

‘EKF Insurance 2025’ conference
Opening speech – Krystian Wiercioch, Deputy Chair of the KNF

Ladies and gentlemen!

Thank you for your invitation and the opportunity to share my reflections on the functioning of the insurance market from the supervisory perspective.

Today, the insurance market in Poland is facing aggravating challenges, which are very real and felt – what I mean by that are phenomena such as: hailstorm, gale, fire or flood, which require taking out insurance that guarantees financial security of citizens and businesses. Yet, is the Polish insurance market ready to become a protective shield for citizens and businesses?

At the same time, the openness of the Polish market to foreign firms operating under the single passport rule raises questions about the stability and responsibility of the insurance sector, including in a broader, European context. The freedom to provide services in the EU is a great value but also a serious commitment, as behind each product that reaches the customer, there must stand a stable, reliable partner.

My today’s speech is going to revolve around these two themes: an insurance gap and the conduct of business by foreign firms. I hope these themes will also serve as a starting point for a broader debate during this year’s conference.

Insurance gap

Let me start with a topic that, for the last several years, has been one of the biggest challenges facing the insurance market in Poland: an insurance gap, understood as a part of risk that is not covered by insurance or is covered inadequately.

It’s not an abstract concept or a purely theoretical problem. An insurance gap materialises in specific situations: when chance events occur on a large scale. In Poland, we experience catastrophic events nearly every year, and we still remember the flood of 2024 and its consequences. That event exposed the fact that despite the expanding range of insurance products, a significant part of the losses incurred by households and business owners had not been adequately covered by insurance.

The insurance gap itself has many sources, though, and its nature is multi-dimensional. In public debates, inflation is indicated as the main factor which has materially enlarged the gap in recent years. It should be stressed, however, that inflation – though important – is not the only, or even the main, source of the problem.

There are other factors which stem from how the insurance market itself works and which are directly influenced by all participants in this market. These factors are known to you but should be constantly reminded of, so that they’re always considered in the design of products and business processes.

What causes the insurance gap

The first reason is that the needs and requirements of customers are not analysed fully. Such an analysis is still sometimes treated as a formal requirement, not an essential step in matching the product to the customer profile. Expecting the customer to choose an optimal scope of coverage from among many available options by themselves doesn't fit the reality. If an intermediary – who knows the insurance market, the products available on the market, the scope of insurance, the exemptions, and the provisions of General Terms and Conditions of Insurance – cannot propose the right solution, we cannot expect the same thing of a person who has a very basic knowledge of the financial market, not mentioning the basics of insurance.

Secondly, we're dealing with over-complexity of products. The multitude of definitions, detailed lists of exemptions, diverse structures of general terms and conditions – these elements make it harder for the customer to understand the offer. General terms and conditions of most common insurance products are expounded on 50–80 pages of small print, which most people find to be very complicated. Even when the customer goes to the bother and reads the offer, they won't be able to comprehend it. The insurance market must endeavour to simplify products and harmonise the text content, not further complicate it. Without this, the development of insurance products in Poland will be very slow.

Thirdly, the insufficient awareness of risks and potential losses still remains a critical barrier. Very often the customer cannot themselves define the scope of insurance they need, let alone an appropriate sum guaranteed. And with inflation, the difficulties in estimating the value of the property to be insured are objectively even greater. A good practice for insurance undertakings is to assume responsibility for ensuring that the sum insured will correspond to the actual needs and requirements – by expressly proposing an appropriate amount, of course where it can be estimated, and this is practically the case for most types of insurance. Such a solution has proven effective for autocasco insurance, where for many years, when analysing customer needs, distributors haven't asked about the value of the vehicle since they can determine it themselves.

The quality of customer service provided to aggrieved parties is also something that can't be ignored. It's the claim adjustment process when the actual effectiveness of the coverage is verified. It's at that stage when it becomes clear whether the insurance purchased is only a colourful piece of paper or a solid commitment by the insurance undertaking to provide assistance during a crisis. If benefits are paid in time and in the amount corresponding to incurred losses, this builds trust – and this is the best way to reduce the gap. High standards in this area are fundamental, since in the case of a loss, it is the customer experience that determines whether they perceive insurance as reliable and necessary services.

Refusal to pay compensation and benefits

In order to show you how all this – namely the customer needs analysis, product quality, and claim adjustment – affect the size of the insurance gap, let me use the claim denial rate for property insurance (Section II). Its average (median) level for the market is 14%, but there are business lines where the rate exceeds 20%. These figures show that, in many cases, what customers imagined about insurance cover was dramatically different from what followed from the actual insurance contract. This indicates that the elements of the process from product design, through product distribution, all the way to claim adjustment, did not work properly.

This means that as a market you have a lot to do in order to reduce the occurrence of insurance gap. As the supervisory authority, we're also active in this area by performing analytical work and taking supervisory measures addressed to individual entities or the market as a whole. By supervising the conduct of individual market entities, we're contributing to the eradication of practices which are non-compliant, excessively increase the level of risk in the sector and undermine confidence in insurance. We also carry out our own broad analyses of the insurance gap, with a particular focus on the gap in insurance against catastrophic events.

The role of the media

In this context, I would like to mention the important and useful role of the media in promoting insurance. Each catastrophic event covered extensively by the media raises social awareness of the importance of insurance. It's a natural effect: by watching the scale of losses and the stories of those who have suffered them, the public eye notices the importance of having proper insurance. This potential should be exploited more by the insurance sector, for news reports can serve as an important educational impulse, both for retail customers and businesses.

To sum up this subject, I'd like to firmly say that only some factors remain beyond the sector's control – such as inflation rates or the intensity of climatic events – while many factors depend on the practices used by the market itself. Therefore, reducing the gap requires systemic solutions: improvement of the quality of the customer needs analysis, simple but complete products, raising insurance awareness, and ensuring top standards for claim adjustment.

Freedom to provide services / freedom of establishment

The other area I'd like to pay special attention to is the activity of foreign insurance undertakings in the Polish market, carried out under the freedom to provide services or the freedom of establishment.

For many years we've seen that the single passport rule enables European entities to enter the Polish market with relative ease, without going through the national licensing procedure. Everything takes place in accordance with the EU law. Yet in practice, the easy entry doesn't always go together with the awareness of the standards applied in our market – the standards which are not only to protect the customers but also to ensure the stability of our sector. Historically, the rapid expansion of some insurers combined with the aggressive sale of insurance policies would lead to serious problems, both for customers and the entire insurance system.

It should be stressed on this point that the KNF fully controls the licensing process for domestic insurers, but as regards foreign firms, the available options for operating at the stage of their entering the Polish market are very limited. You could say that the 'gate' to the Polish market is wide open for EU entities and starting an insurance business in Poland is relatively easy for them. The supervisory authority has tools to discipline firms which already operate in Poland and tools to eliminate firms which flagrantly violate the rules and fail to meet basic requirements.

The roles of distributors in protecting the market

Due to their scope of competence, other market participants, particularly agents and brokers, who represent the first line of client support, also play a key role in protecting our market. They are important gatekeepers of the Polish market. They're the ones who recommend products and sign contracts, thus bringing new entities into the Polish market in practical terms. They are, therefore, responsible to the entire sector for what partner they choose.

The key, therefore, is that distributors must engage with their new partners with awareness and responsibility. They should verify the reputation and experience of the undertakings they're planning to work with: check whether the insurer operates in other EU countries and what reputation it enjoys. In particular, whether it meets its obligations in a timely manner, whether it's stable in terms of solvency, or whether it has a history of issues with claim management and compensation payouts. Such precautions are an equivalent of an ex ante inspection – a measure supplementary to the supervision exercised by the supervisory authority, in this case mostly ex post supervision.

The reason behind this is that looking at the sector as a whole, mitigation of reputational risk is extremely important. If a new firm appears in the market and attracts customers only by offering low prices but then fails to meet its obligations, the consequences of such conduct go

far beyond this one situation only. The confidence in the whole industry will take the knock, which in turn translates into an even greater insurance gap and less interest in insurance products.

So I'll repeat this again: distributors also bear responsibility for the firms they bring into the market. They must assess, with awareness, the firms' conduct risk and consider both the consequences for consumers and for the stability of the whole system.

The goal of the supervisory authority is to ensure a level playing field for all market participants, no matter if the insurer is a domestic or foreign firm. However, achieving that goal requires cooperation and the sense of shared responsibility. The supervisor sets the standards and eliminates entities which flagrantly breach the laws, while distributors should verify the quality and credibility of new offers available on the market.

To conclude, I should say that only consistent actions of the supervisor, insurers and distributors can guarantee that a customer buying an insurance policy in Poland receives a product that is safe, reliable and compliant with applicable standards. This is the only way we can build a solid confidence in the sector and mitigate the systemic risk arising from the conduct of unreliable firms.

Conclusion

The challenges I've talked about today – the insurance gap and the responsibility related to the conduct of business by foreign firms – are actually two sides of the same theme: building confidence in the insurance sector. Without confidence we won't create better protection for citizens and businesses, and without the responsibility of all market participants we won't be able to keep the system stable.

Our common goal should be that each insurance policy sold in Poland means real protection and that each entity operating in our market brings value and stability. This is the foundation we can use to build a more mature, more resilient and more credible insurance market.

I wish you that the discussions and debates held during this year's Forum can contribute to completing that vision: a vision of a sector which not only responds to challenges but also consistently improves the standards and builds permanent trust among customers.