



LIETUVOS BANKAS
EUROSISTEMA

Activities of financial market participants

Review of Lithuania's Insurance Market

2018

Abbreviations

EU	European Union
MTPL	motor third party liability
UADBB	private limited liability insurance brokerage company
VĮ	state enterprise

The review was prepared by the Supervision Service of the Bank of Lithuania.

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In 2018, insurance premiums in Lithuania's insurance market totalled €878.1 million. The market growth rate somewhat decreased (0.9 percentage point compared to 2017), yet still reached almost 11%, thus the insurance market ended the year overall successfully. Trends in individual insurance branches have diverged: non-life insurance premiums increased by 12.2% over the year, to €630 million (a year-on-year decrease of 9 percentage points), while life assurance premiums rose by 7% over the year, to €248 million (a year-on-year increase of 13.5 percentage points, making the overall result turn positive). Unit-linked life assurance remained the main driver of growth in the life assurance sector. Transport insurance constituted the main bulk of non-life insurance. Over the year policyholders were paid €453 million in insurance claims.

In the reporting period, almost all insurance undertakings operated at a profit, earning €42.2 million. All undertakings complied with their compulsory solvency capital requirements.

Activities of insurance brokerage firms were also profitable, earning them €3.9 million, a year-on-year decrease of 14.7%.

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 95 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 the 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 (hereinafter – Law) 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.

Some provisions of the amended Law were specified in implementing legislative acts, i.e. resolutions of the Board of the Bank of Lithuania of 12 June 2018:

- on the approval of the procedure for insurance broker qualification examination;
- on the approval of the rules for the disclosure of information that insurance distributors must provide to policyholders;
- on the approval of the procedure for the recognition of the qualifications of insurance and reinsurance distributors, requirements for qualification improvement, qualification control and evaluation criteria;
- on the registration of insurance, reinsurance and ancillary insurance intermediaries, etc.

Analysis of household insurance. Given the rising popularity of household insurance, in the second and third quarter of 2018 the Bank of Lithuania carried out an [analysis of Lithuania’s consumer household insurance market](#). The analysis is based on Lithuanian household insurers’ responses to a questionnaire prepared by the Bank of Lithuania, which was drawn up in accordance with information gathered through the Bank of Lithuania’s supervision activities and its involvement in out-of-court dispute settlement.

The analysis identified risks to household insurance service users (consumers) that may arise throughout the life-cycle of the household insurance product (product supervision and management, product distribution, administration of insured events) and provided recommendations for insurance undertakings to help mitigate these risks.

2. DEVELOPMENT OF THE INSURANCE MARKET

At the end 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 2018, the number of insurance brokerage firms operating in Lithuania stood at 95: 2 new firms were authorised to carry out insurance activities (UADBB Jungtinis draudimo centras and UADBB Dexpert), licences of 4 firms were revoked at their request.

Insurance premiums

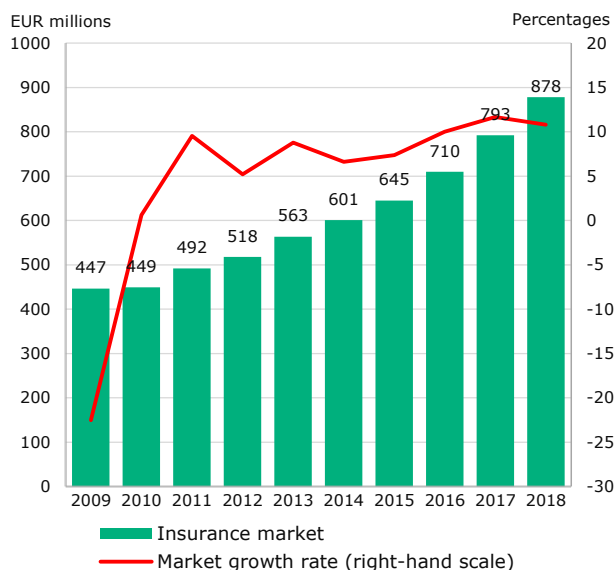
The insurance market continues to expand at a robust, albeit slowing, pace. In 2018, insurance premiums of insurance undertakings registered in Lithuania and of branches of insurance undertakings of other EU Member States established in Lithuania amounted to €878.1 million, a year-on-year increase of 10.8%. Insurance market volumes were spurred by both life assurance and non-life insurance branches, even though at different rates. Non-life insurance premiums increased by 12.2%, life assurance – 7.3%.

Table 1. Insurance premiums

No.	Insurance branches	Amount, EUR millions			Growth rate, %	
		31/12/2016	31/12/2017	31/12/2018	2017	2018
1.	Life assurance	246.7	231.3	248.3	-6.2	7.3
2.	Non-life insurance	463.1	561.2	629.8	21.2	12.2
3.	Total	709.8	792.6	878.1	11.7	10.8

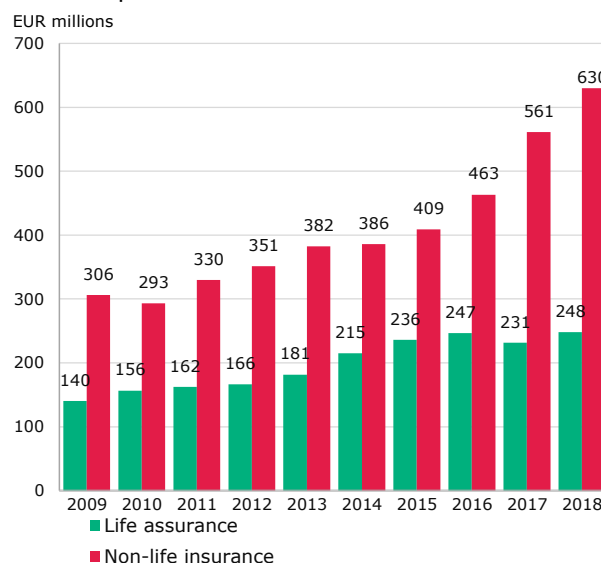
Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

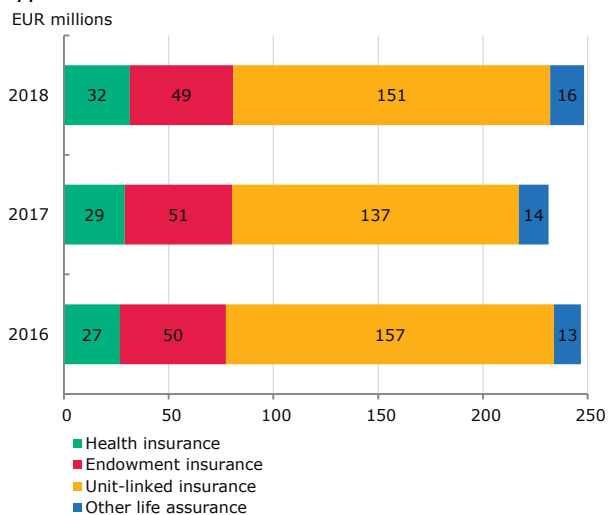
Chart 2. Dynamics of life assurance and non-life insurance premiums



Source: Bank of Lithuania.

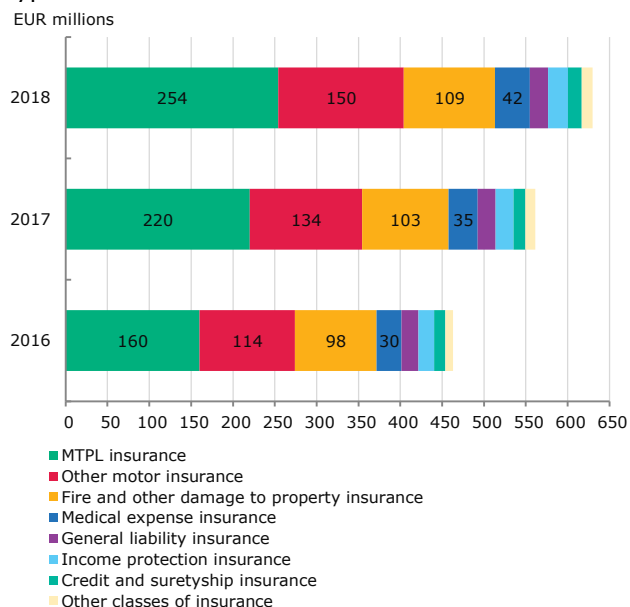
Due to a decrease in traditional life assurance contracts, the volume of such insurance slightly moderated. Having continued on an upward trajectory, at the end of the reporting period unit-linked insurance premiums accounted for 60.9% of total life assurance premiums (€151.2 million, a year-on-year increase of 10.4%). 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 €31.5 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.

As previously, growth in non-life insurance premiums was mainly driven by the increase in MTPL insurance (€33.9 million, CASCO – €15.9 million) and medical expense insurance (€6.9 million). On a year-on-year basis, the average MTPL insurance premium increased by almost 11% (CASCO – 9.3%). At the end of 2018,

however, the average insurance premium grew at a slower pace. One of the reasons behind the expansion of the transport insurance market was the increase in sales of new vehicles. According to VĮ Regitra, the number of new vehicle registrations rose by 24.5% in 2018. In the period under review, medical expense insurance premiums increased by 20%, accounting for a total of 6.6% of the non-life insurance market. Due to strong economic growth and rising competition in the labour market, the number of firms using medical expense insurance as a means for motivation has been rising. In Lithuania, medical expense insurance is becoming more and more common, therefore it is likely that it will continue increasing. Third in terms of size, property insurance followed a moderate upward trend: its premiums increased by 5.6%, to reach €109 million.

Insurance claims paid

In 2018, insurers paid less insurance claims than the year before. Throughout the year, insurers paid €452.6 million in insurance claims, a year-on-year decrease of 0.6%. Major differences were observed in terms of insurance branches: life assurance claims decreased by 14.8%, to €128.9 million, while non-life insurance claims increased by 6.5%, to €323.7 million.

The main reason behind a decrease in life assurance claims was the 33.2% drop in claims paid upon the expiration of insurance contracts. This might be explained by the cyclicity of life assurance contracts since in 2017, 15-year term life assurance contracts concluded in 2002, when the number of insurance contracts reached its peak, ended. Claims paid upon termination of an insurance contract account for the largest share of life assurance claims (55.6%), even though they have decreased by 4.4% year on year. Annuity payments increased by 28.1%, accounting for a meagre 0.8% of total life assurance claims. Damage payables increased by 8.7%.

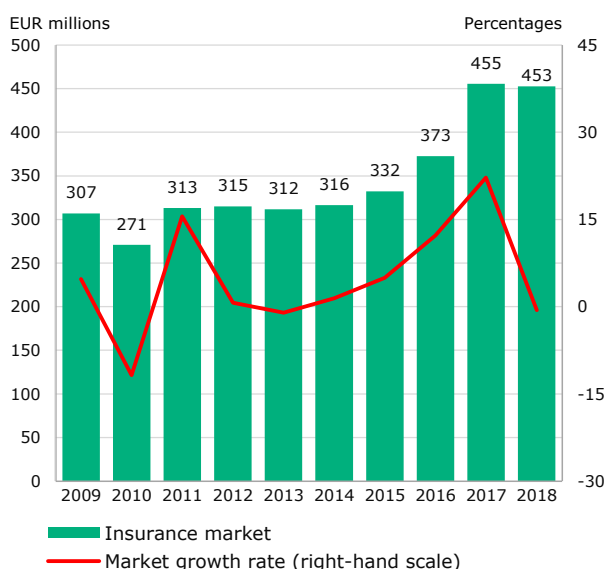
Non-life insurance claims accounted for 71.5% of total claims paid. Claims paid under non-life insurance amounted to €324 million, a year-on year increase of 6.5%. Almost 70% of claims were related to insured vehicles. The rise in various transport insurance claims was mainly driven by market forces and the average insurance claim, which continued to grow. Highest increases were recorded in claims paid under MTPL insurance (12.1%, to €127.2 million), transport insurance (6.9%, to €92.8 million) and medical expense insurance (25.1%, to €27.1 million). The volume of property insurance claims decreased by 14% year on year.

Table 2. Claims paid

No.	Insurance branches	Amount, EUR millions			Growth rate, %	
		31/12/2016	31/12/2017	31/12/2018	2017	2018
1.	Life assurance	113.8	151.4	128.9	33.0	-14.8
2.	Non-life insurance	258.8	303.9	323.7	17.43	6.5
3.	Total	372.7	455.3	452.6	22.2	-0.6

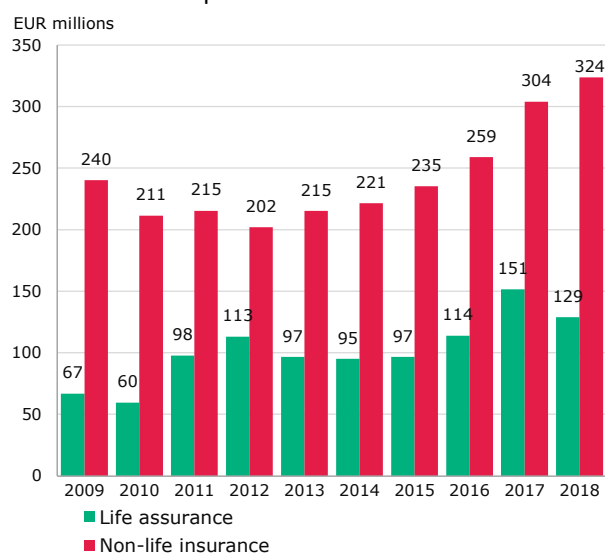
Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

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



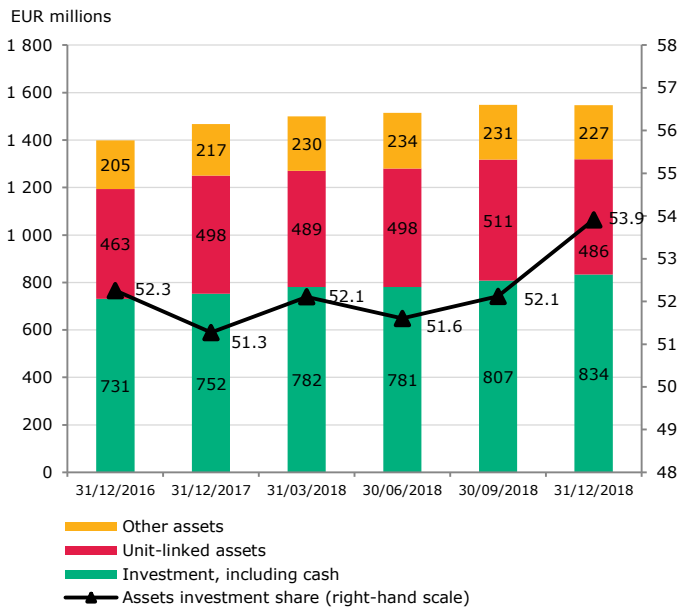
Source: Bank of Lithuania.

3. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS LICENSED IN THE REPUBLIC OF LITHUANIA

Over the last quarter of 2018, assets and liabilities of insurance undertakings somewhat decreased. At the end of 2018, assets managed by insurance undertakings amounted to €1.5 billion, a year-on-year increase of 5.4% (a quarter-on-quarter decrease of 0.1%). Growth in assets managed by non-life insurance undertakings continued on a stable pace throughout the year, increasing by 13.6% year on year. Assets managed by life assurance undertakings fluctuated: at the end of 2018, compared to the same period in 2017, their asset value increased by 0.2%, however on a quarter-on-quarter basis it reduced, reflecting the drop in the value of assets of unit-linked life assurance undertakings. Policyholder funds entrusted to unit-linked life assurance undertakings were mainly invested in equity, thus equity market fluctuations had a significant impact on the value of assets accumulated under unit-linked life assurance contracts. At the end of 2018, a short-term, albeit significant, drop in equity markets was the main contributor to a decrease in unit-linked life insurance assets.

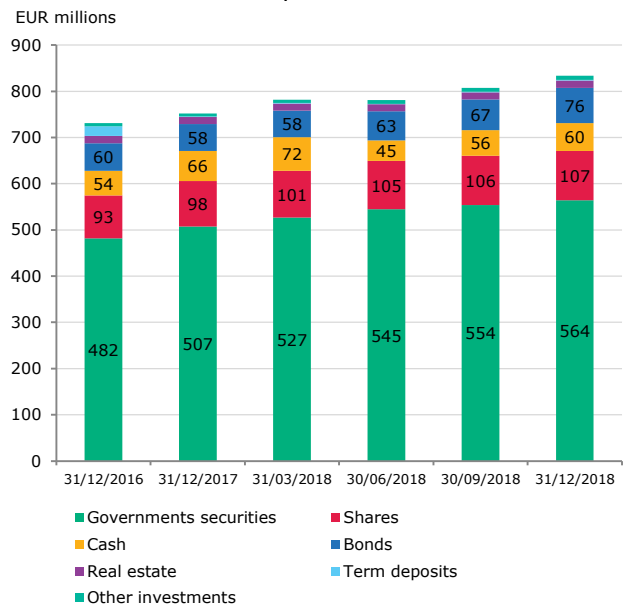
Over the year, the volume of own funds investment increased by 10.9% – to €834.0 million. Insurance undertakings continued their investment activities following the safety and precautionary principles: investments in government securities increased by €57 million, or 11.2%, to reach €564.3 million. Funds invested in corporate debt securities increased by more than €18 million, to €76.3 million, while investments in equity securities reached almost €9 million, to account for €107 million at the end of the year.

Chart 7. Composition of insurance undertakings' assets



Source: Bank of Lithuania.

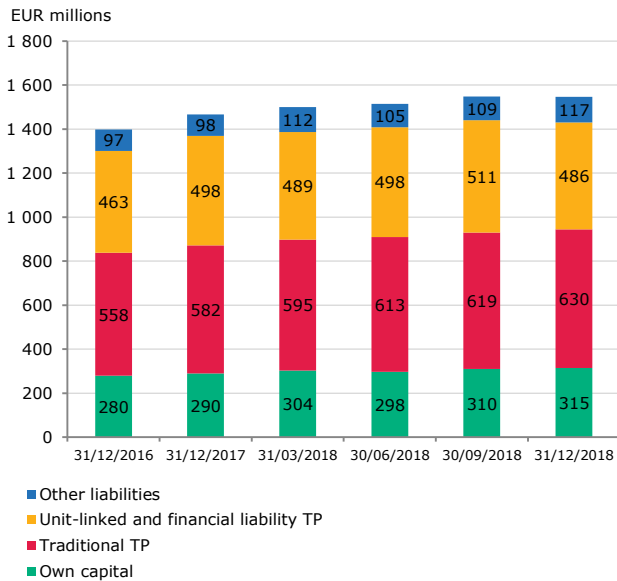
Chart 8. Composition of insurance undertakings' own funds investment portfolio



Source: Bank of Lithuania.

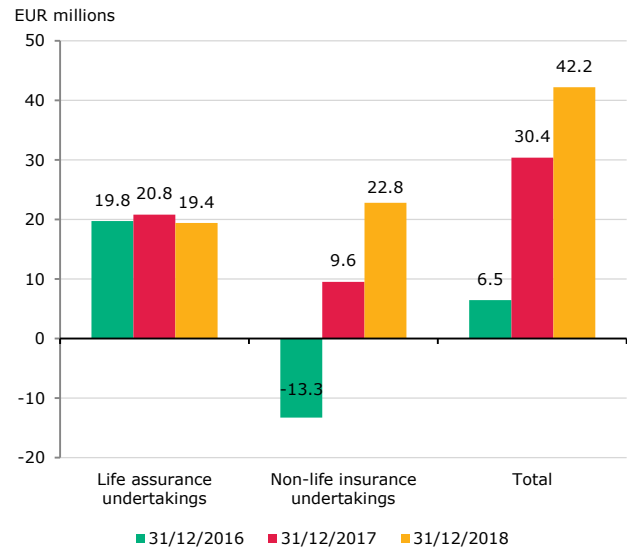
Despite the increase in insurance premiums, the significant decrease in the unit-linked insurance technical reserve in the fourth quarter led to the fact that at the end of 2018 insurance liabilities reduced by 0.5% quarter on quarter – to €1.115 billion. At the end of the fourth quarter of 2018, growth in own funds was driven by the fact that one insurance undertaking strengthened its capital base and insurance activities were overall profitable. According to the data as at 31 December 2018, insurance undertakings earned a €42.2 million profit. The year was profitable for both life assurance and non-life insurance undertakings: life assurance undertakings earned €19.4 million, non-life insurance undertakings – €22.8 million. Only one insurance undertaking incurred a loss, other undertakings operated at a profit.

Chart 9. Changes in insurance undertakings' liabilities and own capital



Source: Bank of Lithuania.

Chart 10. Operating result of insurance undertakings

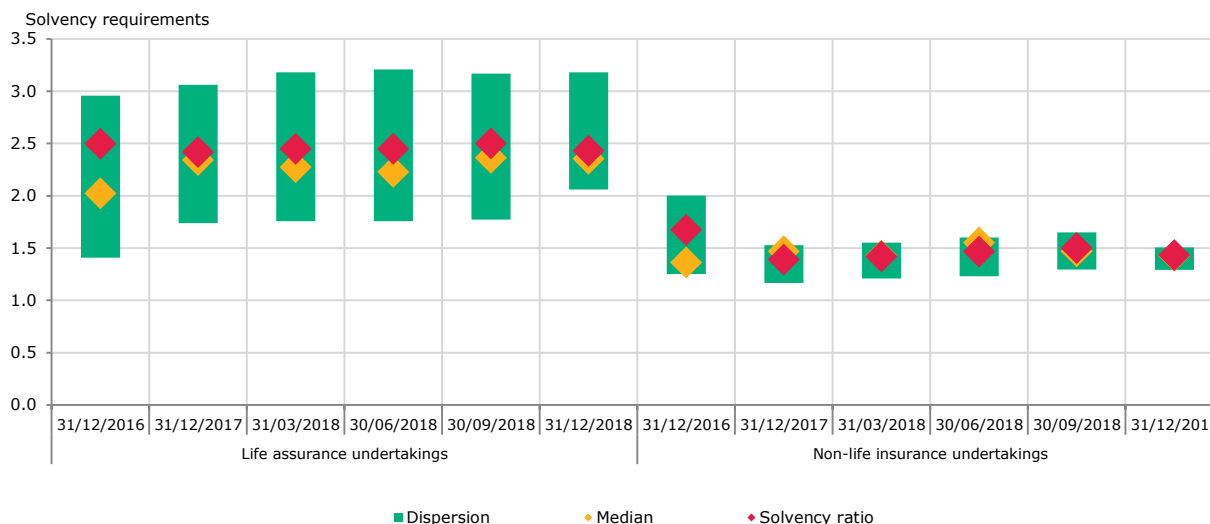


Source: Bank of Lithuania.

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 concluded 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 31 December 2018, the solvency ratio of life assurance undertakings was 2.43, of non-life insurance undertakings – 1.43.

Chart 11. Indicators of insurance undertakings' solvency capital requirement



Source: Bank of Lithuania.

5. INSURANCE BROKERAGE FIRMS

According to the data as at 31 December 2018, assets of insurance brokerage firms totalled €37.0 million, a year-on-year increase of 11.1%. The main bulk of their assets (25.0%) was comprised of cash. Cash held on a separate account amounted to nearly €3.3 million, well exceeding intermediaries' liabilities to insurance undertakings. Over the year, insurance brokerage firms collected €124.4 million in insurance premiums, which was transferred to insurance undertakings. During the reference period, insurance brokerage firms operated at a profit, earning €3.9 million, a year-on-year increase of 14.7%. The operations of 72 out of 95 insurance brokerage firms were profitable. Compared to 2017, the number of contracts concluded by insurance brokerage firms in 2018 decreased by 3.6 percentage points.

Table 3. Key performance indicators of insurance brokerage firms

No.	Insurance branches	Amount			Growth rate, %	
		31/12/2016	31/12/2017	31/12/2018	2017	2018
1.	Insurance contracts concluded, units	1,684,998	1,796,851	1,732,601	6.6	-3.6
2.	Dynamics of sales revenue, EUR thousands	40,980	45,350	47,267	10.7	4.2
3.	Result for the reporting period, EUR thousands	3,965	4,571	3,899	15.3	-14.7

Source: Bank of Lithuania.

According to the data as at 31 December 2018, own funds of insurance brokerage firms amounted to €17.5 million, a year-on-year increase of 5.3%. The minimum capital requirement is €18,750, 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, two firms (UADBB Capital Insurance and UADBB GrECO JLT Lietuva) failed to meet their minimum capital requirements and their shareholders had to take action to remedy the situation.

6. SETTLEMENT OF DISPUTES BETWEEN CONSUMERS AND INSURANCE MARKET PARTICIPANTS

In 2018, 77% of all disputes settled at the Bank of Lithuania (411) were between consumers and insurers. Compared to 2017 – when 358 disputes were settled (71% of all disputes) – the number of disputes between consumers and insurers has increased.

In the reference period, the Bank of Lithuania adopted 166 decisions over the subject matter of a dispute: in 64 cases – i.e. 39% of all disputes over the subject matter of a dispute – consumer requirements were satisfied fully (36) or partially (28). Investigation of 63 disputes was not started or they ended in reaching a peaceful settlement or satisfying the consumer claim (in 2017 – 46 peaceful settlements).

As usual, the majority of disputes were related to non-life insurance contracts (377), of which 114 were over property insurance, 110 – compulsory MTPL insurance, 72 – CASCO insurance. 26 disputes were over unit-linked life assurance contracts. The number of such disputes has been recently increasing (in 2017, the Bank of Lithuania received only 9 disputes of this kind).

The Bank of Lithuania took a [decision](#), which assessed whether, at the moment of an incident, a vehicle that could be used for work-related purposes was used for work-related functions or as a motor vehicle.

A consumer and insurer had disagreed on the interpretation of the term "insured event" set out in the Republic of Lithuania Law on Compulsory Insurance against Civil Liability in respect of the Use of Motor Vehicles. The insurer argued that the incident was caused by a vehicle (loader) which could be used for work-related purposes and deemed the accident non-insurable, however the applicant disapproved of such interpretation.

In its decision, the Bank of Lithuania noted that according to the practice established by the Lithuanian and EU courts, in order to determine whether an event is covered by compulsory MTPL insurance, it is necessary to assess whether at the moment of the incident the vehicle was used for work-related functions or as a motor vehicle.

Having evaluated the data provided by the parties to the dispute, the Bank of Lithuania found that the incident occurred due to non-compliance of the driver with the safety regulations (he put the vehicle in reverse and damaged another vehicle). Against this background, it was concluded that at the time of the incident the vehicle was used as a motor vehicle, which falls under the definition of "vehicle traffic" and the concept of an insured event as enshrined in the Republic of Lithuania Law on Compulsory Insurance against Civil Liability in respect of the Use of Motor Vehicles. On the basis of the aforementioned assessment, the Bank of Lithuania decided to satisfy the consumer's request and took a decision recommending the insurer to recognise the event as insured and to pay the consumer a compensation for the losses incurred. The insurer complied with the decision of the Bank of Lithuania.