

5 June 2017

In Q1 2017, the insurance market showed signs of upward momentum, its growth being almost three times stronger year on year. In the reporting period, insurance premiums amounted to EUR 184.7 million, a year-on-year increase of 16.0 per cent. Such a result was primarily led by a 28.9 per cent increase in motor vehicle liability insurance. The entire volume of the non-life insurance market also markedly expanded – by 19.0 per cent; EUR 131.2 million in insurance premiums were written. EUR 53.5 million of life assurance premiums were written in the first quarter of this year, an increase of 9.2 per cent year on year.

In the reporting period, the operation of insurance undertakings was much more profitable compared to the previous year, earning EUR 8.26 million in pre-tax profits: EUR 6.83 million – life assurance undertakings, almost EUR 1.43 million – non-life insurance undertakings.

Insurance brokerage firms also recorded profits in the first quarter, earning EUR 1.8 million in profits (or 83% more year on year).

1. CHANGES IN THE LEGAL ENVIRONMENT OF THE INSURANCE MARKET

Amendments to the Law on Income Tax of Individuals came into effect on 1 January 2017; they, inter alia, lay down that when calculating and declaring income received in 2017 and later tax periods, life assurance premiums under life assurance contracts and pension contributions to pension funds, indicated in Article 21(1)(1–2) of the Law on Income Tax of Individuals and deducted from annual income of permanent Lithuanian residents, cannot exceed EUR 2,000 over the tax period.

For the first time insurance undertakings prepared their annual financial statements following the International Accounting Standards, publishing them on their websites. The impact of the revised accounting policy (when International Accounting Standards began to be applied instead of the Business Accounting Standards) on insurance undertakings' assets and liabilities as well as income and expense items was described in the explanatory notes presented by undertakings.

With the entry into force of the Solvency II framework, for the first time insurance undertakings prepared their Solvency and Financial Condition Reports for 2016. Information presented in the Reports allows users to get acquainted with the activities and operating results of each undertaking, their governance structure, risk profile, valuation for solvency purposes and capital management. Solvency and Financial Condition Reports are available on the insurance undertakings' websites.

In January 2017, the Board of the Bank of Lithuania approved the requirements for Audit Committees, implementing the provisions of Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014. Seeking to ensure uniform application and interpretation of legal acts, enhance the role of audit committees, and improve external audit quality, the Supervision Service prepared Guidelines for the Application of Requirements for Audit Committees and Selection of an External Audit Company (Auditor). The above-mentioned legal acts were approved in January–February 2017 and came into force on 1 March.

2. DEVELOPMENT OF THE INSURANCE MARKET

Insurance market participants

As at 31 March 2017, insurance services were provided by 20 insurers: 9 undertakings and 11 branches of undertakings registered in other EU countries. 98 insurance brokerage firms mediated insurers in concluding insurance contracts. Over the first quarter, one insurance brokerage firm licence was issued – to *UADBB Mama LT*.

As regards insurance market developments, the present Review provides an assessment of all market participants' activities carried out in Lithuania. With regard to compliance with financial and capital ratios as well as the dynamics of these indicators, the Review only covers the activities of insurance undertakings and insurance brokerage firms registered in Lithuania,

as financial supervision of branches is carried out by the supervisory authority of the host country of the undertaking which has established the branch. Assessment in terms of insurance premium volumes shows equal distribution between the share of undertakings and branches registered in the country: both in the life assurance market (55.6% of total undertakings) and non-life insurance market (50.9% of total undertakings) registered undertakings hold higher premium volumes.

Insurance premiums, contracts, claims

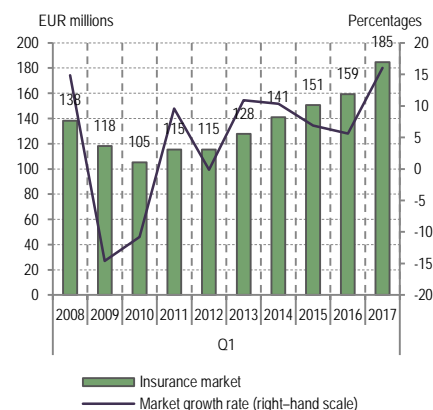
In Q1 2017, the volume of insurance premiums saw three times stronger growth year on year. During this period, not only the volume of insurance premiums but also insurance claims paid posted rapid growth. In the reporting period, insurance premiums amounted to EUR 184.7 million, a year-on-year increase of 16.0 per cent. Such a result was largely influenced by a significant increase (28.9%) in the volume of motor vehicle liability insurance, which was underpinned by a larger number of new insurance contracts (10.5%) and higher average insurance premiums. Within all other non-life insurance classes, the volume of insurance premiums expanded at a slower pace, having no significant impact on the overall result.

The amount of life assurance premiums increased, yet more moderately compared to non-life insurance. As a result, the share of life assurance market contracted to 28.9 per cent of the entire insurance market portfolio, a fall of nearly 2 p.p. compared to the data as of 31 March 2016. In Q1 2017, EUR 53.5 million in premiums were written in the life assurance market, an increase of 9.2 per cent year on year. The better operating result for the first quarter was due to the changed distribution of new insurance contracts: the number of concluded contracts related to indexes and investment units was larger than that of health insurance and life assurance, under which insurers provide for a possibility to share profits earned with insurance policy holders. Since life assurance contracts are long-term, the fall in the number of new health insurance and insurance contracts, when insurers provide for a possibility to share profits earned with insurance policy holders, did not have a significant impact on dynamics in premium volumes – the volume of premiums within all insurance classes expanded. Considering premium volumes by separate types of insurance, the life assurance market is dominated by index and investment unit-related insurance, which accounts for 56.8 per cent of the life assurance market. 24.5 per cent of the life assurance market consists of products when insurers provide for a possibility to share profits earned with insurance policy holders.

The non-life insurance market grew by 18.9 per cent, showing the strongest growth over the last decade. Premiums written amounted to EUR 131.2 million, with motor vehicle liability insurance (EUR 44.6 million, a year-on-year increase of 28.9%), other motor vehicle liability insurance, comprising Casco and railway rolling stock insurance (EUR 30.9 million, a year-on-year increase of 20.6%) and property insurance (EUR 27.2 million, a year-on-year increase of 6.9%) being most prevalent. Compared to changes in the first quarters of the previous year, property insurance premiums grew at a similar pace. Two types of transport insurance, accounting for almost 58 per cent of non-life insurance market premiums, boosted by over EUR 15 million year on year, to account for 73 per cent of the entire market growth volume. In the first quarter, average insurance premiums of motor vehicle liability and Casco insurance followed an upward trend. This was led by several factors, namely, losses incurred by these insurance classes in the previous periods, more costly car repair services and higher accident rate. This is also confirmed by statistics on motor vehicle liability insurance – average claim paid is nearly 9 per cent higher, while the number of accidents is more than 19 per cent higher.

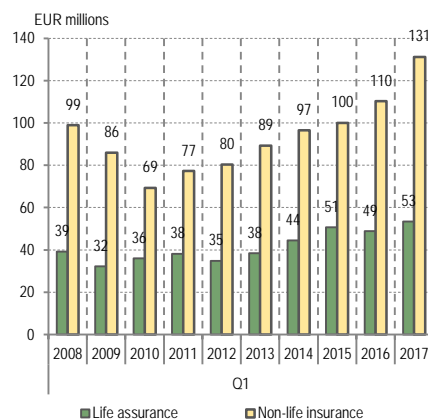
1.48 million insurance contracts were concluded over the quarter. No significant changes occurred in the composition of contracts concluded: 96.8 per cent of total contracts were concluded in the non-life insurance market, with contracts prohibiting motor vehicle liability insurance dominating (45.3%). With regard to the existing contracts portfolio, it can be seen that higher significance is attached to life assurance contracts – their number accounted for 19.5 per cent. 28 per cent of total contracts were

Chart 1. Dynamics and growth rate of premiums within the entire insurance market



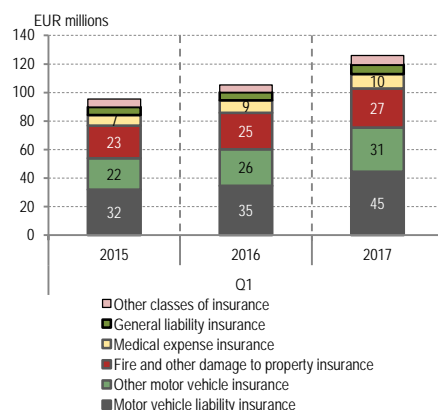
Source: Bank of Lithuania.

Chart 2. Dynamics of life assurance and non-life insurance premiums



Source: Bank of Lithuania.

Chart 3. Dynamics of non-life insurance premiums

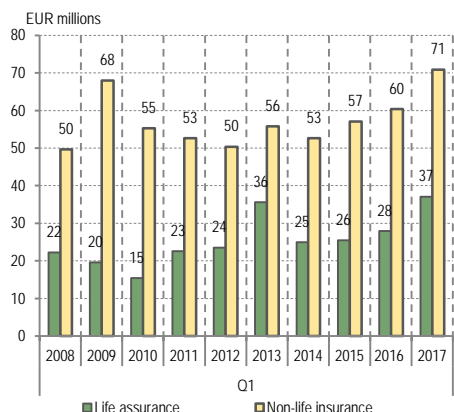


concluded through the mediation of insurance brokerage firms. Independent intermediaries were more active in the non-life insurance market. Conversely, in concluding life assurance contracts, brokerage firms were not active, with only 0.1 per cent of contracts concluded.

EUR 107.9 million of insurance claims were paid in Q1 2017, a year-on-year increase of 22.1 per cent.

The share of life assurance in the composition of claims paid accounted for almost 34.4 per cent, a year-on-year increase of 5.5 p.p. compared to the composition of premiums. EUR 37.1 million was paid under life assurance contracts, an increase of 32.7 per cent year on year. The number of claims paid due to increased termination of life assurance contracts or partial payment of accumulated amounts grew by almost 33.4 per cent, whereas that of claims paid upon expiry of insurance term – by 40 per cent. These indicators had the greatest influence on growth in claims paid. EUR 70.8 million were paid in the non-life insurance market, an increase of 17.3 per cent year on year. Overall, EUR 9.4 million more were paid under motor vehicle liability and Casco insurance contracts, EUR 0.4 million less – due to insured events that occurred under property insurance contracts.

Chart 4. Dynamics of life assurance and non-life insurance claims paid

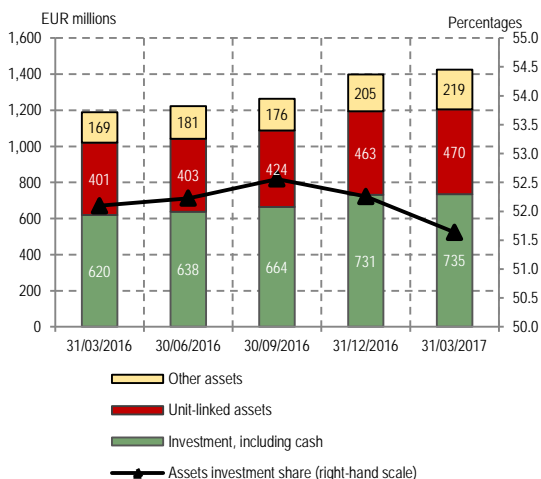


Source: Bank of Lithuania.

3. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

Assets and investment

Chart 5. Composition of insurance undertakings' assets

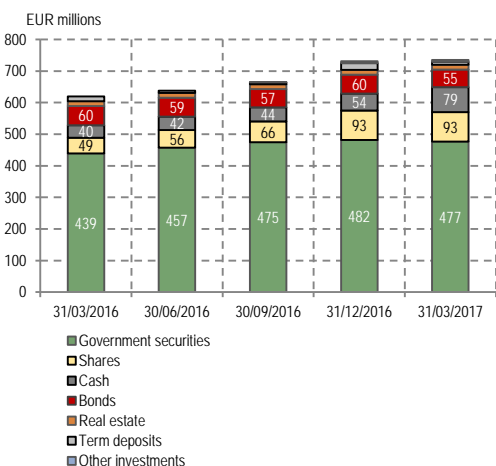


Source: Bank of Lithuania.

According to the data as of 31 March 2017, assets managed by insurance undertakings amounted to EUR 1,424.4 million, of which EUR 559.66 million belonged to non-life assurance undertakings. Insurance policy holders' assets entrusted to undertakings under unit-linked life assurance contracts comprised the main share (54.4%) of EUR 864.74 million in assets managed by life assurance undertakings. Assets managed by insurance undertakings expanded by almost 1.8 per cent year on year. The share of undertaking investments (together with cash on settlement accounts, excluding the funds of unit-linked life assurance) remained unchanged during the reporting period, at 51.64 per cent of total assets managed by insurance undertakings.

According to the data as of 31 March 2017, the assets of insurance brokerage firms equalled EUR 27.9 million, an increase of 15 per cent. The largest share of these undertakings' assets (nearly 37%) consisted of cash. Cash held on a separate account amounted to nearly EUR 3.0 million and was well above intermediaries' liabilities to insurance undertakings.

Chart 6. Composition of insurance undertakings' investment portfolio



Source: Bank of Lithuania.

Insurance undertakings are not changing their investment direction. Seeking an optimum result – profits for undertakings and returns for insurers – and reluctant to choose riskier financial instruments, insurance undertakings continue to invest in lower-rated government securities. In the reporting period, the amount of investments in government securities contracted by EUR 5 million, or 1 per cent, amounting to 65 per cent of the investment portfolio. In Q1 2017, the share of equity and units of collective investment undertakings in the investment portfolio remained unchanged and stood at EUR 93 million.

A significant share of the investment portfolio was comprised of cash and cash equivalents – in the reporting period their share increased from EUR 54 million to EUR 79 million. Part of funds on a current account will be allocated to pay out dividends for the last year.

Own capital and liabilities

As at 31 March 2017, equity capital of undertakings remained unchanged in the reporting period, amounting to EUR 280.5 million. Own capital of life assurance undertakings grew by nearly 10 per cent (to EUR 129 million) on account of their profitable operations, of non-life insurance undertakings due to the strengthening of their capital base – by almost 33 per cent (to EUR 151 million). The bulk of own capital consists of retained earnings for previous periods. The shareholders of two non-life insurance undertakings, in pursuit of financial stability for these undertakings, increased their authorised capital by more than EUR 36.3 million in 2016. Such strengthening of the capital base led to the fact that on 31 March 2017 authorised capital of non-life insurance undertakings doubled (amounting to EUR 72.4 million) on a year-on-year basis.

Operating result

According to the data as of 31 March 2017, operations of insurance undertakings were profitable – the insurance market earned EUR 8.26 million in pre-tax profit. The profits of life assurance undertakings equalled EUR 6.8 million, while those of non-life insurance undertakings were more modest, amounting to almost EUR 1.4 million. Year on year, profits earned by undertakings were more than five times higher. The investment activity result for both life assurance and non-life insurance undertakings, calculated with undertakings investing their equity capital and funds in line with the amount of technical provisions formed, was a profit; it was slightly above EUR 1.3 million for non-life insurance undertakings and EUR 9 million for life assurance undertakings. In the reporting quarter, the operating result of non-life insurance undertakings was positive, standing at EUR 0.63 million.

The operations of insurance brokerage firms in the first quarter were profitable, with the profit earned amounting to EUR 1.8 million. In Q1 2017, the profit earned increased by 83 per cent year on year. Undertakings' income from sales equalled almost EUR 11 million, increasing by more than 21 per cent year on year. The increase in their operating costs was less pronounced, which resulted in higher profits for this year. The operations of 78 out of 98 insurance brokerage firms were profitable.

4. MEETING OF CAPITAL REQUIREMENTS FOR UNDERTAKINGS

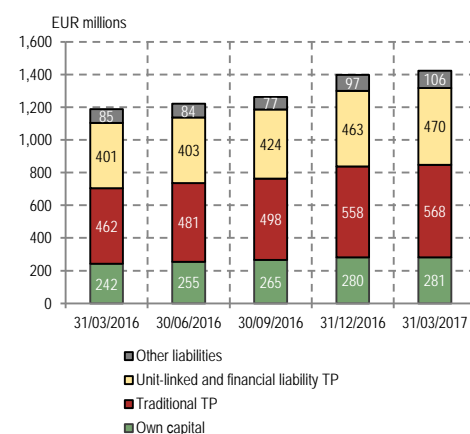
Compliance with capital requirements by insurance undertakings

All insurance undertakings complied with solvency margin requirements. After calculating the capital requirement and evaluating the amount of available own funds according to Solvency II requirements, it has been established that all insurance undertakings were solvent, i.e. held sufficient own funds to satisfy the increased capital requirements. As at 31 March 2017, the solvency ratio of life assurance undertakings was 2.2, of non-life insurance undertakings – 1.6. In the annual Solvency II report, insurance undertakings provided information on the structure of the solvency capital requirement. The following risks comprise more than 20 per cent in the structure of the solvency capital requirement: non-life insurance risk (39%), life assurance risk (28%), market risk (26%), and health insurance risk (23%). Diversification reduces the solvency capital requirement by 32 per cent.

Capital requirements for insurance brokerage firms

Own capital of insurance brokerage firms amounted to EUR 16.0 million, a year-on-year increase of 17.6 per cent. The minimum capital requirement is EUR 18,760, or no less than 4 per cent of an insurance broker-

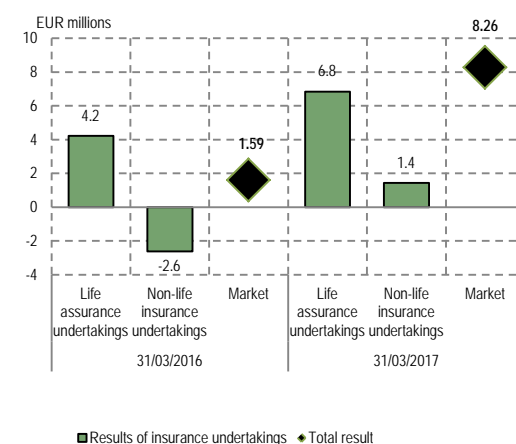
Chart 7. Changes in insurance undertakings' liabilities and equity



Source: Bank of Lithuania.

Chart 8. Operating result of insurance undertakings

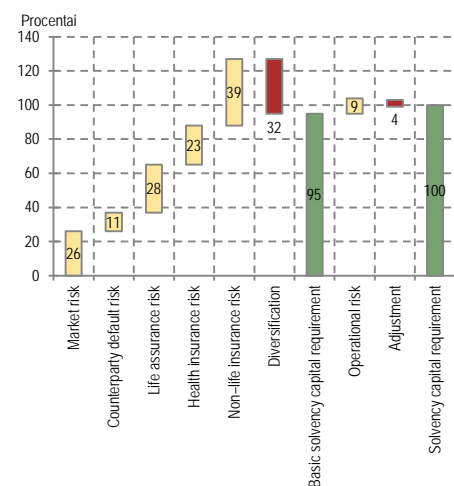
(Q1 2016 and Q1 2017)



Source: Bank of Lithuania.

Chart 9. Structure of insurance undertakings' solvency capital requirement

(31 December 2016)



age firm's insurance premiums received over a year and payable to insurers. On the reporting date, all undertakings complied with the minimum capital requirement, two undertakings took preventive action to enforce capital requirements – the shareholders of undertakings contributed funds to cover the loss.

5. SETTLEMENT OF DISPUTES BETWEEN CONSUMERS AND INSURANCE MARKET PARTICIPANTS

Applications related to insurance relationship comprised almost half of all applications regarding disputes with financial market participants submitted to the Bank of Lithuania in Q1 2017. In the reporting period, the Bank of Lithuania received in total 108 applications regarding disputes with insurers (same amount of applications as in Q1 2016). In Q1 2017, the Bank of Lithuania settled 78 disputes with insurers and took 34 decisions regarding the subject matter of a dispute. In Q1 2017, year on year, an increase in the number of settled disputes and decisions regarding the subject matter of a dispute was observed (in Q1 2016, 53 disputes were settled and 23 decisions regarding the subject matter of a dispute were taken). In 6 cases consumers' claims were satisfied, in 7 cases – satisfied in part, in 21 cases – rejected. In Q1 2017, in 9 cases disputes investigated at the Bank of Lithuania ended on reaching a peaceful agreement between parties (in Q1 2016 – 2 disputes).

A decision taken by the Bank of Lithuania, based on which an insurer paid to an applicant a more than EUR 13 thousand insurance claim, ought to be highlighted. The settled dispute was related to the fulfilment of a life assurance contract. The insurer refused to pay an insurance claim stating that the death of an insured was related to alcohol abuse. However, in view of the fact that a specialist report indicated that the cause of death of the insured was not related to alcohol consumption, and evidence presented by the insurer did not entirely prove the fact that the death of the insured is related to ethyl alcohol abuse, the Bank of Lithuania decided that the insurer had no grounds to refuse paying the insurance claim.

As in the previous periods, disputes usually arose due to non-life insurance relationship, namely motor vehicle liability insurance and property insurance. A dispute between parties relating to the moment of coming into force of property insurance coverage should also be noted. An insurer based his decision to refuse paying an insurance claim on the fact that the fire, which affected the an applicant's assets indicated in the insurance policy, occurred when insurance coverage under the insurance contract had not yet entered into force. The applicant disagreed with the position of the insurer, believing that an employee of the insurer incorrectly indicated the insurance period in the insurance policy, as the insurance coverage period was not the same as the period actually agreed upon by the parties to the contract, which had to begin from the date the applicant paid an insurance premium. Having analysed all relevant documents, the Bank of Lithuania came to the conclusion that parties to the dispute, in concluding the insurance contract, agreed that both the contract and insurance coverage would come into force from the moment of insurance premium payment. In the opinion of the Bank of Lithuania, opposite interpretation of the situation would not be in line with the terms and conditions of the agreement between the parties, violating the applicant's legitimate expectations.

Disputes over non-recognition of an event as an insured event, when the parties concluded voluntary insurance contracts and explicitly agreed in which cases an insurance claim is paid, are still relevant. As stated before, in terms of voluntary insurance, legal acts entitle an insurer to set an insurance risk threshold (what potential events will be recognised as insured and which not) and, based on it, calculate the amount of the premium to be paid by a consumer. Thus with the conclusion of the contract between parties and reaching an explicit agreement on the threshold of insurance coverage, any disputes between parties over non-recognition of an event as an insured event ought to be generally settled in accordance with the terms of the agreement between the parties. For example, having investigated a consumer dispute related to travel insurance, the Bank of Lithuania rejected a consumer's request to pay an insurance claim for the cancellation of the trip, as under the insurance contract the parties had reached an explicit agreement that delay of the trip – postponement of the departure of an air or water vehicle departing on a predefined schedule – and not cancellation thereof is deemed an insurable event.

Annex: Key indicators of the insurance sector

Table 1. Insurance premiums

Seq. No	Insurance branches	31/03/2015	31/03/2016	31/03/2017	Growth rate in 2016	Growth rate in 2017
		amount, EUR millions			per cent	
1.	Life assurance	50.68	48.94	53.46	-3.4	9.2
2.	Non-life insurance	100.04	110.27	131.24	10.2	19.0
3.	Total	150.72	159.21	184.71	5.6	16.0

Source: Bank of Lithuania.

Table 2. Claims paid

Seq. No	Insurance branches	31/03/2015	31/03/2016	31/03/2017	Growth rate in 2016	Growth rate in 2017
		amount, EUR millions			per cent	
1.	Life assurance	25.50	27.95	37.08	9.6	32.7
2.	Non-life insurance	57.04	60.41	70.84	5.9	17.3
3.	Total	82.54	88.36	107.92	7.0	22.1

Source: Bank of Lithuania.

Table 3. Main items of the balance sheet statement

Seq. No	Indicator	Life assurance undertakings			Non-life insurance undertakings		
		31/03/2016	31/03/2017	change over the year (%)	31/03/2016	31/03/2017	change over the year (%)
		amount, EUR millions			amount, EUR millions		
1.	Assets	773.36	864.70	11.81	416.50	559.66	34.37
1.1.	Intangible assets	2.07	2.25	9.03	18.09	2.25	-87.54
1.2.	Investment	324.96	328.80	1.18	254.74	327.71	28.65
1.2.1.	Land, buildings and other real estate	0.25	0.26	0.60	15.13	15.37	1.61
1.2.2.	Equity securities	24.41	38.88	59.31	25.02	54.38	117.36
1.2.3.	Debt securities	293.24	280.97	-4.18	206.32	251.14	21.72
1.2.4.	Deposits with credit institutions	7.06	2.61	-63.01	8.27	6.32	-23.49
1.2.5.	Other investment	0	0		0	0	
1.3.	Life assurance investment when investment risk is borne by insurance policy holder	401.21	470.24	17.21	0	0	
1.4.	Other asset positions	45.12	63.41	40.52	143.67	212.45	47.88
1.4.1.	Cash and cash equivalents	20.88	37.49	79.52	19.28	41.50	115.20
2.	Owners' equity and liabilities	773.36	864.70	11.81	416.50	559.66	34.37
2.1.	Capital and reserves	127.78	129.19	1.10	114.07	151.35	32.68
2.2.	Technical provisions	634.42	722.05	13.81	228.83	316.26	38.21
2.3.	Other positions of liabilities	11.16	13.46	20.63	73.60	92.05	25.06

Source: Bank of Lithuania.

Table 4. Main items of profit (loss) and other comprehensive income statement

Seq. No	Indicator	Life assurance undertakings			Non-life insurance undertakings		
		31/03/2016	31/03/2017	change over the year	31/03/2016	31/03/2017	change over the year
		amount, EUR millions		(%)	amount, EUR millions		(%)
1.	Income from insurance activity	34.11	36.96	8.37	58.03	78.91	35.98
2.	Cost of insurance claims paid	-17.28	-19.14	10.75	-38.24	-51.13	33.70
3.	Change in technical provisions not included in other items	-0.19	-12.19		0.58	0.87	
4.	Net operating cost	-7.76	-8.44	8.86	-22.92	-28.02	22.25
5.	Investment profit (loss)	-4.92	8.97		0.51	1.30	157.34
6.	Result of other activities	0.25	0.67	163.87	-0.59	-0.51	-13.25
7.	Income tax	0.19	-0.02	-108.41	-0.34	-0.53	57.63
8.	Operating result for reporting period	4.41	6.82	54.65	-2.97	0.89	-130.02

Source: Bank of Lithuania.

Table 5. Key indicators of activities of insurance brokerage firms

Seq. No	Indicators	31/03/2015	31/03/2016	31/03/2017	Growth rate in 2016	Growth rate in 2017
		amount, EUR millions			(%)	
1.	Insurance contracts concluded, units	327,914	361,022	414,713	10.1	14.9
2.	Sales revenues	8.70	8.98	10.91	3.2	21.5
3.	Result for reporting period	1.32	0.96	1.76	-27.3	83.3

Source: Bank of Lithuania.