



LIETUVOS BANKAS

Review of Lithuania's Insurance Market of 2013

ISSN 2335-8343 (ONLINE)

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Abbreviations

Casco	Motor vehicles insurance (other than railway rolling stock)
MTPL	Motor third party liability insurance
GLI	General liability insurance

Note

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

I. GENERAL INSURANCE MARKET DATA

In 2013 the insurance undertakings registered in the Republic of Lithuania and branches of insurance undertakings of other European Union Member States established in Lithuania wrote insurance premiums amounting to LTL 1,945.5 million, an increase of even 8.8 per cent from the previous year.

Table 1. Premiums written

Insurance branches	Amount (LTL millions)	Growth rate	
		2013 (%)	2012 (%)
Life assurance	626.0	▲ 8.9	▲ 2.5
Non-life insurance	1,319.5	▲ 8.7	▲ 6.6
Total	1,945.5	▲ 8.8	▲ 5.2

Both the life assurance and non-life insurance markets recorded similar growth rates: the former expanded by 8.9 per cent — to LTL 626.0 million, the latter by 8.7 per cent — to LTL 1,319.5 million. The life assurance market volume, as compared to the previous year, was the highest in six years; it was nonetheless 21 per cent lower than in 2007, when the life assurance volume was at its peak. The volume of the non-life insurance market differed from the upswing in 2008 by a mere 9 per cent.

The growth rate of the insurance market in 2013 was consistent with the revised projections of the Bank of Lithuania. According to Statistics Lithuania, in 2013 domestic GDP grew by 3.4 per cent (excluding seasonal and working day contributions). The Bank of Lithuania projects that, if the trends of Lithuania's economic development remain similar, in 2014 the insurance market will grow by 8–10 per cent. The life assurance market volume is likely to expand faster — by 9–11 per cent, while the non-life insurance market is likely to grow slightly less moderately — by 8–10 per cent.

5.3 million units of insurance contracts were concluded in 2013, an increase of 3.8 per cent from the previous year.

Table 2. Contracts concluded

Insurance branches	Number (thousand units)	Growth rate	
		2013 (%)	2012 (%)
Life assurance	65.4	▲ 14.9	▲ 1.5
Non-life insurance	5,187.4	▲ 3.7	▲ 3.8
Total	5,252.8	▲ 3.8	▲ 3.8

In 2013, for the first time in the last six years, more robust growth was observed in the number of life assurance contracts: as compared to the previous year, the number of life assurance contracts concluded increased by as much as 14.9 per cent, or 65.4 thousand units. The number of non-life insurance contracts concluded has been growing at a similar pace for the third consecutive year. The number of non-life insurance contracts concluded grew by 3.7 per cent, or 5.2 million units, as compared to the previous year.

As the growth rate of insurance contracts concluded was quite strong, the number of insurance contracts in force as of 31 December 2013 increased by 3.2 per cent year on year.

Table 3. Contracts in force

Insurance branches	Number (thousand units)	Growth rate	
		2013 (%)	2012 (%)
Life assurance	404.3	▲ 4.5	▼ 2.5
Non-life insurance	3,417.7	▲ 3.1	▲ 7.7
Total	3,822.0	▲ 3.2	▲ 6.6

Chart 1. Dynamics of premiums written (left-hand scale) and their growth rate (right-hand scale)

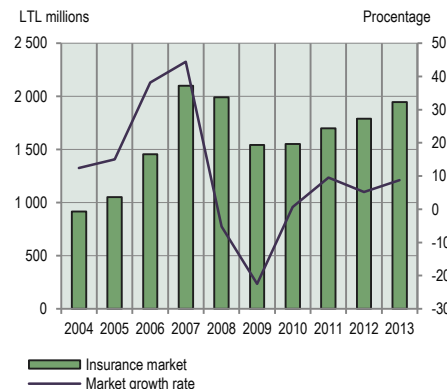


Chart 2. Dynamics of life assurance and non-life insurance premiums written

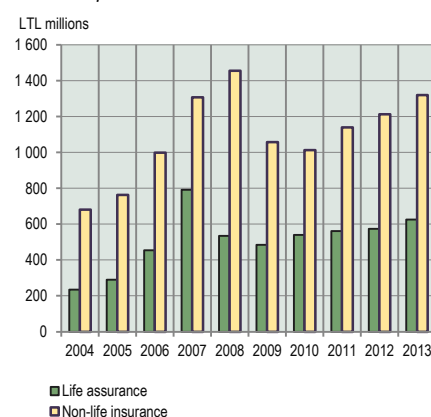


Chart 3. Dynamics of life assurance contracts (left-hand scale) and non-life insurance contracts (right-hand scale) concluded

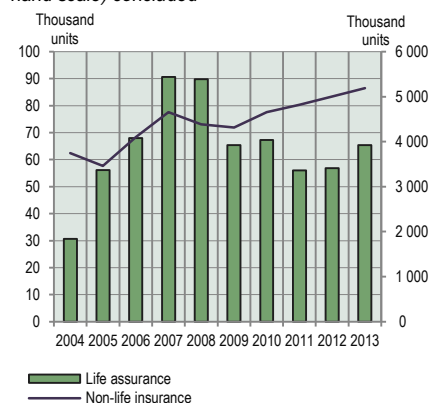


Chart 4. Dynamics of life assurance contracts (left-hand scale) and non-life insurance contracts (right-hand scale) in force

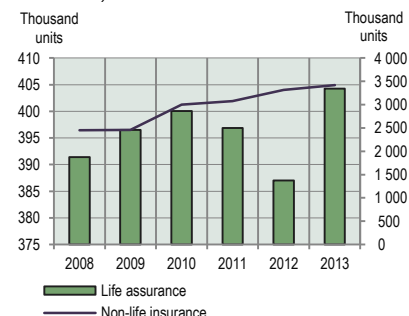


Chart 5. Dynamics and growth rate of insurance claims paid

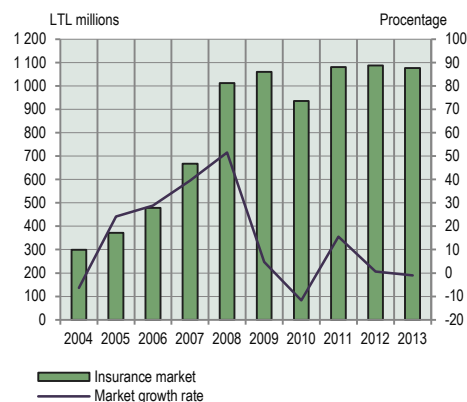


Chart 6. Dynamics of life assurance and non-life insurance claims paid

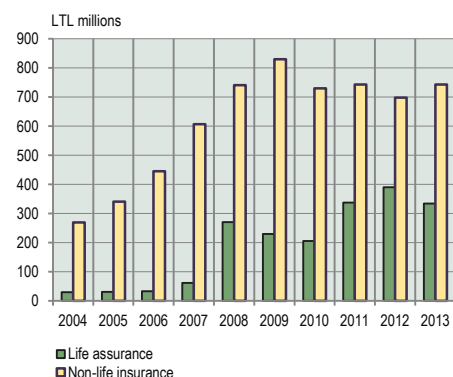


Chart 7. Life assurance contracts concluded

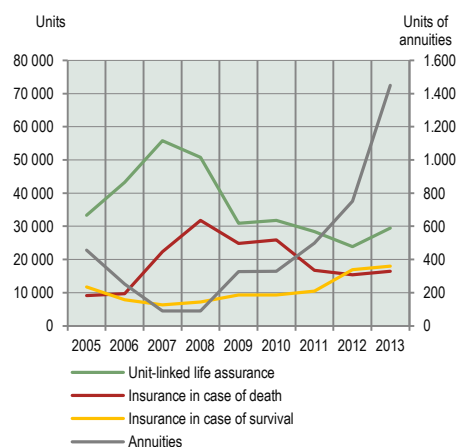
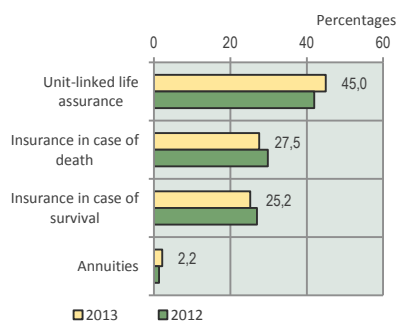


Chart 8. Portfolio of life assurance contracts concluded



A large number of life assurance contracts concluded led to an expansion in life assurance volumes — as of 31 December 2013, 4.5 per cent more contracts were in force year on year. Non-life insurance volumes expanded by 3.1 per cent, i.e. as of 31 December 2013, 3.4 million non-life insurance contracts were in force. In 2013 the claims paid by the insurers amounted to LTL 1,076.6 million — 1.0 per cent less than a year ago.

Table 4. Claims paid

Branches of insurance	Amount (LTL millions)	Growth rate	
		2013 (%)	2012 (%)
Life assurance	333.7	▼ 14.5	▲ 15.7
Non-life insurance	742.9	▲ 6.5	▼ 6.2
Total	1,076.6	▼ 1.0	▲ 0.6

A decline of 14.5 per cent in life assurance claims paid in 2013 suggests that the boom of claims paid has come to an end; it was driven by the fact that, in 2012, a large number of life assurance contracts concluded before the end of 2002, before the tax environment was subject to changes, have expired. The amount of non-life insurance claims paid increased by 6.5 per cent in consequence of an increase in non-life insurance volumes in terms of premiums written.

II. LIFE ASSURANCE

CONTRACTS CONCLUDED

The year 2013 was favourable for the life assurance market: 65.4 thousand contracts were concluded, 14.9 per cent above the figure for the same period last year. The number of contracts concluded is still lagging behind the highest market performance, recorded in 2008, by 27.2 per cent. The number of life assurance contracts concluded was rising consistently throughout the year across all classes of insurance; towards the end of the year, however, their growth rate began slowing down.

Table 5. Life assurance contracts concluded

Classes of insurance	Number (units)	Growth rate		
		2013		2012 (%)
		units	%	
Marriage and birth insurance	–	–	–	–
Unit-linked life assurance	29,441	+5,576	▲ 23.4	▼ 16.0
Traditional life assurance	35,964	+2,916	▲ 8.8	▲ 19.4
Insurance in case of death	16,496	+1,155	▲ 7.5	▼ 8.2
Insurance in case of survival	18,019	+1,064	▲ 6.3	▲ 61.9
Annuities	1,449	+697	▲ 92.7	▲ 50.7
Total	65,405	+8,492	▲ 14.9	▲ 1.5

Positive financial market developments led to an increasingly frequent choice in 2013 of riskier unit-linked life assurance products with, at the same time, expected higher yields. Towards the end of the year the life assurance market composition share of these products expanded by 3.1 percentage points from last year's performance and accounted for 4.5 per cent. The products of life assurance in the case of death and in the case of survival accounted respectively for 25.2 per cent and 27.5 per cent of the contracts portfolio.

While a great number of life assurance contracts that had been in force for 10

years expired, assurers succeeded in retaining a large portion of clients — some of them renewed their contracts, others concluded new ones. As the growth rate of assurance contracts was quite strong, the number of assurance contracts in force increased by 4.5 per cent in 2013. At the end of 2013 life assurers administered 404.3 thousand contracts in force. Growth in the domestic economy and the rising financial awareness of the population determine that the population is beginning to feel more confident in life assurance products and understand their benefits. The market has a considerable potential for growth, as currently only every seventh or eighth resident of the country has insured his/her life.

PREMIUMS WRITTEN

Life assurers signed LTL 626.0 million premiums over 2013, which is 8.9 per cent more than in 2012. This performance is the best in the last six years, however it still lags behind the best market performance achieved during the economic upswing in 2007 by 20.8 per cent.

The funds aimed at accrual products under life assurance contracts normally increase towards the end of each year, owing to a possibility to make use of tax reliefs. In 2013, this trend proved itself as well — in December, LTL 101.3 million premiums were written. The volume of premiums written in December this year is nearly twice as large as in any other month of the year and the largest in the history of the life assurance market.

Table 6. Life assurance premiums written

Classes of insurance	Amount (LTL millions)	Growth rate		
		2013		2012 (%)
		LTL millions	%	
Marriage and birth insurance	4.4	-1.4	▼ 24.3	▼ 23.4
Unit-linked life assurance	439.0	+35.6	▲ 8.8	▲ 1.9
Traditional life assurance	182.6	+17.1	▲ 10.4	▲ 5.1
Insurance in case of death	27.4	+4.8	▲ 21.3	▲ 13.3
Insurance in case of survival	143.7	+10.7	▲ 8.0	▲ 2.9
Annuities	11.5	+1.6	▲ 16.8	▲ 21.0
Total	626.0	+51.3	▲ 8.9	▲ 2.5

In 2013 the amount of premiums written of all traditional life assurance products was record high. Insurance in the case of death recorded the highest growth rates (21.3%); however, major contribution to growth in traditional life assurance stemmed from an increase of LTL 10.7 million in insurance in the case of survival premiums written. The growth rate of unit-linked life assurance premiums written, with unit-linked life assurance representing the major market share, was 8.8 per cent, or LTL 35.6 million. Nevertheless, the performance of unit-linked life assurance is still lagging behind the best performance achieved in 2007 by 28.9 per cent. Due to non-conclusion of new contracts within the marriage and birth insurance class, the premiums have been constantly decreasing; they have contracted by 24.3 per cent over the year.

The situation changed following a decline in premiums written within the commercial segment recorded in 2012 — in 2013 this segment recovered. Rising corporate profitability allows them to increasingly chose life assurance products as an incentive for their staff. In 2013, the premiums written by economic entities grew by 39 per cent, or LTL 18.4 million; the share of the commercial segment in the portfolio of life assurance premiums written is still

Chart 9. Dynamics of unit-linked insurance contracts and insurance in the case of survival contracts in force

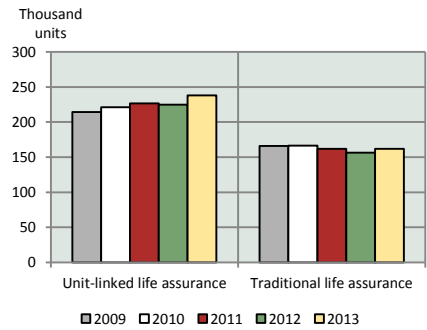


Chart 10. Dynamics of premiums written in the non-life insurance market (left-hand scale) and their growth rate (right-hand scale)

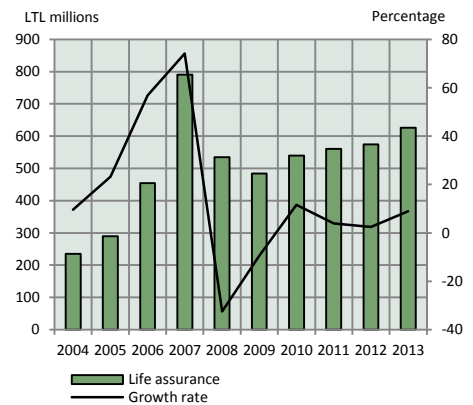


Chart 11. Dynamics of life assurance premiums written

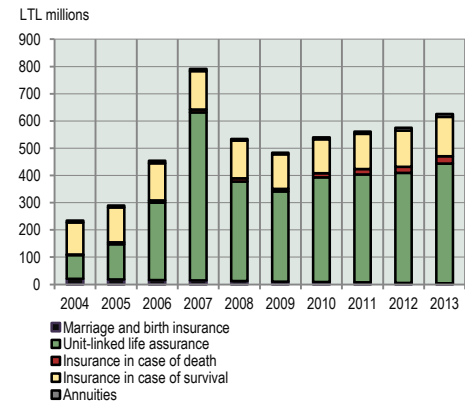


Chart 12. Dynamics of life assurance premiums written by natural and legal persons

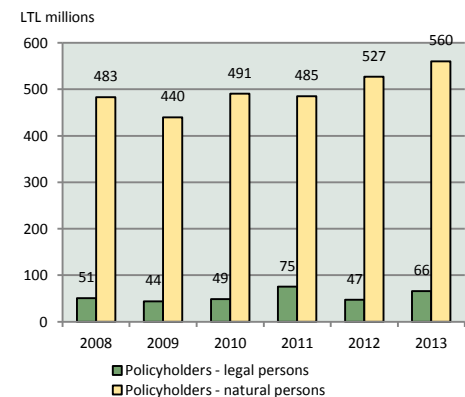


Chart 13. Concentration in the life assurance market in terms of premiums written

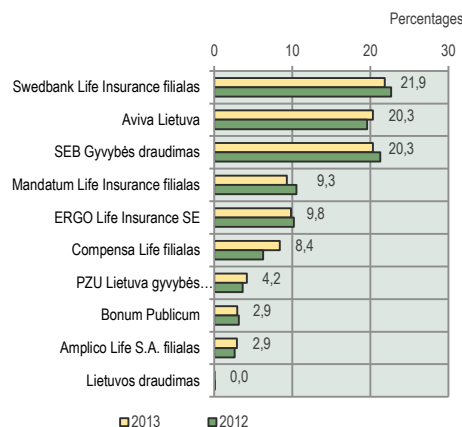


Chart 14. Dynamics of life assurance claims paid

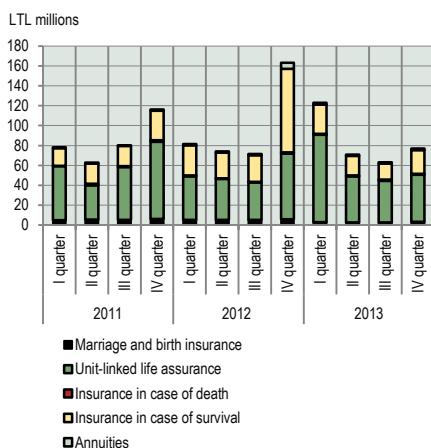
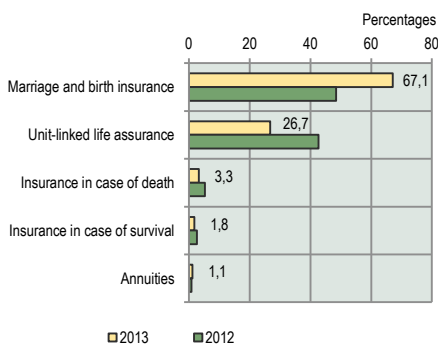


Chart 15. Portfolio of life assurance claims paid



insignificant (10.5%). Growth in the premiums written by individuals was weaker — 6.2 per cent. Both single and periodic premiums grew in 2013; the growth rate of single premiums was stronger, though, at 19.2 per cent, while periodic premiums grew by 6.4 per cent, as compared to the previous year's performance.

The three leaders in the life assurance market have remained unchanged for six years already; their market share, however, shrank by 1.0 percentage point over the year — to 62.5 per cent. *Swedbank Life Insurance SE* Lithuania branch continued to retain the highest positions despite the loss of 0.8 per cent of the market. The market share of *Compensa Life Vienna Insurance Group SE* Lithuania branch expanded most over the year — by 2.1 percentage points.

CLAIMS PAID

The amount of claims paid in the non-life insurance market in 2013 totalled LTL 333.7 million, a decrease of 14.5 per cent from 2012. Life assurance claims paid in 2012 were the largest owing to a great number of expired at the end of 2012 insurance contracts, which had been in force for 10 years, concluded in 2002, before the tax environment was subject to changes. Part of the payments under these contracts was rescheduled to January 2013. The amount paid during this month (LTL 62.1 million) exceeds the usual volume of monthly payments two times.

The amount of claims paid in the most popular in 2002 life assurance in the case of survival nearly halved in 2013, as compared to the figure a year ago and stood at LTL 89.2 million. Unit-linked life assurance claims paid, conversely, rose. The amount of claims paid within this class expanded by 18.3 per cent over the year — to LTL 223.8 million.

Table 7. Life assurance claims paid

Classes of insurance	Amount (LTL million)	Growth rate		
		2013		2012 (%)
		LTL millions	%	
Marriage and birth insurance	10.9	-9.7	▼ 47.1	▼ 2.5
Unit-linked life assurance	223.8	+34.6	▲ 18.3	▼ 14.1
Traditional life assurance	98.9	-81.3	▼ 45.1	▲ 88.1
Insurance in case of death	3.8	+0.3	▲ 9.4	▼ 12.3
Insurance in case of survival	89.2	-77.4	▼ 46.5	▲ 89.1
Annuities	5.9	-4.2	▲ 41.5	▲ 171.1
Total	333.7	-56.4	▼ 14.5	▲ 15.7

Considering the amounts of claims paid by insurers on an individual basis, one can see that their dynamics was not uniform. The claims paid by insurers with more traditional life assurance products in their portfolio contracted: those of *Swedbank Life Insurance SE* Lithuania branch — from 43.8 per cent to 29.9 per cent; of *Ergo Life Insurance SE* — from 13.3 per cent to 10.2 per cent of the total volume of claims paid. The claims paid by insurers with mainly life assurance products in their portfolio, conversely, grew: of *UAB SEB gyvybės draudimas* — from 16.9 per cent to 23.1 per cent; of *UAGDPB Aviva Lietuva* — from 9.1 per cent to 15.9 per cent.

III. NON-LIFE INSURANCE

CONTRACTS CONCLUDED

5.2 million insurance contracts were concluded in Lithuania's non-life insurance market in 2013, a mere 0.1 per cent less than in 2012, when the growth rate of contracts concluded was 3.8 per cent, but as much as 18.3 per cent more than in 2008, when the non-life insurance market recorded the highest volumes in terms of premiums written.

Table 8. Non-life insurance contracts concluded

Classes of insurance	Number (thousand units)	Growth rate		
		2013		2012 (%)
		thousand units	%	
MTPL insurance	2,680.4	+144.7	▲ 5.7	▲ 2.6
Property insurance	1,090.5	+33.8	▲ 3.2	▲ 6.8
Health insurance	753.7	+18.1	▲ 2.5	▲ 3.1
Casco insurance	237.4	+26.8	▲ 12.7	▲ 17.8
Suretyship insurance	221.7	-72.3	▼ 24.6	▼ 5.4
GLI	143.6	+19.9	▲ 16.1	▲ 6.2
Other classes of insurance	60.1	+13.9	▲ 30.1	▲ 16.5
Total	5,187.4	+184.9	▲ 3.7	▲ 3.8

The number of contracts concluded in 2013 within the MTPL, property, Casco and financial loss insurance classes reached a record high over the last ten years.

The number of insurance contracts concluded within the largest class of insurance — MTPL — grew by 5.7 per cent and equalled 2,680.4 thousand units; however, due to the relatively large number of suspended or terminated insurance coverage under insurance contracts, the number of MTPL insurance contracts in force, which shows the actual volumes of this insurance class, as of 31 December 2013 was less by 1.6 per cent than as of 31 December 2012.

In the Casco insurance class, the contracts concluded last year outweighed those concluded in 2012 by as much as 12.7 per cent; as a result, the number of contracts in force within this insurance class increased by 11.5 per cent — to 214.6 thousand units.

The second by size, in terms of contracts concluded, is the property insurance class. More than 1 million units of contracts were concluded in 2013, an increase of 3.2 per cent from 2012. Stronger growth was recorded in the volume of insurance of property owned by legal persons: as compared with 2012, just 2 per cent more of individuals' property insurance contracts and even 20 per cent more of legal persons' property insurance contracts were concluded.

The number of health insurance contracts concluded last year (753.7 thousand units) outweighed the 2012 volumes by 2.5 per cent, but was even 13.7 per cent less than in 2007. Growth in the volumes of the supplementary health insurance sub-class should be noted — 14.3 per cent more of contracts were concluded than in 2012.

Chart 16. Dynamics of contracts concluded in the non-life insurance market (left-hand scale) and their growth rate (right-hand scale)

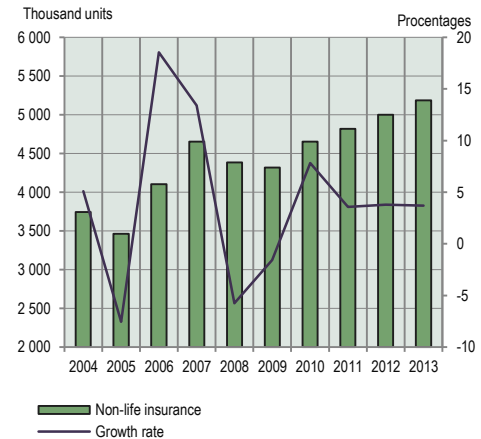


Chart 17. Dynamics of non-life insurance contracts concluded

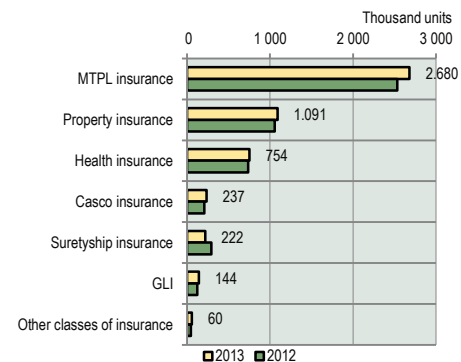


Chart 18. Dynamics of non-life insurance contracts in force

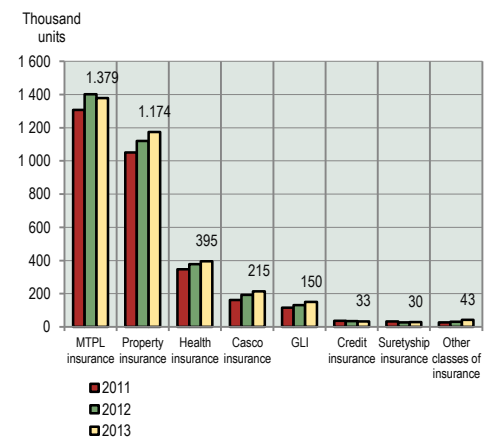


Chart 19. Dynamics of non-life insurance premiums written (left-hand scale) and their growth rate (right-hand scale)

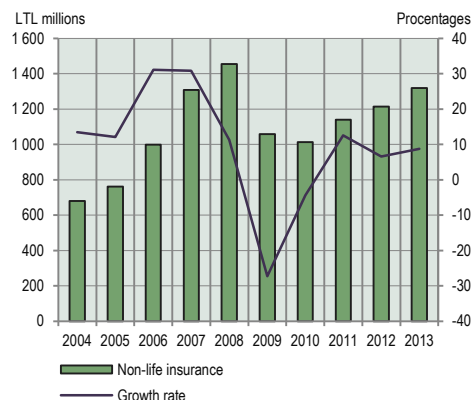


Chart 20. Portfolio of non-life insurance premiums written

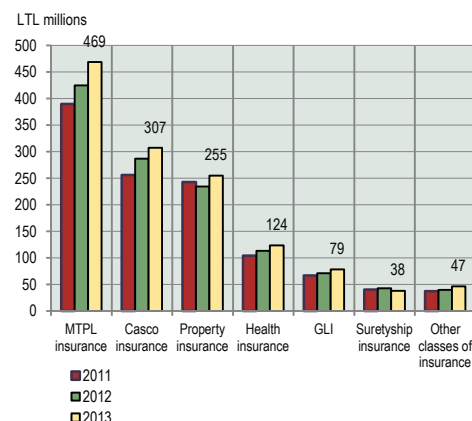
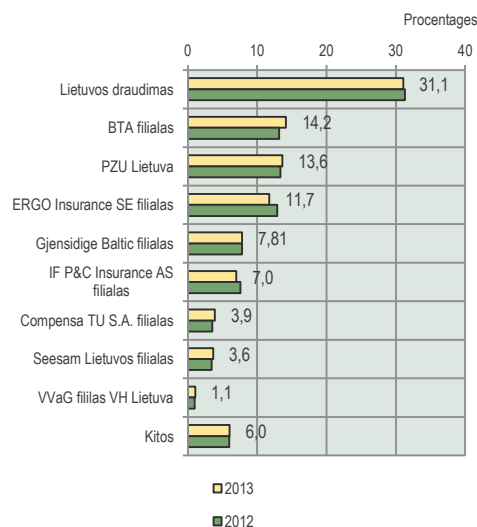


Chart 21. Concentration in the non-life insurance market



The surety, cargo, vessel (sea and internal waters) management-related civil liability, aviation insurance contracts concluded declined in number. Surety insurance contracts concluded decreased most in number — by 24.6 per cent (to LTL 221.7 thousand units). As was already mentioned in previous reviews, the developments in the surety insurance class volumes were due to the changed legal environment in regulating the execution of Custom's procedures.

PREMIUMS WRITTEN

LTL 1,319 billion of non-life insurance premiums were written in 2013 — an increase of 8.7 per cent from 2012. This amount was short of the volume reached in 2008 by 9.3 per cent, or LTL 135.9 million.

Table 9. Non-life insurance premiums written

Classes of insurance	Amount (LTL million)	Growth rate		
		2013		2012 (%)
		LTL millions	%	
MTPL insurance	469.0	+44.0	▲ 10.4	▲ 9.0
Casco insurance	307.3	+20.3	▲ 7.1	▲ 11.9
Property insurance	255.2	+20.6	▲ 8.8	▼ 3.6
Health insurance	123.9	+10.5	▲ 9.2	▲ 8.8
GLI	78.7	+7.6	▲ 10.7	▲ 5.9
Suretyship insurance	38.5	-4.3	▼ 10.0	▲ 5.6
Other classes of insurance	46.9	+7.2	▲ 18.2	▲ 5.6
Total	1,319.5	+106.0	▲ 8.7	▲ 6.5

Growth in premiums written was much stronger than in contracts concluded within most of the largest classes (MTPL insurance, health insurance, property insurance and GLI). The main reason for that have been the rising prices and/or levels of insurance coverage.

The record number of MTPL and financial loss insurance contracts concluded determined that record amount premiums were written within these classes of insurance.

Growth in MTPL insurance premiums written was also driven by the changed amount of insurance due to one traffic event in the territory of the Republic of Lithuania and, also, mounting losses on account of damages abroad. In 2013, LTL 469 million of MTPL insurance premiums were written, an increase of 10.4 per cent from 2012 and 6.3 per cent from before the crisis in 2008.

With gradual renewal of Lithuania's car park, in 2013 the volume of Casco insurance class increased to LTL 307.3 million, an increase of 7.1 per cent from 2012. Unlike contracts, more premiums were written in the segment of commercial insurance.

Weaker relative growth in MTPL insurance contracts concluded relative to growth in premiums written shows the increase in average premium within this insurance class, but the trends in the Casco insurance group are opposite — relative growth in insurance contracts concluded outpaced that in premiums written, leading to the decline in average premium. It should be noted that the lowest average Casco insurance premium in the last ten years was recorded, whereas the MTPL insurance average premium was the highest within the commercial segment, but in the population segment it was lower than in 2008.

The volumes of insurance of property owned both by legal persons and individuals recorded growth (8.3% and 9.1% respectively). However, individuals insure property more actively than businesses — it is already several years that the volumes of insurance of property owned by individuals exceed those owned by legal entities. Within the segment of individuals' property insurance LTL 145.1 million were written — most in the last ten years.

The volumes of the fourth insurance class in terms of premiums written grew significantly as well — the amount of health insurance premiums written increased by 9.2 per cent — to LTL 123.9 million. Supplementary voluntary health insurance premiums recorded stronger growth than other types attributable to the health insurance type (11.2% and 8.2% respectively).

Strong competition in the non-life insurance market led to a contraction of Lithuania's insurance market shares of four of the ten largest non-life insurers (*AB Lietuvos draudimas*, *ERGO Insurance AS Lithuania branch*, *AAS Gjensidige Baltic Lithuania branch*, *IF P&C Insurance AS Lithuania branch*), while one insurance market participant rose to a higher position in the market (*BTA Insurance Company SE Lithuania branch*).

CLAIMS PAID

The amount of claims paid in the non-life insurance market in 2013 totalled LTL 742.9 million, an increase of 6.5 per cent from 2012.

Table 10. Non-life insurance claims paid

Classes of insurance	Amount (LTL million)	Growth rate		
		2013		2012 (%)
		LTL millions	%	
MTPL insurance	271.3	+27.8	▲ 11.4	▲ 3.7
Casco insurance	213.3	+14.9	▲ 7.5	▼ 6.5
Property insurance	77.7	-26.7	▼ 25.6	▼ 38.7
Credit insurance	77.7	+6.9	▲ 9.8	▲ 34.0
Health insurance	60.7	+5.7	▲ 10.3	▲ 23.5
GLI	27.2	+12.3	▲ 82.7	▲ 26.7
Suretyship insurance	7.6	+4.0	▲ 108.0	▼ 32.5
Other classes of insurance	7.3	+0.3	▲ 4.7	▼ 39.6
Total	742.9	+45.2	▲ 6.5	▼ 6.2

With the expansion in the volume of MTPL insurance activity, the amounts paid in 2013 grew on a record scale. Within the insurance class with the largest portfolio share, LTL 271.3 million of claims were paid in 2013, an increase of 11.4 per cent from 2012 and of 5.2 per cent from 2008. Relative growth in the amount of Casco insurance claims paid was weaker than of MTPL insurance — 7.5 per cent (LTL 213.3 million). Considering the development of the number of claims paid it should be noted that the average claims of both MTPL and Casco insurance paid surpassed the average amounts paid during the previous periods — the increase in the average amounts was driven by car service centre and auto part price increases.

Property insurance activity last year was successful for insurers — no serious natural disasters occurred in Lithuania. The decline in claims paid within the property insurance class (of 25.6% — to LTL 77.7 million) was due to smaller amounts paid to legal persons. The claims paid under insurance of property owned by individuals picked up by 8.7 per cent — to LTL 45.4 million, surpassing the property insurance amounts paid to legal entities by even 40 per cent.

Expansion in the volume of employees' health insurance entailed the increase in the costs within this class of insurance: the additional voluntary health insurance amounts paid grew by 10.2 per cent — to LTL 34 million. The claims paid under

Chart 22. Dynamics of non-life insurance claims paid (left-hand scale) and their growth rate (right-hand scale)

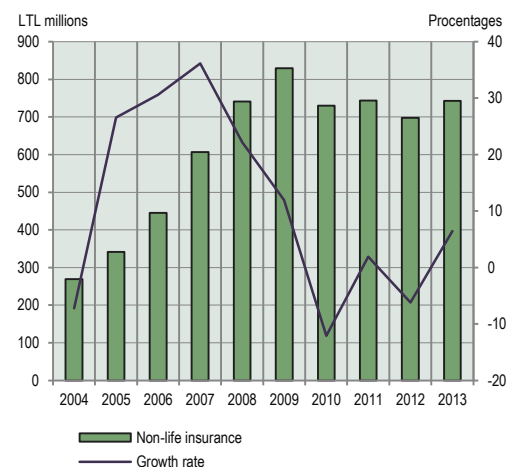


Chart 23. Portfolio of non-life insurance claims paid

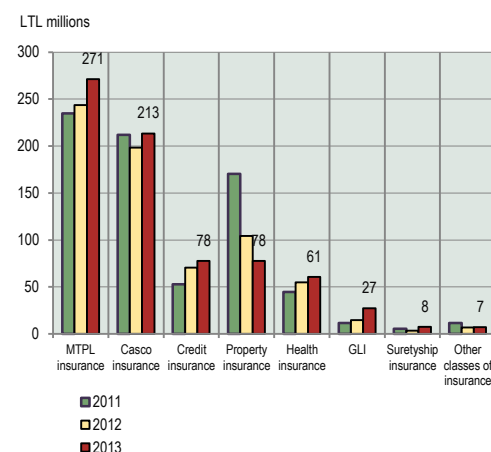
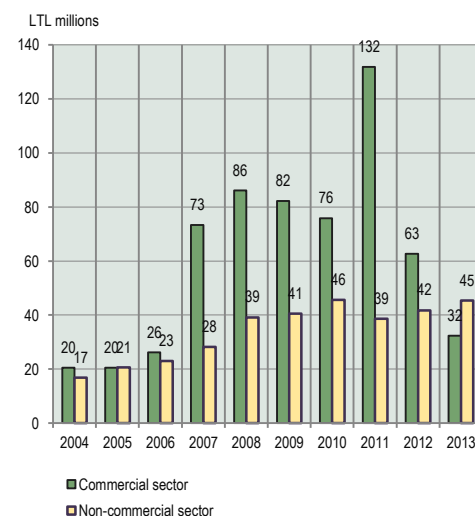


Chart 24. Dynamics of property insurance claim paid



the other types of insurance attributable to the health insurance type rose at a similar pace (10.5%), but were smaller — LTL 26.7 million.

While the claims paid within motor insurance classes (MTPL and Casco insurance) recorded quite significant growth, income grew more nonetheless; therefore, the performance of these types of insurance improved. It should be noted that the brutto loss ratio within the MTPL class of insurance (excluding claims handling expenses and subrogation amounts) was the lowest in the last 5 years, at 60.4 per cent; within the Casco class of insurance — the lowest in the last 4 years, at 70.6 per cent. Productive activity of insurance of property owned by legal persons contributed quite substantially to the profitability of the property insurance class — the loss ratio of this class of insurance accounted for a mere 35.4 per cent.