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## **INSURANCE IN POLISH SMALL AND MEDIUM-SIZED ENTERPRISES – SURVEY RESULTS FOR THE PERIOD OF 2010-2012**

**Abstract.** The sector of small and medium-sized enterprises (SME) is an important part of the insurance market. The growth of the economy and the changes occurring in Poland are the reasons for some changes in the behavior of entrepreneurs on the insurance market. The Authors of this article present the results of an annual survey carried out between 2010-2012 on a representative group of small and medium-sized enterprises. The data obtained during the surveys concentrates on entrepreneurs awareness of insurance and their opinions and behavior on the insurance market. Since the surveys are carried out in regular intervals it is possible to define the directions of changes in the usage of insurance products by small and medium-size enterprises.

Key words: insurance, small and medium enterprises, sample survey

### **I. INTRODUCTION**

In recent years the sector of small and medium-sized enterprises (SME) in Poland generated nearly half of GDP [PARP 2012]. The potential of over 1.7 million active businesses is an important part of the market for insurance companies so they modified their offer to become more attractive to the SME sector.

The issue of insurance for SMEs should also be considered from the point of view of Polish economy and the importance that it has for business. Insurance is a very important element of risk management in enterprises. Well chosen insurance offer results in sustainability and the increase of financial safety for entrepreneurs. Insurance in SME sector has got a significant meaning for their development and business continuity.

The main problem for insurance companies from this sector is the specificity and diversity of the businesses. The great majority of them are micro enterprises, employing less than 10 workers (about 95 per cent of companies). They are often small weak companies which manage to survive on the market for a very

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short time. Every fourth business does not survive one year and half of the Sole Business owners do not make it for two years [GUS 2012]. Moreover, many companies in the SME sector have low profitability, so the payment of insurance premiums can be seen as an additional financial burden for the entrepreneurs. Finding a source of financial growth is another problem in Poland and it can complicate the development. The financial sector in Poland considers small and medium-sized enterprises as more risky, so it is harder for them to get a loan and they are forced to finance their investments from their own funds. In other EU countries SME sector has much higher level of business insurance security. This is due in part to lower insurance awareness of Poles, which is also reflected in the SME sector. Some of the entrepreneurs are distrustful when it comes to insurance market and they are not interested in insurance products at all.

In order to analyze the situation the authors of this article examine the scale of the usage of insurance products by SME and indicate the main factors that affect the level of the usage of insurers services. The analysis was based on primary data from representative studies from the years 2010-2012.

## **II. SMEs SURVEY**

The study is based on data obtained from representative surveys – Finance SME of the year 2010,2011 and 2012 conducted by Qualifact – Market Research and Consulting Ltd. ‘Finance SME Research’ covers a wide range of issues related to finance, investment and insurance of SMEs. Each survey was based on a representative sample of over a thousand SMEs. Face to face interviews were conducted using paper printed questionnaires (PAPI). Interviews were carried out in February and March each year. The study is based on a representative sample of SMEs (drawn from the REGON register run by the Central Statistical Office) and used stratification drawing scheme with systematic sampling. Particular strata were defined by the size of the company, the sector and the region represented. The allocation of the sample was disproportionate with regard to the size of the company due to the dominant share of micro-enterprises in the population. The number of small and medium-sized businesses surveyed (excluding micro) was increased, so that it was possible to inference not only for companies in general, but also within each group. Stratified proportional allocation was planned for the other two variables. The sample size of SMEs which took part in surveys are presented in Table 1.

Table 1. Structure of the sample of SMEs by size of company

	2010		2011		2012	
	Number	Share	Number	Share	Number	Share
Micro	1018	56%	709	48%	612	56%
Small	505	28%	503	34%	318	29%
Medium	289	16%	257	18%	164	15%
Total	1812	100%	1469	100%	1094	100%

Source: own calculations.

### III. EVALUATION OF THREATS AND SECURITY MEASURES

One of the goals of this study was to examine the awareness of threats and protection measures as a very important part of risk management in a company. The respondents were supposed to evaluate the risk of threat (1 means no threat and 6 – the maximum level of threat) for a few threats which had been showed in the questionnaire. They were also asked to evaluate the level of protection (on a scale from 1 – no protection to 6 – the highest level of protection). The most important threats for entrepreneurs were fire, theft, and damage of property, flood, counterparty insolvency or interruptions in business were considered much less important. The threat evaluation in almost all categories was growing, however the differences are not too significant.

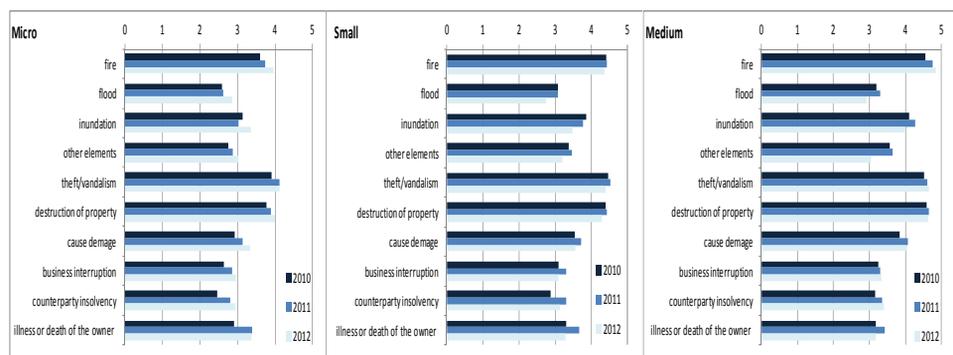


Chart 1. Average score for the threats of individual risks

Source: own calculations.

Both the threat evaluation and the level of undertaken security measures depends on the size of the company. In general, the larger the company, the bigger the awareness of threats and the level of usage of security measures. The only exception is the risk of illness or death of the owner or a partner: in

medium-sized enterprises the rating of this threat is slightly lower than in small and micro enterprises.

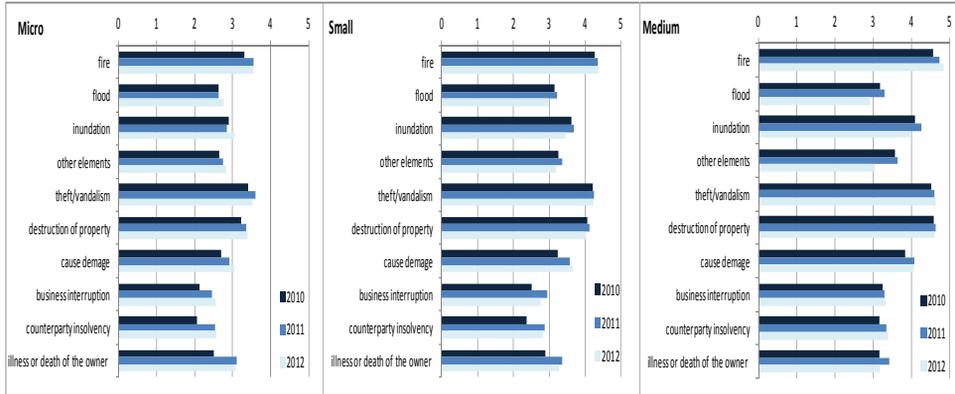


Chart 2. Average score for the protection of individual risks  
Source: own calculations.

#### IV. THE ROLE OF INSURANCE

Insurance is a way of risk management in a company and it depends on the size of the company. If the company is larger it is more likely to have at least one insurance. One of the reasons is that bigger companies usually have assets that actually can be insured, such as cars or property. About 72 per cent of micro companies, 88 per cent of small companies and 98 per cent of medium companies were insured in 2012 (see Table 2). The percentage of companies which are using insurance products has been increasing since 2010, especially among micro-enterprises.

Table 2. The percentage of SMEs using insurance products by size of company

	Micro	Small	Medium
2010	64,5%	87,3%	92,7%
2011	70,9%	87,9%	97,3%
2012	72,1%	87,7%	97,6%

Source: own calculations.

The compulsory motor insurance liability is the most popular kind of insurance among SME. In 2012 every second entrepreneur had this type of insurance. The second most popular type of insurance was property insurance against fire, the elements or theft, insurance of personal belongings and transport comprehensive insurance (see Chart 3).

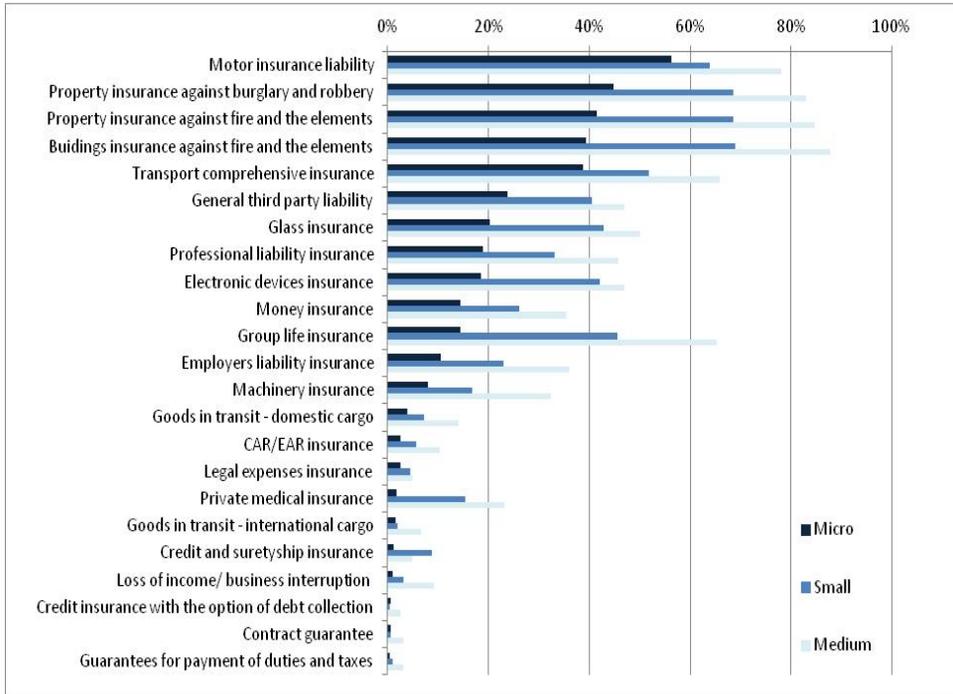


Chart 3. The percentage of SMEs using insurance products in 2012.

Source: own calculations.

The least popular were financial insurance, guarantees and credit insurance with the option of debt collection. They were purchased by less than 1 per cent of companies. The insurance against loss of profits was not popular either, but it should be noted that business interruption insurance is directed to large companies, mainly from the manufacturing industry [Zaron, Słomiński (2006)].

## V. WAYS OF PURCHASING INSURANCE

Interesting results were observed in the way of purchasing insurance. Despite new channels of purchasing insurance in Poland such as the internet or over the telephone insurance purchase, the majority of entrepreneurs prefer the

traditional ways of buying insurance products, such as agents or brokers. Brokers are becoming more and more popular among medium-sized enterprises. About 10 per cent of all insurance products are purchased through brokers. Based on the results of the study it can be concluded that Polish SMEs prefer to buy insurance from one insurer, and every third company decides to purchase insurance packages.

The optimistic forecasts made for the “direct” type of insurance still have not been reached [Szulik (2007)]. The distribution channel has been changing depending on the type of insurance, but in general it can be concluded that the share of the purchases made by agents was about 60 per cent in the studied period. Purchasing insurance directly from the insurers has become more popular while brokers sold only a small percentage of all the insurance. Selling insurance over the phone did not turn out to be popular (the best score of 2.2 per cent was achieved for the sales of third party car insurance in 2012) Internet sales were low as well – they constituted only 1.2 per cent of comprehensive car insurance in 2010).

## VI. LIQUIDATION OF DAMAGES

One of the most important issues related to the subject of insurance is the payment of the insurance compensation. Fast and efficient handling of claims is very important for the satisfaction of the customers. Every tenth of the insured micro-enterprises faced a case of liquidation of damages last year, the same happened to every fifth of small business and every fourth of medium-size enterprise (see Table 3).

Table 3. Liquidation of damages in SMEs

	Micro	Small	Medium
2010	13%	22%	28%
2011	9%	17%	22%
2012	9%	22%	25%

Source: own calculations.

The survey included questions concerning the evaluation of the activities of individual insurers in the field of liquidation of damages such as the time needed for the evaluation and the receipt of the compensation, the competence and manners of the employees of the insurer. The respondents rated the issues raised in the survey on a scale from 1 – very bad to 5 – very good. Based on the responses it is possible to evaluate the efficiency of the insurer in the liquidation of the damages. The highest ratings (4 and 5) for almost all questions were at the

level of 80-90 per cent while poor ratings occurred sporadically. The speed at which the claims were liquidated and the amount of the compensation were scored slightly less points. However, generally speaking the opinions were positive. Based on the collected ratings of the respondents it can be said that insurers are aware of the fact that good handling of claims may help establish long-term relationship with the customers and gain their trust. In case of badly handled claims, customers give up on the insurance or move to competitive insurance companies.

## VII. CONCLUSIONS

SMEs constitute a very relevant part of the market for insurance companies, along with the development of economics and the growing awareness of the importance of insurance. It has already been noticed that insurers are becoming more interested in SMEs, they are preparing better offers for this market and getting more competitive.

The evaluation of the risk is quite stable in time, the changes are related to the current events, such as floods in 2010 or the increase in the threat of insolvency in 2011 and 2012. Despite the difficult economic situation in Poland in recent years, the percentage of companies taking out insurance is increasing. Standard insurance of assets and property as well as car insurance are most important in the SME sector. Products typical for entrepreneurs, such as financial insurance, are less popular. Insurance agents are the most popular distribution channel of insurance products, but their role is systematically decreasing. This decrease may be caused by the actions of the insurers themselves as the market of SME is being overtaken by purchases of insurance directly from the insurer. "Direct" type of insurers, contrary to earlier predictions, made only a few sales. An important factor must be taken into consideration while developing new policies, mainly changes in the criteria of selecting an offer. Although SMEs are loyal customers, the cost of insurance is what is very important for them. The liquidation of damages has good scores in the survey, which may result in an increase of the popularity of insurance products in SMEs in the coming years.

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### **UBEZPIECZENIA W MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTWACH W POLSCE W LATACH 2010-2012 – WYNIKI BADAŃ ANKIETOWYCH**

Ubezpieczenia pełnią ważną rolę w zarządzaniu ryzykiem w przedsiębiorstwach, zwiększają bezpieczeństwo prowadzonej działalności oraz pozwalają na stabilizację sytuacji finansowej. Rola jaką pełnią małe i średnie przedsiębiorstwa w Polsce nie mogła zostać niezauważona przez zakłady ubezpieczeń. W ostatnich latach można zaobserwować wzrost konkurencyjności oraz poszerzenie oferty ubezpieczycieli skierowanej do sektora MSP.

W artykule przedstawione zostały wyniki corocznych badań przeprowadzanych w latach 2010-2012 na reprezentatywnej próbie ponad tysiąca przedsiębiorstw z sektora MSP. W ramach badań zbierane były informacje o świadomości ubezpieczeniowej przedsiębiorców, ich opiniach i korzystania z produktów ubezpieczeniowych. Dzięki cykliczności badań możliwe stało się także określenie kierunków zmian w zakresie korzystania z ubezpieczeń przez małe i średnie przedsiębiorstwa.