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**With insurance premiums reaching €655 million, Lithuania's insurance market continued expanding over the first three quarters of 2018. On a year-on-year basis, non-life insurance premiums grew at a more robust pace – at 14.5% – and amounted to €475 million, while life assurance premiums exceeded €179 million, an increase of 8.8%. The largest contribution to these changes came from the buoyant growth in unit-linked insurance premiums. In terms of the non-life insurance portfolio, transport insurance continued to record the strongest growth. Over the three quarters of 2018, policyholders were paid €331 million in insurance claims, a year-on-year increase of 2.3%.**

**In the reporting period almost all insurance undertakings operated at a profit, earning €37.6 million. All undertakings complied with their compulsory solvency capital requirements.**

**Activities of insurance brokerage firms were also profitable, earning them €6.2 million, an increase of 43.5% year on year.**

*The assessment of insurance market developments covers the activities of all market participants carried out in the territory of the Republic of Lithuania. The assessment of compliance with financial and capital adequacy ratios as well as of changes in these ratios covers 9 insurance undertakings and 98 insurance brokerage firms registered in the country (across the territory of their activities). The financial performance and capital ratios of branches operating in the territory of the Republic of Lithuania are not assessed as these entities fall under financial supervision of the home supervisory authorities of the companies that have established them.*

## 1. REGULATORY CHANGES

**Amendments to the Republic of Lithuania Law on Insurance came into force on 1 October 2018.** They have set uniform requirements regarding insurance distribution for all sellers of insurance products: insurance undertakings, insurance intermediaries and ancillary insurance intermediaries. The amended law has also laid down competence, registration and supervision requirements for insurance distributors as well as the obligation for insurance distributors to always act honestly, fairly and professionally in accordance with the best interests of their customers and disclose information on any type of remuneration for mediation. Prior to concluding a contract, the distributor will have to assess the needs of the client and offer only those insurance products that satisfy them. Prior to concluding a non-life insurance contract, all distributors are now obliged to provide to their clients a brief and clear key information document on the proposed non-life insurance product. In addition, the law has set requirements regarding cross-selling and insurance product oversight and governance. It has also laid down additional requirements in relation to the distribution of insurance-based investment products, the management of conflicts of interest, provision of information and assessment of insurance product suitability and appropriateness. Finally, the amended law has stipulated new requirements regarding governance of life assurance investment directions and methods for calculating insurance contract fees and the surrender value – they will come into force on 1 January 2019.

## 2. DEVELOPMENT OF THE INSURANCE MARKET

**At the end of the third quarter of 2018, insurance services were provided by 20 insurers registered in Lithuania:** 9 undertakings and 11 branches of companies registered in other EU countries. 8 insurers were engaged in life assurance activities, 12 – in non-life insurance activities. At the end of the reference period, the number of insurance brokerage firms operating in Lithuania stood at 98: 2 new firms were authorised to carry out insurance activities, 1 firm's licence was revoked at its request.

### Insurance premiums

**The insurance market continues to expand at a robust, albeit slowing, pace.** Over the three quarters of 2018, insurance premiums of insurance undertakings registered in Lithuania and of branches of insurance undertakings of other EU Member States established in Lithuania amounted to €654.8 million, a year-on-year increase of 12.9%. Insurance market

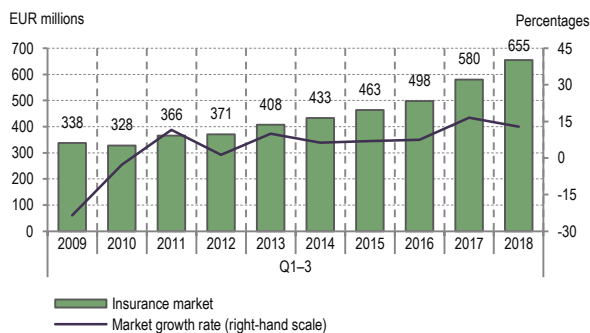
volumes were spurred by both life and non-life insurance branches, even though at different rates. Life assurance premiums reached €475.3 million, growing at a robust pace of 14.5%. Non-life insurance premiums showed more moderate growth, increasing by 8.8%, to €179.5 million.

**Table 1. Insurance premiums**

Seq. No	Insurance branches	Amount, EUR millions			Growth rate, %	
		30/09/2016	30/09/2017	30/09/2018	2017	2018
1.	Life assurance	153.3	146.9	179.5	7.6	8.8
2.	Non-life insurance	344.6	415.1	475.3	20.5	14.5
3.	<b>Total</b>	<b>498.0</b>	<b>580.1</b>	<b>654.8</b>	<b>16.5</b>	<b>12.9</b>

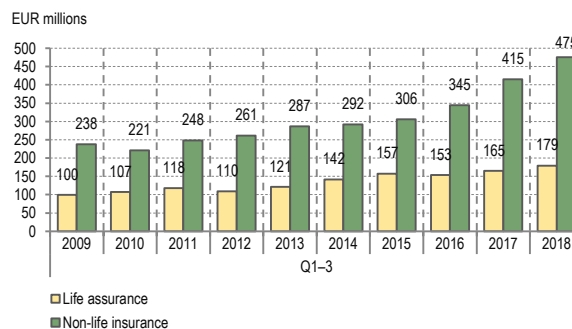
Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

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

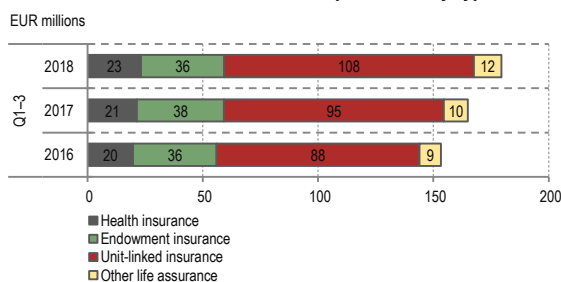


Source: Bank of Lithuania.

Due to a decrease in traditional life assurance contracts, the volume of such insurance compared to last year remained unchanged. Having continued on an upward trajectory, at the end of the reporting period unit-linked insurance premiums accounted for 60% of total life assurance premiums (€108.2 million, a year-on-year increase of 13.6%). Health insurance premiums – which essentially are additional premiums under traditional life assurance as well as index- and unit-linked insurance – increased by 8.2%, to €23.2 million.

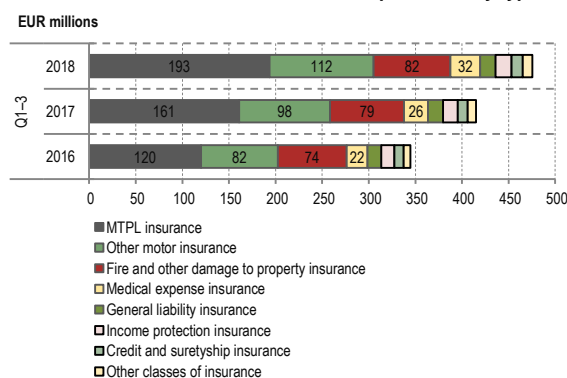
As previously, growth in non-life insurance premiums was determined by the increase in the volume of transport insurance. Given the expansion of Lithuania's car fleet, premiums under motor third party liability (MTPL) insurance grew by a fifth and almost reached €200 million; nevertheless growth in MTPL insurance premiums decelerated. The €111.8 million increase in transport insurance was driven not only by further increases in the transport insurance premium rate, but also stronger demand for such insurance (as was the case with MTPL insurance) – the number of transport insurance contracts grew by 6%. Third in terms of size, property insurance followed a moderate upward trend: its premiums increased by 3.9%, to reach €82.3 million.

**Chart 3. Breakdown of life assurance premiums by type**



Source: Bank of Lithuania.

**Chart 4. Breakdown of non-life insurance premiums by type**



Source: Bank of Lithuania.

## Insurance claims paid

**Growth in insurance claims lagged behind that of total revenue of the insurance sector.** Over the three quarters of 2018, insurers paid €331.5 million in insurance claims, a year-on-year increase of 2.3%. Major differences were observed in terms of insurance branches: life assurance claims decreased by 3.9%, to €96.1 million, while non-life insurance claims increased by 5.0%, to €235 million.

Having risen in 2017, the level of life assurance claims remained relatively high, albeit somewhat lower. The main reason behind a decrease in life assurance claims was the 10.8% drop in claims paid upon the expiration of insurance contracts. This might be explained by the cyclicity of life assurance contracts: in 2017, 15-year term life assurance contracts con-

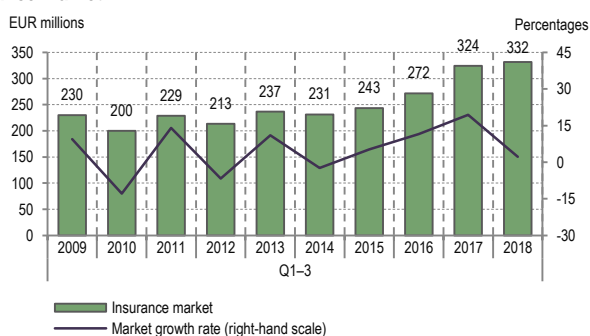
cluded in 2002, when the number of insurance contracts reached its peak, ended, hence compared to 2018, the previous comparative base was significantly broader. Having decreased by 2.4% year on year, life assurance claims paid upon termination of an insurance contract remained significant, amounting to €54.8 million (57% of all life assurance claims). Non-life insurance claims increased by 5.0%, to €235.4 million. Highest increases were recorded in claims paid under MTPL insurance (8.4%, to €92.8 million), CASCO insurance (6.7%, to €68.5 million) and medical expenses insurance (25.5%, to €20.1 million). The rise in various transport insurance claims was mainly driven by the average insurance claim, which continued to grow due to market forces.

**Table 2. Claims paid**

Seq. No	Insurance branches	Amount, EUR millions			Growth rate, %	
		30/09/2016	30/09/2017	30/09/2018	2017	2018
1.	Life assurance	81.0	99.9	96.1	23.3	-3.9
2.	Non-life insurance	190.5	224.2	235.4	17.7	5.0
3.	<b>Total</b>	<b>271.5</b>	<b>324.1</b>	<b>331.5</b>	<b>19.4</b>	<b>2.3</b>

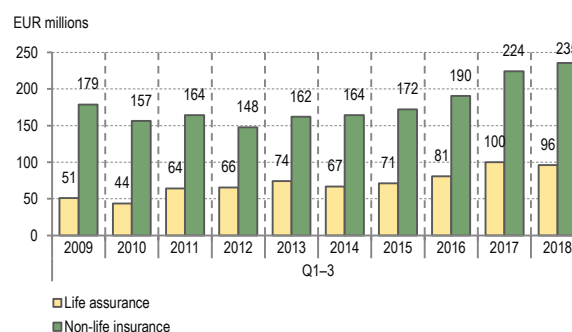
Source: Bank of Lithuania.

**Chart 5. Dynamics and growth rate of claims paid within the insurance market**



Source: Bank of Lithuania.

**Chart 6. Dynamics of life and non-life insurance claims paid**



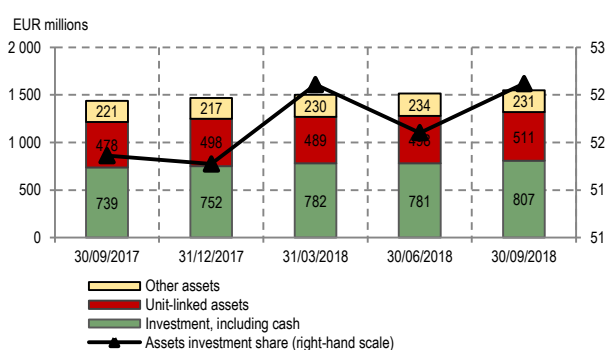
Source: Bank of Lithuania.

### 3. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

**Growth in assets and liabilities of insurance undertakings was moderate.** At the end of the third quarter of 2018, assets managed by insurance undertakings exceeded €1.5 billion, increasing by 5.6% compared to the end of last year. In contrast to life assurance undertakings, non-life insurance undertakings' assets grew at a more robust pace. As a result, own funds of non-life insurance undertakings and the assets and amounts receivable of reinsurers grew as well.

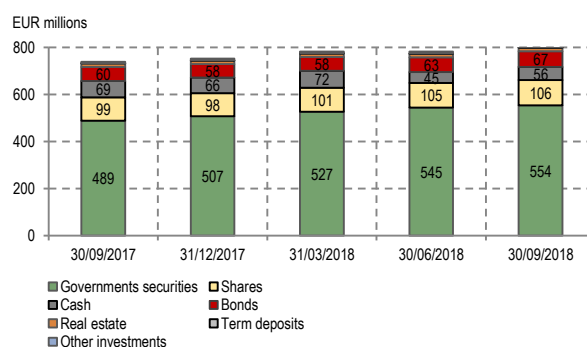
In 2018 the volume of equity investment increased by 7.3% – to €807.3 million. Insurance undertakings continued their investment activities following the safety and precautionary principles: investments in government securities increased by €46.6 million, or 9.2%, to reach €553.9 million. With €8 million invested in each, investments in debt and equity securities dropped.

**Chart 7. Composition of insurance undertakings' assets**



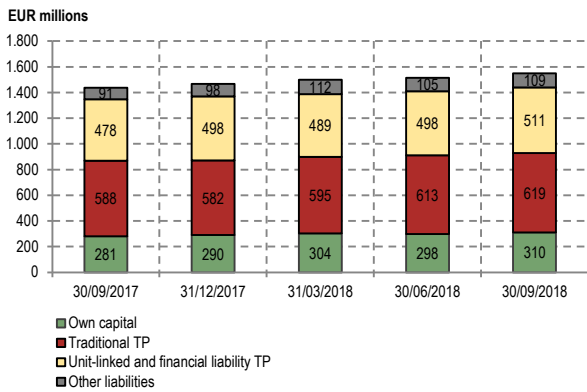
Source: Bank of Lithuania.

**Chart 8. Composition of insurance undertakings' equity capital investment portfolio**

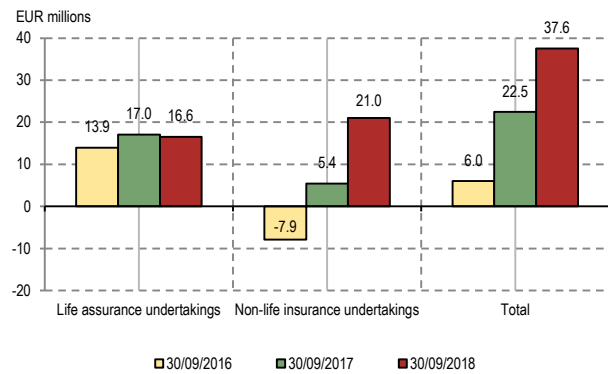


Source: Bank of Lithuania.

Positive developments in insurance activities also led to a 4.6% increase in insurance liabilities, which stood at €1.13 billion. At the end of the third quarter of 2018, growth in equity capital was driven by the fact that one insurance undertaking strengthened its capital base in the middle of the year and this year's profitable insurance activities. According to the data as at 30 September 2018, insurance undertakings earned a €37.6 million profit. The first three quarters of the year were profitable for both life and non-life insurance undertakings: life assurance undertakings earned €16.6 million, non-life insurance undertakings – €21 million. Only 1 insurance undertaking incurred a loss, other undertakings operated at a profit.

**Chart 9. Changes in insurance undertakings' liabilities and equity capital**

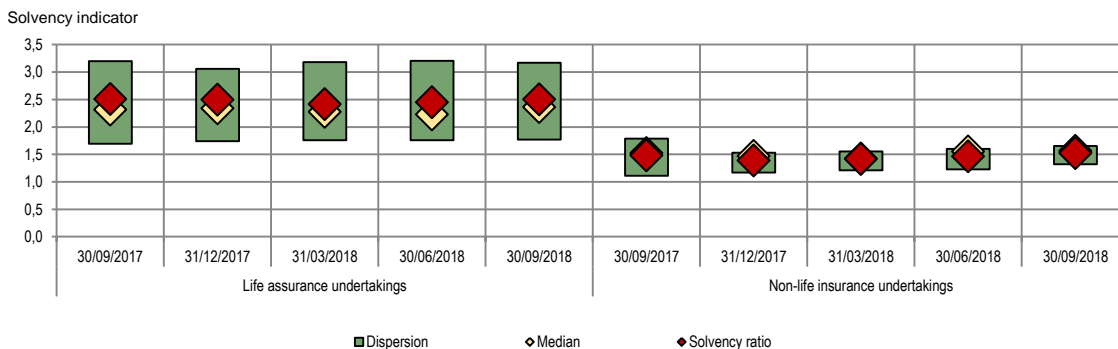
Source: Bank of Lithuania.

**Chart 10. Operating result of insurance undertakings**

Source: Bank of Lithuania.

## 4. COMPLIANCE WITH CAPITAL REQUIREMENTS

All insurance undertakings complied with their solvency capital requirement. Having calculated the capital requirement and evaluated the amount of available own funds in line with Solvency II requirements, the Bank of Lithuania has 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 September 2018, the solvency ratio of life assurance undertakings was 2.50, of non-life insurance undertakings – 1.50.

**Chart 11. Indicators of insurance undertakings' solvency capital requirement**

Source: Bank of Lithuania.

## 5. INSURANCE BROKERAGE FIRMS

According to the data as at 30 September 2018, assets of insurance brokerage firms totalled €38.5 million, a year-on-year increase of 36.8%. The main bulk of their assets (26.8%) was comprised of cash. Cash held on a separate account amounted to nearly €2.9 million, well exceeding intermediaries' liabilities to insurance undertakings. Over the year, insurance brokerage firms collected €132.6 million in insurance premiums, which was transferred to insurance undertakings. During the reference period, insurance brokerage firms operated at a profit, earning €6.2 million, a year-on-year increase of 43.5%. The operations of 75 out of 98 insurance brokerage firms were profitable. The number of contracts concluded by insurance brokerage firms was on a rise, yet their growth rate moderated to 9.6% compared to the previous reporting period.

**Table 3. Key performance indicators of insurance brokerage firms**

Seq. No	Insurance branches	Amount, EUR millions			Growth rate, %	
		30/09/2016	30/09/2017	30/09/2018	2017	2018
1.	Insurance contracts concluded, units	1,234,663	1,372,870	1,503,986	11.2	9.6
2.	Dynamics of sales revenue, EUR thousands	29,275.3	34,144.8	38,511.7	16.6	12.8
3.	Result for reporting period, EUR thousands	3,573.3	4,332.0	6,217.0	21.2	43.5

Source: Bank of Lithuania.

According to the data as at 30 September 2018, equity capital of insurance brokerage firms amounted to €21.3 million, a year-on-year increase of 24.2%. The minimum capital requirement is €18,760, or no less than 4% of an insurance brokerage firm's insurance premiums received over a year and payable to insurers. On the reporting date, all firms met their minimum capital requirement.

## 6. SETTLEMENT OF DISPUTES BETWEEN CONSUMERS AND INSURANCE MARKET PARTICIPANTS

In the third quarter of 2018, 75% of all disputes settled at the Bank of Lithuania (101) were between consumers and insurers. Compared to the third quarter of 2017 and the second quarter of 2018, when 102 disputes were settled, the number of settled consumer disputes has remained basically unchanged.

In the reference period the Bank of Lithuania adopted 40 decisions over the subject matter of a dispute: in 20 cases consumer requirements were satisfied fully (13) or partially (7), while 20 consumer claims were recognised as unreasonable. In the third quarter of 2018, 14 disputes with insurers ended in reaching a peaceful settlement or satisfying the consumer claim, a year-on-year increase of 8%.

As usual, the majority of disputes were related to non-life insurance contracts (92), of which 30 were over property insurance, 29 – MTPL insurance, 16 – CASCO insurance.