



LIETUVOS BANKAS
EUROSISTEMA

Activities of financial market participants

Review of Lithuania's Insurance Market

2020

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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 99 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 as well as the supervision of compliance with solvency requirements 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

EU	European Union
MTPLI	motor third party liability insurance

1. OVERVIEW OF THE LITHUANIAN INSURANCE MARKET

The coronavirus pandemic that unexpectedly broke out last year and paralysed the entire world, has also affected the Lithuanian insurance market. Its effect on life assurance and non-life insurance has varied: the volume of the life assurance market followed an upward trend, while the volume of the non-life insurance market diminished. Since the majority of non-life insurance contracts were concluded for a year, the announcement of the pandemic and the resulting restrictions on some activities or areas significantly contributed to the decline of the market, in particular in the sector of transport vehicle insurance. Although the conclusion of life assurance contracts was also affected by the pandemic and resulting restrictions, an overall growth in life assurance premiums was observed due to the increase in premiums under life assurance contracts concluded in previous periods. Unit-linked life assurance constituted the bulk of the life assurance sector, experiencing the most rapid growth (11%). In the reporting period, the amount of insurance claims paid to policyholders was almost the same as in 2019.

The year 2020 was exceptional due to the COVID-19 pandemic: Lithuania suffered two waves of the pandemic, a substantial part of the economic sectors was put under restrictions, while residents were also subject to a variety of restrictions. As regards the insurance market, it may be observed that the pandemic had affected the insurance market, yet the effect was not as significant as could have been expected at the beginning of the pandemic. Insurers' quick reaction and proactive actions contributed to the assessment and management of new risks that arose during the pandemic, bringing to light the vulnerable fields of activity that require attention and investment of additional resources. The number of newly concluded contracts decreased both in non-life insurance and life assurance. It can therefore be concluded that the market needs improvement in terms of contactless conclusion of contracts and a higher level of digitalisation needs to be achieved while looking for new solutions.

In the reporting period, the overall operating result of insurance undertakings registered in Lithuania was positive and amounted to €50 million. All insurance undertakings, except for one, earned a profit. Furthermore, all undertakings not only complied with their compulsory solvency capital requirements, but also had a significant buffer exceeding the required capital. Thanks to the implementation of the recommendations of the Bank of Lithuania provided in the exceptional circumstances (for example, to suspend dividend payments to shareholders from the profit earned in 2019 and equity buy-outs) and to the merger of two non-life insurance undertakings, the insurance undertakings registered in the Republic of Lithuania expanded their assets and strengthened their capital base.

According to the draft financial statements for 2020, insurance brokerage firms also operated profitably earning nearly €7 million, i.e. 2.3 times more than in 2019.

As of 1 July this year, the State Social Insurance Fund Board under the Ministry of Social Security and Labour (hereinafter – SoDra), which performs the function of the pension annuity payer and manages the Pension Annuity Fund, started providing the service of pension annuity payment of the funds accumulated in second-pillar pension funds.

2. DEVELOPMENT OF THE LITHUANIAN INSURANCE MARKET

Insurance services were provided by 19 insurers registered in Lithuania: 8 undertakings and 11 branches of companies registered in other EU countries, of which, 8 insurers were engaged in life assurance activities and 11 – in non-life insurance activities. The life assurance market share held by branches comprised 63% of the market, while their share in the non-life insurance sector accounted for 51%. 99 insurance brokerage firms were operating at the end of 2020.

2.1. INSURANCE PREMIUMS

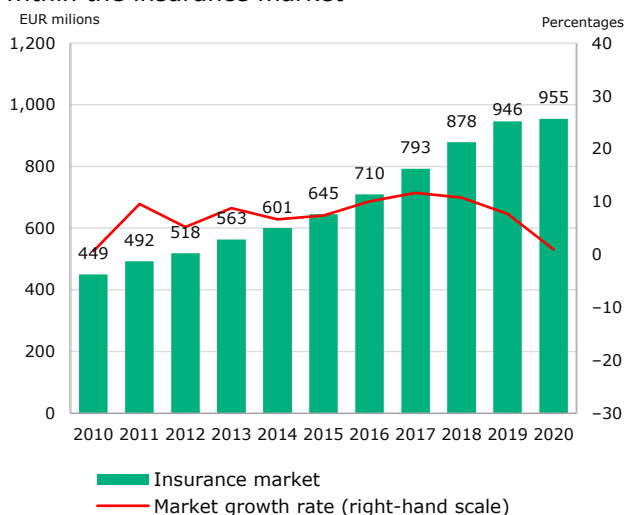
In 2020, insurance premiums of the insurance undertakings registered in Lithuania and branches of insurance undertakings of other EU Member States established in Lithuania amounted to €955 million, a year-on-year increase of just 1%. Life assurance premiums continued to expand quickly, increasing by 7.5%, to €291 million, while non-life insurance premiums contracted by 1.7%, totalling €664 million.

Table 1. Insurance premiums

No.	Types of insurance	Amount, EUR millions			Growth rate, %	
		2018	2019	2020	2019	2020
1.	Life assurance	248.3	270.4	290.7	8.9	7.5
2.	Non-life insurance	629.8	675.4	664.1	7.2	-1.7
3.	Total	878.1	945.9	954.9	7.7	1.0

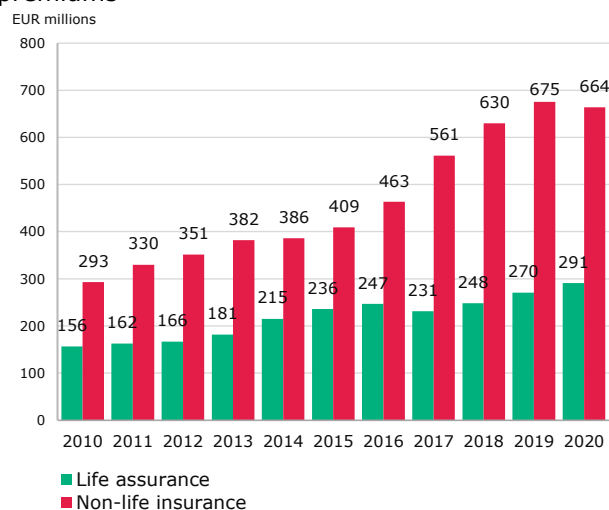
Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

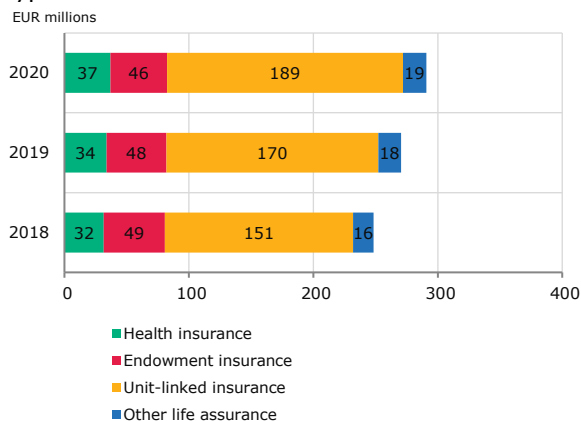
Chart 2. Dynamics of life and non-life insurance premiums



Source: Bank of Lithuania.

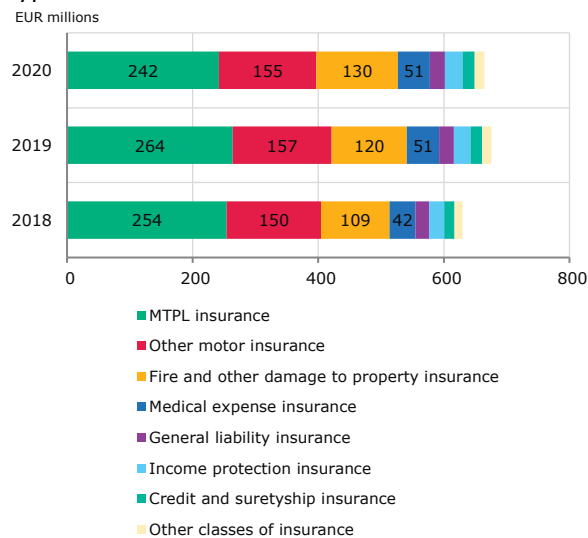
Growth in the life assurance market in 2020 was driven by unit-linked life assurance. Unit-linked life assurance premiums, comprising over 65% of the entire portfolio of life assurance premiums, increased by another 11.3% and amounted to €189.4 million. This increase was mainly related to the insurance premiums received as a result of contracts concluded in previous periods. Despite the strong growth in premiums, the side-effects of the pandemic last year as well as the economic uncertainty contributed to a significant decline in the demand for unit-linked life assurance products, as shown by the 25% slump in the number of new unit-linked life assurance contracts. The premiums of assurance on survival decreased insignificantly, by 2.8% only, yet the number of such contracts dropped by 34%. This trend in assurance on survival has been observed for several years already and can be explained by the fact that the interest rate guaranteed by the insurers selling this product is decreasing due to the persisting environment of low interest rates. The number of contracts of insurance in case of death increased by 6% and related insurance premiums – by 3%. The main reason behind the growth in this insurance sector is likely the increase in the number of housing loans issued by credit institutions last year and the resulting obligation for policyholders to take out life assurance. The premiums of health insurance, which constitutes a supplementary protection measure in addition to endowment assurance contracts, increased by 9.3% and amounted to €37 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 regards the non-life insurance market, the volume of the transport insurance market was most severely hit by the pandemic. MTPLI premiums, which comprised the largest share (35.7%) of the non-life insurance market, totalled €237.1 million last year and were 8.4% lower than in 2019 and 5% lower than in

2018. The quarantine imposed in the country twice over last year in order to tackle the pandemic, the resulting decrease in road traffic and stronger competition determined the amount of MTPLI premiums, as its sharp decline in March, April and December resulted in an annual decline in insurance premiums. Lower number of insurance contracts concluded in recent months resulted in a 5.5% decline in the number of MTPLI contracts concluded over last year. Such developments in the amount of MTPLI premiums and the number of insurance contracts concluded reflect the decline in the average premium, continuing for the past two years already. Land (other than railway) transport insurance (CASCO) premiums decreased more moderately, i.e. by as little as 1.3%, to €154.4 million, yet the number of insurance contracts concluded was nearly one-fifth lower. The average CASCO premium decreased dramatically and was lower than in the period of 2017 to 2019. Property insurance was affected differently, as it experienced an upturn. Property insurance premiums rose by 8.3% and totalled €130.2 million. The changes in the average property insurance premium were minimal, since the volume of this type of insurance was very similar both in terms of premiums and concluded contracts: the number of insurance contracts concluded increased by 9.1%. The pandemic has confined the travellers in the entire world. Consequently, the number of medical expense insurance contracts concluded dropped more than 3 times, whereas the number of income protection insurance contracts concluded went down by 15%. It should be noted that there was an upsurge in the volume of supplementary voluntary health insurance covering non-life insurance, where the health of the insured person is insured and the insurer bears the costs incurred by healthcare institutions or other institutions due to the treatment or other services granted to the insured person: the number of insurance contracts nearly doubled, while the amount of insurance premiums increased by 14%, to €43.5 million.

2.2. INSURANCE CLAIMS

Despite the decline in insurance premiums, the amount of insurance claims paid by insurers did not decrease. The insurers engaged both in the life assurance and non-life insurance activities in Lithuania paid €500.7 million in insurance claims, which is an increase of 0.3%, compared to 2019. As regards the volume of claims by type of insurance, the trends observed are somewhat varied. Life assurance claims decreased by nearly 3%, totalling €126.5 million, while non-life insurance claims increased by 1.4%, totalling €373.8 million.

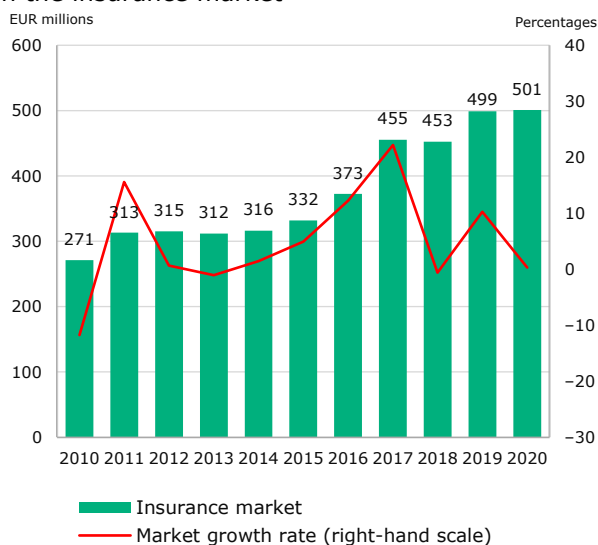
Table 2. Claims paid

No.	Type of insurance	Amount, EUR millions			Growth rate, %	
		2018	2019	2020	2019	2020
1.	Life assurance	128.9	130.3	126.5	1.1	-2.9
2.	Non-life insurance	323.7	368.8	374.2	13.9	1.5
3.	Total	452.6	499.1	500.7	10.3	0.3

Source: Bank of Lithuania.

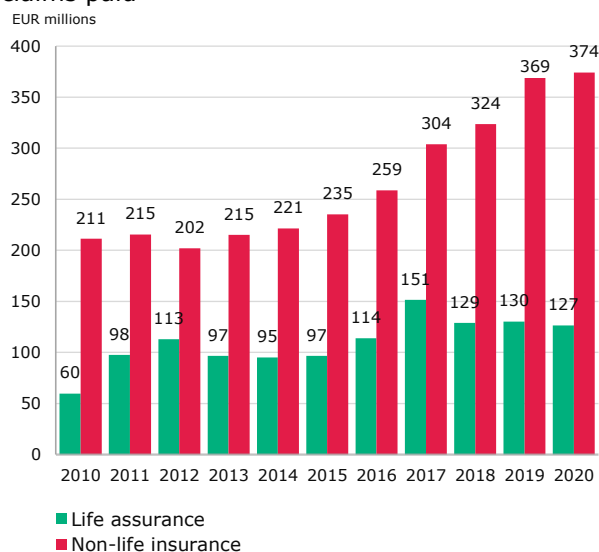
During the crises caused by economic consequences, residents would normally seek to terminate their life assurance contracts or to partially withdraw the accumulated amounts in order to protect their savings from unwanted stock market volatilities. The changes happening last year were not triggered by economic factors, therefore, the behaviour of residents was different: on the contrary, the claims of unit-linked life assurance, which comprises the bulk of life assurance, paid out upon termination of a contract as well as partial payments of accumulated amounts decreased by 7.4% year on year, to €61 million. However, it should be noted that the stock market volatilities last spring caused a short-term increase in both the number and the absolute amount of unit-linked life assurance claims paid upon the termination of an insurance contract. The amount of claims of assurance on survival increased by 2.4%, to nearly €25 million. The same growth trend of claims of this type of insurance as a result of termination of insurance contracts was also be observed in previous periods. The amount of health insurance claims decreased by 8.4%, to nearly €10 million.

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



Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

In 2020, insurance claims paid under MTPLI contracts totalled €146.2 million and were 0.1% higher than a year ago. The decrease in traffic due to the quarantines imposed last year led to the number of MTPLI claims paid by insurers registered in Lithuania declining by 8.4%, compared to the previous year. Such developments of claims in terms of the absolute amount paid and the number of payments indicate an upturn of the average claim. Regardless of the growth in the CASCO sector, the claims paid in this type of insurance declined by 5.5%, to €100.8 million, owing to the same reasons as in the case of MTPLI. Claims paid under property insurance amounted to €68 million, a year-on-year increase of 24%. In the third quarter alone, damage payables were 2.2 times higher than in the first and second quarters, totalling €30.5 million. Property

insurance claims picked up in the summer as a result of storm damage to property: the amount paid in July to September alone totalled €30.5 million. The effect of storms can be very clearly seen in the case of crop insurance: the amount paid in 2020 was equal to €8.5 million, i.e. almost 3 times up higher than the amount of claims paid in 2019, when these claims comprised just slightly more than €3 million.

3. REVIEW OF THE ACTIVITY OF THE PENSION ANNUITY FUND

As of 1 July 2020, the Pension Annuity Fund managed by SoDra started providing the service of pension annuity payment of the funds accumulated in second-pillar pension funds. Over the first six months of operation, the Pension Annuity Fund received 239 applications and adopted respective decisions for the payment of pension annuities, amounting in total to nearly €3.7 million. Residents most frequently opted for a standard pension annuity with a guaranteed payment period and, less frequently, for a deferred pension annuity. The Pension Annuity Fund established a technical provision in the amount of more than €3.5 million and paid €44.5 thousand over the first few months of operation.

Table 3. Performance indicators of the Pension Annuity Fund in 2020

No.	Type of pension annuity	Applications received and decisions adopted for the payment of a pension annuity, units	Pension annuity contributions, EUR	Pension annuity benefits, EUR
1.	Standard pension annuity ¹	52	884,036	11,261
2.	Standard pension annuity with a guaranteed payment period ²	155	2,673,951	33,248
3.	Deferred pension annuity ³	32	96,629	0
4.	Total	239	3,654,616	44,509

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

The 2019-2020 reorganisation process of two non-life insurance undertakings operating in the Baltic market and owned by Vienna Insurance Group, i.e. ADB Compensa Vienna Insurance Group and Seesam Insurance AS, was completed on 1 July 2020. As a result of the reorganisation process, ADB Compensa Vienna Insurance Group, which was registered in the Republic of Lithuania, was merged with Seesam Insurance AS, which was registered in the Republic of Estonia, therefore, the effect of this merger has to be taken into consideration while drawing comparisons of the current developments of the assets and liabilities of insurance undertakings registered in Lithuania with previous reporting periods.

¹ Standard pension annuity is a service where the payer of a pension annuity, upon receiving a lump sum contribution from the funds accumulated in a pension fund, starts making pension annuity payments to pension annuity recipients until the end of life. Standard pension annuity is not hereditary.

² Standard pension annuity with a guaranteed payment period is a service where the payer of a pension annuity, upon receiving a lump sum contribution from the funds accumulated in a pension fund, starts making pension annuity payments to pension annuity recipients until the end of life. Where the recipient of a pension annuity dies before the guaranteed payment period defined in the decision on the standard pension annuity payment, the lump sum pension annuity benefit for the amount of pension annuities for the remaining guaranteed payment period that in the event of death had not been paid to the recipient under the standard pension annuity with a guaranteed payment period is to be inherited under the procedure established in the Civil Code.

³ Deferred pension annuity is a service where the payer of a pension annuity, upon receiving a lump sum contribution from the funds accumulated in a pension fund, starts making periodic pension annuity payments to pension annuity recipients when they reach the age of 85 until the end of life. Deferred pension annuity is not hereditary.

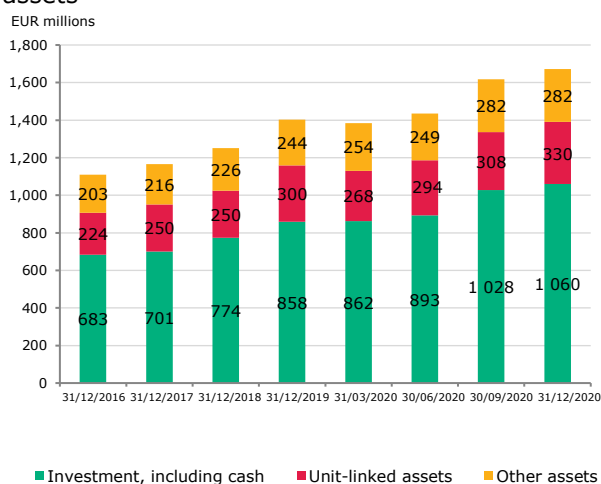
The assets managed by insurance undertakings amounted to €1.672 billion at the end of 2020, increasing by almost 20% during the reporting period, mainly due to the merger of undertakings.

In the reporting period, the assets of life assurance undertakings increased by nearly 9% and totalled €731.3 million. Following the reorganisation of non-life insurance undertakings, the amount of assets managed by the insurance undertakings engaged in this insurance activity was nearly €210 million higher than that of life assurance undertakings, totalling €940.6 million.

As in previous periods, the developments in life assurance assets stem from the fluctuations in unit-linked life assurance assets: the amount of unit-linked life assurance assets, which declined in the first quarter of the year due to the developments caused by the global pandemic and the resulting decline in the value of an investment unit, recovered in the second quarter of 2020, reaching €330 million at the end of the year and exceeding the value of assets managed at the end of 2019 by 10%. The change reflects not only the increase in the value of investment units, but also the recovery of new contracts concluded following the restrictions of the quarantine imposed in the spring. Compared to the end of 2019, the amount of equity investment of life assurance undertakings (including cash) rose by 8.5%, amounting to nearly €377 million and comprising 52% of total assets. It should be noted that such substantial increase in own funds was also related to the fact that insurance undertakings abstained from dividend payment to shareholders in 2020. Consequently, all profits earned in 2019 remained with insurance undertakings, thus contributing to the increase in the assets managed by them and to the strengthening of their capital positions: in 2020, the equity capital of insurance undertakings increased by as much as 20.7%, to €128 million, of which, 37% were retained earnings for the previous periods and the reporting period.

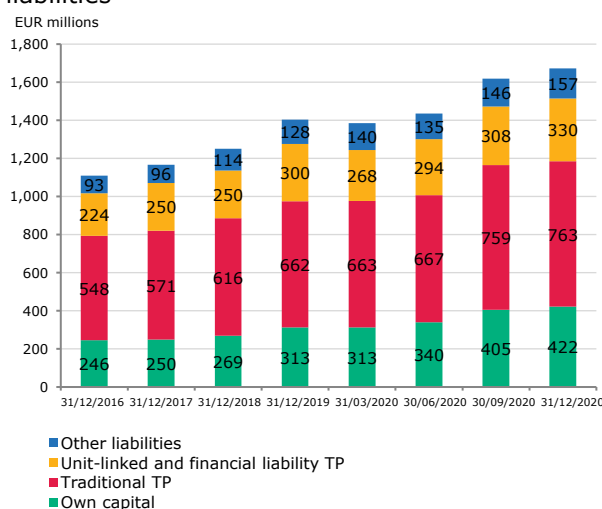
In the last quarter of 2020, the growth of assets of non-life insurance undertakings to €682.5 million resulted from the increase in the amount of equity investments (including cash) of 3.8%. The composition of liabilities remained broadly unchanged, i.e. liabilities arising from non-life insurance contracts accounted for more than half of liabilities (54%, €506 million), while liabilities to shareholders or equity capital reached €293 million and was also significantly affected by the suspended dividend payments in the reporting period.

Chart 7. Composition of insurance undertakings' assets



Source: Bank of Lithuania.

Chart 8. Composition of insurance undertakings' liabilities

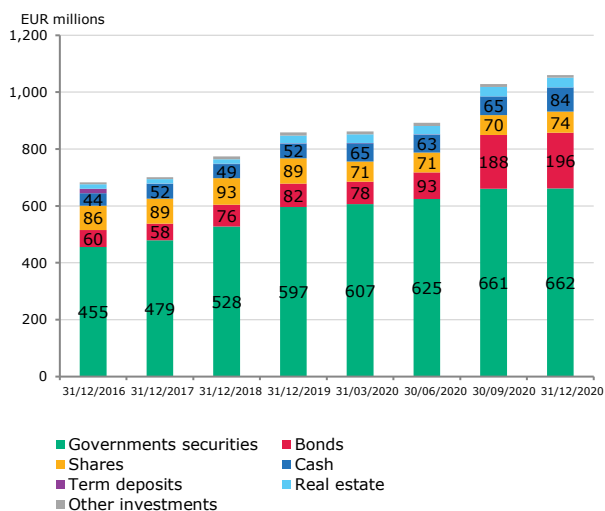


Source: Bank of Lithuania.

As of 31 December 2020, the volume of equity investments of insurance undertakings exceeded €1 billion, to stand at €1.06 billion. The composition of the investment portfolio of insurance undertakings is rather conservative: the bulk of investments consists of government debt securities, which are less dependent on

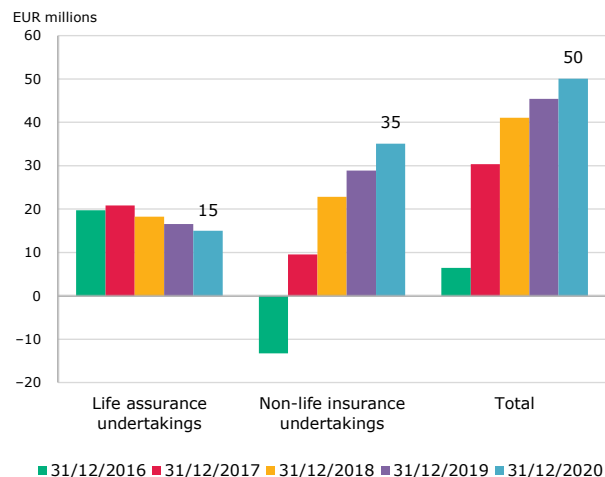
market fluctuations. Investments in securities issued by the EU governments comprise as much as 62.5%, or €662 million, of total investment in government securities. Investments in bonds of other companies were the second largest investment direction, accounting for 18.5% of all investments, or €195.8 million. The amount of investments in equity securities (including collective investment undertakings) totalling €74 million was lower than the amount of cash held on settlement accounts with credit institutions, exceeding €84 million. It is likely that the basis for these developments was not only the redemption of maturing securities, the environment of low interest rates, which renders it impossible for insurance undertakings to acquire secure investment products at a desirable return, but also the intentions of insurance undertakings to maintain the liquidity of funds to be able to pay dividends to shareholders in 2021.

Chart 9. Composition of insurance undertakings' equity investment



Source: Bank of Lithuania.

Chart 10. Operating result of insurance undertakings



Source: Bank of Lithuania.

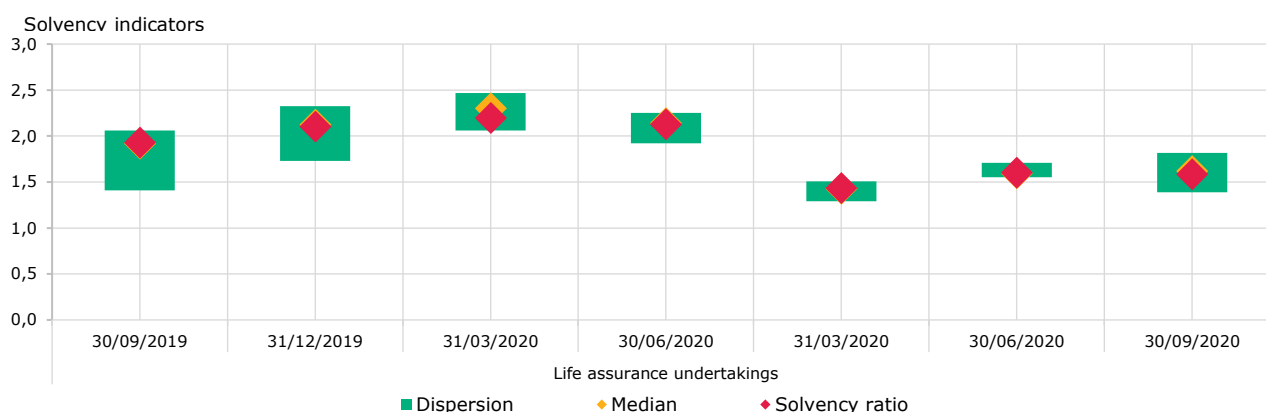
Insurance undertakings registered in the Republic of Lithuania earned the profit of €50 million, 10% more than in 2019. The profit earned by life assurance undertakings amounted to nearly €15 million, which is a year-on-year decrease of 10%. Although the outbreak of the pandemic triggered a fall in the number of new life assurance contracts this year, the administered portfolio of insurance contracts concluded in previous years secured stability of life assurance undertakings, despite the decrease in earned profits. The profit earned by non-life insurance undertakings amounted to nearly €35 million, which is a year-on-year increase of 22%. Regardless of the contraction of insurance activity, the operating result of the undertakings engaged in this activity was positively affected by the difference in the amount of technical provision for unearned premiums established in previous periods, decline in the costs of insurance claims and the merger of undertakings. All insurance undertakings operated at a profit, except for one life assurance undertaking.

5. COMPLIANCE WITH SOLVENCY CAPITAL REQUIREMENTS

All insurance undertakings complied with their solvency capital requirements.

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 suitable to meet the solvency capital requirement and the minimum capital requirement. As of 31 December 2020, the solvency ratio of life assurance undertakings was 2.01 and that of non-life insurance undertakings – 1.75.

Chart 11. Indicators of insurance undertakings' solvency capital requirement



Source: Bank of Lithuania.

6. INSURANCE BROKERAGE FIRMS

In 2020, 30% of the contracts within the insurance market were concluded through the mediation of insurance brokerage firms. As of 31 December 2020, 99 insurance brokerage firms operated in Lithuania's insurance market. In 2020, insurance brokerage firms mediated in concluding insurance contracts for the amount of 2.99 million. Compared to 2019, their number increased by 34.2%. As usual, insurance brokerage firms were most active in the non-life insurance market. The composition of the portfolio of insurance contracts concluded through the mediation of insurance brokerage firms changed, with the largest share of contracts, i.e. 50%, now attributed to MTPLI (cf. 66% of total contracts a year ago). Property insurance followed in the second place: the number of contracts of this type of insurance rose 7 times year on year. Sickness insurance was the third, followed by aid insurance and accident insurance.

Table 4. Key performance indicators of insurance brokerage firms

No.	Indicators	Amount, EUR millions			Growth rate, %	
		2018	2019	2020	2019	2020
1.	Insurance contracts concluded, thousand units	1,732.6	2,225.2	2,987.3	28.4	34.2
2.	Sales revenue, EUR thousands	47,861	56,438	58,192	17.9	3.1
3.	Result for the reporting period, EUR thousands	3,950	2,979	6,728	-24.6	225.8

Source: Bank of Lithuania.

Based on the data of the (draft) financial statements as of 31 December 2020, insurance brokerage firms' sales revenue (the insurance mediation activity) totalled €58 million, which is 3% more than in 2019. The operations of insurance brokerage firms in the reporting period were profitable, with the profit earned amounting to €6.7 million. Compared to 2019, their profit increased 2.3 times. The main reason behind the increase in profits is the change in the country's economy caused by the COVID-19 outbreak and the reduction in insurance brokerage firms' representation, transport, business trip and other costs as a result of the quarantine. The operations of 87 insurance brokerage firms were profitable.

The assets and equity capital of insurance brokerage firms increased by 1.1% and 23.6% respectively in 2020. As of 31 December 2020, one insurance brokerage firm failed to comply with the minimum equity capital requirement (the capital cannot be less than €19,510 and less than 4% of the insurance premiums received by an insurance brokerage firm over a year payable to insurers).

According to existing legal acts, insurance brokerage firms must hold the collected insurance premiums for settlement with insurers in separate bank accounts. This requirement was met in the reporting period. Over the year, insurance brokerage firms collected the amount of €123.5 million in insurance premiums, which was transferred to insurance undertakings.