

Activities of financial market participants

Review of Lithuania's Insurance Market

2019

REVIEW OF LITHUANIA'S INSURANCE MARKET
Activities of financial market participants
2019

ISSN 2335-8343 (online)

Publication prepared by:
Insurance Supervision Division
Prudential Supervision Department
Supervision Service

Contact information:
info@lb.lt

+370 800 50 500

© Lietuvos bankas, 2020
Gedimino pr. 6, LT-01103 Vilnius, Lithuania
www.lb.lt

Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

TABLE OF CONTENTS

1. OVERVIEW OF THE INSURANCE MARKET.....	5
2. REGULATORY CHANGES.....	5
3. INSURANCE MARKET DEVELOPMENTS.....	6
3.1. Insurance premiums	6
3.2. Insurance claims	8
4. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS LICENSED IN THE REPUBLIC OF LITHUANIA..	9
5. COMPLIANCE WITH SOLVENCY CAPITAL REQUIREMENTS	11
6. INSURANCE BROKERAGE FIRMS.....	12
7. SETTLEMENT OF DISPUTES BETWEEN CONSUMERS AND INSURANCE MARKET PARTICIPANTS	12

The review of insurance market developments covers the overall activities of all Lithuanian 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 8 insurance undertakings and 96 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.

In the preparation of the review, the data and calculations of the Bank of Lithuania were used.

Abbreviations

AB	public limited liability company
EU	European Union
MTPL	motor third party liability
UADBB	private limited liability insurance brokerage company

1. OVERVIEW OF THE INSURANCE MARKET

In 2019, insurance premiums in Lithuania's insurance market totalled €945.9 million. Life assurance premiums comprised 28.6%, and non-life insurance premiums – 71.4%. The overall market growth stood at 7.7%, down by 3.1 percentage points compared to 2018, when the market increased by 10.8%. The slower pace of growth can be explained by a less rapid growth of non-life insurance premiums. In 2019, non-life insurance premiums increased by 7.2% and totalled €675.4 million, yet the growth rate of insurance premiums was 5.0 percentage points lower than a year ago. The premiums of all main classes of non-life insurance have saw growth, while health and property insurance premiums experienced the fastest increase. The life assurance market has been increasing quite rapidly: insurance premiums have risen by 8.9% over the year, to €270.4 million, and their growth rate was 1.6% higher than in 2018. Unit-linked life assurance constituted the main bulk of the life assurance sector (62.9%), experiencing the most rapid growth (12.6%). Over reference period, policyholders were paid €499.1 million in insurance claims – 10.3% more than last year.

In the reference period, almost all insurance undertakings registered in Lithuania operated at a profit, earning €45.4 million. All undertakings complied with their compulsory solvency capital requirements.

Activities of insurance brokerage firms were also profitable, earning them €3.4 million, a decrease of 14.7% year on year.

2. REGULATORY CHANGES

More information on unit-linked life assurance products is now available to consumers and the market.

The Bank of Lithuania has undertaken new measures in order to increase transparency in the unit-linked life assurance market. Starting from 2020, the Bank of Lithuania will receive more information from insurers regarding their unit-linked life assurance products, which will be summarised and published on the website of the Bank of Lithuania along with the respective review. By 31 May of each calendar year, insurers engaged in the distribution of unit-linked life assurance products will have to provide the Bank of Lithuania with the required information by completing the approved reporting forms, i.e. data on all deductions applied to a unit-linked life assurance product by category, from each premium paid, from the value of assets accumulated, from the amount of cash recovered, etc. Furthermore, information must be provided on the total amount of deductions payable within 5, 15 or 30 years (in euro) upon acquiring a unit-linked life assurance product with periodic premiums intended to be used for saving purposes or for both saving and protection purposes. As the amount of certain deductions (such as investment management) varies depending on the investment direction and its riskiness, insurers must provide the Bank of Lithuania with information on the deductions of investment directions attributed to different investment strategies (low-risk, medium-risk, high-risk and life-cycle strategies) which are the largest in terms of the value of assets accumulated by clients. Insurers will also have to provide information on changes in the value of a unit of investment directions attributed to investment strategies of different risk profiles (low-risk, medium-risk, high-risk, life-cycle) over 15 years or throughout the entire life cycle of the investment direction.

With more information on the deductions applied to unit-linked life assurance products and the results of investment directions available, current and potential clients of life assurance companies will find it easier to compare different products and their benefits and insurers will be encouraged to create higher added value for the customer, e.g. by reducing the deductions applied to unit-linked life assurance products and by aiming towards a better return on their investment.

A review of the granting of a replacement car has been performed.

Having regard to consumer inquiries and irregularities within the practice of granting a replacement car, the Bank of Lithuania has performed an analysis of the practice (based on MTPL compulsory insurance) and

provided insurers with recommendations. It was found that the practice of insurance undertakings was indeed varied and ambiguous. The Bank of Lithuania has nonetheless managed to distinguish the characteristics pertaining to both better practices and worse practices. In the opinion of the Bank of Lithuania, the granting of a replacement car via the insurer's partners has an advantage over the cases where the insurers cover the car rental invoices submitted by an injured party. Therefore, the Bank of Lithuania has recommended that insurance undertakings entered into cooperation agreements with the companies providing car rental services. Furthermore, having regard to the fact that the process of granting a replacement car is commonly not specified, the Bank of Lithuania has recommended the insurers to have the procedure of granting a replacement car, as well as the related reimbursement procedure, described in their internal regulations and published on their websites. Furthermore, the Bank of Lithuania has received consumer inquiries regarding the failure of the insurers to provide a specific answer as to whether the expenses of renting a replacement car would be covered, therefore, the review includes a recommendation for the insurers to define specific conditions of reimbursement of expenses related to renting a replacement car (i.e. the determination of a liable party, maximum rental price, applicable period in each case, etc.) and to inform the respective person thereof. For more examples of the practice and related recommendations, see: https://www.lb.lt/uploads/publications/docs/24389_25698ffc9d54a266e44c358c8eeea931.pdf.

A leaflet on the issue of a replacement car has been also made available to the consumers on the website of the Bank of Lithuania: <https://www.lb.lt/lt/naujienos/vartotojo-teises-kada-galite-gauti-pakaitini-automobili-po-eismo-ivykiu>.

3. INSURANCE MARKET DEVELOPMENTS

In the country's market, insurance services were provided by 20 insurers registered in Lithuania: 8 undertakings and 12 branches of companies registered in other EU Member States. 8 insurers were engaged in life assurance activities, 12 – in non-life insurance activities. 96 insurance brokerage firms were operating at the end of the reference period.

3.1. INSURANCE PREMIUMS

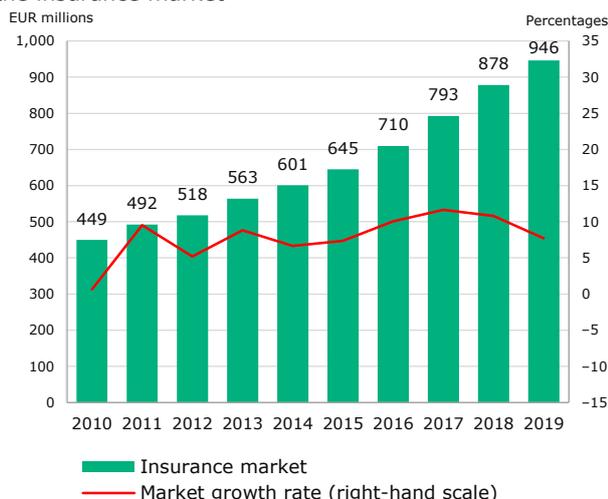
In 2019, the insurance market was on the rise, yet its growth was slower as compared to the respective period last year. Insurance premiums of insurance undertakings registered in Lithuania and of branches of insurance undertakings of other EU Member States established in Lithuania amounted to €945.9 million. Compared to 2018, the market grew by 7.7%. Growth of the life assurance market was more rapid than that of the non-life insurance market. Life assurance premiums increased by 8.9%, totalling €270.4 million, while non-life insurance premiums increased by 7.2%, totalling €675.4 million.

Table 1. Insurance premiums

No.	Insurance branches	Amount, EUR millions			Growth rate, %	
		31/12/2017	31/12/2018	31/12/2019	2018	2019
1.	Life assurance	231.3	248.3	270.4	7.3	8.9
2.	Non-life insurance	561.2	629.8	675.4	12.2	7.2
3.	Total	792.6	878.1	945.9	10.8	7.7

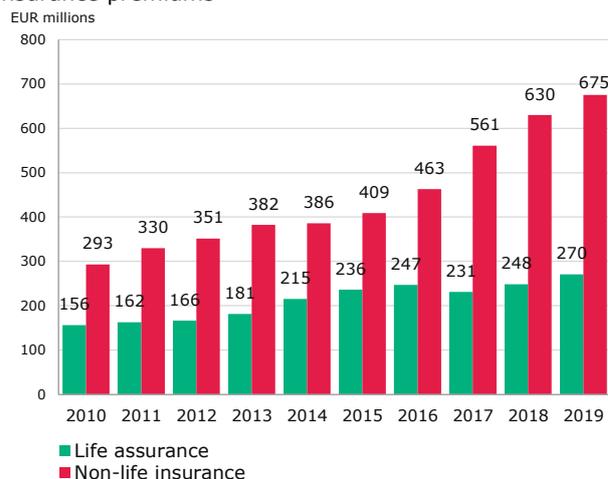
Source: Bank of Lithuania.

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

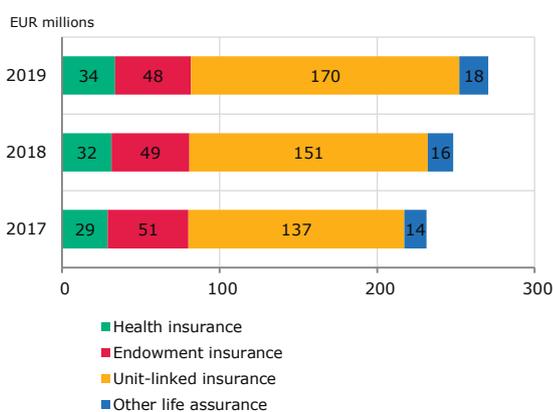


Source: Bank of Lithuania.

In 2019, 10.3% more new unit-linked insurance contracts were concluded compared to 2018.

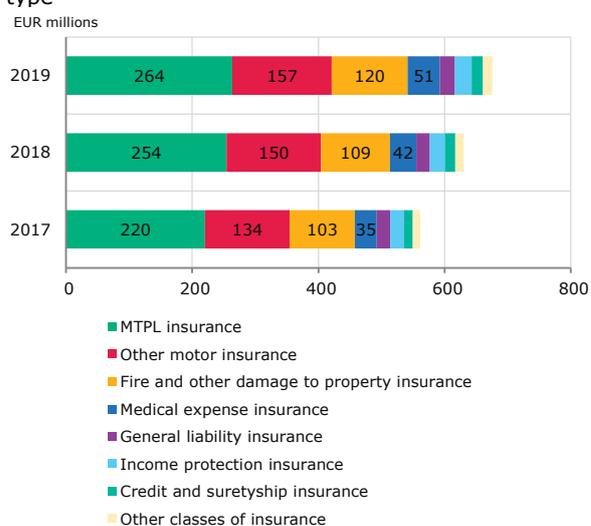
Such a rapid growth was mainly driven by the pension accumulation reform: residents had until 30 June 2019 to decide regarding their participation in the second-pillar pension accumulation system. As an alternative to the second-pillar pension accumulation system or as an additional means of accumulation, a part of residents opted towards the conclusion of unit-linked life assurance contracts. The peak of the number of unit-linked life assurance contracts concluded was recorded in June–July. Unit-linked life assurance premiums account for 62.9% (€170.2 million) of total life assurance premiums, i.e. a year-on-year increase of 12.6%. The amount of unit-linked life assurance premiums grew at a 3.7 percentage point more rapid rate than the amount of the premiums of the entire life assurance market. The number of concluded traditional life assurance contracts with the accumulation element decreased by 9.2% and the amount of premiums declined by 2.4%, as compared to the previous year, to stand at €48.1 million. The number of concluded traditional life assurance contracts with the accumulation element is increasingly dropping, as the low interest rate environment makes the product less attractive to policyholders. Moreover, insurers migrate from the conclusion of traditional insurance contracts towards the distribution of other products. Health insurance premiums, which essentially serve as an additional protection for the conclusion of life assurance contracts with the accumulation element, grew by 7.3%, to €33.8 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.

In 2019, health insurance and property insurance premiums saw the most rapid increase in the non-life insurance market. The amount of health insurance premiums increased by 18.7% year on year, to stand at €77.7 million, and the amount of property insurance premiums increased by 10.3% year on year, totalling €120.2 million. MTPL insurance premiums grew by 3.8% and the amount of MTPL insurance premiums increased by €263.8 million. The number of MTPL insurance contracts surged by 4.8%, mainly as a result of the 5.9% increase in the vehicle fleet recorded over 2019. The number of insurance contracts of other motor vehicles rose more rapidly than the amount of insurance premiums. The amount of insurance premiums of this class increased by 4.8%, to stand at €157.1 million, while that of new contracts – 7.2%. The average premium under contracts concluded dropped by 2.3% over the year, while the trend in 2018 was the opposite, as the year saw a 9.1% increase.

3.2. INSURANCE CLAIMS

More insurance claims were paid compared to 2018. In 2019, insurers paid €499.1 million in insurance claims, a year-on-year increase of 10.3%. Major differences in the growth rate of claims were observed in terms of insurance branches: life assurance claims increased by 1.1%, to €130.3 million, while non-life insurance claims increased at a much more rapid rate, by 13.9%, to €368.8 million.

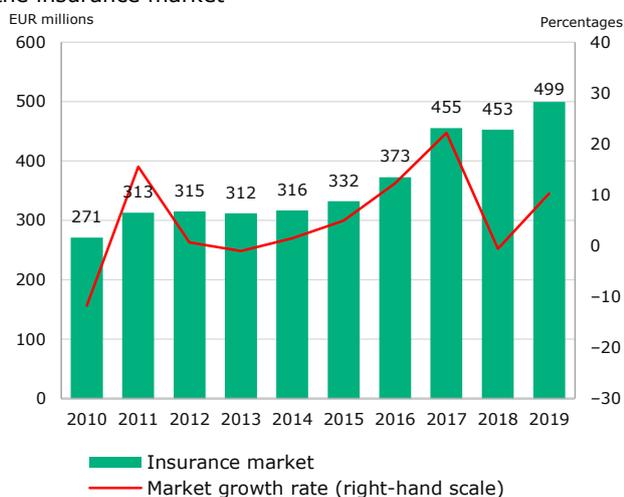
Table 2. Claims paid

No.	Insurance branches	Amount, EUR millions			Growth rate, %	
		31/12/2017	31/12/2018	31/12/2019	2018	2019
1.	Life assurance	151.4	128.9	130.3	-14.8	1.1
2.	Non-life insurance	303.9	323.7	368.8	6.5	13.9
3.	Total	455.3	452.6	499.1	-0.6	10.3

Source: Bank of Lithuania.

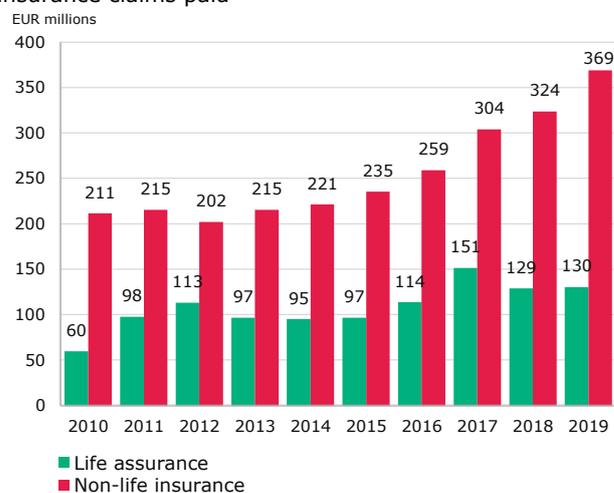
As in previous periods, the majority of life assurance claims comprised claims over the termination of a contract or partial payment of accumulated amounts – €74.0 million, or 56.8% of total claims. Compared to 2018, the share of claims over the termination of a contract or partial payment of accumulated amounts in the portfolio of life assurance claims increased by 1.2 percentage points. Claims paid upon the expiration of life assurance contracts accounted for 29.4% of life assurance claims (€38.3 million), while in 2018 these claims comprised 32.1% (€41.4 million) of total life assurance claims. Compared to 2018, the share of claims paid upon the expiration of life assurance contracts in the portfolio of life assurance claims decreased by 2.7 percentage points. Damage payables under life assurance contracts accounted for 12.8% of life assurance claims (€16.7 million), while in 2018 these claims comprised 11.5% (€14.8 million) of total life assurance claims. Compared to 2018, the share of damage payables in the portfolio of life assurance claims increased by 1.4 percentage points. Annuity payments increased by 21.0% (€1.2 million), accounting for a meagre 1.0% of total life assurance claims.

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.

Non-life insurance claims accounted for 73.9% of total claims paid. The main bulk of non-life insurance claims were related to insured vehicles, comprising 68.5% (€252.7 million) of total non-life insurance claims. The amount of MTPL insurance claims paid increased by as much as 14.6%, to stand at €148.0 million, and the amount of MTPL insurance premiums rose by only 3.8%. The amount of claims of other transport vehicle insurance increased by 15.0% (€106.7 million), and the amount of premiums gained by only 5.1%. Such results indicate that the profitability of these classes is declining or that losses are even rising. The number of units of claims paid has not significantly changed (MTPL rising by 8.6%, other motor vehicles – 5.0%). These data show that the average claim is increasing. The increase in the average claim is fuelled by rising vehicle repair fees, the upgrading of the vehicle fleet, and the growing economy. The number of units of claims was affected by the expanding vehicle fleet and the increased frequency of events. Property insurance claims totalled €55.0%, or 4.4% more compared to 2018. The number of units of property insurance claims paid increased at the same rate as the amount of claims, therefore, the average claim remained stable.

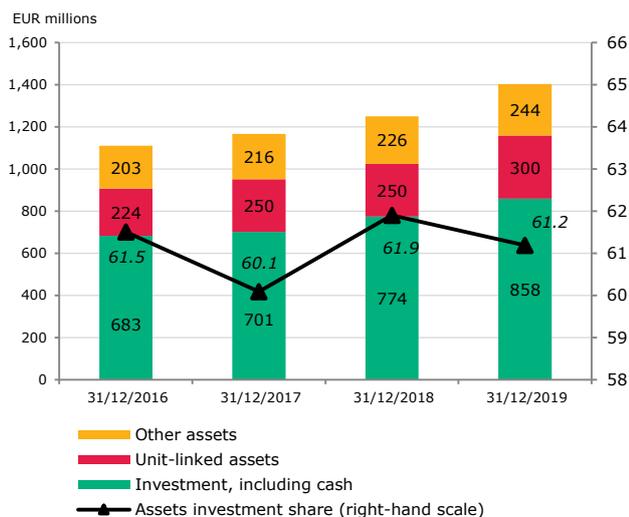
4. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS LICENSED IN THE REPUBLIC OF LITHUANIA

In 2019, the activities of the SEB life assurance undertakings operating independently in the Baltic States were reorganised. The reorganisation process was completed in 2019. AB SEB gyvybės draudimas, which had been operating in Lithuania for a number of years, ceased its activities and its insurance contract portfolio was transferred to SEB Life and Pension Holdings AB, a company registered in the Republic of Latvia and continuing its activities in Lithuania through its branch. To guarantee comparable results of the data analysed, the data of the then-operating AB SEB gyvybės draudimas are deduced from previous reporting periods.

The amounts of the assets and liabilities of insurance undertakings posted growth. In 2019, the value of assets managed by insurance undertakings exceeded €1.4 billion, increasing by 12.2% year on year. The assets managed by both non-life insurance undertakings and life assurance undertakings increased at a similar pace, in absolute terms (upon eliminating the impact of the reorganisation of AB SEB gyvybės draudimas), with no major changes recorded: the assets of life assurance undertakings increased by €76 million, to €672 million, and the assets of non-life insurance undertakings surged by €77 million, exceeding €731 million.

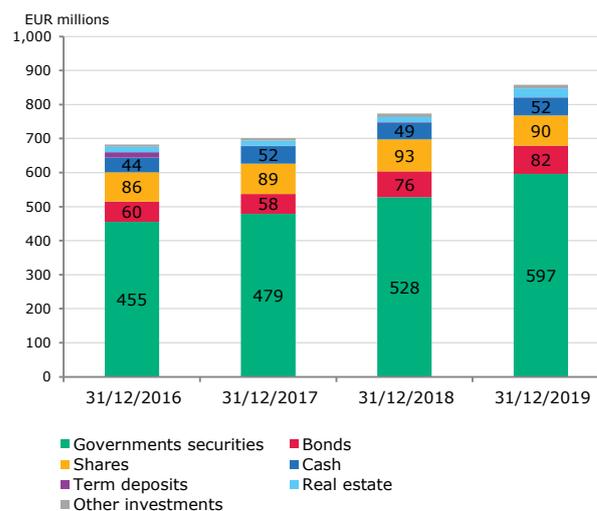
Growth in the assets of life assurance undertakings was mainly determined by the increased volume of unit-linked life assurance assets entrusted to policyholder entities. The volume of these assets expanded by more than €50 million over the year, or 20%, to stand over €300 million at the end of the year. The amount of unit-linked life assurance showed an upward trend not only as a result of higher activity in the conclusion of new unit-linked life assurance contracts in the current year, but also as a result of the increased value of the investment unit. The amount of own investments of life assurance undertakings has also increased significantly, by 7.5%, to stand at €348 million at the end of the year, i.e. 51.7% of all assets. Growth in the assets of non-life insurance undertakings was mainly fuelled by the invested profits earned in previous reporting periods and undistributed profits. In 2019, the amended accounting of right-of-use assets exerted a significant influence of growth in the assets of insurance undertakings (following the implementation of the methodological changes to International Financial Reporting Standard Leases).

Chart 7. Composition of insurance undertakings' assets



Source: Bank of Lithuania.

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



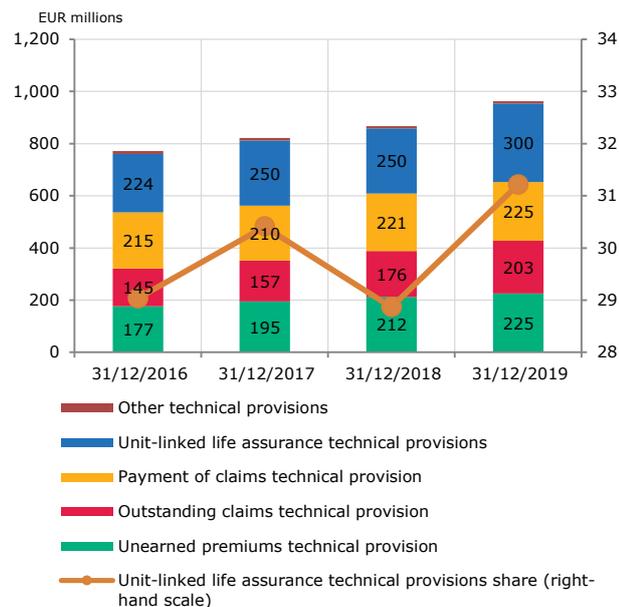
Source: Bank of Lithuania.

As at 31 December 2019, the volume of own funds investments of insurance undertakings totalled €858 million, a year-on-year increase of 10.9%. The structure of own funds of insurance undertakings changed marginally, with the majority, or 69.5%, of investments consisting of government debt securities and the amount of these investments increasing by €68.8 million over the year. As much as 95% of all investments in government securities comprised investments in the securities issued by the governments of EU countries and 43% – Lithuanian government securities. Investments in equity securities (including investments in collective investment undertakings) comprised the second largest investment direction, accounting for 10.5%, or €89.8 million, while investments in corporate debt securities amounted to nearly €82 million. Minimal changes in the structure of the investment portfolio of insurance undertakings suggest that while making investments in the presence of a lingering environment of low interest rates, investment undertakings are reluctant to make major changes and tend to be cautious when choosing more risky investment directions. Cash held in bank accounts totalled nearly €52 million, whereas investments in time deposits constituted a meagre €1.1 million, which points towards difficulties in finding profitable and less risky investment directions.

In 2019, own capital of insurance undertakings grew by more than 16%, to €313 million: own capital of non-life insurance undertakings totalled €207 million (an increase of €28 million), life assurance undertakings – €106 million (an increase of €16 million). Growth in own capital was due to the positive result of the revaluation of financial assets, profitable activities of undertakings, and the increase in the authorised capital of one of the undertakings. The amount of insurance liabilities of insurance undertakings totalled €962 million, i.e. an 11% increase compared to the end of 2018.

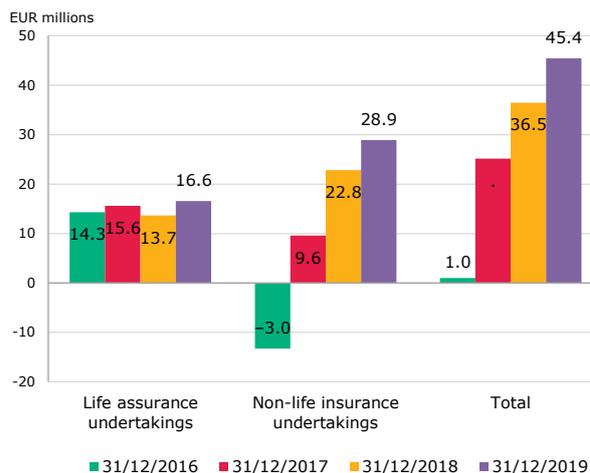
The year 2019 was good for insurance undertakings, as they all operated at a profit: the profits of life assurance undertakings stood at €16.6 million, i.e. a year-on-year increase of 21%, non-life insurance – €28.9 million, an increase of 26.5%. The largest share of the profits of non-life insurance undertakings was earned from the principal operating activities of insurance, while the overall positive result of investing activities was due to the amounts received upon the expiry of the term of the investments made in the presence of a more favourable investment environment. In 2019, shareholders of insurance undertakings were paid €23.4 million in dividends.

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



Source: Bank of Lithuania.

Chart 10. Operating result of insurance undertakings

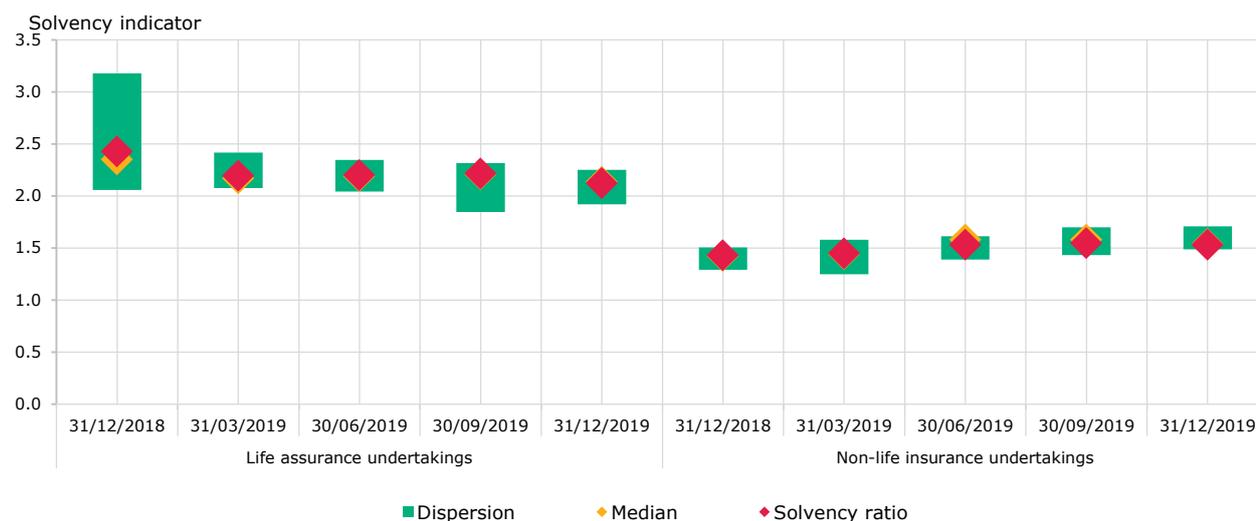


Source: Bank of Lithuania.

5. COMPLIANCE WITH SOLVENCY 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 2019, the solvency ratio of life assurance undertakings was 2.12, of non-life insurance undertakings – 1.53.

Chart 11. Indicators of insurance undertakings' solvency capital requirement



Source: Bank of Lithuania.

6. INSURANCE BROKERAGE FIRMS

According to the data of (draft) annual accounts as at 31 December 2019, the assets of insurance brokerage firms equalled EUR 46.9 million, a year-on-year increase of 24%. The main bulk of their assets (36.2%) was comprised of cash. Cash held on a separate account amounted to €3.8 million and was well above intermediaries' liabilities to insurance undertakings. Over the year, insurance brokerage firms collected €153.4 million in insurance premiums, which was transferred to insurance undertakings. The operations of insurance brokerage firms in reference period were profitable, with the profit earned amounting to nearly EUR 3.4 million. Compared to the respective period of the previous year, the profit earned declined by 14.7%. The operations of 75 out of 96 insurance brokerage firms were profitable. The number of insurance contracts concluded by insurance brokerage firms increased by 28.4% year on year.

Table 3. Key performance indicators of insurance brokerage firms

No.	Indicators	Amount, EUR millions			Growth rate, %	
		31/12/2017	31/12/2018	31/12/2019	2018	2019
1.	Insurance contracts concluded, units	1,796,851	1,732,601	2,225,158	-3.6	28.4
2.	Dynamics of sales revenue, EUR thousands	45,350	47,861	56,599	5.5	18.3
3.	Result for reporting period, EUR thousands	4,571	3,950	3,369	-13.6	-14.7

Source: Bank of Lithuania.

According to the data of (draft) annual accounts as at 31 December 2019, own funds of insurance brokerage firms amounted to €22.2 million, a year-on-year increase of 11%. 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. At 31 December 2019, two insurance brokerage firms (UADBB Capital Insurance and Capital Insurance DRAUSIMKA) failed to comply with the minimum capital requirement, while the shareholders of another three insurance brokerage firms took action in advance to rectify the situation.

7. SETTLEMENT OF DISPUTES BETWEEN CONSUMERS AND INSURANCE MARKET PARTICIPANTS

In 2019, there were 333 disputes between consumers and insurance undertakings, which accounted for 67% of all consumer disputes settled at the Bank of Lithuania. Compared to 2018 – when 411 disputes were settled (77% of all disputes) – the number of disputes between consumers and insurance undertakings has markedly decreased. Such a decrease might stem from the meetings between the Bank of Lithuania and insurance undertakings on dispute prevention matters. It has been noted that the effort to resolve the disagreements with consumers and find a compromise solution is now more often made as soon as during the first contact with the consumer.

In the reference period, the Bank of Lithuania adopted 118 decisions over the subject matter of a dispute: in 43 cases – i.e. 36% of all disputes over the subject matter of a dispute – consumer requirements were satisfied fully (19) or partially (24). Investigation of 62 disputes between consumers and insurance undertakings was not started or they ended in consumers and insurance undertakings reaching a peaceful settlement or in satisfying of the consumer claim (in 2018 – 63 peaceful settlements).

The majority of disputes were related to non-life insurance contracts (320), of which 117 relate to MTPL insurance, 89 – property insurance, 45 – motor vehicles insurance (other than railway rolling stock) (CASCO), 16 – travel insurance, 13 – accident insurance. A downward trend has been noticed in nearly all non-life insurance groups, while only the number of disputes over MTPL compulsory insurance and general liability insurance has slightly increased.

The number of disputes over life assurance branches decreased significantly, compared to 2018, when 31 disputes were settled. In the reference period, only 8 similar disagreements between consumers and insurance undertakings were settled. In 2018, as many as 26 disputes of the 31 were related to unit-linked life assurance, whereas only 6 such disputes were settled in 2019.

In 2019, insurers more often tended to abide by the decisions adopted by the Bank of Lithuania: 93% of the recommendations of the Bank of Lithuania were implemented over the year (2018 – 91%). Recommendations of the Bank of Lithuania were not implemented in 3 cases (2 of these were failed to be implemented by the public limited liability insurance company Compensa Vienna Insurance Group, 1 – by the Lithuanian branch of Compensa Life Vienna Insurance Group SE).