



Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.
© Bank of Lithuania, 2017

Gedimino pr. 6, LT-01103 Vilnius
Tel. (8 5) 268 0029, Fax (8 5) 262 8124

www.lb.lt
info@lb.lt

4 December 2017

Over the three quarters of 2017 the insurance market still exhibited strong growth, with its insurance premiums of above €580 million. Market growth was driven by the non-life insurance sector, which has been growing at a steady 20 per cent rate since the beginning of the year. Within this sector, premiums within the vehicle insurance group, traditionally, posted the strongest growth. Within the life assurance market, premiums written over the nine months of this year increased by almost 8 per cent year on year. Amounts paid by insurers to insurance policy holders, insured persons and beneficiaries under life assurance and non-life insurance insured events grew at a fast pace as well – 19.4 per cent.

Free-tax profit of insurance undertakings went above €24 million over the nine months of this year. Life assurance undertakings earned the bulk of the entire market's profit – €17 million, non-life insurance undertakings – a mere €7 million. All life assurance undertakings and two non-life insurance undertakings operated profitably. The overall result of non-life insurance undertakings – a profit – was due to the profitable activities of two undertakings in which the processes of business restructuring are still under way; however, year on year the loss of these undertakings contracted by 2.5 times. All insurance undertakings are solvent and meet the legal requirements for compliance with the solvency capital ratio.

Profits earned by insurance brokerage firms over the three quarters of 2017 stood at €4.3 million, an increase of 21 per cent year on year.

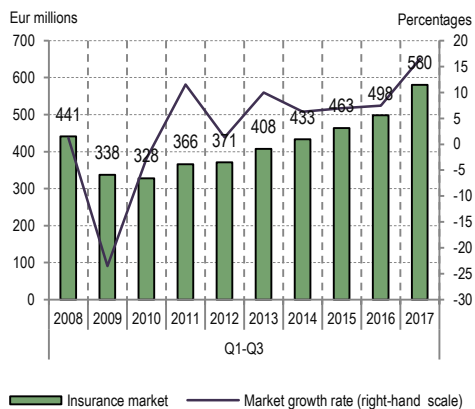
Assessment of insurance market developments covers the activities of all market participants carried out in the territory of Lithuania. Assessment of compliance with the financial and capital ratios, as well as of the developments of these ratios only covers the activities of 9 insurance undertakings (across the territory of their activities) and 97 insurance brokerage firms registered in the country, 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

A prepared draft of the Republic of Lithuania Law on Insurance, agreed with financial market participants, institutions concerned and other entities, has been submitted to the Government of the Republic of Lithuania. It is aimed at the transposition of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution. After this, the draft law should be submitted to the Seimas of the Republic of Lithuania. The draft law aims to ensure that insurance products better meet consumer interests and the insurance distribution services provided are higher quality.

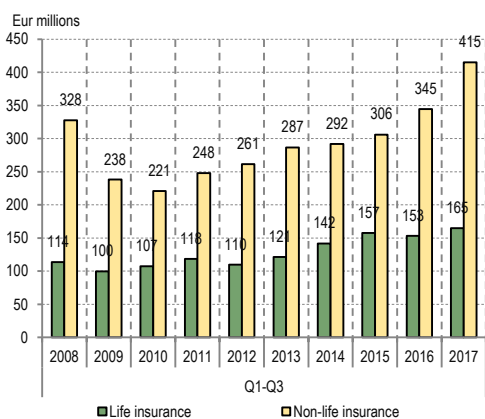
The Guidelines for Advertising Financial Services, approved by decision of Director of the Supervision Service No 241-75 of 5 September 2012, have been supplemented. These Guidelines have been supplemented to revise the terms, advertising form requirements, the peculiarities of advertising via means of communication and provision of the title of the service provider as well as submission of a link to the insurance regulations. The purpose of these Guidelines is to explain the requirements for financial services advertising laid down in legal acts, draw financial market participants' attention to the major aspects of preparation of financial services advertising and distribution, as well as help them duly implement the provisions of the respective legal acts.

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



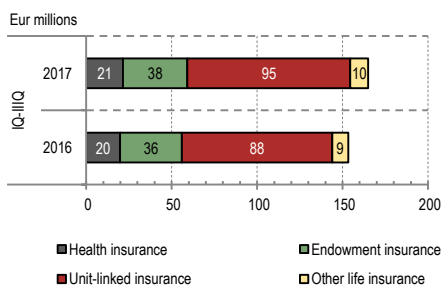
Source: Bank of Lithuania.

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



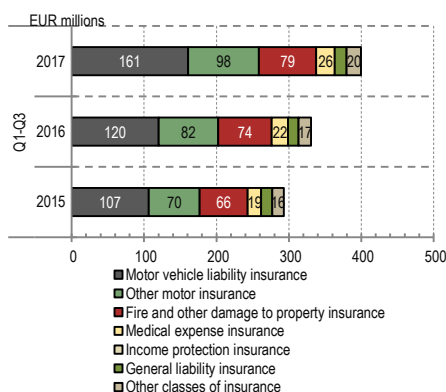
Source: Bank of Lithuania.

Chart 3. Dynamics of life assurance premiums by type



Source: Bank of Lithuania

Chart 4. Dynamics of non-life insurance premiums by type



2. DEVELOPMENT OF THE INSURANCE MARKET

At the end of Q3 2017, insurance services were provided by 21 insurers: 9 undertakings and 12 branches of undertakings registered in other EU countries. In Q1 of 2017, a branch of the company *Balcia Insurance*, registered in Latvia, embarked on operation. It took over part of the transport insurance portfolio of the public limited liability insurance company *Compensa Vienna Insurance Group*. 97 undertakings hold licences of an insurance brokerage firm. Over Q3, one licence of an insurance brokerage firm was issued (to UADBB *Draudukas*).

Insurance premiums and contracts

Insurance market growth is supported by the non-life insurance sector. Over the three quarters of 2017, the insurance premiums of insurance undertakings registered in Lithuania and of branches of insurance undertakings of other European Union Member States established in Lithuania amounted to €580.0 million, a year-on-year increase of 16.5 per cent, and reached their historically highest performance. The amount of non-life insurance premiums grew by 20.5 per cent, to €415.1 million; of life assurance – by €164.9 million, an increase of almost 7.6 per cent year on year.

Despite life assurance market growth, the share of life assurance in the entire insurance activities portfolio continued contracting: at the end of the reporting period, it accounted for 28.4 per cent, contracting by 2.4 p.p. year on year. Meanwhile, the non-life insurance market exhibited stronger growth, and its share in the entire insurance activities portfolio expanded as well – to 71.6 per cent in the reporting period (69.2% a year ago).

The life assurance market was driven by life assurance premiums: over the nine months of this year, periodic premiums went up by 10.7 per cent, to €153 million. Single premiums contracted by more than €3 million (20.9%) and, although their share in the premium composition is insignificant (7.2), the fluctuations in their volume are particularly unsteady and have a weighty influence on the developments in the life assurance portfolio size. The contraction of single life assurance premiums during the three quarters of this year was due to amendments to the Law on Income Tax of Individuals, which set the annual amount of €2,000 from which the personal income tax rate can be recovered.

Insurance premiums within the largest insurance group – motor third party liability insurance (MTPL) – grew the most rapidly, by 34 per cent, reaching €160.8 million, while the number of contracts increased by 6.6 per cent (to 2.25 million). Volumes of other transport vehicle insurance (Casco) also posted significant expansion: its insurance premiums grew by 19 per cent (to €97.8 million). This is, however, the only group that was characterised by a marginal decline in the number of contracts: 201 thousand contracts were concluded over the reporting period, a year-on-year decrease of 4.5 per cent. With moderate growth in property insurance premiums (7.2%), the number of contracts concluded grew moderately as well (9.5%). Over the first three quarters of this year, two types of insurance stood out in strong growth in contracts: income security insurance (614 thousand contracts concluded, an increase of 41.9% year on year) and general liability insurance (289 thousand contracts concluded, an increase of 28.5% year on year).

In terms of insurance premium volumes, insurance undertakings registered in the country still hold a larger market share than their branches, yet the proportions have been changing not in favour of insurance undertakings. Both the life assurance and non-life insurance markets are dominated by undertakings registered in the country; the volume of their insurance premiums accounted for 58 per cent and 52 per cent respectively (In 2016 – 59% and 54%).

No significant changes occurred in the composition of contracts concluded: even 97.4 per cent of total contracts were concluded within the non-life insurance market. In terms of the portfolio of existing contracts, the share of life assurance contracts was naturally somewhat larger (18.7 per cent). The number of existing contracts within the insurance market grew by almost 3.5 per cent over Q3 (within the non-life insurance market – by 4.1%, the life assurance market – 1.0%).

As has already become commonplace, insurance brokerage firms were active in the non-life insurance market, accounting for 28 per cent of a total of non-life insurance market's contracts, although a year ago 29 per cent, two years ago – 30 per cent of a total of non-life insurance contracts were concluded through mediation of insurance brokerage firms.

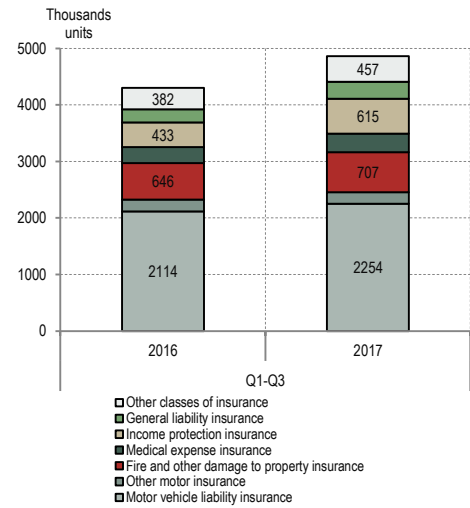
Insurance claims paid

Volumes of claims paid within the insurance market did not lag behind growth in insurance premiums: EUR 324.1 million in claims was paid within the insurance market over the three quarters, an increase of 19.4 per cent year on year.

Within the life assurance market, almost €100 million were paid in claims over three quarters of this year, a year-on-year increase of 23.3 per cent. The amount of claims paid upon expiry of the insurance contract increased by 32 per cent, to €33 million. As mentioned in previous reviews, this boom in claims paid was likely due to the expiry of life assurance contracts with the duration of 15 years, which were concluded in 2002 in a more favourable taxation environment. In absolute terms, claims paid due to termination of life assurance contracts or partial payment of accumulated amounts grew the most: the total amount of claims paid increased by €10.3 million, a year-on-year increase of 22.4 per cent. Claims paid due to termination of life assurance contracts or partial payment of accumulated amounts accounted for 56.2 per cent of a total of life assurance claims paid, a decrease of 0.4 p.p. year on year.

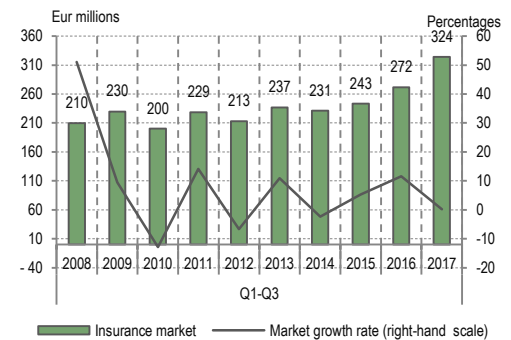
The share of non-life insurance claims paid accounted for 69.2 per cent of total claims paid. €224.1 million were paid under non-life insurance contracts, an increase of 18 per cent from Q3 of last year. Almost 67 per cent of claims paid were related to vehicle insurance. 17 per cent more claims were paid under MTPL insurance contracts (€85.7 million). Despite a decline in the number of Casco insurance contracts, claims paid did increase by 6 per cent, to €64.4 million. Claims paid under property insurance contracts grew significantly over the reporting period (by 28.8%), to €44.1 million. This growth was due to a partial claim paid to a fish processing company for a fire which occurred in Q2 and a large claim paid to a company engaged in pig breeding in which a hotbed of African swine fever virus was recorded. As a result of insured events which occurred under contracts within other insurance classes, claims paid rose by 139 per cent (to €5.3 million). This growth resulted from three large-scale events within the credit and warranty insurance sector; the total amount of claims paid was €3.5 million.

Chart 5. Insurance contracts concluded



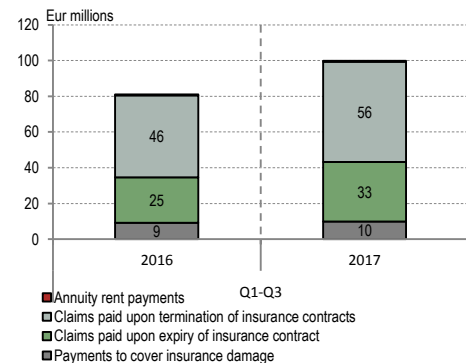
Source: Bank of Lithuania.

Chart 6. Dynamics and growth rate of claims paid within the entire market



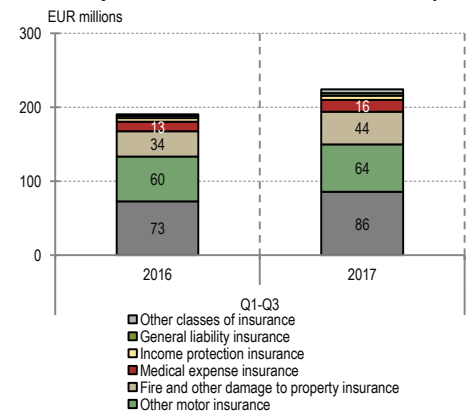
Source: Bank of Lithuania.

Chart 7. Dynamics of life assurance claims paid



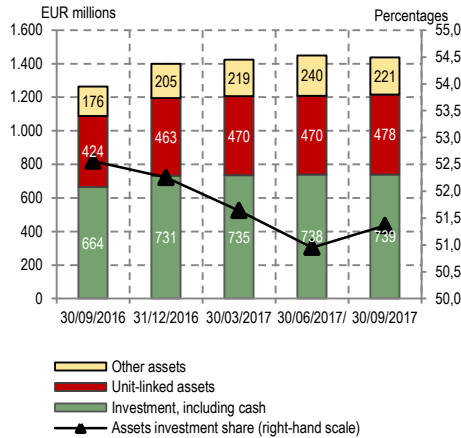
Source: Bank of Lithuania.

Chart 8. Dynamics of non-life insurance claims paid



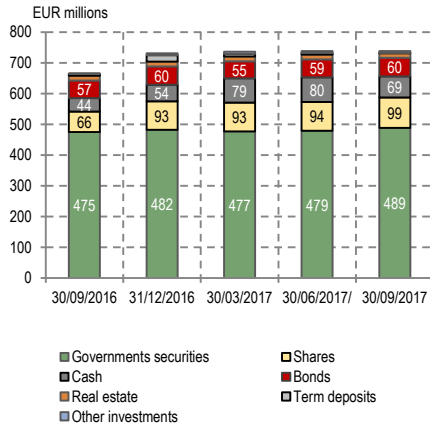
Source: Bank of Lithuania.

Chart 8. Composition of insurance undertakings' assets



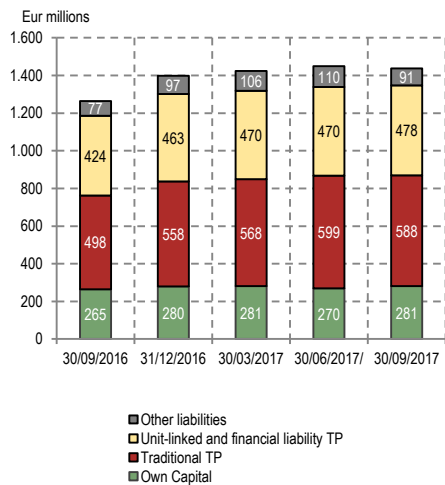
Source: Bank of Lithuania.

Chart 9. Composition of insurance undertakings' investment portfolio



Source: Bank of Lithuania.

Chart 10. Composition of insurance undertakings' own capital and liabilities



Source: Bank of Lithuania.

3. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

Assets and investment

Both the assets and investment of insurance undertakings posted growth. Assets managed by insurance undertakings amounted to €1,438 billion at the end of Q3. This indicator rose by almost 3 per cent over the three quarters: at the end of 2016, the on-balance sheet value of insurance undertakings' assets was €1,399. Insurance policy holders' assets entrusted to undertakings under unit-linked life assurance contracts comprised the main share (54.7%) of €873 million in assets managed by life assurance undertakings. The share of undertakings' investments (in addition to cash on settlement accounts, excluding the funds of unit-linked life assurance) contracted by 1 p.p. over the reporting period, to 51.4 per cent of total assets managed by insurance undertakings.

Insurance undertakings are not changing their investment direction.

Insurance undertakings further prioritise the security and liquidity of accumulated funds: despite a 3.5 p.p. increase in the share of equity investment (from 10%, or €66 million on 30 September 2016 to 13.5%, or €99 million in the respective period of this year), the main share of total investment (66.2%, or €489 million) is comprised of government securities (GS). The amount of investment in GS grew by €14 million, or 3 per cent, while the value of investment in corporate bonds – by €3 million (to €60 million) over this period. A significant portion of investment portfolio is comprised of cash and cash equivalents: this year, their share increased to 9 per cent, or €69 million (from 6.7%, or €44 million on 30 September 2016). Due to the continuing low interest rate environment insurance undertakings practically no longer invest in time deposits with banks. The amount of this investment curtailed by even 88 per cent over the year: the amount of time deposits of all insurance undertakings is below €1 million (decreasing from €6.6 million on 30 September 2016 to €818 thousand in the respective period of this year).

According to the 30 September 2017 data, the assets of insurance brokerage firms amounted to €28.2 million, an increase of almost 14 per cent year on year. Most of these undertakings' assets (39%) was comprised of cash. Cash held on a separate account amounted to €2.8 million and was well above intermediaries' liabilities to insurance undertakings. Insurance brokerage firms collected €108.1 million in insurance premiums into the till and separate accounts over the year, which was transferred to insurance undertakings.

Equity capital and liabilities

The equity capital of insurance undertakings increased by 4 per cent over the reporting period (to €281 million), growing by 35 per cent on the back of profitable activities, while the retained earnings for the previous periods account for the main share of equity capital. As at 30 September 2017, the authorised capital of all undertakings stood at €91.5 million, remaining unchanged over the reporting period. During the reporting period, one non-life insurance undertaking repaid a €10 million loan of subordinated liabilities, thus the aggregate amount of subordinated liabilities of insurance undertakings is €3.5 million.

As at 30 September 2017, technical provisions of undertakings amounted to €106.6 million, an increase of 4.4 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. Technical provisions other than the unit-linked life assurance technical provision and financial liabilities grew by 5.5 per cent over the year (to €585 million). Technical provisions of non-life insurance undertakings augmented by 8 per cent (to €335.4 million), of life assurance undertakings – 2.8 per cent (to €730.3 million). In spite of strong growth in the non-life insurance market throughout the three quarters of this year, the on-balance-sheet indicators of insurance undertakings were also affected by the ongoing processes in some of them: the growth in technical provisions was reduced by the transfer of part of one insurance undertaking's transport insurance portfolio to an insurance undertaking operating in Latvia, when in addition to part of this portfolio part of liabilities was transferred.

Operating result

According to the 30 September 2017 data, insurance undertakings earned €24 million in profits – four times as much as during the respective period last year. The profits of life assurance undertakings equalled €17.2 million, while non-life insurance undertakings earned €7.1 million in free-tax profit. Compared to the year-on-year results, the profits of life assurance undertakings rose 26 per cent. A great contribution to the operating result of life assurance undertakings stemmed from investing activities (profit – €14 million). All life assurance undertakings enjoyed a profitable Q3, whereas the results of non-life insurance undertakings varied: the operation of two non-life insurance undertakings was profitable, whereas the other two bore a loss. The operating loss of the latter undertakings is associated with the loss-bearing insurance activity, yet it should be noted that the loss borne by these undertakings decreased by 2.5 times year on year.

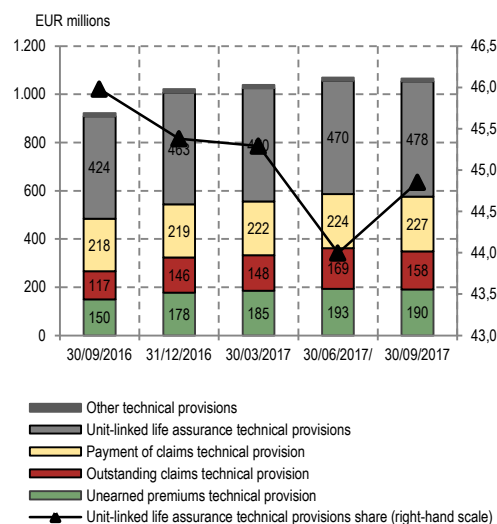
The operation of insurance brokerage firms in Q3 was profitable; undertakings providing mediation services earned €4.3 million in profits. The profits earned during the three quarters of this year increased by 21 per cent year on year. Undertakings' sales revenue equalled almost €22.8 million, rising by more than 18 per cent year on year. Their operating cost remained almost unchanged, leading to higher profits for this year. The operations of 82 out of 97 insurance brokerage firms were profitable.

4. COMPLIANCE WITH CAPITAL REQUIREMENTS FOR UNDERTAKINGS

Compliance with capital requirements by insurance undertakings

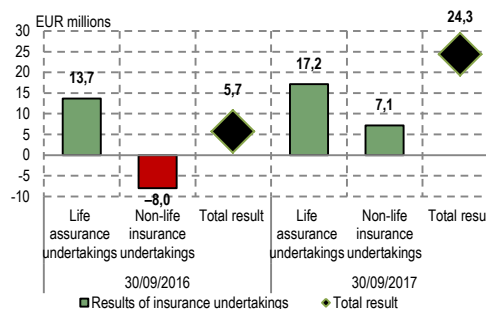
All insurance undertakings complied with solvency margin requirements. After calculating capital requirement and evaluating the amount of own funds available, all insurance undertakings turned to be solvent, i.e. held sufficient own funds to cover the minimum capital requirement. As at 30 September 2017, the solvency ratio of life assurance undertakings was 2.51, of non-life insurance undertakings – 1.48.

Chart 11. Composition of technical provisions



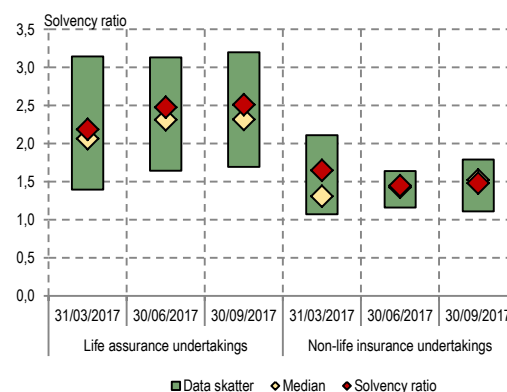
Source: Bank of Lithuania.

Chart 12. Results of insurance undertakings as at 30 September 2017



Source: Bank of Lithuania.

Chart 13. Solvency margin and solvency ratio of insurance undertakings



Source: Bank of Lithuania.

Compliance with capital requirements by insurance brokerage firms

As at 30 September 2017, own capital of insurance brokerage firms amounted to €17.1 million, a year-on-year increase of 20.6 per cent. The minimum capital requirement is €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, one undertaking did not meet the minimum capital requirement; however, its shareholders made a decision to increase the authorised capital and remedy this situation.

5. PROTECTION OF CONSUMER RIGHTS

Applications filed rose by 35 per cent in number compared to Q2 2017. Comparison of the above-named periods reveals a marked increase in the number of settled disputes with insurers: 70 disputes were settled in Q3 2016, 102 disputes – in Q3 2017. Similarly to previous periods, out of total applications regarding disputes received by the Bank of Lithuania in Q3 2017, slightly more than half (57%) were applications regarding disputes between consumers and insurers (a total of 113 applications).

In Q3 2017, the Bank of Lithuania took 54 decisions regarding the subject matter of a dispute, which is 24 decisions more year on year. Having analysed the subject matter of the disputes, in 13 cases the consumer claims were satisfied, in 8 cases – satisfied in part, and in 33 cases – recognised unreasonable (rejected). Thus, 39 per cent of the decisions regarding the subject matter of a dispute were favourable for consumers, which is an increase of 12 per cent compared to Q3 2016. 12 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.

Most of the disputes settled had arisen regarding non-life insurance: property insurance, motor third party liability compulsory insurance and Casco insurance (disputes regarding these insurance contracts prevailed also in previous periods). Growth in the number of disputes regarding property insurance has been recently recorded. For example, in Q3 2017 among all disputes with insurers settled, those regarding property insurance accounted for 38 per cent, a year-on-year increase of 7 p. p. Consequently, disputes regarding recognition of an event as uninsured under voluntary insurance (including property insurance) contracts are still relevant. In previous reviews attention was drawn more than once to the fact that, in the event of voluntary insurance, insurers have the right to establish which events will be considered as insured ones under the contract and which – uninsured, and to calculate the amount of insurance premium to be paid by the consumer based on that. Therefore, where there is an explicit agreement in voluntary insurance contracts on the threshold of insurance coverage, any disputes between parties over recognition of an event as an uninsured one are generally settled in accordance with the terms of the agreement between the parties.

Annex. Key indicators of the insurance sector

Table 1. Insurance premiums

Seq. No	Branch of insurance	30/09/2015	30/09/2016	30/09/2017	Growth rate in 2016	Growth rate in 2017
		Amount, € millions			(%)	
1.	Life assurance	157.45	153.33	164.92	-2.6	7.6
2.	Non-life insurance	306.02	344.63	415.14	12.6	20.6
3.	Total	463.47	497.96	580.06	7.4	16.5

Source: Bank of Lithuania.

Table 2. Claims paid

Seq. No	Branch of insurance	30/09/2015	30/09/2016	30/09/2017	Growth rate in 2016	Growth rate in 2017
		Amount, € millions			(%)	
1.	Life assurance	71.05	81.03	99.94	14.0	23.3
2.	Non-life insurance	172.36	190.47	224.19	10.5	17.7
3.	Total	243.41	271.50	324.13	11.5	19.4

Source: Bank of Lithuania.

Table 3. Key items of the balance sheet statement

Seq. No	Indicator	Life assurance undertakings			Non-life insurance undertakings		
		30/09/2016	30/09/2017	Change over the year	30/09/2016	30/09/2017	Change over the year
		Amount, € millions			(%)	Amount, € millions	
1.	Assets	812.40	873.18	7.48	451.39	564.72	25.11
1.1.	Intangible assets	2.04	2.17	6.60	17.87	19.24	7.68
1.2.	Investment	342.59	336.73	-1.71	277.25	333.10	20.15
1.2.1.	Land, buildings and other real estate	0.25	0.26	0.47	15.00	14.68	-2.14
1.2.2.	Equity securities	35.97	42.33	17.67	30.06	56.73	88.71
1.2.3.	Debt securities	300.81	287.36	-4.47	231.13	261.00	12.92
1.2.4.	Deposits with credit institutions	5.53	0.61	-88.90	1.06	0.20	-80.73
1.2.5.	Other investment	0.03	6.17	0.00	0	0.49	0.00
1.3.	Life assurance investment when investment risk is borne by insurance policy holder	423.77	477.97	12.79	0	0	0.00
1.4.	Other asset positions	44.00	56.31	27.97	156.27	212.38	35.90
1.4.1.	Cash and cash equivalents	21.27	33.87	59.26	23.13	34.81	50.48
2.	Owners' equity and liabilities	812.40	873.18	7.48	451.39	564.72	25.11
2.1.	Capital and reserves	134.96	129.99	-3.69	129.77	151.30	16.59
2.2.	Technical provisions	666.30	730.33	9.61	255.38	335.35	31.31
2.3.	Other positions of liabilities	11.14	12.87	15.53	66.24	78.07	17.87

Source: Bank of Lithuania.

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

Seq. No	Indicator	Life assurance undertakings			Non-life insurance undertakings		
		30/09/2016	30/09/2017	Change over the year	30/09/2016	30/09/2017	Change over the year
		Amount, € millions			Amount, € millions		
			(%)			(%)	
1.	Income from insurance activity	102.78	111.34	8.33	185.29	251.03	35.47
2.	Cost of insurance claims paid	-49.11	-58.46	19.03	-122.48	-162.39	32.59
3.	Change in technical provisions not included in other items	-32.49	-24.64	-24.14	-0.07	1.42	-
4.	Net operating cost	-24.69	-26.50	7.34	-71.26	-85.44	19.91
5.	Investment profit (loss)	15.90	14.01	-11.89	3.12	3.76	20.42
6.	Result of other activities	1.28	1.41	10.03	-2.61	-1.23	-
7	Result for reporting period before tax	13.68	17.16	25.41	-8.00	7.13	-
8	Income tax	-0.25	-0.13	-150.65	-0.10	-1.70	-
9	Result for reporting period	13.94	17.03	22.21	-7.90	5.43	-

Source: Bank of Lithuania.

Table 5. Key indicators of activities of insurance brokerage firms

Seq. No	Indicator	30/09/2015	30/09/2016	30/09/2017	Growth rate in 2016	Growth rate in 2017
		Amount, € millions			(%)	
1.	Insurance contracts concluded, units	1,104,093	1,234,663	1,377,963	11.8	11.6
2.	Sales revenues	25.94	29.28	34.14	12.8	16.6
3.	Result for reporting period	2.71	3.57	4.33	31.6	21.3

Source: Bank of Lithuania.