



# Review of Lithuania's Insurance Market

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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
CIU	Collective investment undertaking

## Note:

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

## I. REVIEW OF THE INSURANCE MARKET

Twenty three registered insurers rendered insurance services in the domestic market at the end of Q3 2015, 8 of which were engaged in life assurance and fifteen — non-life insurance activities. Over Q3 2015, the number of insurers established in the country has increased. On 30 July 2015, a private limited liability insurance undertaking, *Compensa Vienna Insurance Group*, was issued a new insurance business licence that entitles to engage in the activities of insurance classes within the non-life insurance branch; however, during the reporting period, the above mentioned undertaking has not yet been engaged in insurance activity.

Over the three quarters of 2015, the insurance undertakings registered in Lithuania and branches of insurance undertakings of other European Union Member States established in Lithuania wrote EUR 463.5 million in insurance premiums, a year-on-year increase of 6.9 per cent, and reached their highest performance.

Growth in insurance market volumes was spurred both by life assurance and non-life insurance branches, even though at different rates. The life assurance market premiums written increased by 11.1 per cent — to EUR 157.4 million — over the three quarters of 2015 year on year, whereas the non-life insurance market recorded less moderate growth of 4.9 per cent, and the non-life insurance premiums written amounted to EUR 306.0 million. It should be noted that, as the company *MetLife Towarzystwo Ubezpieczen na Zycie i Reasekuracji Spolka Akcyjna* commenced activity 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 7.8 per cent rate; accordingly, the life assurance market would grow by 14.0 per cent. With life assurance market growth rates outpacing non-life insurance market growth rates, the life assurance market share is increasing as well: during the reporting period, the share of life assurance accounted for 34.0 per cent of the total insurance market portfolio (up from 32.7% a year before).

Table 1. Premiums written

Insurance branches	Amount (EUR millions)	Growth rate	
		Q1–Q3 2015, %	Q1–Q3 2014, %
Life assurance	157.4	+11.1	+16.9
Non-life insurance	306.0	+4.9	+1.8
Total	463.5	+6.9	+6.3

The growth rate of life assurance premiums written, which was 16.9 over the three quarters of 2014, slowed down to 11.1 per cent over the same period in 2015. The volume of unit-linked life assurance, which, traditionally, accounts for the largest life assurance portfolio share in terms of premiums written (69.6%), grew faster (by 13.5%) than the entire life assurance market. The amount of unit-linked life assurance premiums written grew to EUR 109.6 million; however, it lacked EUR 9.6 million in order to reach the highest market performance of the three quarters in 2007. The insurance class which is second in terms of the size of the portfolio of life assurance premiums written and covers more conservative investment products — in case of endowment insurance — grew insignificantly (2.0%), that is up to EUR 35.0 million. This indicates higher risk tolerance by the residents in choosing not the most conservative financial products, offering particularly low interest rates. The volume of insurance in case of death and of annuities grew faster — by 12.2 per cent (up to EUR 8.5 million) and 34.4 per cent (up to EUR 3.8 million) respectively.

The amount of technical provisions managed by market participants engaged in the life assurance activity decreased by 3.1 per cent over the third quarter of 2015 and amounted to EUR 838.9 million as of 30 September 2015. This was mostly influenced by the decrease in the value of technical provisions for life assurance, when the risk lies with the policyholder, by EUR 29.5 million due to change in investment value in the financial markets. Concentration in the life

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

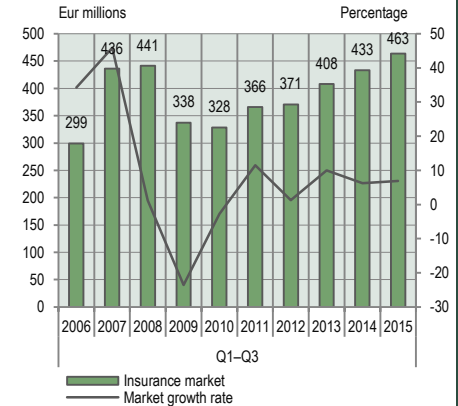


Chart 2. Dynamics of life assurance and non-life insurance premiums written

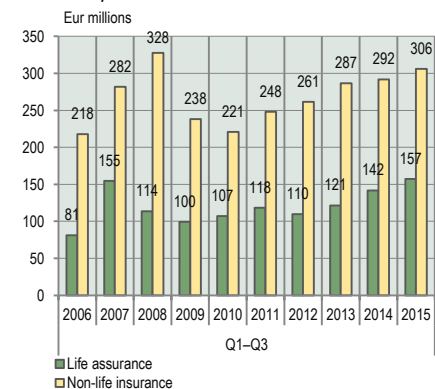


Chart 3. Dynamics of life assurance premiums written

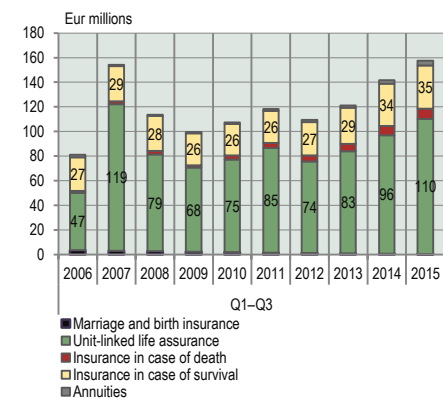


Chart 4. Concentration in the life assurance market in terms of the amount of technical provisions formed

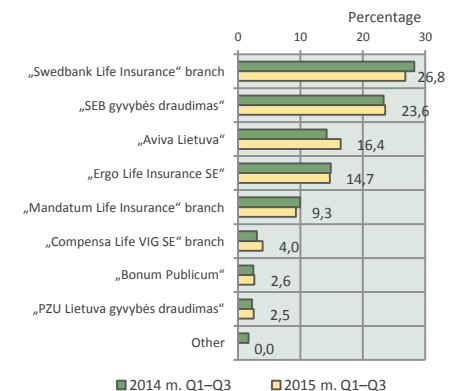


Chart 5. Dynamics of non-life insurance premiums written

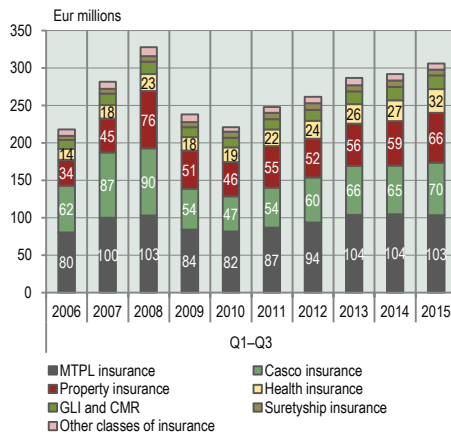


Chart 6. Concentration in the non-life insurance market in terms of premiums written within non-life insurance classes

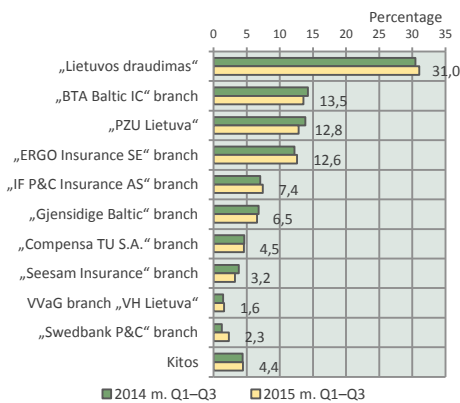


Chart 7. Dynamics of claims paid within the entire insurance market (left-hand scale) and their growth rate (right-hand scale)

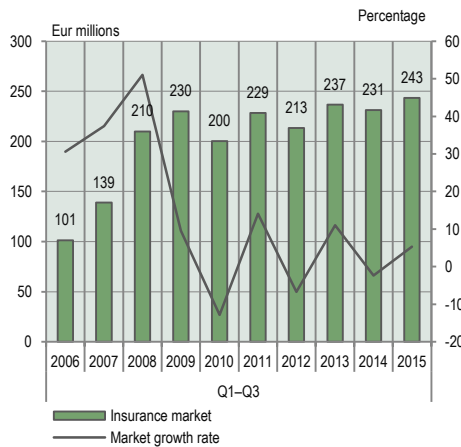
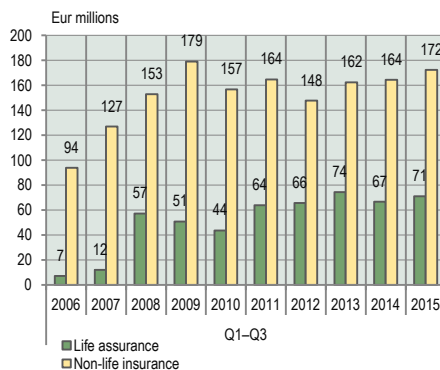


Chart 8. Dynamics of life assurance and non-life insurance claims paid



assurance market in terms of the amount of technical provisions formed did not change significantly.

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 volume of premiums written within the MTPL insurance class decreased by 0.9 per cent over the third quarter of 2015 and stood at EUR 103.4 million. The decrease in the volume of the MTPL insurance class was mostly influenced by the decrease in premiums written by legal persons, which amounted to 5.5 per cent. Conversely, the amount of premiums written by residents increased by 2.0 per cent. Growth in the Casco insurance class, which is second in terms of the size of the non-life insurance portfolio, was somewhat stronger compared to the growth in the entire non-life insurance market, with premiums written amounting to EUR 70.1 million, an increase of 7.5 per cent. Premiums written by residents increased more than premiums written by legal persons, i.e. by 9.2 and 6.4 per cent respectively. The volume of premiums written within the property insurance class has been growing for several consecutive years: the growth rate reached 11.5 per cent during the period under review, i.e. EUR 66.3 million of premiums were written. The health insurance class recorded the fastest growth rates (15.8%) within the non-life insurance market. Over the three quarters of 2015, a record of amount of premiums was written (EUR 31.8 million). This significant rise in the volume of the insurance class was due to additional voluntary health insurance within the commercial sector: the volumes expanded by 24.7 per cent and EUR 13.7 of premiums were written. The fast expansion was due to the fact that the employees in Lithuania increasingly use popular health insurance as an incentive.

Over this quarter the concentration in the non-life insurance market in terms of premiums written increased even more. *AB Lietuvos draudimas*, leader in the non-life insurance market, improved its positions in the market; its market share increased by 0.5 per cent. As of 30 September 2015, Norway's insurance company *Gjensidige Forsikring ASA* completed the transaction concerning the acquisition of the shares of *UAB DK PZU Lietuva* and now manages two market participants in Lithuania (*UAB DK PZU Lietuva* and a branch of *Gjensidige Baltic*), the overall market share of which amounts to 19.3 per cent.

Over the reporting period, insurers paid EUR 243.4 million of claims, a year-on-year increase of 5.3 per cent.

Table 2. Claims paid

Insurance branches	Amount (EUR millions)	Growth rate	
		Q1-Q3 2015, %	Q1-Q3 2014, %
Life assurance	71.1	+6.5	-10.3
Non-life insurance	172.4	+4.8	+1.3
Total	243.4	+5.3	-2.3

Life assurance claims paid increased by 6.5 per cent — up to EUR 71.1 million. Growth was driven mostly by claims, paid upon the termination of the contract within the unit-linked life assurance and endowment insurance insurance classes. The growth rate of these claims paid amounted to 36.2 and 15.8 per cent respectively. Lapse sums paid decreased by 0.4 per cent year on year.

Non-life insurance claims paid increased by 4.8 per cent — up to EUR 172.4 million. Claims paid mostly grew in the MTPL (7.1% — up to EUR 63.3 million), Casco (13.9% — up to EUR 52.6 million) and health (14.9% — up to EUR 16.2 million) insurance classes. Claim paid within the property, the GLI together with the CMR and the suretyship insurance classes decreased year on year: 11.0, 11.3 and 27.1 per cent respectively.

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

As of 30 September 2015, 10 registered insurance undertakings provided insurance services in the market. Over the first half-year of 2015, the number of registered insurance undertakings decreased to 9; however, over the third quarter of 2015, *Compensa Vienna Insurance Group, UADB* joined the registered insurance undertakings. Now the non-life insurance activity is carried out via the Lithuanian branch of *Compensa Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group*. Having transferred assets and liabilities of the branch in Lithuania to the insurance undertaking at the end of 2015, active non-life insurance activity will be carried out via the insurance corporation registered in Lithuania. In view of above, data on financial statements from *Compensa Vienna Insurance Group, UADB* is not included in the review of financial performance for the third quarter of 2015. The insurance business licence of one insurance undertaking — *UAB Būsto paskolų draudimas* — has been suspended; as a result, it is not active in its business. *ERGO Life Insurance SE* has established its branches in Latvia and Estonia, while *AB Lietuvos draudimas* has been operating in Estonia; therefore, the operating results of the above-named countries are included in the financial statements of these undertakings.

Over the first half-year of 2015, insurance undertakings incurred a EUR 16.4 million loss. Over the third quarter of 2015, insurance undertakings improved their performance — from the beginning of the year the loss was EUR 13.0 million. The insurance market performance was driven by the loss of EUR 19.5 million incurred by non-life insurance undertakings, which is 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. Having eliminated this, the profit of non-life insurance undertakings would amount to EUR 1.5 million. Nevertheless, the profit of life assurance undertakings would exceed that of non-life insurance undertakings by EUR 4.9 million (the profit of life assurance undertakings amounts to EUR 6.5 million).

The operating results of insurance undertakings are driven by the operating results of insurance and investment activities. Life assurance undertakings earned EUR 3.6 million from life assurance activity. The positive result from the life assurance activity has been monitored for the last 10 years. Nonetheless, over the third quarter of 2015, not all life assurance undertakings engaged in profitable life assurance activity. All life assurance undertakings distributing traditional products incurred losses. In a low interest rate environment, it is not easy to find financial instruments, whose return on investment would cover rather high guarantees of return on investment provided in line with contracts concluded over previous periods. The loss was offset by the profit of life assurance undertakings distributing only an investment life assurance product. Insurance activity of non-life insurance undertakings suffered a loss of EUR 1.3 million. Two non-life insurance undertakings generated profit from non-life insurance activity; however, this profit did not manage to offset the loss from the non-life insurance activity, suffered by the other two non-life insurance undertakings. The result of the investing activity is positive — the profit amounts to EUR 3.5 million (the result is presented after excluding the influence of the transfer of the insurance portfolio of the Estonia branch of *Codan Forsikring A/S*, acquired by *UAB DK PZU Lietuva* in 2014). Only two insurance undertakings had a slightly negative result in investing activity.

Chart 9. Dynamics of the operating performance of insurance undertakings

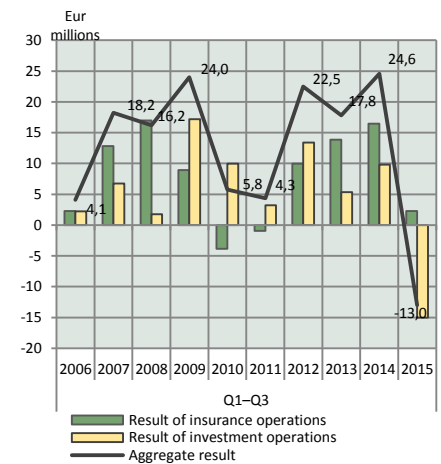


Chart 10. Dynamics of the composition of undertakings' assets

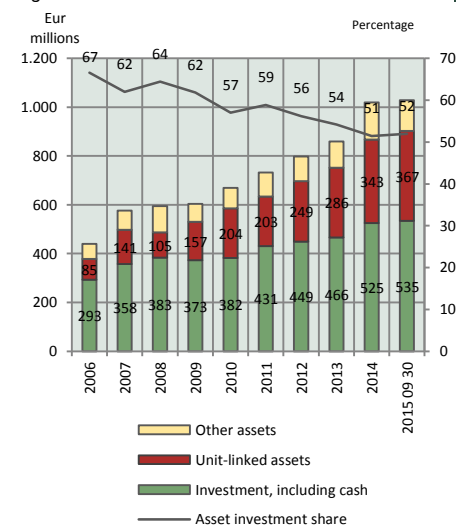


Chart 11. Insurance undertakings' investment by financing source as of 30 September 2015

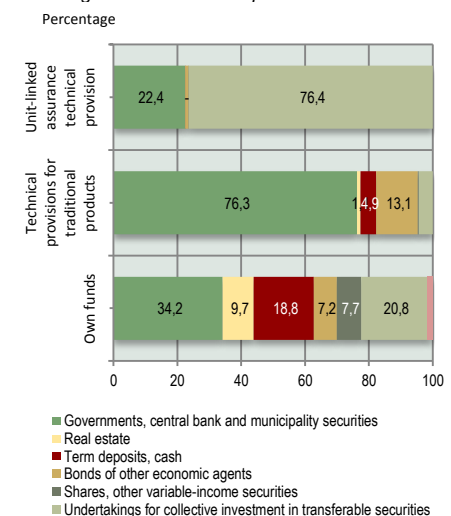


Chart 12. Dynamics of the composition of the non-technical provision investments of insurance undertakings

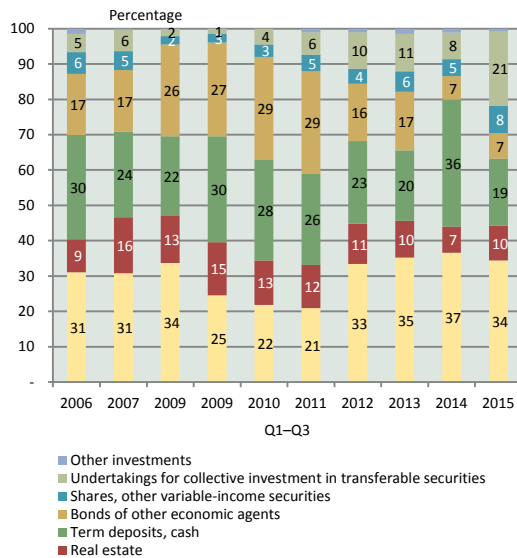
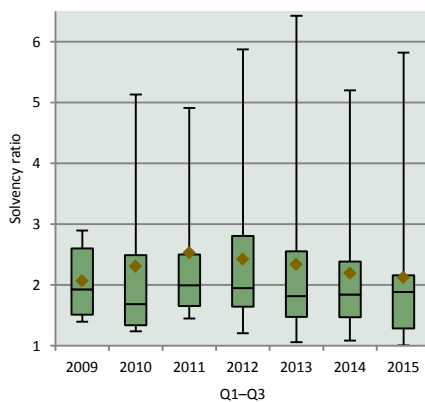


Chart 13. Dynamics of solvency ratio distribution



As of 30 September 2015, the assets of insurance undertakings amounted to EUR 1,028 billion, i.e. it was up by only 0.8 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 amounted to EUR 367.4 million as of 30 September 2015, i.e. 4.6 per cent less than in the previous quarter. A sharp decline in stock prices in China's market and turmoil in the European and global financial markets resulted in the decrease of the funds of insurance policy holders over the third quarter. From the beginning of the year, the funds of insurance policy holders grew by 7.1 per cent.

The distribution of investments of insurance undertakings, depending on the nature of funds, also taking into account restrictions laid down in legal acts which and imposed on funds that are used to cover traditional insurance technical provisions, according to which it is prohibited to accumulate these funds within one asset group or economic agent, varies. Funds designated to cover traditional technical provisions are invested conservatively, by investing most of them — 76.3 per cent — in GS. Having entrusted their funds to undertakings for management, insurance policy holders seek higher returns through acquisition of unit-linked life assurance products and are inclined to assume high risks: 76.3 per cent of these funds have been invested in CIUs. The highest level of diversification has been achieved by investing undertakings' funds left over after the liabilities to cover technical provisions. The investment share of variable yields in this portfolio is expanding. It is important that while seeking to generate yield and orienting the investment portfolio towards a greater credit risk, insurance undertakings would sufficiently assess risk.

One of the key financial stability indicators of the insurance market is the solvency margin, 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. Solvency ratio is calculated as the ratio of the available solvency margin to the required solvency margin. Taking into account that the number of insurance undertakings whose guarantee fund exceeds the required solvency margin is increasing, solvency ratio was calculated as the ratio between the available solvency margin and the higher of the two amounts — the amount of the required solvency margin and the amount of the guarantee fund. As of 30 September 2015, the solvency ratio of insurance undertakings was 2.1, of life assurance undertakings — 2.2, of non-life insurance undertakings — 1.9. The overall market solvency ratio decreased minimally over the year (by 0.1 point). In terms of value, the solvency margin decreased by EUR 2.8 million over the year. According to legal acts regulating the value of the solvency ratio, undertakings are obligated to maintain this indicator not below 1.

### III. REVIEW OF THE INSURANCE INTERMEDIARY MARKET

As of 30 September 2015, 98 insurance brokerage firms operated in Lithuania's insurance market. During the reporting period, one licence of an insurance brokerage firm was issued.

Over the three quarters of 2015, insurance brokerage firms acted as intermediaries in concluding 1.14 million insurance contracts and pension accumulation agreements, a year-on-year increase of 9.6 per cent. As usual, insurance brokerage firms were most active in the non-life insurance market. Via their mediation, 1,139.2 thousand insurance contracts were concluded — 30.1 per cent of all 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. Over the three quarters of 2015, the portfolio composition of insurance contracts concluded via insurance brokerage firms was similar to that in the previous periods. The largest share of all contracts — 68.8 per cent — were concluded within the MTPL insurance class. Second most popular was health insurance (which includes the accident insurance and the sickness insurance classes) and Casco insurance. 10.4 per cent and 6.1 per cent of such contracts were concluded respectively.

According to the financial statements provided by insurance brokerage firms, as of 30 September 2015 assets of undertakings amounted to EUR 23 million, equity capital — EUR 13.5 million, income from sales — EUR 25.9 million. Undertakings were profitable, the overall operating result of the intermediary market — a profit of EUR 2.7 million. 65 insurance brokerage firms were profitable. The assets and equity capital of insurance brokerage firms increased over the three quarters of 2015 — by 2.6 and 10.5 per cent respectively. All insurance brokerage firms complied with the minimum equity capital requirement (the capital cannot be less than EUR 18,760 and less than 4% of the insurance premiums received by an insurance brokerage firm over a year, payable to insurers). However, over the three quarters of 2015, six 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.

Over the three quarters of 2015 income from sales of insurance brokerage firms (the insurance mediation activity) amounted to EUR 25.9 million — it grew by 7.1 per cent year on year. The income from sales of the five largest insurance brokerage firms accounted for approximately 43.0 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 31 per cent of the sector's assets, income — 18.8 per cent of the total income of insurance brokerage firms; profit earned of this undertaking accounts approximately for a quarter of the sector's profit.

According to existing legal acts, insurance brokerage firms must hold insurance premium collected, intended for settlement with insurers, in separate bank accounts. It should be noted that over the reporting period this requirement was met. Insurance brokerage firms held EUR 0.5 million more on separate accounts than were their liabilities to insurers. As of 30 September 2015, insurance brokerage firms held EUR 1.7 million on separate bank accounts, while their liabilities to insurers (insurance premiums payable) were less — EUR 1.2 million.

Chart 14. Dynamics of the number of contracts concluded

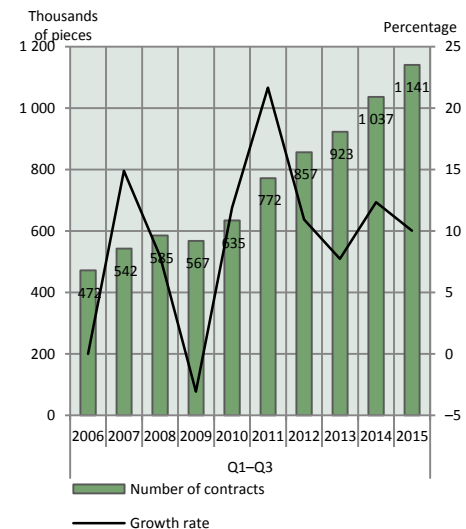


Chart 15. Distribution of contracts concluded by insurance class

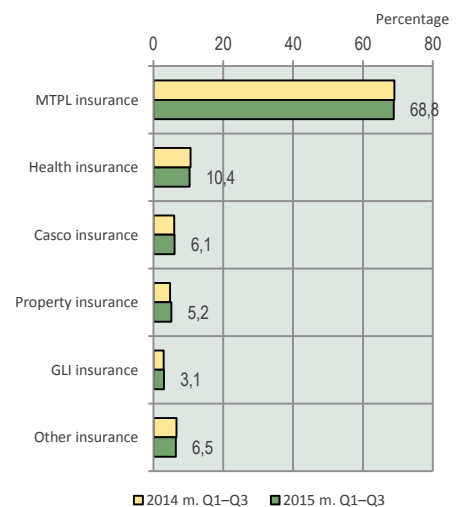


Chart 16. Dynamics of income from sales

