

18 April 2017

In 2016, Lithuania's insurance market posted growth higher by one-tenth, which was driven by the non-life insurance and life assurance sectors. Economic expansion provided a favourable environment for insurance market expansion, with insurance premiums written amounting to EUR 709.8 million. During the first three quarters, insurance market growth was supported by the non-life insurance sector, while at the end of the year, life assurance volumes expanded as well, repeating the trend that prevailed for a number of years. The Bank of Lithuania projects that in 2017 insurance market growth will be less pronounced, at 6–7 per cent. The non-life insurance market is expected to grow by 10–12 per cent, while the volume of the life assurance market, which accounts for slightly more than a third of the insurance market portfolio, is likely to decrease by 4–6 per cent.

In the reporting period, insurance undertakings earned EUR 6.5 million in profits; however, the results achieved by the insurance sectors diverged: life assurance undertakings earned EUR 19.8 million in profits, while non-life insurance undertakings suffered EUR 13.3 million in losses. Last year was a success for all life assurance undertakings, while out of the four non-life insurance undertakings, two operated at a loss, leading to the overall loss for non-life insurance undertakings. This loss is associated with reorganisation or restructuring processes that took place last year.

The operations of 74 insurance brokerage firms (out of 97) were profitable in the reporting period – firms providing mediation services earned a profit amounting to EUR 4.3 million. This is the largest profit earned in the last three years.

The assessment of changes in the insurance market development in this Review is based on the assessment of the activities of all market participants (9 insurance undertakings and 11 branches of insurance undertakings registered in other EU countries) carried out in Lithuania. The assessment of compliance with the financial and capital ratios only covers the activities of insurance undertakings and insurance brokerage firms (97) registered in the country.

1. CHANGES IN THE LEGAL ENVIRONMENT OF THE INSURANCE MARKET

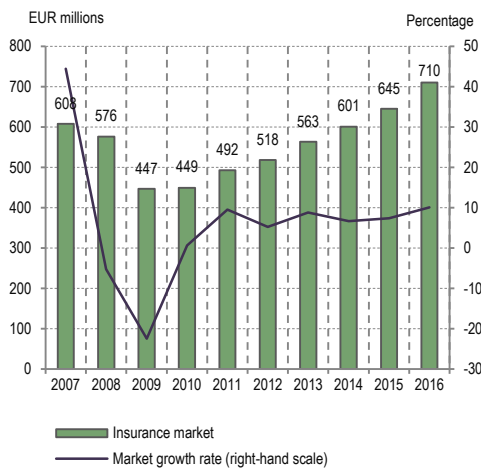
On 22 December 2016, the Seimas of the Republic of Lithuania adopted amendments to the Law on Personal Income Tax, which lay down that the total maximum amount of life assurance premiums and contributions to pension funds shall not be larger than EUR 2,000 in the taxable period.

The works of the transposition of Directive No 2016/97 of the European Parliament and of the Council on insurance distribution started. The provisions of the Directive will be transposed into the Republic of Lithuania Law on Insurance. The amendments under preparation are to increase transparency in the provision of insurance services and their quality, enhance the protection of consumer interests. The new regulation will, *inter alia*, stipulate the following amendments:

- a) setting of uniform requirements for insurance distribution for all types of distributors: insurance undertakings, insurance intermediaries and additional activity insurance intermediaries;
- b) the obligation of insurance distributors to always act honestly, fairly and professionally, avoid conflicts of interests, reveal to the client information on the nature of received remuneration for mediation;
- c) the obligation for the distributor to take account of the client's needs and offer them only insurance which corresponds to their needs;
- d) the obligation to present to the customer the document with basic information on the non-life insurance product offered;
- e) distribution of the insurance principle-based investment products will be subject to the requirements for the management of conflicts of interests, information provision, product eligibility and acceptability for the customer, as already laid down in investment services regulation.

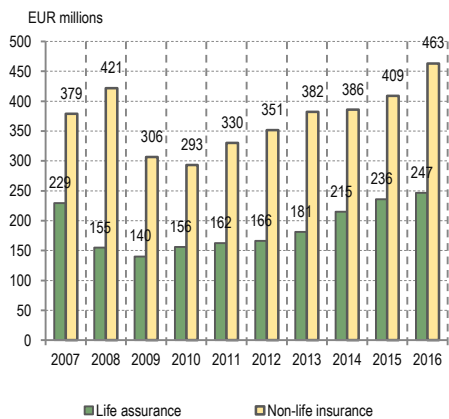
This Directive must be transposed into national law until 23 February 2018.

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



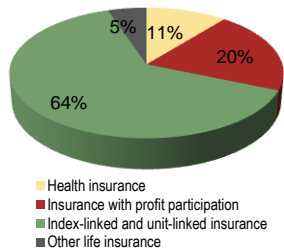
Source: Bank of Lithuania.

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



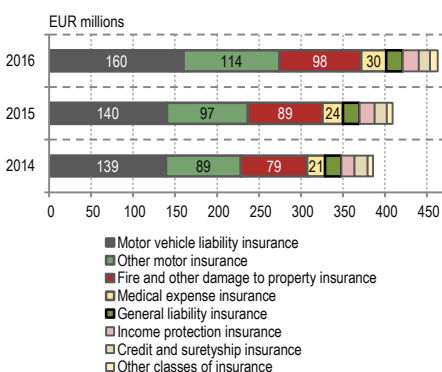
Source: Bank of Lithuania.

Chart 3. Distribution of life assurance premiums by type



Source: Bank of Lithuania.

Chart 4. Dynamics of non-life insurance premiums



2. DEVELOPMENT OF THE INSURANCE MARKET

At the end of 2016, twenty insurers registered in Lithuania provided insurance services in the domestic market: nine undertakings and eleven branches of undertakings registered in other European Union countries. Eight of them were engaged in life assurance activities and 12 in non-life insurance activities. 97 insurance brokerage firms mediated insurers in concluding insurance contracts.

Insurance premiums

Insurance market growth was driven by growth both within the life assurance and non-life insurance sectors. In 2016, the insurance undertakings registered in Lithuania and branches of insurance undertakings of other EU countries established in Lithuania wrote EUR 709.8 million in insurance premiums, a one-tenth increase in the market. This market volume is the best result over the last ten years. The amount of premiums from the non-life insurance sector, which supported growth throughout the year, grew by 13.2 per cent, that from the life assurance sector – by 4.6 per cent.

The Bank of Lithuania projects a positive contribution of the expansion of the domestic economy to non-life insurance market growth in 2017 and, while the rate of expansion will decelerate somewhat, its is likely to be 10–12 per cent. The projections for the life assurance market are different: the regulatory, taxation environment developments that took place, persisting low interest environment may lead a negative rate of growth in 2017. Lithuania's entire market is projected to increase by 6–7 per cent.

Non-life insurance still represents a weightier share of the insurance market portfolio. The premium share of the life assurance market, which lagged behind for three quarters of 2016, of the entire insurance premium portfolio contracted to 34.8 per cent over the year (in 2015, it had reached the largest portfolio share since 2008 – 36.6%). Accordingly, the portfolio share of non-life insurance, which grew for all quarters of the year, increased by 1.8 p.p. – to 65.2 per cent.

The life assurance sector contracted throughout the first three quarters of 2016, while towards the end of the year its portfolio premium share, in line with the trend prevalent for a number of years, expanded significantly. In December, insurance policy holders paid in a record large amount – EUR 54.2 million – in life assurance premiums, while in 2016 the average monthly amount of premiums (except in December) stood at EUR 17.5 million. This growth was driven by growth in the amount of single premiums¹: in December, the amount of single premiums totalled EUR 31 million, while the monthly average of single premiums stood below EUR 2 million. At the end of the year, insurance policy holders, taking into account the financial market situation and the possibility to benefit from a tax relief, usually choose to invest spare funds in life assurance products. Another contribution to volume growth stemmed from an increase of over 50 per cent in the number of concluded insurance contracts in December, as compared to the monthly average amount of contracts (except in December).

The volume of the non-life insurance sector was the largest over the last decade. Insurance premiums over 2016 amounted to EUR 463.1 million, increasing by 13.2 per cent. Market growth was due mainly to the expansion in the volumes of the prevalent vehicle, property and medical expenses insurance types. Economic expansion, rising repair prices, an increase in insurance claims (higher rate of accidents) weighed heavily on

¹ Single premiums are premiums that are paid with a periodicity not set in the insurance contract and additional premiums payable under insurance contracts.

the rising average prices of motor third party liability and Casco insurance contracts, which in turn expanded the market volume – by 16 per cent. The boost in the vehicle insurance market was due to an increase in the sales of new cars: according to the state enterprise REGITRA, in 2016, such sale transactions grew by 18.7 per cent in number from 2015. Property insurance volumes expanded 9.6 per cent, medical expenses insurance – 14.6 per cent.

The share of insurance undertakings registered in the country is increasing. The insurance premium portfolio share of insurance undertakings registered in the country accounted for 55.3 per cent (in 2015, it was 50.5%). This change is associable with the establishment of a new insurance undertaking – *UADB Compensa Vienna Insurance Group* – in the second half of 2015. The new undertaking, early at the beginning of the year, took over the insurance portfolio from a Lithuania-based branch within the same insurance class. The undertakings registered in Lithuania boosted the life assurance market share by 1 p.p. over the year – to 59 per cent; registered undertakings within the non-life insurance market, due to the market entry of new participants, accounted for 53 per cent (in 2015 – 46 per cent) of the insurance premium portfolio.

Insurance contracts

Six million insurance contracts were concluded over 2016. Non-life insurance contracts are usually short-term; as a result, the number of insurance contracts concluded over a year is significantly larger than that of life assurance contracts. Owing to this peculiarity of insurance contracts, nearly 97 per cent of total contracts have been concluded not within the life assurance market, of which almost half are motor third party liability insurance contracts. The portfolio of existing contracts posted no changes: non-life insurance contracts accounted for 80, life assurance contracts – 20 per cent of the portfolio, with 4.8 million of existing contracts at the end of the year.

Within the mediation activity, insurance brokerage firms were the most active; they acted as intermediaries in concluding almost 29 per cent of total contracts. Independent intermediaries were more active within the non-life insurance market: 29.5 per cent of non-life insurance contracts were concluded. Life assurance contracts concluded by insurance brokers account for a mere 1.5 per cent.

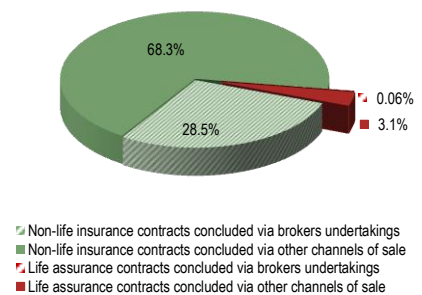
Insurance claims paid

EUR 372.8 million in claims were paid by insurers over the year, an increase of 12.3 per cent year on year.

The EUR 113.8 million amount paid out within the life assurance market was by 17.7 per cent larger than a year ago. Average claim was almost the same as last year, as the number of claims also increased by 17.7 per cent. In the first three quarters, growth in the number of claims outpaced that in the amount of claims; in the fourth quarter, however, claims were by an average EUR 150 larger than in the previous quarters and the rates of growth turned equal. Larger claims were due mainly to an increase in claims paid upon termination of an insurance contract. The number of claims paid over the year due to termination of life assurance contracts or partial payment of the accumulated amount grew by 26.4 per cent, while the total amount of claims paid – by almost 21.9 per cent. Claims paid due to termination of life assurance contracts or partial payment of the accumulated amount accounted for 54.3 per cent of total life assurance claims paid.

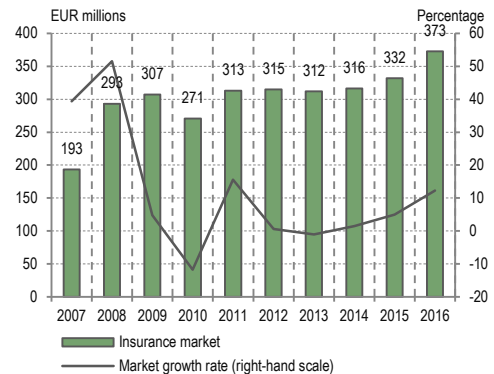
The non-life insurance sector dominates not only in terms of insurance premiums (65.2%), but also in terms of claims paid: the share of non-life claims paid accounted for 69.5 per cent of total claims paid within the insurance market. EUR 259 million were paid under non-life insurance contracts, an increase of 10.0 per cent year on year. The amount of claims rose by 10 per cent, nearly half as much as the number of claims paid (19%). Almost 70 per cent of claims paid related to insured vehicles. A total of 15.7 per cent more claims were paid under motor third party liability and other vehicle insurance contracts year on year, which shows that the share of motor third party liability and other vehicle insurance claims in total claims increased. Claims paid under property insurance contracts due to insured events went up by 35 per cent from last year. The decline in the amount of claims (94%) within the credit and suretyship insurance class resulted from a decline in the volumes as *UAB Būsto paskolų draudimas* wound up, which in turn led to lower volumes of claims within the entire market.

Chart 5. Insurance contracts concluded



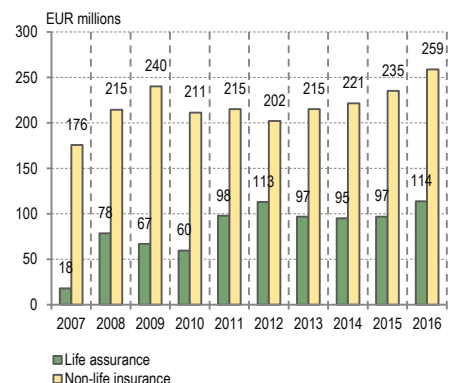
Source: Bank of Lithuania.

Chart 6. Dynamics and growth rate of claims paid within the entire market



Source: Bank of Lithuania.

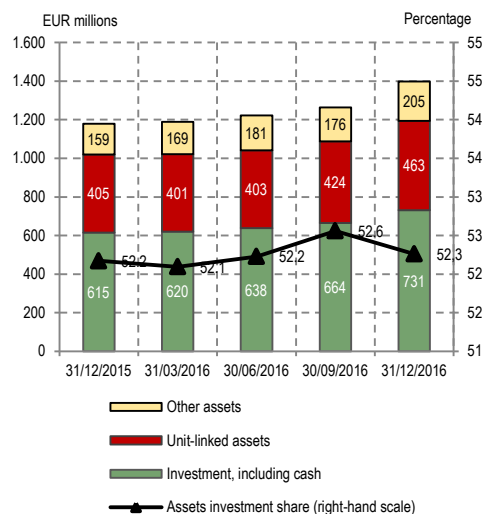
Chart 7. Dynamics of life assurance and non-life insurance claims paid



Source: Bank of Lithuania.

3. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

Chart 8. Composition of insurance undertakings' assets



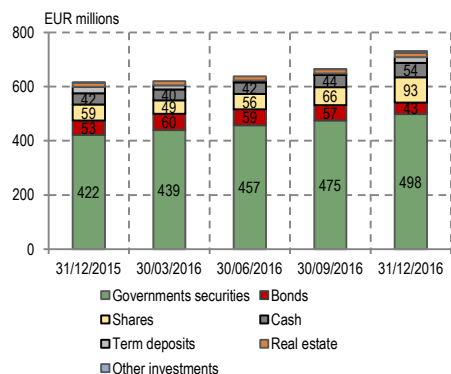
Source: Bank of Lithuania.

Assets and investment

Both the assets and investment of insurance undertakings posted growth. The assets managed by insurance undertakings amounted to EUR 1,399 billion at the end of 2016. This indicator rose by 18.7 per cent over the year and mostly pertains to the end of the restructuring process at ADB Gjensidige, when this insurance undertaking, operating in Lithuania, carried out a merger with an undertaking which operated in Latvia. Investments (together with cash held on settlement accounts, excluding the funds of investment life assurance) remained unchanged during the reporting period, at 52.3 per cent of total assets of insurance undertakings, or EUR 731 million.

According to the data as of 31 December 2016, the assets of insurance brokerage firms amounted to EUR 25.7 million, an increase of 17 per cent from the end of last year. Most of these undertakings' assets consisted of cash (32%) and receivables (36%). Like last year, cash held on a separate account amounted to EUR 2.1 million – and was well above the intermediaries' liabilities to insurance undertakings.

Chart 9. Composition of insurance undertakings' investment portfolio

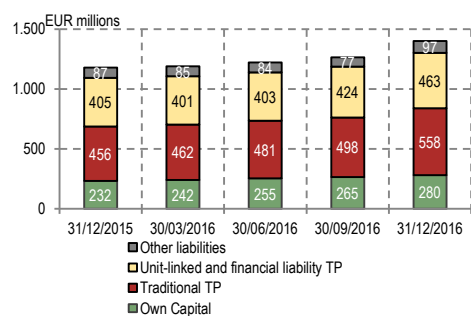


Source: Bank of Lithuania.

Investments of insurance undertakings continue to be conservative.

Despite the fact that there remained no more assets covering insurance technical reserves and restrictions on diversification as Solvency II requirements came into force this year, insurance undertakings, aiming at the security and liquidity of accumulated funds, tend to keep investing in rather conservative investment instruments: most of total investment (68.1% or EUR 498 million) have been invested in government securities (GS). In pursuit of profits from investment and, in the case of traditional life assurance, – also guaranteed returns, but not willing to choose riskier financial instruments, insurance undertakings tend to invest in lower-rated GS. The amount of investments in GS increased by EUR 76 million, or 18 per cent, over last year, while due to zero or very low interest rates payable on deposits (which does not encourage to hold funds as fixed-term deposits), the investment portfolio share of cash and cash equivalents expanded from EUR 42 million in 2015 to EUR 54 million in 2016. Investments in corporate bonds dropped by EUR 10 million in value (from EUR 53 million in 2015 to EUR 43 million in 2016), to 6 per cent of total investment. The investment portfolio equity share expanded by EUR 34 million over the reporting period (from 59 million in 2015 to EUR 93 million in 2016), to 12.7 per cent of total investment. While the investment portfolio share of equity and units of collective investment undertakings grew substantially, the statement that undertakings began investing at a higher risk does not hold true. This change was mainly determined by the funds accumulated during the reorganisation of one insurance undertaking, which were invested in collective investment undertakings.

Chart 10. Composition of insurance undertakings' own capital and liabilities



Source: Bank of Lithuania.

Own capital and liabilities

Insurance undertakings' own capital increased by 20.7 per cent over 2016, to EUR 280 million. The own capital of life assurance undertakings grew by 11.2 per cent because of their profitable operations (to EUR 129 million), of non-life insurance undertakings, due to the strengthening of their capital base – by 30.2 per cent (to EUR 151 million). Most of the own capital consists of retained earnings for previous periods. The shareholders of two non-life assurance undertakings, in pursuit of financial stability for these undertakings, increased their authorised capital by more than EUR 36.3 million in 2016. As of 31 December 2016, the authorised capital

of all undertakings amounted to EUR 91.5 million, an increase of 66 per cent from the end of last year.

As of 31 December 2016, undertakings had accumulated EUR 1,021 million in technical provisions, an increase of 18.7 per cent from the end of last year. In an undertaking engaged in insurance activity, technical provisions² account for the main part of total liabilities. Technical provisions other than the unit-linked life assurance technical provision and financial liabilities increased by 22.4 per cent over the year, – to EUR 557.8 million. Technical provisions of non-life insurance undertakings rose by 37 per cent (to EUR 310.6 million), of life assurance undertakings – 12 per cent (to EUR 710.4 million). The restructuring process in *ADB Gjensidige*, whereby the undertaking operating in Lithuania itself carried out a merger with an undertaking which operated in Latvia, was the major contribution to the record increase in the technical provision of transferred premiums (226%) and in the technical provision of projected claims (87% in relative terms). In absolute terms, the technical provisions of unit-linked life assurance grew the most (EUR 58 million); the change in them was driven by financial market fluctuations, a record increase in single premiums and in the number of insurance contracts at the end of the year.

Operating result

According to the data as of 31 December 2016, insurance undertakings earned EUR 6.5 million in profits; the results of insurance branches diverged though: life assurance undertakings operated at a profit, while non-life insurance undertakings – at a loss. The profits of life assurance undertakings equalled EUR 19.8 million, while non-life insurance undertakings suffered losses of EUR 13.3 million. Last year was a success for all life assurance undertakings – all of them finished the year at a profit. Meanwhile of four undertakings engaged in non-life insurance, two operated at a loss, leading to the overall loss for non-life insurance undertakings. The operating loss of the latter is related to the reorganisation or restructuring processes that took place in the reporting period.

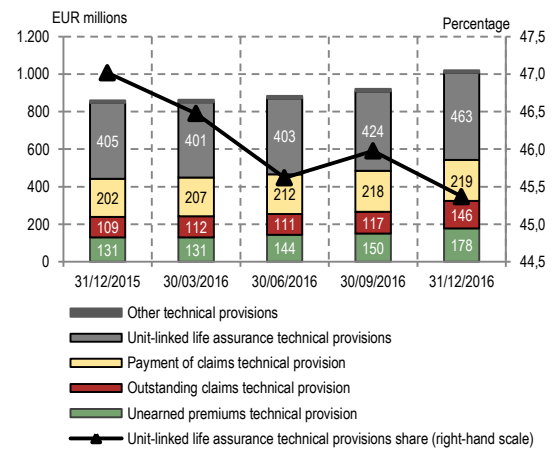
Given that, as of January 2016, financial accounting standards were subject to changes (before 1 January 2016, undertakings registered in Lithuania, in managing their accounting and preparing financial statements, had followed domestic business accounting standards, while as of 1 January 2016 they follow international accounting standards (IAS)), the results of the reporting period are not comparable to those of the previous period.

Insurance brokerage firms ended last year at a profit – firms providing mediation services earned EUR 4.3 million in profits. This is the largest profit earned over the last three years. This result was due to a 14.9 per cent increase (to EUR 41 million) in the undertakings' income from sales. Most undertakings – 74 out of 97 – operated profitably.

Compliance with capital requirements by insurance undertakings

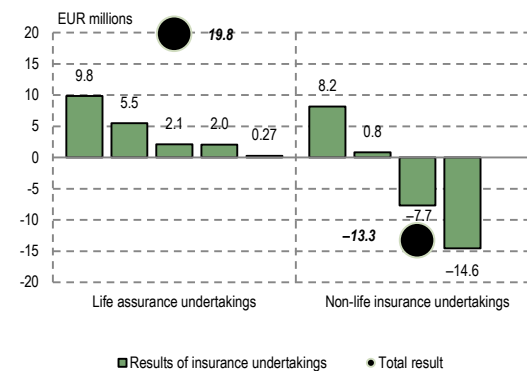
All insurance undertakings complied with solvency margin requirements. After calculating capital requirement and evaluating the amount of available own funds according to Solvency II requirements, it has been established that all insurance undertakings were solvent, i.e. held sufficient own funds to satisfy the increased capital requirements. According

Chart 11. Composition of technical provisions



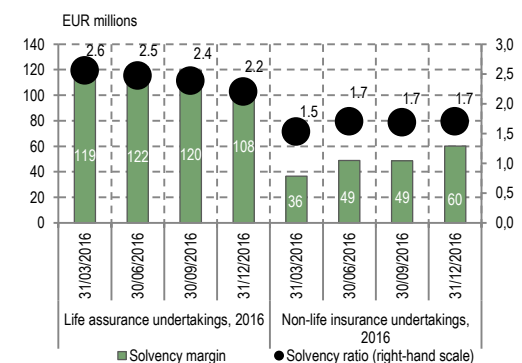
Source: Bank of Lithuania.

Chart 12. Results of insurance undertakings as of 31 December 2016



Source: Bank of Lithuania.

Chart 13. Solvency margin and solvency ratio of insurance undertakings



Source: Bank of Lithuania.

² Technical provisions are an insurer's liabilities, calculated according to the procedure established by legal acts, arising from insurance, reinsurance or financial contracts

to submitted data as of 31 December 2016, the solvency ratio³ of non-life insurance undertakings was 1.7, of life assurance undertakings – 2.2.

Compliance with capital requirements by insurance brokerage firms

The own capital of insurance brokerage firms amounted to EUR 15 million, an increase of almost 6.7 per cent from the end of last year. The minimum capital requirement is EUR 18,760, or not less than 4 per cent of an insurance brokerage firm's insurance premiums payable to insurers received over a year. As of 31 December 2016, one firm did not comply with the minimum capital requirement, while three firms engaged in mediation activity took early action and brought in additional cash to absorb its losses. One more firm increased its authorised capital in the fourth quarter of 2016 to meet legislative requirements.

4. PROTECTION OF CONSUMER RIGHTS

278 applications from consumers regarding disputes with insurance undertakings were received in 2016. 130 decisions regarding the subject matter of the disputes were taken: in 29 cases, consumers' claims were satisfied, in 18 cases – partially satisfied, in 83 cases – rejected. In 32 cases, the dispute ended after reaching a peaceful agreement or a financial market participant satisfying the claim. 10 recommendatory decisions regarding disputes with insurance undertakings were not abided by in 2016.

The disputes within the insurance sector that were settled at the Bank of Lithuania in 2016 were mainly related to insurers' refusal to recognise the event as an insured one. Most of disagreement further arises regarding motor third party liability mandatory insurance. Disputes over refusal by an insurer to pay an insurance claim, when the event is not covered by the definition of an insured event, which are significant for the formation of practice in the Bank of Lithuania, should be singled out. In assessing such disputes, the Bank of Lithuania noted that, when concluding insurance contracts, the insurer offers conditions that define the risk assumed by it, specify which potential events will be recognised as insured and which – not insured ones, and calculates the amount of the premium to be paid by the consumer based on that. Thus, the parties themselves, when signing a contract, explicitly agree in which cases the event will be recognised as insured and an insurance claim will be paid. Some risks should also be noted of which the consumer should notify the insurer for insurance coverage to be effective, e.g. in property insurance contracts – the state of the property being insured (residential or not). Existing legislation entitles insurers offering policy holders voluntary insurance contracts to self-establishing an insurance risk threshold, i.e. insurance coverage under the insurance contract is not absolute, whereas the insurer, by the insurance contract, undertakes to pay an insurance claim, if an insured event laid down in the law or the insurance contract occurs.

Within the group of disputes arising from the legal relationship of insurance, disputes regarding the long damage administration process, conducted by insurers, and refusal to take a decision to recognise an event as insured or not insured, should also be singled out. Legal acts lay down that an insurer must examine circumstances necessary to ascertain the fact of an insured event, its consequences and the amount of claim by reasonable effort. Moreover, the insurer does not have the right to pay an insurance claim or refuse to pay it unless convinced of the occurrence of the insured event or refuse to pay a claim without verifying all information available to him. In view of the above, the Bank of Lithuania, after ascertaining the fact of the existence of reasonable circumstances for not taking a decision, decided to reject such consumer requirements (to recommend the insurer to take a decision regarding the occurrence or non-occurrence of an insured event).

³ The solvency ratio was calculated as the ratio between the total sum of own funds eligible for covering the capital requirement and the amount of solvency capital requirement.

Annex. Key indicators of the insurance sector

Table 1. Insurance premiums

Seq. No	Insurance branches	2014	2015	2016	Growth rate in 2015	Growth rate in 2016
		amount, EUR millions			per cent	
1.	Life assurance	215.04	235.96	246.72	9.7	4.6
2.	Non-life insurance	385.81	409.14	463.09	6.0	13.2
3.	Total	600.85	645.10	709.81	7.4	10.0

Source: Bank of Lithuania.

Table 2. Claims paid

Seq. No	Insurance branches	2014	2015	2016	Growth rate in 2015	Growth rate in 2016
		amount, EUR millions			per cent	
1.	Life assurance	94.97	96.71	113.83	1.8	17.7
2.	Non-life insurance	221.40	235.32	258.95	6.3	10.0
3.	Total	316.37	332.03	372.78	4.9	12.3

Source: Bank of Lithuania.

Table 3. Key items of the balance sheet statement

Seq. No	Indicator	Life assurance undertakings			Non-life insurance undertakings		
		31/12/2015*	31/12/2016	change per cent	31/12/2015*	31/12/2016	change per cent
		amount, EUR millions			amount, EUR millions		
1.	Assets	763.71	856.74	12.2	415.31	542.01	30.5
1.1.	Intangible assets	2.20	2.13	-0.03	17.81	19.65	10.3
1.2.	Investment	316.12	340.23	7.6	257.21	336.94	31
1.2.1.	Land, buildings and other real estate	0.25	0.26	4	15.26	15.39	0.9
1.2.2.	Equity securities	30.72	32.01	4.2	28.29	52.53	85.7
1.2.3.	Debt securities	278.35	290.33	4.3	196.46	251.02	27.8
1.2.4.	Deposits with credit institutions	6.75	5.51	-18.4	17.21	15.33	-0.11
1.2.5.	Other investment	0.05	0.00	-100	0	0	0
1.3.	Life assurance investment when investment risk is borne by insurance policy holder	404.55	463.24	14.5	0	0	0
1.4.	Other asset positions	40.84	51.15	7.7	140.29	185.46	32.2
1.4.1.	Cash and cash equivalents	16.76	25.97	55	25.00	27.89	11.6
2.	Owners' equity and liabilities	763.71	856.74	12.2	415.31	542.06	30.5
2.1.	Capital and reserves	115.51	129.48	12.1	116.29	150.99	29.8
2.2.	Technical provisions	633.83	710.37	12.1	226.58	310.62	37.1
2.3.	Other positions of liabilities	14.36	16.89	17.6	72.44	80.44	11

*Balance sheet statement data is presented as reflected in the comparability column of statements submitted by undertakings as of 31 December 2016, i.e. adjusted according to IAS requirements.

Source: Bank of Lithuania.

Table 4. Main items of the profit (loss) and other comprehensive income statement

Seq. No	Indicator	Life assurance undertakings		Non-life insurance undertakings	
		31/12/2015 [†]	31/12/2016	31/12/2015 [†]	31/12/2016
		amount, EUR millions		amount, EUR millions	
1.	Income from insurance activity	137.41	143.40	211.66	259.02
2.	Cost of insurance claims paid	-59.02	-69.69	-132.32	-172.75
3.	Change in technical reserves not included in other items	-67.20	-56.95	-1.59	-1.00
4.	Net operating cost	-33.10	-33.72	-79.34	-98.68
5.	Investment profit (loss)	27.14	30.85	4.49	4.31
6.	Result of other activities	1.79	1.89	-2.62	-3.64
7.	Income tax	0.04	-0.03	-2.11	-0.54
8.	Operating result for reporting period	11.08	19.76	-1.84	-13.29

Data of profit (loss) and other comprehensive income statement is presented as reflected in the comparability column of statements submitted by undertakings as of 31 December 2016, i.e. adjusted for IAS requirements.

Source: Bank of Lithuania.

Table 5. Key indicators of activities of insurance brokerage firms

Seq. No	Indicators	31/12/2014	31/12/2015	31/12/2016	Growth rate in 2015	Growth rate in 2016
		Amount			per cent	
1.	Insurance contracts concluded, units	1,396,785	1,465,841	1,684,998	4.9	15.0
2.	Income from sales, EUR millions	33.55	35.65	40.98	6.2	15.0
3.	Result for reporting period, EUR millions	2.87	2.61	4.31	-9.1	65.1

Source: Bank of Lithuania.