98	68,17	82,42	
ALL-SP	technical coverage ratio	405,50	427,78	437,67	436,56	296,68	150%
KOOP		226,71	241,60	265,73	266,65	262,49	
Generali		287,13	333,82	344,78	368,31	396,88	

Source: Own elaboration based on the annual report data of the surveyed companies.

Table 4. Ratio indicators of financial analysis of monitored insurance companies in the Czech Republic in %

		2009	2010	2011	2012	2013	S & P
ALL-CP	asset leverage	252,83	249,48	254,21	238,62	242,67	highest
KOOP		267,27	296,92	328,15	339,68	293,63	
Generali		518,57	567,30	569,17	645,27	724,11	

ALL-CP	reserve ratio	189,41	201,05	208,73	203,92	213,25	100-150 %
KOOP		199,53	230,52	253,81	266,08	229,40	
Generali		372,29	439,15	453,72	507,35	566,77	
ALL-CP	solvency ratio	53,43	54,63	54,23	44,74	40,74	30-50 %
KOOP		56,23	70,10	77,94	80,54	71,00	
Generali		61,36	81,10	70,51	74,27	86,40	
ALL-CP	technical coverage ratio	242,85	255,68	262,96	248,66	253,99	150%
KOOP		255,76	300,62	331,75	346,61	300,40	
Generali		433,65	520,25	524,23	581,61	653,16	

Source: Own elaboration based on the annual report data of the surveyed companies.

Reserve ratio indicator represents the ratio of average technical reserves to net premiums earned. The indicator expresses the rate of technical reserves creation and should range between 100 to 150 %. Technical reserves of the whole Czech and Slovak industry are permanently formed up in inadequently large volume.

Ratio indicator of average equity to net premiums earned determines the optimal amount of own insurance funds considering the volume of insurance activities. These criteria meets all the monitored insurance companies in Slovakia and the Czech Republic. Indicator of *technical coverage ratio* is a summary indicator of previous two indicators (Kolesárová and Harvánek 2007).

Indicator of investment rate on total assets reflects what percentage of the assets has an investment features. Insurance companies in Slovakia and the the Czech Republic have mostly increasing trend in the monitored indicator (Table 5 and 6).

Table 5. Ratio indicators of financial analysis of the monitored insurance companies in Slovakia in%

		2009	2010	2011	2012	2013	S & P
ALL-SP	Indicator of investment rate on the total assets	72,66	71,56	72,36	72,70	73,68	Not stated
KOOP		68,85	66,69	69,08	64,96	70,24	
Generali		72,95	74,69	74,26	75,29	76,02	
ALL-SP	Investment rate on technical reserves	109,09	105,48	109,40	107,13	106,95	> 100 %
KOOP		99,63	96,05	99,82	98,02	107,34	
Generali		106,91	102,22	98,92	104,23	105,61	
ALL-SP	Rate of technical reserves on VI	74,87	84,37	88,83	94,50	173,71	< 350 %
KOOP		314,85	319,86	324,93	288,14	280,34	
Generali		333,69	403,91	501,77	393,14	370,57	

Source: Own elaboration based on the annual report data of the surveyed companies.

Table 6. Ratio indicators of financial analysis of the monitored insurance companies in the Czech republic in %

		2009	2010	2011	2012	2013	S & P
ALL-CP	Investment rate on technical reserves	90,77	89,98	89,48	90,01	89,73	Not stated
KOOP		91,39	90,54	89,43	87,32	87,04	
Generali		91,77	91,18	90,36	92,20	92,03	
ALL-CP	Investment rate on technical reserves	125,84	122,45	121,15	113,33	114,24	> 100 %
KOOP		127,02	130,54	128,06	127,27	128,72	
Generali		130,46	127,99	122,81	131,47	124,27	
ALL-CP	Investment rate on technical reserves on VI	356,85	379,09	390,64	535,79	512,22	< 350 %
KOOP		343,71	315,56	336,15	324,97	321,27	
Generali		538,19	544,63	792,41	601,86	716,88	

Source: Own elaboration based on the annual report data of the surveyed companies.

In the *investment indicator of technical reserves* of the surveyed insurance companies in Slovakia and the Czech Republic, only KOOP in Slovakia does not reach the recommended limit of 100% .

Recommended value of the *ratio of technical reserves on equity indicator* from the monitored insurance companies – the insurance company Generali in Slovakia exceeds the recommended limit of 350% and the insurance companies Allianz and Generali in the Czech Republic.

Conclusions

The scientific publications pay less attention to financial analysis of insurance companies than to financial analysis of companies from other business areas. The contribution of our paper is the financial analysis of insurance companies in Slovakia and the Czech Republic (Allianz Sk and Allianz CZ) compared to the largest insurance company in Slovakia Kooperativa Insurance Company, Inc. and the second largest insurance company in the Czech Republic Kooperativa pojišťovna, a.s. for the period 2009-2013. Profitability indicators were supplemented by indicators of balance sheet and profit and loss account and we compared them with the standards of the credit rating agency Standard & Poor's. The aim of the paper is to find out whether the insurance companies awarded with the most innovative insurance company in Slovakia and the Czech Republic have achieved better results in selected financial indicators than the largest insurance company in Slovakia - Vienna Insurance Group a.s., VIG (Vienna Insurance Group) and the second largest insurance company in the Czech Republic – Kooperativa, a.s, which is also part of VIG. Based on the acquired results it can not be clearly stated which of the monitored insurance companies achieves the most favorable values of selected indicators. Each insurance company has its own priorities and consequently achieves better results in certain indicators at the expense of other indicators. At the indicator of asset leverage Allianz insurance company in Slovakia achieves better results than the other Slovak insurance companies. The indicator asset leverage of other Czech insurance companies has more favorable results than most innovative insurance company Allianz. We could say the greater the value of the indicator, the more significant role of investment transactions. This also includes reserved marker ratio, which justifies the range of 100-150% by the fact that the amount of technical reserves should be at least the same as the net premiums received and maximum of 1.5 – times the amount of net earned premiums. Allianz insurance company Slovakia is approaching the required value only in the monitored year 2013. Allianz Czech Republic has the same strategy of diversification of insurance companies' reserves from 2009-2013 on average around 200%. The indicator solvency ratio expresses own capital endowment of an insurance company. Insurance companies in Slovakia meet the criteria with significant reserves, while Allianz insurance company exceeds the required values compared to monitored insurance companies with the greatest reserve. On the other hand Allianz in the Czech Republic achieves smallest value in this indicator compared to other Czech insurance companies. In 2016 new requirements of financial market stability of solvency II will come into force and in this context also Standard & Poor's will adjust its standards of monitoring the profitability indicators.

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