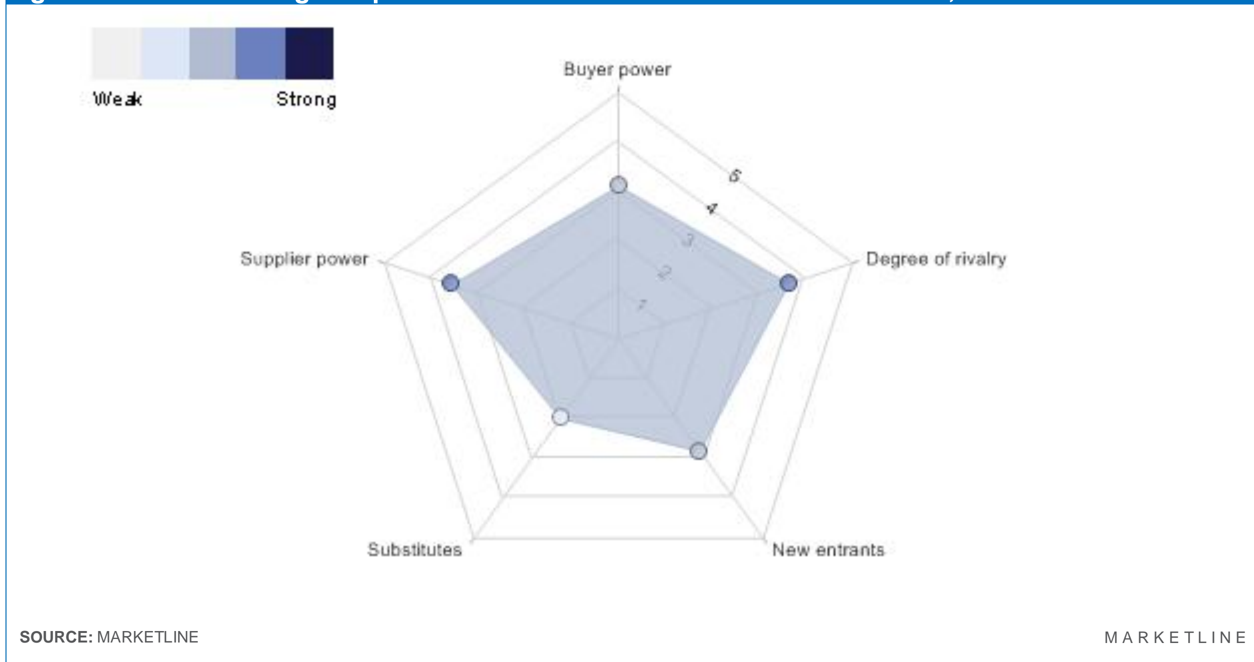
FIVE FORCES ANALYSIS

The life insurance market will be analyzed taking insurance companies as players. The key buyers will be taken as consumers (both individual as well as corporate), and ict manufacturers, software houses and reinsurance companies as the key suppliers.

Summary

Figure 1: Forces driving competition in the life insurance market in Poland, 2014



SOURCE: MARKETLINE

Growth in the Polish life insurance market has been unable to offset the fierce rivalry level, which is assessed as strong overall.

Buyer power is moderate overall, as is the ability of new players in entering the market place with supplier power remaining strong. Despite savings and investments being among the alternative methods of insuring one's self, substitutes possess a weak force in the market, due to the expertise and capital required for investment.

The demand for life insurance is determined by various factors: i.e. gross domestic product, average length of life expectancy, inflation and interest rates. Additionally, in developing countries, factors such as market structure, the presence of foreign investors and financial development of economies should be taken into consideration. There are also various reasons for getting a life insurance policy. Such a policy guarantees a replacement income for one's dependents in case of death or major illness. Some types of life insurance create a cash value that, if not paid out as a death benefit, can be borrowed or withdrawn on the owner's request, which makes it an important element of sound financial planning and investment.

Since most people consider paying their life insurance policy premiums a high priority, buying a cash-value type policy can create a kind of "forced" savings plan. Various companies can also use group life insurance to cover their employees or corporate-owned life insurance (COLI). COLI was originally purchased by companies to hedge against the financial cost of losing key employees to unexpected death, the risk of recruiting and training replacements of necessary or highly-trained personnel, or to fund corporate obligations to redeem stock upon the death of an owner.

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Buyer power

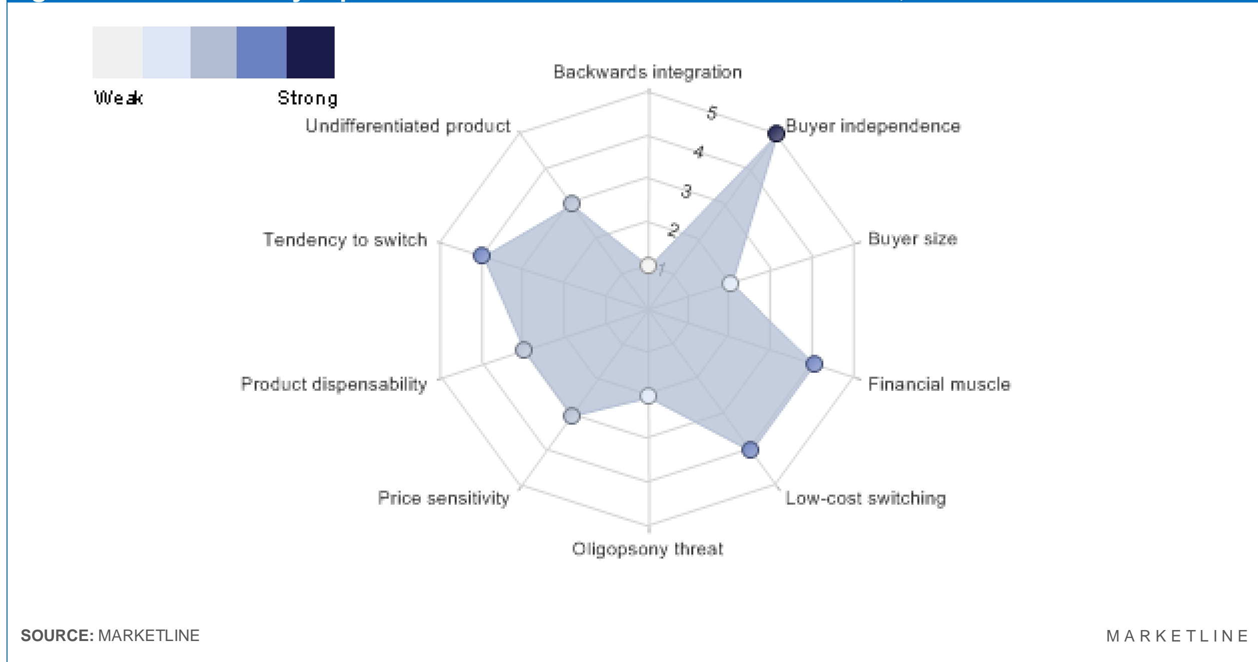

Figure 2: Drivers of buyer power in the life insurance market in Poland, 2014

SOURCE: MARKETLINE

Due to the nature of the market and importance of the product offered, there are many individual consumers, diminishing buyer power, as the impact of losing an individual customer is rather marginal. Large corporate clients have a lot more bargaining power with insurance companies as they usually pay millions of dollars a year in premiums and losing such high-margin corporate clients can negatively affect a player's revenues. This increases buyer power to some extent. Customers in this market are not particularly loyal to one specific company and are willing to shop around for the best deal. Online comparison sites allow customers to choose policies that meet their individual insurance needs, boosting buyer power, however these can be negated in some instances as many big players own multiple brands.

However buyer power is weakened by the existence of switching costs, as for individuals, switching from one player to another will often involve surrendering a policy early (an exception is where a term policy reaches its end and the buyer chooses a different company for their next policy). The payout on a surrendered policy may be taxable, whereas the payout on the death of the insured person is tax-free; also early surrender of an index-linked plan may mean that the policyholder misses out on some interest payments. Buyer power is assessed as moderate overall.

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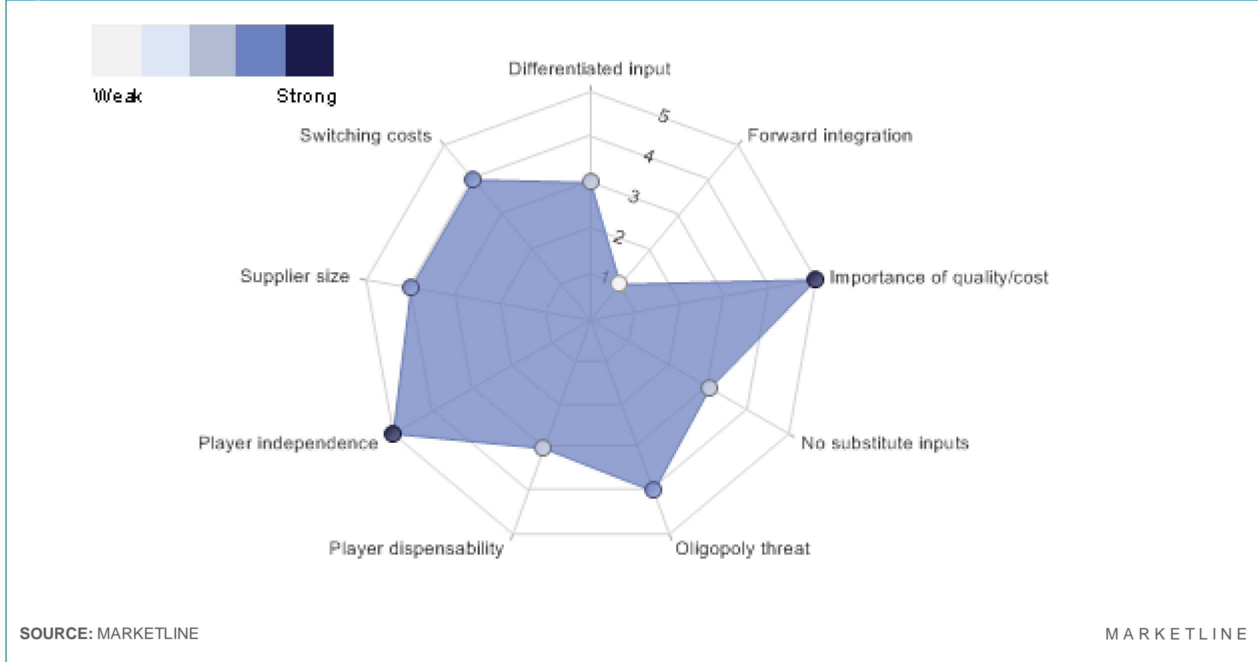
Supplier power

Figure 3: Drivers of supplier power in the life insurance market in Poland, 2014



SOURCE: MARKETLINE

MARKETLINE

Suppliers in the life insurance market include ICT manufacturers and software houses. Certain insurance companies require specialized computer systems, tailored towards their unique range of products or services. Underwriters, for instance, use computer applications known as "smart systems" to manage risks. These types of systems are complex and are often linked up to internet databases. A secure and reliable ICT infrastructure is essential and companies are often reliant on one supplier. This is normally a large and reputable company, such as IBM. Such suppliers may have their own unique and patented systems. This creates a disincentive for insurance companies to switch suppliers as many employers are reluctant to spend the money training staff on new systems, which increases supplier power. Despite many insurance companies maintaining their own IT departments, there is little likelihood of significant backward integration, which further strengthens suppliers (although it is equally unlikely that suppliers would attempt to integrate forwards into insurance services). Life insurers also require the services of reinsurance companies, in order to reduce their own exposure to insured risks. Overall supplier power is strong in the life insurance market.

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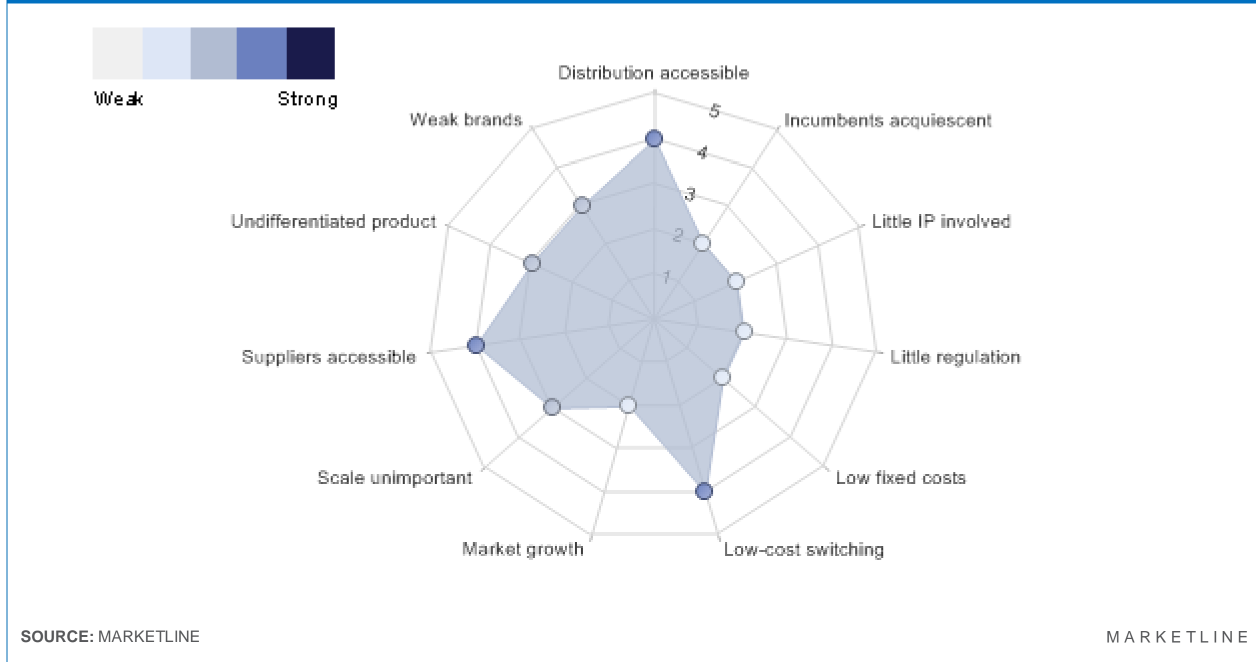
New entrants

Figure 4: Factors influencing the likelihood of new entrants in the life insurance market in Poland, 2014



SOURCE: MARKETLINE

MARKETLINE

Evolution of the modern insurance market in Poland is associated with signing a bill regulating insurance activities in 1990 and its amendment in 1995, ending the domination of state-owned Zaklad Ubezpieczen Spolecznych. New legislation abolished the state monopoly by allowing the establishment of private insurance companies with domestic or foreign capital involved. This caused the rapid development of the insurance market - both in terms of quantity and the quality of the services offered and allowed the entry of new companies. Although the insurance market is developed, the situation in the life insurance sector can still to be improved. Public awareness with regard to security in the event of death is low; the same applies to retirement savings plans. However, due to the worsening demographic situation, caused by an aging population, importance of such protection will create new business opportunities. Barriers to entry into the life insurance market are often described as low; however, new players entering the market must decide whether to initially enter on a large or small scale, with each holding varying benefits and risks. The opportunity to enter the market on a small scale boosts the threat of new entrants. Entry into the market for well developed insurance companies is capital intensive and players need to ensure some level of integration if market entry is to be a success. Leading incumbents have strong reputations and consumer recognition and they usually offer a vast range of services with which new entrants must compete.

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Most of the threat from new entrants lies within the insurance industry itself. Repeat business is difficult to attain in this market, since consumers will typically replace their life insurance policies at infrequent intervals only. This means that finding new custom is vital, and access to distribution networks is a key criterion for successful market entry. Some companies have carved out niche areas in which they underwrite insurance. These insurance companies are fearful of being squeezed out by the bigger players. Another threat for many insurance companies is other financial services companies entering the market. Indeed some banks and investment banks have started to offer insurance products, while certain financial commitments, such as mortgages, have life policies attached to them. In some countries, however, regulations are in place to prevent banks and other financial firms from entering the market. Government regulation is generally stringent, with the Polish Financial Supervision Authority (PFSA) responsible for overseeing companies, limiting market entries by imposing capital adequacy and other requirements on players. Furthermore, the impending implementation of Solvency II, an EU insurance regulatory directive due for implementation in 2016, may serve to further put off new entrants, limiting the reliance life insurance companies are able to have on banks. The financial crash caused many governments to crack down on banks and other financial institutions such as insurers and imposed new regulations. However some countries have been less stringent with these containments and have seen better recovery of those markets. The likelihood of new entrants is assessed as moderate overall.

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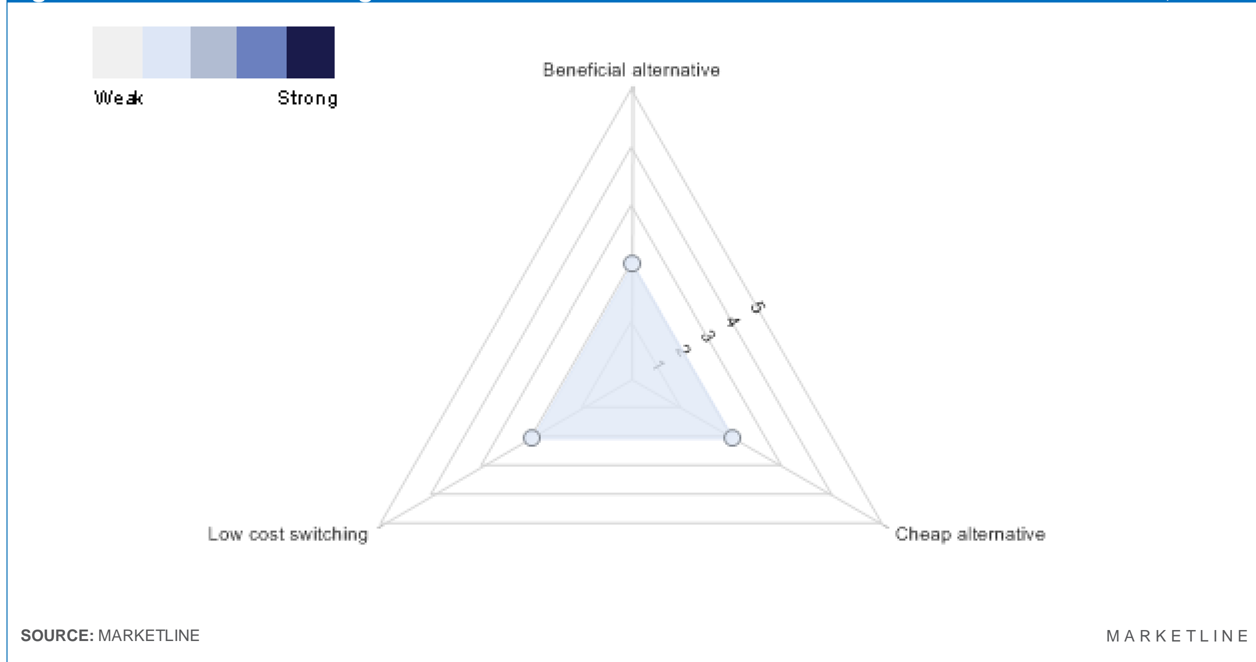
Threat of substitutes

Figure 5: Factors influencing the threat of substitutes in the life insurance market in Poland, 2014



SOURCE: MARKETLINE

There are a number of alternatives to taking out an insurance policy, i.e. in the form of other financial products, such as savings and investments. Savings and investments include deposits, mutual funds and direct investments in equities and bonds. Wills are also a way of accounting for risk and protecting family members after death. These options could be a cheaper alternative to life insurance, but savings do not guarantee protection in the same way as life insurance, which reduces the benefit of this option. Consumers can adopt risk management strategies, such as 'Self-Insurance', whereby an eligible risk is retained, but a calculated amount of money is set aside. An organization could choose to operate its own 'captive' structure and form its own insurance company subsidiary. Some insurances are backed up by the law such as motor insurance, but with life insurance generally the more developed the market is the more individuals feel that such a product is an essential purchase, regardless of the relative quality of the product. Although these are viable substitutes they require a certain amount of expertise and capital. The threat of substitutes with respect to the life insurance market is therefore assessed as weak.

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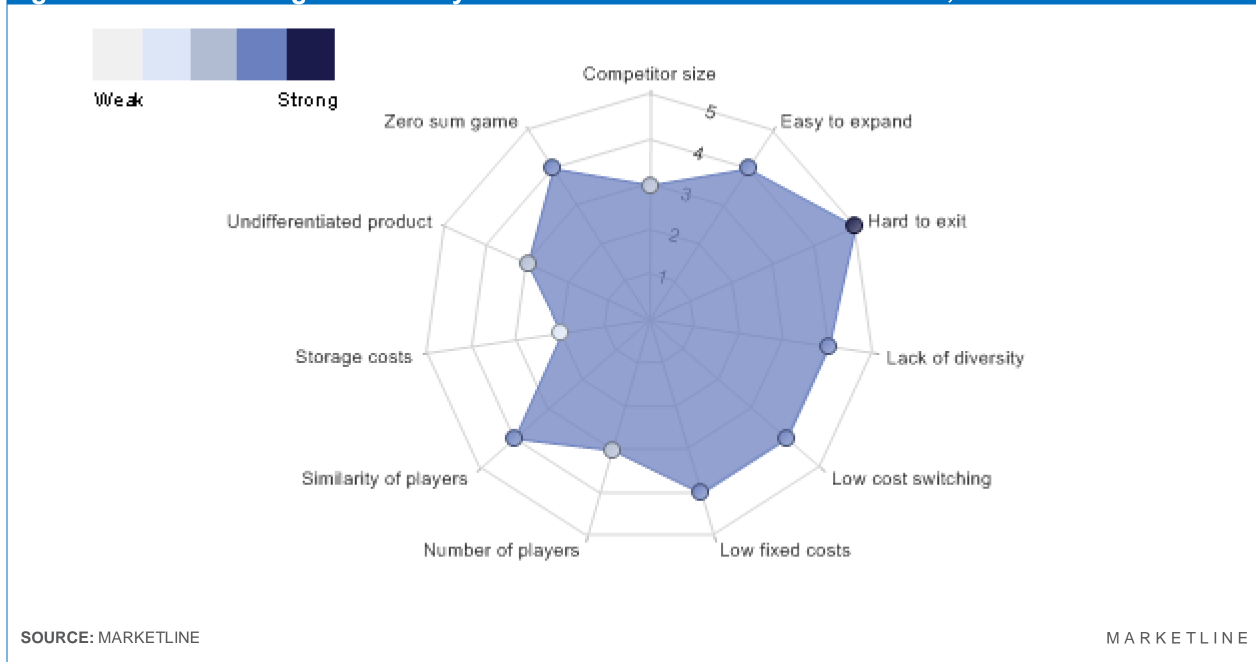
Degree of rivalry

Figure 6: Drivers of degree of rivalry in the life insurance market in Poland, 2014



SOURCE: MARKETLINE

There is now a unified insurance market in the European Union, as a result of the EU's Insurance Mediation Directive. This acts as a single "passport" for entities selling insurance within the EU. The Polish life insurance market is composed of a mixture of large and smaller companies. For instance, the market leader (PZU ŻYCIE SA) holds a substantial 29% of the market’s total value. Players within the life insurance market offer similar services but some are diversified, nd pursue a number of non-life insurance lines, which tends to ease rivalry to some extent. The leading players are large companies offering similar life products, although there are a number of different plans including temporary, permanent and various subclasses. Because of the homogenous nature of the leading players insurance has become more like a commodity - an area in which an insurance company with a low cost structure, greater efficiency and better customer service will beat out competitors. In the US and Europe, a significant trade pact is being worked on "TTIP" which may effectively completely alter the regulation regarding insurance as new conditions are negotiated. This could make it easier for players to move between markets and increase rivalry significantly. Entry barriers, though not insignificant, are lower than exit barriers. For example, the regulatory system, through the imposition of such measures as capital adequacy, is designed to prevent insurers from going out of business, as this would be to the detriment of policyholders. When exit barriers in a market are high, players may weather poor market conditions where necessary - but this tends to boost rivalry. Insurance companies also use higher investment returns and a variety of insurance investment products to try to lure in customers. This leads to greater consolidation within the market. Larger companies prefer to take over or merge with other companies rather than spend the money to market and advertise to people. Overall, there is strong rivalry in the market.

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