



**LIETUVOS BANKAS**  
EUROSISTEMA

# Review of Lithuania's Insurance Market

## 1<sup>st</sup> Half-year of 2015

ISSN 2335-8343 (ONLINE)

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## Abbreviations

|       |   |
|-------|---|
| Casco | Motor vehicles insurance (other than railway rolling stock)           |
| GLI   | General liability insurance   |
| CMR   | Carrier third party liability insurance                               |
| MTPL  | Motor third party liability insurance                                 |
| GS    | Government securities   |
| UCITS | Undertakings for the collective investment in transferable securities |
| p. p. | percentage points   |

## Note:

Totals in the tables may not add up due to rounding.

## I. REVIEW OF THE INSURANCE MARKET

At the end of the first half of 2015, 22 insurers provided insurance services in the domestic market; 8 of them were engaged in the life assurance and 14 — non-life insurance activities. Over the second quarter of this year the list of insurers was abandoned by the no longer actively-operating *UADB Industrijos garantas*, the insurance business licence of which was revoked on 11 June 2015.

In the first half of 2015, the insurance undertakings registered in Lithuania and branches of insurance undertakings of other European Union Member States established in Lithuania wrote EUR 312.3 million in insurance premiums, an increase of 6.4 per cent year on year, and reached their highest performance.

Growth in insurance market volumes was spurred both by the life assurance and non-life insurance branches, albeit they grew at different rates. The life assurance market premiums written increased by 11.2 per cent — to EUR 106.6 million — over the first half of 2015 year on year, whereas the non-life insurance market recorded weaker growth of 4.0 per cent, and the non-life insurance premiums written amounted to EUR 205.7 million. With life assurance market growth rates outpacing non-life insurance market growth rates, the life assurance market share is increasing too: in the reporting period, the share of life assurance accounted for 34.1 per cent of the total insurance market portfolio, up from 32.6 per cent a year ago.

Considering the country's economic indicators and the insurance market performance in the period under review, the insurance market development projections are likely to be implemented at the end of 2015. As was projected, the rate of growth of the entire insurance market will be 7–8 per cent (of the life assurance market — 14–15%, the non-life insurance market — 4-5%). It should be noted that, as the branch of *MetLife Towarzystwo Ubezpieczen na Zycie i Reasekuracji Spolka Akcyjna* in Lithuania embarked on operations as of 1 March 2015 without establishment, the statistical data is only available for January and February 2015; as a result, excluding the data of the latter insurer, the insurance market would grow at a 7.1 per cent rate and would achieve the projection; accordingly, the life assurance market would grow by 13.8 per cent.

Table 1. Premiums written

| Insurance branches | Amount (EUR millions) | Growth rate |             |
|--------------------|-----------------------|-------------|-------------|
|                    |                       | H1 2015 (%) | H1 2014 (%) |
| Life assurance     | 106.6                 | +11.2       | +18.3       |
| Non-life insurance | 205.7                 | +4.0        | +3.4        |
| Total              | 312.3                 | +6.4        | +7.8        |

The life assurance volume growth rate slowed down to 11.2 per cent in the first half of 2015, down from the record 18.3 per cent rate a year ago. The weaker volume growth can be explained by the record large comparable database for the respective period in 2014. The rate of growth in the volume of unit-linked life assurance, which, traditionally, accounts for the largest life assurance portfolio share in terms of premiums written (70.0%), decreased to 13.5 per cent, down from 17.7 per cent year on year; however, the amount of premiums written boosted to record EUR 74.6 million. This indicates higher risk tolerance by the residents in choosing not the most conservative financial products, offering particularly low interest rates. The second largest life assurance class in terms of the portfolio of premiums written in case of survival grew insignificantly (2.7%) (to EUR 23.5 million). The volume of insurance in case of death and of annuities grew faster — by 14.0 per cent (to EUR 5.6 million) and 34.3 per cent (to EUR 2.6 million).

The amount of technical provisions managed by market participants engaged

Chart 1. Dynamics of premiums written within the entire insurance market (left-hand scale) and their growth rate (right-hand scale)

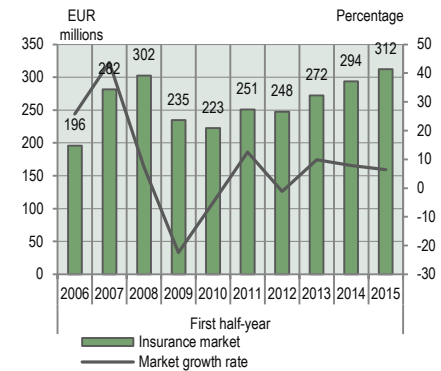


Chart 2. Dynamics of life assurance and non-life insurance premiums written

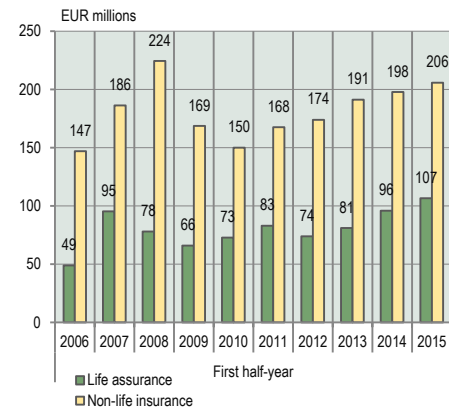


Chart 3. Dynamics of life assurance premiums written

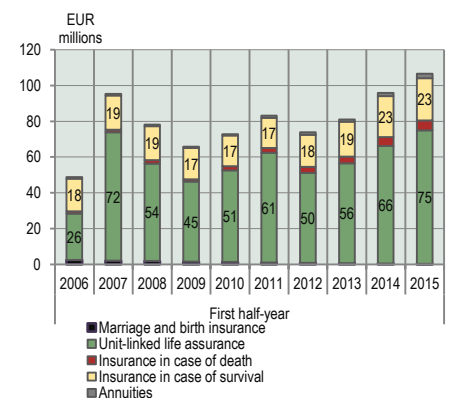


Chart 4. Concentration in the life assurance market in terms of the amount of technical provisions formed

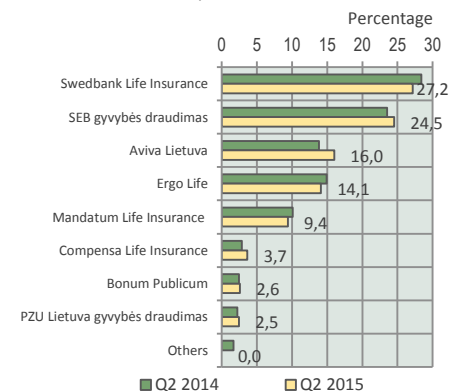


Chart 5. Dynamics of non-life insurance premiums written

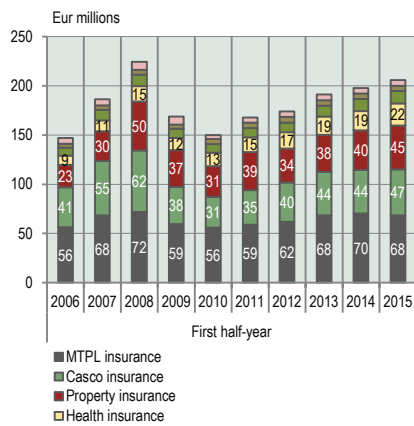


Chart 6. Concentration in the non-life insurance market in terms of premiums written within non-life insurance classes

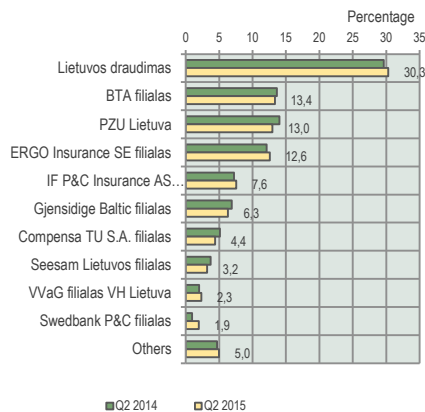


Chart 7. Dynamics of claims paid within the entire insurance market (left-hand scale) and their growth rate (right-hand scale)

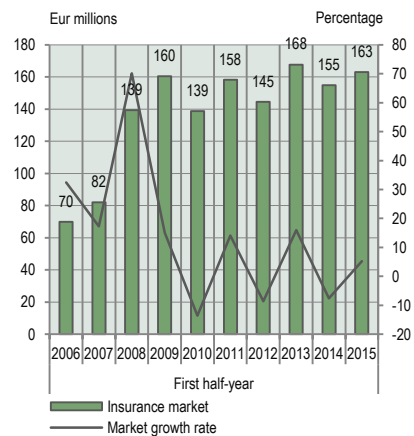
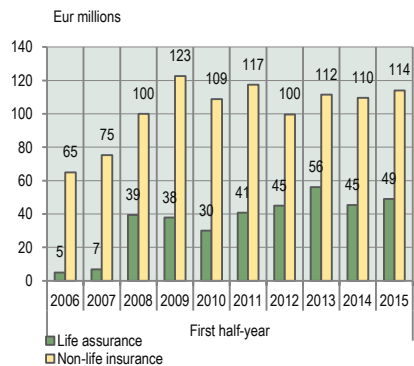


Chart 8. Dynamics of life assurance and non-life insurance claims paid



in the life assurance activity increased further and amounted to EUR 865.6 million at the end of the first half of 2015.

The composition of the portfolio of premiums written within the non-life insurance branch remained unchanged with the MTPL, Casco and property insurance classes prevailing. Growth in the non-life insurance market was mainly driven by the Casco, property and health insurance classes, while the negative impact on volume growth stemmed from the MTPL and suretyship insurance classes.

The amount of premiums written within the MTPL insurance class decreased by 2.9 per cent over the first half of 2015 and stood at EUR 68.3 million. Within this insurance class, a 1.1 per cent increase in the amount of premiums written by natural persons did not offset an 8.9 per cent decline in the premiums of legal persons. Growth in the second largest in terms of the size of the non-life insurance portfolio, Casco insurance class was somewhat stronger compared to the entire non-life insurance market, with the premiums written amounting to EUR 46.9 million, an increase of 6.0 per cent.

The volume of premiums written within the property insurance class has been growing for several consecutive years, reaching 10.8 per cent in the period under review, i.e. EUR 44.6 million of premiums were written. The health insurance class recorded the fastest growth rates within the non-life insurance market, reaching a record 15.5 per cent growth rate over the last ten years. EUR 22.4 million of premiums were written over the first half of 2015. This significant rise in the volumes of the insurance class was due to additional voluntary health insurance within the commercial sector: the volumes expanded by 25.7 per cent and EUR 10.6 of premiums were written. The fast expansion was due to the fact that the employers in Lithuania increasingly use popular health insurance as an incentive.

The concentration in the non-life insurance market in terms of premiums written remained almost unchanged: four market participants holding the largest insurance portfolio retained the highest market positions. The market share of *UAB DK PZU Lietuva* contracted by 1 p. p., allowing the branch of *AAS BTA Baltic Insurance Company* in Lithuania to rise from the third position to the second one. Market redistribution is likely to be observed in the near future due to the sale of the shares of *PZU Lietuva* to the insurance undertaking *Gjensidige Forsikring ASA* currently underway.

Over the reporting period, insurers paid EUR 163.0 million of claims, a year-on-year increase of 5.2 per cent.

Table 2. Claims paid

| Insurance branches | Amount (EUR millions) | Growth rate |             |
|--------------------|-----------------------|-------------|-------------|
|                    |                       | H1 2015 (%) | H1 2014 (%) |
| Life assurance     | 49.0                  | +7.9        | -19.2       |
| Non-life insurance | 114.0                 | +4.1        | -1.8        |
| Total              | 163.0                 | +5.2        | -7.6        |

Life assurance claims paid increased by 7.9 per cent (to EUR 49.0 million). The largest share of claims paid consisted of the claims of the unit-linked life assurance lapse sum (51.0% of the portfolio of claims paid) and of insurance in case of survival, paid upon expiration of the insurance contract (18.2% of the portfolio of claims paid).

Non-life insurance claims paid increased by 4.1 per cent (to EUR 114.0 million). The major influence on the increase in claims paid stemmed from an increase in the amounts of the Casco (11.7%), MTPL (4.1%), credit (20.4%) and health insurance (13.7%) classes. Non-life insurance claims paid were reduced by the property and GLI insurance classes. The first half of 2015 was exclusive for the crop insurance class because of the prevailing favourable natural conditions, which prevented the farmers from incurring big losses: the crop insurance claims paid were record low from 2009, with only EUR 120.4 thousands paid.

## II. REVIEW OF THE FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

As of 30 June 2015, 9 registered insurance undertakings provided insurance services in the market. The number of registered insurance undertakings, which had remained unchanged for a while (10 undertakings), decreased because of the revocation of the licence for *UADB Industrijos garantas* on 11 June 2015, the validity of whose license was suspended as far back as in 2013. For one undertaking — *UAB Būsto paskolų draudimas* — the validity of its licence was suspended and therefore it is not operating actively. *ERGO Life Insurance SE* has established its branches in Latvia and Estonia, while *AB Lietuvos draudimas*, which took over the insurance portfolio from the *UADB DK PZU Lietuva* branch in Estonia in the second quarter of 2015, has since then been operating in Estonia; therefore, the performance of operations in the above-named countries has been included in the financial statements of these undertakings. Further only the financial performance of insurance undertakings registered in the Republic of Lithuania will be reviewed.

Following a rather successful first quarter of this year, when insurance undertakings earned EUR 9.3 million in profits, the second quarter was particularly unsuccessful, with a loss of EUR 16.4 million incurred in the first half-year. To evaluate the results for the last ten years, only in the first half of 2006 the overall operating result was a loss, which, however, is far from the result for this year. The insurance market result was due to the loss of EUR 20.5 million incurred by non-life insurance undertakings, which was not offset by the profit of EUR 4.1 million earned by life assurance undertakings. Nevertheless, there were undertakings which operated at a loss among life assurance undertakings too, while the operations of two life assurance and two non-life insurance undertakings were profitable.

In the first half of 2015, the operating performance of insurance undertakings was due to a particularly huge loss, incurred from investing activities — EUR 15.7 million; however, there was no rejoicing at the modest profit from the insurance activity — EUR 0.2 million — either. And yet it should be noted that the largest loss in ten years, incurred from investing activities, was related to the transfer of investments due to the transfer of the insurance portfolio of the Estonia branch of the *Codan Forsikring A/S*, acquired by *UAB DK PZU Lietuva* in 2014: the loss from this transaction amounted to EUR 21.0 million. This excluding, insurance undertakings would have earned from investing activities a profit of EUR 3.2 million. Profits from investing activities were earned by most undertakings — the investing activity of only two non-life insurance undertakings was loss-incurring, while all of the life assurance undertakings earned profits. However, not all of the life assurance undertakings can rejoice at profits from the insurance activity: while the aggregate profit of life assurance undertakings from their major activity was EUR 1.9 million, only two life assurance undertakings made a profit on their operations. Nevertheless, the profit of life assurance undertakings from the insurance activity only a little exceeded the loss of non-life assurance undertakings on the insurance activity — by EUR 1.7 million. Thus, compared to the first quarter of 2015 (profit from the insurance activity of EUR 3.1 million), the operating result of the entire insurance market dropped by EUR 2.9 million.

As of 30 June 2015, the assets of insurance undertakings amounted to EUR 1,046 billion, up by 2.6 per cent since the beginning of the year. Investments of insurance undertakings, in terms of their economic origin, are divided into investments of an undertaking and funds of insurance policy holders entrusted to undertakings, usually engaged in the life assurance activity. The funds of insurance policy holders entrusted to insurance undertakings for management, as of 30 June 2015, amounted to EUR 385.1 million, i.e. more than half of total

Chart 9. Dynamics of the operating performance of insurance undertakings

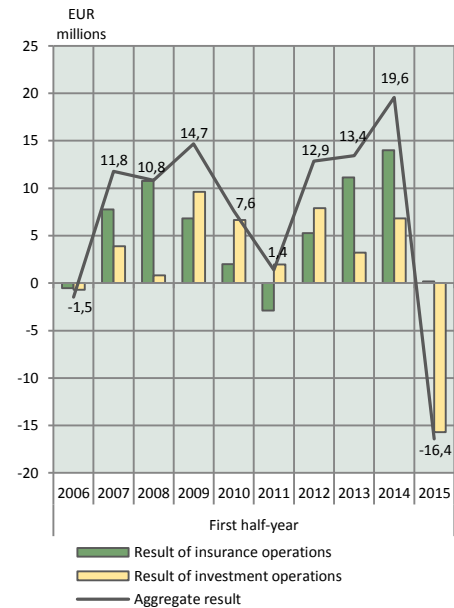


Chart 10. Dynamics of the composition of undertakings' assets

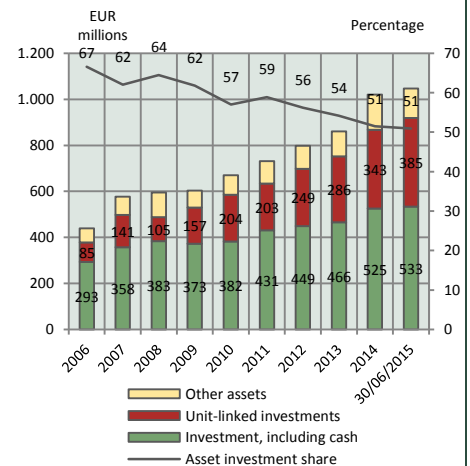


Chart 11. Dynamics of the composition of undertakings' investment

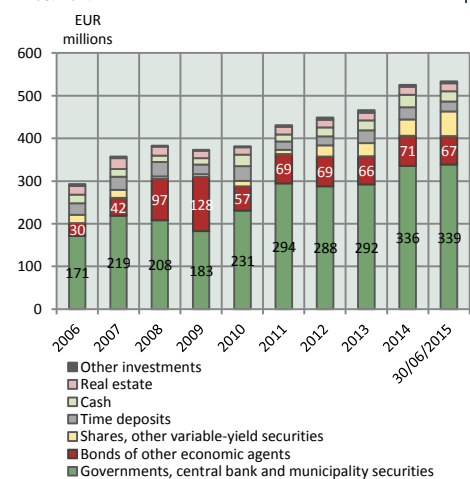


Chart 12. Insurance undertakings' investment by financing source as of 30 June 2015

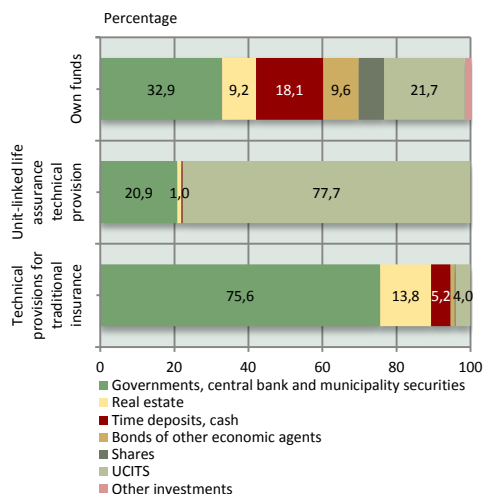


Chart 13. Dynamics of the composition of undertakings' investment

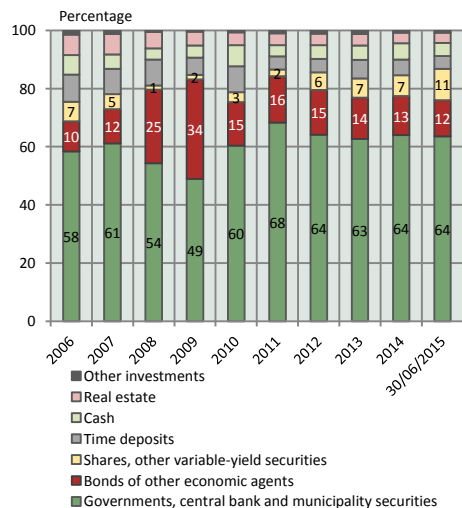
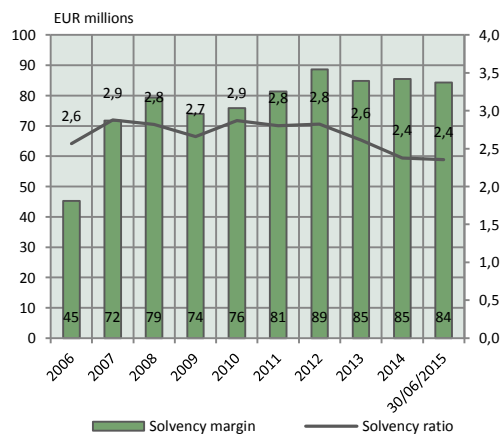


Chart 14. Dynamics of the solvency margin and solvency ratio of insurance undertakings



assets managed by life assurance undertakings. Investments of undertakings, which are used to cover traditional insurance technical provisions and equity as well as other liabilities, amounted to EUR 533.3 million at the end of the first quarter of 2015. The share of these investments in the total assets of insurance undertakings, due to stronger growth in life assurance investments when the risk lies with the policyholder, has been declining steadily.

The enterprise investment portfolio composition (excluding the funds entrusted by insurance policy holders for management) did not undergo major changes — most of the funds are traditionally invested in GS (as of 30 June 2015 — 63.6%). The share of the GS of EU countries accounts for as many as 99.4 per cent of these investments, of which 44.6 per cent are Lithuanian GS; by popularity, then follow the highly-rated GS of Germany, France, Belgium, Austria and the Netherlands, with their share of 24.4 per cent. Nevertheless, enterprises, seeking higher returns, have been further increasing their share of investments in variable-yield securities (shares and UCITS): in the first half of 2015, these investments amounted to EUR 48.0 million (year on year the rate of growth was 27.7%), which accounted for 9 per cent of the enterprise investment portfolio (excluding the funds entrusted by insurance policy holders). It should be noted, however, that enterprises mainly invested in shares and UCITS their own funds, which are not subject to restrictions.

Most of the funds entrusted to insurance undertakings for management under unit-linked life assurance contracts, as of 30 June 2015, have been invested in UCITS — EUR 299.3 million, or 77.7 per cent of total funds.

Traditionally, the highest levels of diversification of the investment portfolio have been observed in investing undertakings' funds which remained spare after discharging the liabilities to cover technical provisions. The share of GS and term deposits in the structure of the distribution of these funds has been contracting, but the share of funds invested in variable-yield investment products — shares and UCITS — has been expanding accordingly.

One of the key financial stability indicators of the insurance market is the solvency margin or its relative representation — the solvency ratio, which indicates whether insurance undertakings have sufficient own funds to cover contingency losses and losses not taken into account when calculating technical provisions. As of 30 June 2015, the solvency ratio of insurance undertakings was 2.4, of life assurance undertakings — 2.6, of non-life insurance undertakings — 2.2. The absolute value of the solvency ratio — the solvency margin — was EUR 84.4 million as of 30 June 2015. The overall market solvency ratio decreased minimally over the quarter — by 0.1 p.; the results within different insurance branches varied though: the solvency ratio of life assurance undertakings decreased by 0.5 p., of non-life insurance undertakings increased by 0.1 p. over the quarter. In terms of value, the solvency margin decreased by EUR 7.9 million; this does not jeopardise market stability though. The decrease in the solvency margin in the second quarter every year is natural because of payment of dividends to shareholders by undertakings in the second quarter. This leads to a decrease in the accumulated profit on the balance sheet and in a lower solvency margin too. Legal acts regulating the value of the solvency ratio obligate undertakings to maintain this indicator not below 1. It should be noted that all undertakings complied with this requirement.

### III. REVIEW OF THE MARKET OF INSURANCE INTERMEDIARIES

The number of insurance brokerage firms remained unchanged in the first half of 2015. As of 30 June 2015, 97 insurance brokerage firms operated in Lithuania's insurance market. No applications for granting licences of an insurance brokerage firm were received either and not a single licence was revoked.

Insurance brokerage firms acted as intermediaries in concluding 744.8 thousand insurance contracts and pension accumulation agreements over the reporting period, almost 9.8 per cent up from the previous year. As usual, insurance brokerage firms were most active in the non-life insurance market. Via their mediation, 743.5 thousand insurance contracts were concluded — 30.2 per cent of a total of contracts concluded by this branch in the insurance market. As many as 99.8 per cent of the insurance contracts and pension accumulation agreements concluded via insurance brokerage firms were non-life insurance contracts.

Among the insurance contracts being concluded, MTPL insurance further prevails. The portfolio composition of insurance contracts concluded via insurance brokerage firms over 2015 was similar to that in the previous periods. The largest share of all contracts — 69.4 per cent — was concluded within the MTPL insurance class. Second most popular was health insurance (including the accident insurance and the sickness insurance classes) and Casco insurance. 10 per cent and 6 per cent of such contracts were concluded respectively.

The key performance indicators of insurance brokerage firms, according to the reports data as of 30 June 2015, were as follows: their assets amounted to EUR 23.1 million, equity capital — EUR 12.8 million, income from sales — EUR 17.4 million, operating result — a profit of EUR 1.8 million. The assets and equity capital of insurance brokerage firms increased over the first half of 2015 — by 2.9 and 4 per cent respectively. All insurance brokerage firms complied with the minimum equity capital requirement (the capital cannot be less than EUR 18.760, or less than 4 per cent of the insurance premiums received by an insurance brokerage firm over a year, payable to insurers). Three insurance brokerage firms had to take action to ensure compliance with the minimum equity capital requirement. The shareholders of these undertakings brought in funds to cover the losses.

The income from sales of insurance brokerage firms (the insurance mediation activity) boosted by 6.8 per cent over a year (to EUR 17.4 million). The income from sales of the five largest insurance brokerage firms accounted for 43.5 per cent of the total income of insurance brokerage firms. The leader among the insurance brokerage firms in terms of income from sales continues to be *UADBB Aon Baltic*, with its assets accounting for almost 33.6 per cent of the sector's assets, income — 19 per cent of the total income of insurance brokerage firms; this undertaking's profit earned accounts for one-fifth of the sector's profit.

Insurance brokerage firms held EUR 0.7 million more on separate accounts than were their liabilities to insurers. As of 30 June 2015, insurance brokerage firms held EUR 2.1 million on separate bank accounts, while their liabilities to insurers (insurance premiums payable) were less — EUR 1.4 million.

Chart 15. Dynamics of the number of contracts concluded

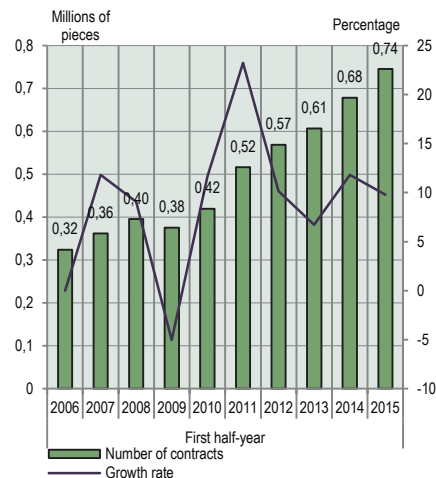


Chart 16. Distribution of contracts concluded by insurance class

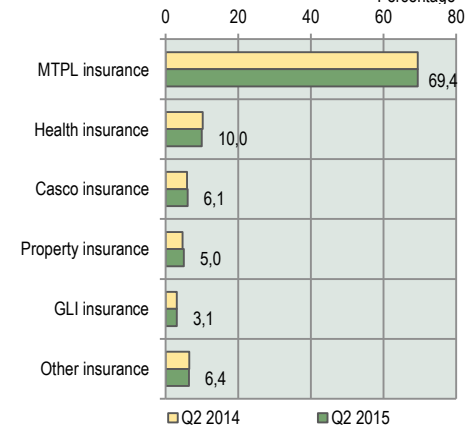


Chart 17. Dynamics of income from sales

