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In the first half of 2017, the insurance market was characterised by the trend of strong growth, the volumes of which exceeded a third of a billion euro. Market growth was driven by a one-fifth expansion of the non-life insurance sector and a no less backwardness of the life assurance sector in terms of growth. The amounts paid out by insurers to insurance policy holders, the insured, and beneficiaries under insured events increased at a somewhat weaker yet quite fast pace. The Bank of Lithuania projects that by the end of the year the insurance sector will maintain the same trend of strong growth and the entire market growth will be 9–11 per cent. The non-life insurance sector will expand by another 14–16 per cent, whereas life assurance sector volumes will shrink or be similar to those observed last year (–2–0%).

The profit before tax earned by insurance undertakings amounted to EUR 12.6 million. Life assurance undertakings earned the bulk of the entire market's profit – EUR 11.6 million, non-life insurance undertakings – a mere EUR 1 million. The overall result of non-life insurance undertakings was driven by the losses incurred in the insurance activity. All life assurance undertakings and two non-life insurance undertakings operated profitably. All insurance undertakings are solvent and meet the legal requirements for the solvency capital ratio.

Insurance brokerage firms also recorded profits in the first half-year, earning EUR 3.3 million in profits, an increase of 32 per cent year on year.

Assessment of insurance market developments covers the activities of all market participants carried out in the territory of Lithuania. Assessment of compliance with the financial and capital ratios as well as of the developments of these ratios covers the activities of insurance undertakings (across the territory of their activities) and insurance brokerage firms, excluding the financial performance and capital ratios of their branches, as the financial supervision of these entities is carried out by the supervisory authorities in the home countries of the undertakings which have established them.

1. CHANGES IN THE LEGAL ENVIRONMENT OF THE INSURANCE MARKET

The Ministry of Finance, in cooperation with the Bank of Lithuania, prepared and submitted for public debate in May a draft Law on the Amendment of the Republic of Lithuania Law on Insurance, which aims at the transposition of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution. The draft law aims to ensure that insurance products better meet consumer interests and the insurance distribution services provided are higher quality and more effective. The persons who worked on the draft law are currently analysing the comments and suggestions of financial market participants, organising meetings with parties concerned to discuss them.

The Ministry of Finance prepared and submitted for debate in April a draft Law on the Amendment of the Republic of Lithuania Law on Compulsory Insurance against Civil Liability in Respect of the Use of Motor Vehicles. This draft law, in view of the European Union Court of Justice rulings in case *Haasová*, No C-22/12, case *Drozdovs*, No C-277/12, case *Petillo* and *Petillo*, No C-371/12, and case *Spedition Welter*, No. C-306/12, aims to eliminate the currently effective insured amount – EUR 5,000, and establish that the insured amount for damage to a person, including non-property damage, equals EUR 5,000,000. The Government of the Republic of Lithuania approved this draft law in July and submitted it to the Seimas of the Republic of Lithuania.

2. DEVELOPMENT OF THE INSURANCE MARKET

As at 30 June 2017, insurance services were provided by 20 insurers: 9 undertakings and 11 branches of undertakings registered in other EU countries. This figure has not changed over the quarter. 96 insurance brokerage firms mediated insurers in the conclusion of insurance contracts. In the second quarter, licences for two insurance brokerage firms – *UADBB Draudina* and *UADBB Draumasta* – were revoked by request of the firms themselves.

Insurance premiums and contracts

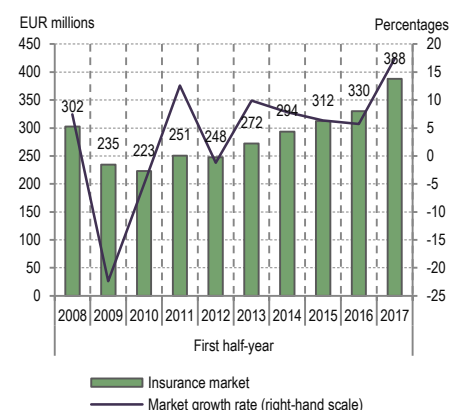
In the first half of this year, insurance market growth reached the highest rate over the past ten years: this market's volumes expanded by even 17.4 per cent (to EUR 387.7 million). This fast market growth was due to non-life insurance sector growth, which reached almost 21 per cent. Its premiums amounted to EUR 278.0 million. Last year, such market volumes were only reached in mid-August. The life assurance market expansion moderated somewhat – to 9.6 per cent (EUR 109.7 million).

Life assurance market grew driven by growth in periodic premiums. The scale of one-off life assurance premiums, which fell in 2016, did not recover this year: the amount of premiums payable under life assurance contracts without the timing of payments provided stood at a mere EUR 8.5 million, or 7.8 per cent of total life assurance premiums (e.g. In the first half of 2015 – EUR 20 million and 18% respectively). The amount of periodical premiums increased by 11.2 per cent this year (to EUR 101.2 million), posting the strongest growth over the last three years. This trend along with the fact that life assurance contracts with the endowment element have been increasing in number (26,643 contracts were concluded, an increase of 7.2% year on year) suggest that life assurance remains an acceptable investment instrument for Lithuanian residents.

Insurance policy holders opt at unit-linked life assurance rather than traditional life assurance products with guaranteed interest. This year, insurers collected EUR 63.1 million in unit-linked life assurance premiums, a year-on-year increase of 10.9 per cent. Endowment insurance volumes expanded by only 4 per cent (to EUR 22.2 million). In terms of the number of new contracts being concluded, endowment insurance contracts decreased by nearly 40 per cent, whereas unit-linked insurance contracts grew by 26 per cent in number. It can be concluded that unit-linked life assurance has been no less popular; guaranteed investment return, offered by insurers, no longer satisfies insurance policy holders, hence residents choose riskier investment products, seeking higher return.

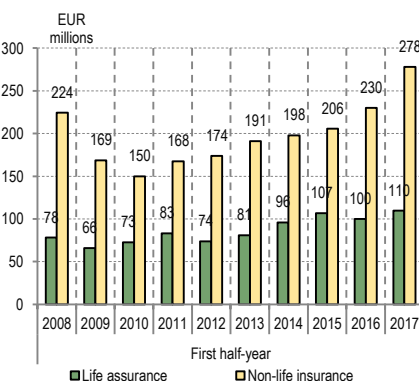
Non-life insurance posted volume expansion across all classes, with the most pronounced that being within transport insurance. The volumes of motor third party liability (MTPL) insurance, holding the largest share of the market, rose by even 32.7 per cent in the first half of this year, to over a tenth of a billion (EUR 103.9 million). Growth in this insurance class was not only driven by an increase in the number of new contracts concluded (6.7%) but also rising fees (the average premium, calculated as the ratio between insurance premiums and contracts concluded, rose by even 24%). It should be noted that compulsory MTPL insurance, in every period since its introduction (except for the first year, when insurance fees were regulated by law), was a loss-bearing insurance class, heavily contributing to the overall market result. Insurers obviously have eventually taken action to remedy the existing situation. However, the result depends not only on income but also costs. Growth in claims paid within this insurance class (24%) did not lag significantly behind income growth; hence, there is little probability of a positive result for the MTPL insurance activity at the end of this year. Volumes of other transport insurance rose significantly as well – by 20.7 per cent (to EUR 66.2 million). Unfortunately, rising fees within the latter insurance class (the average fee rose by 27%) had also a negative effect – the number of contracts concluded decreased by 5 per cent, leading to a fall in the number of existing contracts of 4 per cent (to 242.4 thousand). Within other non-life insurance and life assurance classes, the volume of insurance premiums expanded not that strongly, having no significant impact on the overall

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



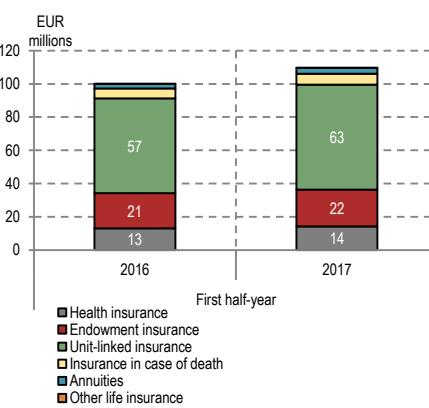
Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

Chart 3. Dynamics of life assurance premiums



Source: Bank of Lithuania.

Chart 4. Dynamics of non-life insurance premiums

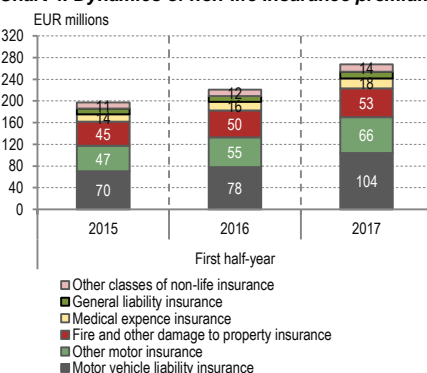
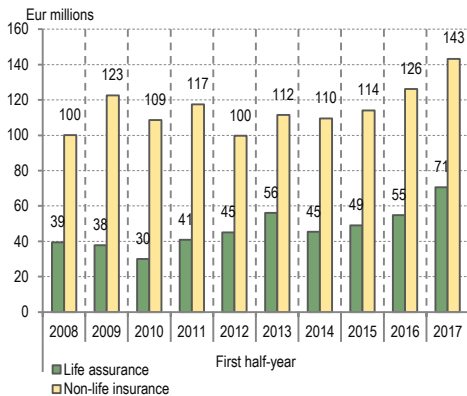
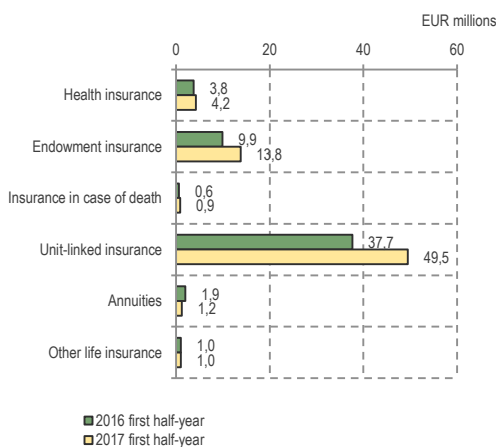


Chart 5. Dynamics of life assurance and non-life insurance claims paid



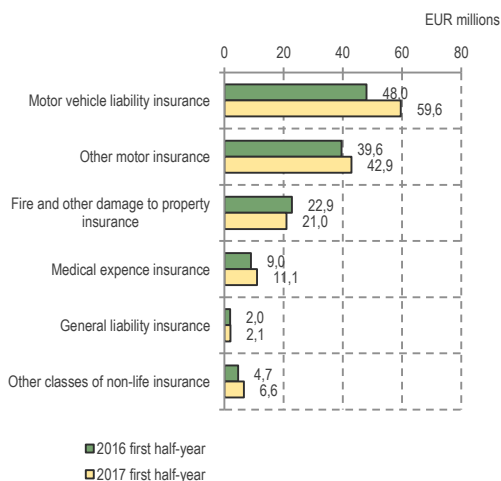
Source: Bank of Lithuania.

Chart 6. Dynamics of life assurance claims paid



Source: Bank of Lithuania.

Chart 7. Dynamics of non-life insurance claims paid



result.

The contribution of insurance brokers within the non-life insurance market has been gradually changing. Most non-life insurance contracts are concluded by employees of insurance undertakings. The number of contracts concluded through mediation of insurance brokerage firms is slightly below that concluded by employees. This year, as usual, insurance brokerage firms were active in the non-life insurance market, accounting for 28 per cent of the non-life insurance market's total contracts, although a year ago 29 per cent, two years ago – 30 per cent of total non-life insurance contracts were concluded through mediation of insurance brokerage firms.

Insurance claims paid

The rise in life assurance claims paid had quite a substantial impact on growth in the entire insurance markets' claims paid. A total of EUR 213.9 million in claims were paid over the first half of 2017, an increase of 18.1 per cent year on year. Most claims (67% or EUR 143 million) were paid under non-life insurance contracts (a year-on-year increase of 13.6%); under life assurance contracts, however, EUR 70.6 million in claims were paid, which is a 30 per cent increase year on year.

Both claims paid under life assurance contracts upon their expiry and claims paid upon termination of contracts posted increases. With the expiry of an increasingly larger number of endowment assurance contracts concluded 15 years ago, claims payable upon expiry of the assurance contracts posted a substantial increase – of even 37 per cent (to EUR 23.2 million). Growth in claims payable upon termination of life assurance contracts moderated somewhat, to 28.5 per cent (EUR 40.6 million). As in previous period, most amounts were paid under unit-linked insurance contracts (EUR 49.5 million). Endowment insurance claims paid were more than three times as low (EUR 13.8 million); however, due to the expiry of insurance contracts with guaranteed interest, which grew significantly, they augmented more (40%) than unit-linked investment claims paid (32%). More frequent termination and expiry of insurance contracts, with the growing number of new contracts and renewal of expired contracts, did not contribute to the number of contracts administered by insurers – existing unit-linked life assurance contracts continued to increase, whereas endowment insurance contracts dropped by a mere one per cent (compared to the 31 May 2017 data, when the number of existing contracts of this insurance class was the highest – 113 thousand).

EUR 143.3 million was paid in the non-life insurance market, an increase of 13.6 per cent year on year. Most claims paid are traditionally comprised of those paid under transport insurance contracts: in the first half of this year, claims paid under MTPL insurance contracts reached nearly EUR 60 million, whereas claims of other transport vehicle insurance paid – EUR 43 million. Growth in MTPL insurance claims paid (24.1%) was due to not only an increase in the number of claims received by insurers, but also changed fees for transport vehicle repair and the resulting increase of close to 10 per cent in average claims paid. The number of claims paid within the other transport insurance class, which includes the results of popular transport insurance (Casco), remained unchanged and therefore growth in claims paid (8.6%) reflected mainly motor vehicle repair market factors.

Insurance market projection of the Bank of Lithuania for 2017

The Bank of Lithuania is revising insurance market development projections for 2017. At the beginning of this year, the Bank of Lithuania projected insurance market growth at 6-7 per cent. However, life assurance and non-life insurance market half-year trends appear to be somewhat different from those expected at the end of last year; hence, in view of the developments in these markets, the Bank of Lithuania is revising the forecasts for the two insurance sectors: life assurance market volumes may somewhat contract or remain the same as last year (the forecast is –2–0%), whereas the non-life market growth rate, following last year when the entire insurance market operated at a loss, is likely to remain high in the second half-year, increasing by 14–16 from 2016 (the previous forecast was 10–12%). The forecast for the entire market growth is 9-11 per cent.

3. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

Assets and investment

Assets managed by insurance undertakings posted growth. According to the 30 June 2017 data, insurance undertakings managed assets to a total value of EUR 1,449.0 million, an increase of EUR 227 million, or 18.6 per cent from the middle of last year. Compared to the end of the year, asset growth moderated, but was quite substantial – EUR 50.2 million, or 3.6 per cent. Most assets of insurance undertakings are comprised of equity investment. Along with cash on enterprises' settlement accounts, it stood at EUR 738 million, or 51 per cent of total investment. In the first half of this year, this investment rose by a mere one per cent, but, compared to investment a year ago – by as much as 16 per cent. Insurance policy holders' funds entrusted for management under unit-linked life assurance contracts (which is only typical of insurers engaged in the life assurance activity) also comprise a significant portion of total investment (32%). After growing in previous periods, towards the end of the first half-year, the amount of unit-linked life assurance funds remained unchanged from the end of the fourth quarter – at EUR 470 million, although unit-linked life assurance volumes expanded. This was due to short-term currency and bond market fluctuations just before the end of the first half-year, with their negative contribution to the results of conservative investment funds (holding most funds of insurance policy holders) and a decrease in the price of an investment unit as a result. The amount of other assets (intangible assets, tangible assets, reinsurance assets (technical provisions of reinsurers), amounts receivable, accrued income and costs for upcoming periods) rose mainly due to growth in reinsured assets, which resulted from one undertaking having reserved one of the largest amounts of technical provisions for reinsurers under insurance contracts because of one event.

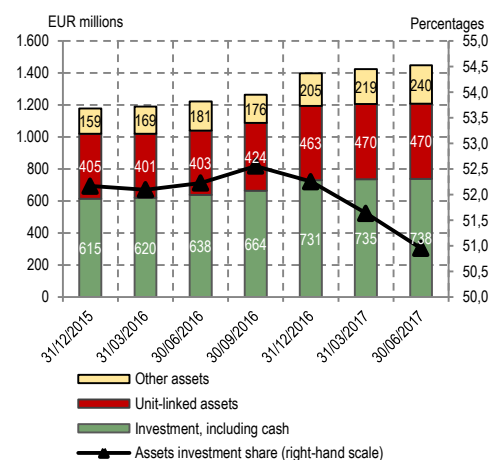
The composition of insurance undertakings' investment portfolio changes marginally. Seeking that accumulated funds are safe and liquid, insurance undertakings tend to invest rather conservatively. At end of reporting period, 65 per cent of total investment (EUR 479 million) was invested in government debt securities. A year ago, this investment accounted for 72 per cent (EUR 457 million). Insurance undertakings, in search of higher return on investment, began gradually changing their investment strategies, taking the risk of investing in higher risk-bearing assets: in the middle of this year, EUR 94 million, or 13 per cent of total investment was made in shares and collective investment undertakings (on 30 June 2016 – EUR 56 million, or 9% of total investment). A significant share of the investment portfolio continued to be comprised of cash and cash equivalents: this year, their share increased to 11 per cent, or EUR 80 million (from 6.6%, or EUR 42.3 million on 30 June 2016). In the prevailing low interest rates environment insurance undertakings obviously do not rush to invest their spare funds in investment generating low return. Investment undertakings do not even tend to invest in time deposits with banks, and this confirms this trend. This investment contracted by as much as 75 per cent in amount over the year (to EUR 5 million).

According to the 30 June 2017 data, the assets of insurance brokerage firms amounted to EUR 27.0 million, an increase of 17 per cent year on year. Most of these undertakings' assets (36%) consisted of cash. Cash held on a separate account amounted to EUR 2.4 million and was well above intermediaries' liabilities to insurance undertakings. Insurance brokerage firms collected EUR 101.3 million in insurance premiums in the till and separate accounts over the year, which was transferred to insurance undertakings.

Own capital and liabilities

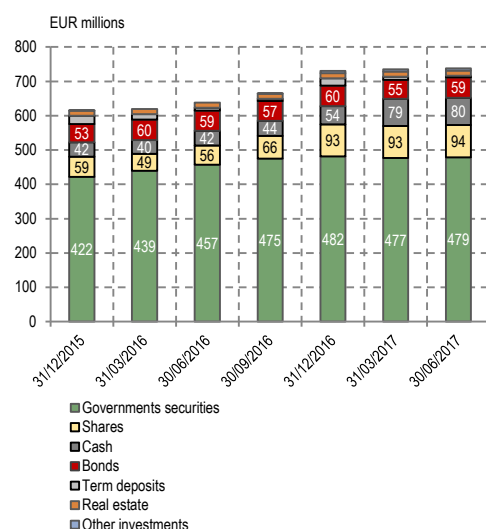
All insurance undertakings complied with the Law on Companies requirement for equity capital to be higher than half of the authorised capital. In the first half of 2017, the equity capital of insurance brokerage firms amounted to EUR 269.8 million, a decrease of almost 3.8 per cent from the end of last year. The reasons behind the decrease include the pay-out of dividends in the second quarter and

Chart 8 Composition of insurance undertakings' assets



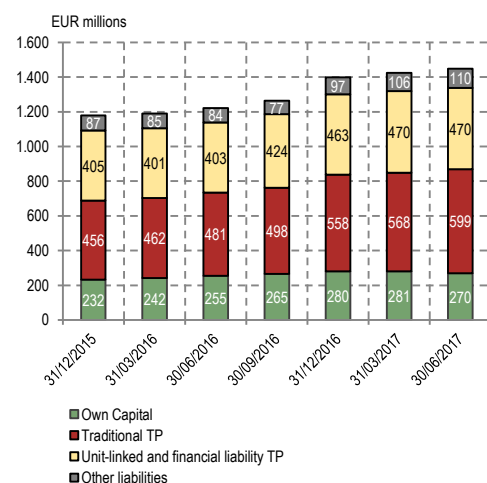
Source: Bank of Lithuania.

Chart 9. Composition of insurance undertakings' investment portfolio



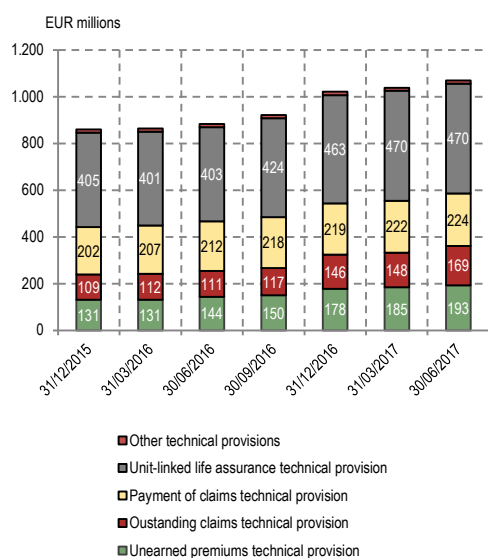
Source: Bank of Lithuania.

Chart 10. Changes in insurance undertakings' liabilities and equity



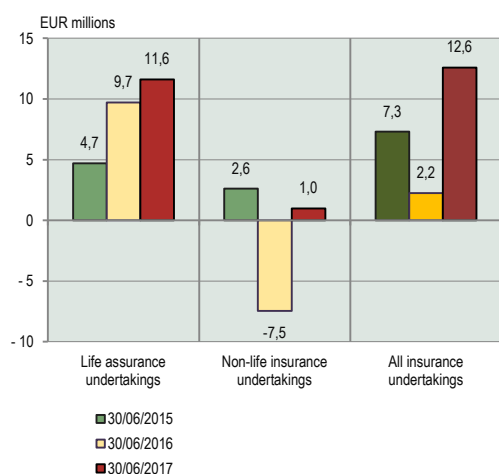
Source: Bank of Lithuania.

Chart 11. Composition of technical provisions



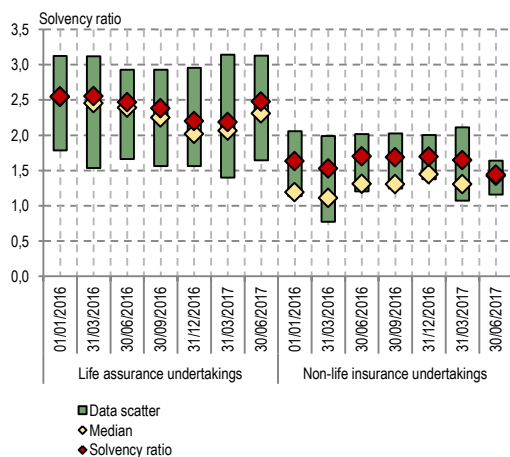
Source: Bank of Lithuania.

Chart 12. Operating result of insurance undertakings



Source: Bank of Lithuania.

Chart 13. Structure of insurance undertakings' required solvency capital ratios



losses incurred in the pursuit of the life assurance activity. Not a single insurance undertaking's shareholders increased its authorised capital or issued additional share premiums over the first half of this year to maintain financial stability; for one non-life assurance undertaking, however, a EUR 3.5 million loan in subordinated liabilities was granted to ensure proper discharge of liabilities.

At the end of the reporting period, undertakings had formed EUR 600 million in conventional technical provisions, an increase of 7.4 per cent from the end of last year. For an undertaking engaged in the insurance activity, technical provisions, an insurer's liabilities, calculated according to the procedure established by legal acts, arising from insurance, reinsurance or financial contracts, account for the main share of total liabilities. Conventional technical provisions formed by life assurance undertakings (excluding unit-linked life insurance technical provisions) augmented by a mere 2.2 per cent (to EUR 252 million), of non-life insurance undertakings – even 11 per cent (to EUR 346.2 million). Growth in non-life assurance undertakings' insurance technical provisions was driven by growth in outstanding claims technical provisions following the receipt by one insurance undertaking of one of the largest claims in the history of Lithuania's insurance under an event which occurred in the second quarter of this year, rather than an increase in the amount of unearned premiums technical provisions due to insurance activity volume growth.

Operating result

According to the 30 June 2017 data, operations of insurance undertakings were profitable – the insurance market earned EUR 12.6 million in profit before tax. Life assurance undertakings earned the bulk of the entire market's profit – EUR 11.6 million, non-life insurance undertakings – a mere EUR 1 million. The second quarter of this year was less profitable for both life assurance and non-life insurance undertakings: after earning EUR 6.8 million in profits in the first quarter, life insurance undertakings earned EUR 4.8 million in the second quarter; the operations of non-life assurance undertakings were loss-bearing in the second quarter, they bore a loss of almost EUR 0.5 million after earning EUR 1.4 million in profits in the first quarter. The reason behind this result for non-life insurance undertakings was a much worse operating result of all undertakings engaged in the non-life insurance activity, except for one, in the second quarter (in the first quarter, the profit earned from the non-life insurance activity stood at EUR 0.6 million, whereas in the second quarter, EUR 1.3 million in losses was incurred). Year on year and quarter on quarter, out of nine insurance undertakings, seven operated profitably, two bore a loss.

The operations of insurance brokerage firms in the first quarter were profitable, with their profit earned amounting to EUR 3.3 million. In the first half of this year, the profit earned increased by 32 per cent year on year. Undertakings' sales revenue equalled almost EUR 22.8 million, rising by more than 18 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 82 out of 96 insurance brokerage firms were profitable.

4. COMPLIANCE WITH CAPITAL REQUIREMENTS FOR UNDERTAKINGS

Compliance with capital requirements by insurance undertakings

All insurance undertakings complied with the solvency capital requirement. After calculating capital requirement for insurance undertakings 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 cover the solvency capital requirement and the minimum capital requirement. As at 30 June 2017, the solvency ratio of life assurance undertakings was 2.48, of non-life insurance undertakings – 1.44.

Capital requirements for insurance brokerage firms

Own capital of insurance brokerage firms amounted to EUR 16.4 million, a year-on-year increase of 23.8 per cent. The minimum capital requirement is EUR 18,760, or no less than 4 per cent of an insurance brokerage firm's insurance premiums received over a year and payable to insurers. On the reporting date, all undertakings met the minimum capital requirement.

5. SETTLEMENT OF DISPUTES BETWEEN CONSUMERS AND INSURANCE MARKET PARTICIPANTS

Out of the total applications regarding disputes received by the Bank of Lithuania in the second quarter of 2017, slightly more than a half (54%) were comprised of applications regarding disputes between consumers and insurers (a total of 121 applications). Year on year the number of disputes settled and decisions taken regarding the subject matter of a dispute decreased somewhat: 86 disputes with insurers were settled and 44 decisions regarding the subject matter of a dispute taken over the reporting period, while in the second quarter of 2016, 92 disputes were settled and 49 decisions regarding the subject matter of a dispute were taken.

Having settled disputes in their essence, in 12 cases consumer claims were satisfied, in 9 cases – satisfied in part, and in 23 cases the Bank of Lithuania decided to reject consumer claims for insurers, i.e. nearly half (48%) of the decisions regarding the subject matter of a dispute were settled in favour of the consumers. Compared to the data for the second quarter of 2016, Bank of Lithuania decisions taken in favour of consumers grew by 9 p. p and decision not taken in favour of consumers regarding the subject matter of a dispute declined accordingly by 9 p.p. (In the second quarter of 2016, 61% of consumer claims were rejected, in the second quarter of 2017 – 52%). 11 consumer disputes settled by the Bank of Lithuania, which arose from an insurance legal relationship, were settled by reaching a peaceful agreement between the parties. As in the second quarter of 2016, most disputes settled by the Bank of Lithuania arose over non-life insurance: motor third party liability compulsory insurance, Casco, and property insurance.

Annex: Key indicators of the insurance sector

Table 1. Insurance premiums

Seq. No	Insurance branches	30/06/2015	30/06/2016	30/06/2017	Growth rate in 2016	Growth rate in 2017
		amount, EUR millions			(%)	
1.	Life assurance	106.57	100.12	109.68	-6.1	9.6
2.	Non-life insurance	205.71	230.08	277.99	11.8	20.8
3.	Total	312.28	330.20	387.68	5.7	17.4

Source: Bank of Lithuania.

Table 2. Claims paid

Seq. No	Insurance branches	30/06/2015	30/06/2016	30/06/2017	Growth rate in 2016	Growth rate in 2017
		Amount, EUR millions			(%)	
1.	Life assurance	48.97	54.88	70.60	12.1	28.6
2.	Non-life insurance	114.02	126.17	143.30	10.7	13.6
3.	Total	162.99	181.05	213.90	11.1	18.1

Source: Bank of Lithuania.

Table 3. Main items of the balance sheet statement

Seq. No	Indicator	Life assurance undertakings			Non-life insurance undertakings		
		30/06/2016	30/06/2017	Change over the year	30/06/2016	30/06/2017	Change over the year
		Amount, EUR millions			Amount, EUR millions		
1.	Assets	779.28	857.74	10.07	442.78	591.28	33.54
1.1.	Intangible assets	2.14	2.19	2.22	18.18	19.51	7.33
1.2.	Investment	329.84	333.46	1.10	266.12	325.22	22.21
1.2.1.	Land, buildings and other real estate	0.25	0.26	0.53	15.01	14.70	-2.08
1.2.2.	Equity securities	31.80	39.08	22.91	24.36	54.69	124.51
1.2.3.	Debt securities	290.97	287.39	-1.23	225.69	250.64	11.05
1.2.4.	Deposits with credit institutions	6.82	0.61	-91.01	1.05	4.70	346.24
1.2.5.	Other investment	0.00	6.12	0.00	0	0.49	0.00
1.3.	Life assurance investment when investment risk is borne by insurance policy holder	403.14	470.36	16.68	0	0	0.00
1.4.	Other asset positions	44.16	51.73	17.14	158.48	246.55	55.57
1.4.1.	Cash and cash equivalents	17.02	28.57	67.89	25.27	51.07	102.08
2.	Owners' equity and liabilities	779.28	857.74	10.07	442.78	591.28	33.54
2.1.	Capital and reserves	128.38	123.89	-3.49	126.31	145.92	15.53
2.2.	Technical provisions	640.01	722.89	12.95	243.69	346.20	42.07
2.3.	Other positions of liabilities	10.89	10.96	0.64	72.78	99.17	36.26

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		
		30/06/2016	30/06/2017	Change over the year	30/06/2016	30/06/2017	Change over the year
		Amount, EUR millions			Amount, EUR millions		
			(%)			(%)	
1.	Income from insurance activity	68.30	73.93	8.24	119.02	162.46	36.50
2.	Cost of insurance claims paid	-33.67	-40.13	19.17	-78.48	-106.73	35.99
3.	Change in technical provisions not included in other items	-8.70	-16.07	84.59	-0.54	0.86	-259.04
4.	Net operating cost	-15.75	-17.33	10.05	-47.45	-57.27	20.71
5.	Investment profit (loss)	-1.00	10.11	-114.87	1.43	2.97	108.45
6.	Result of other activities	0.53	1.10	107.49	-1.44	-1.30	-9.91
7.	Result for reporting period before tax	9.71	11.61	19.60	-7.47	0.99	-113.21
8.	Income tax	0.17	-0.05	-130.32	-0.28	-0.71	152.04
9.	Result for reporting period	9.88	11.56	17.06	-7.75	0.28	-103.64

Source: Bank of Lithuania.

Table 5. Key indicators of activities of insurance brokerage firms

Seq. No	Indicators	30/06/2015	30/06/2016	30/06/2017	Growth rate in 2016	Growth rate in 2017
		Amount, EUR millions			(%)	
1.	Insurance contracts concluded, units	744, 894	812, 975	887, 223	9.1	9.1
2.	Sales revenues	17.40	19.32	22.82	11.0	18.1
3.	Result for reporting period	1.85	2.48	3.28	34.0	32.3

Source: Bank of Lithuania.