



Miroslav Singer

CEE Institutional Affairs
& Chief Economist, EXCO Member,
Generali CEE Holding B.V.

Insurance as the driver of the development of Balkan Capital Markets

The potential contribution of the Insurance industry to the development of Balkan and the „new Europe” states capital markets cannot be overstated. This is clear from comparisons with the developed European economies. The investment portfolios exceed 60% of GDP of an average European economy, such as Belgium or Germany. In some cases, Spain, Sweden, UK not to focus on somehow specific Luxembourg case, they are comparable with the GDP. Thus, investment portfolios of insurance companies -in line with one of the major social benefit of insurance companies, i.e. investments into the valuable but lower liquidity long-term projects-, support the development of capital markets and the economy as a whole. The situation contrasts sharply with the Balkans and „new Europe.” Here investment portfolios of insurance companies are much smaller. They range between few percent of GDP – Bulgaria, Romania – and a quite meagre 15% (circa) of GDP in the case of Slovenia. The unfulfilled potential is clearly enormous.

As for the state of financial markets in the region let me stress that since the Generali group insurance companies are present in most CEE and Balkan countries, we can dare to assess the situation with a local perspective. Currently, only the „big new 4” countries – Czech Republic, Hungary, Poland and Romania –possess reasonable liquid forex and governmental bond markets. Once we begin to assess less elementary instruments, we find only three CEE economies that can enjoy sufficiently liquid IRS markets. And moving further up the ladder of sophistication of products, the situation gets worse. Smaller Balkan economies do not have a depth of markets thanks to both lack of issuers and investors for domestic currency debt, in terms of euros the situation is a bit better but keep in mind international buyers are open to consider issues over 300 million euros from rated issuers... As to equity markets, their development is related to pension or health reforms. The largest equity market in Poland reflects the size of the Polish pension industry and also the regulation limiting hedging of the portfolios. The relatively larger assets of the insurance industry in Slovenia is a consequence of a health system mainly based on private insurance.

As to the role of global players like Generali, I believe that apart from an obvious role of investor, we are contributing to the development of the market by setting the example to other market players as well as setting standards that in some markets are stricter than those set and enforced by local authorities. We are observing in compliance with group ESG standards preventing us

from investments of some issuers, we are flag bearers of implementation of new pan-EU regulation in countries and being an anchor investor, we are simply with our presence making some issues reality.

Of course, EU regulation plays a positive role as local authorities strive for convergence. At the same time its implementation is rather expensive, and the costs associated might hinder the arrival of new investors in many smaller Balkan markets. Consequently, a simplification corresponding with the market size might become a significant impulse for the development of those. ●