

2 December 2016

Over the first three quarters of 2016, insurance premiums amounted to almost EUR 0.5 billion. Market growth was driven by the non-life insurance sector, where the premiums of vehicle insurance classes traditionally recorded the strongest growth. The life assurance market trends remain unchanged since the first quarter: the premiums written continue to be lower than a year ago.

Insurance undertakings earned EUR 6 million in profits; all life assurance undertakings and two non-life insurance undertakings operated profitably. The overall result of non-life insurance undertakings – a loss – was due to the loss-bearing activities of two undertakings in which the processes of business restructuring, taking over, and expansion to other countries are under way. They strengthened their capital to offset this loss; hence all insurance undertakings are solvent and meet the requirements of legal acts.

A third of insurance brokerage firms operating in the country have been tested in order to assess whether the funds received from insurance policy holders are managed properly, i.e. whether the insurance premiums received are held on a separate account. It has been identified that part of insurance brokerage firms manage collected insurance premiums improperly and have provided false information to the Bank of Lithuania. Four firms have therefore been subject to enforcement measures.

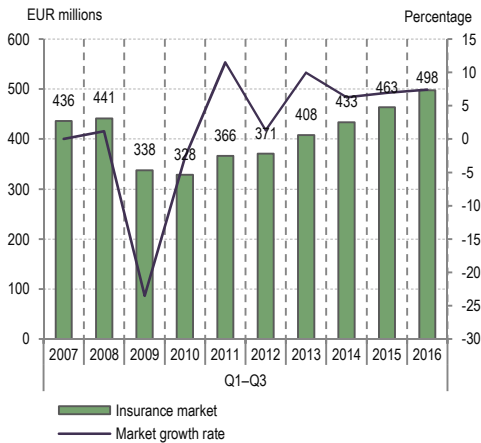
The assessment of changes in the insurance market development in this Review is based on the assessment of the activities of all market participants (9 insurance undertakings and 12 branches of insurance undertakings registered in other EU countries) carried out in Lithuania. The assessment of compliance with the financial and capital ratios in this Review only covers the activity of insurance undertakings and insurance brokerage firms (97) registered in the country.

1. CHANGES IN THE LEGAL ENVIRONMENT OF THE INSURANCE MARKET

The Ministry of Finance of the Republic of Lithuania is agreeing with respective authorities and market participants a draft Law on the Amendment of the Law on the Bank of Lithuania and related draft amending laws regulating the financial market (hereinafter – Draft). The Draft is aimed primarily at implementing the provisions of Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) (hereinafter – Regulation), requiring Member States to designate competent authorities, responsible for carrying out supervision and exercising other functions under this Regulation; the project also establishes enforcement measures for infringements on the provisions of the Regulation. The main purpose of the Regulation is to enhance the protection of the retail investor and increase its confidence in PRIIPs, including where these products are sold on a cross-border scale. It is aimed that information be provided in a clear, concise, standardised manner, in simple words, all calculations be carried out based on provided methodologies. The document containing major information should consist of no more than three pages.

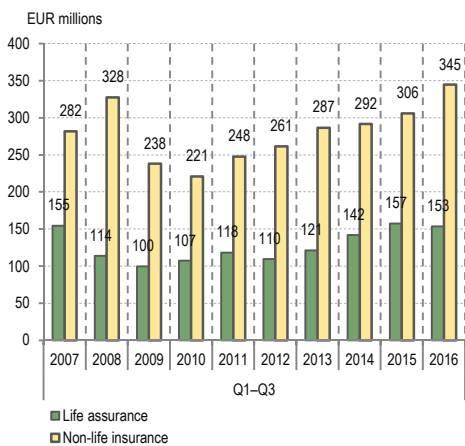
In addition, the Draft aims at establishing common legal regulation for certain parts of the financial market supervision process, thereby ensuring equal position of financial market participants in this process and greater legal clarity. The amendments will make uniform the supervisory processes for different financial market supervision sectors, ensure the possibility of the selection of a wide range of preventive and enforcement measures, and establish effective and deterrent financial fines for persons infringing legal acts regulating the financial market. This will help the Bank of Lithuania to carry out financial market supervision more effectively.

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



Source: Bank of Lithuania.

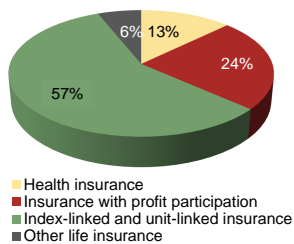
Chart 2. Dynamics of life assurance and non-life insurance premiums



Source: Bank of Lithuania.

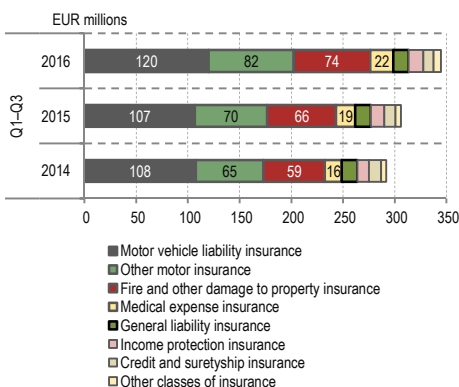
Chart 3. Distribution of life assurance premiums by type

Q1-Q3 2016



Source: Bank of Lithuania.

Chart 4. Dynamics of non-life insurance premiums



Source: Bank of Lithuania.

2. DEVELOPMENT OF THE INSURANCE MARKET

21 insurers in Lithuania were entitled to provide insurance services in the domestic market at the end of the third quarter of 2016: nine undertakings and twelve branches of undertakings registered in other European Union countries. Eight of them were engaged in life assurance activities and 13 in non-life insurance activities. 97 insurance brokerage firms mediate insurers in concluding insurance contracts.

Insurance premiums

Insurance market growth is supported by the non-life insurance sector. Over the three quarters of 2016, the insurance premiums of insurance undertakings registered in Lithuania and of branches of insurance undertakings of other European Union Member States established in Lithuania amounted to EUR 498.0 million, a year-on-year increase of 7.4 per cent, and reached their highest performance in the last ten years. The amount of non-life insurance premiums grew by 12.6 per cent, to EUR 344.6 million; of life assurance – by EUR 153.3 million or almost 3 per cent less year on year.

The contraction of the life assurance market continued to reduce the life assurance share in the entire insurance activity portfolio: at the end of the reporting period, the share of life assurance premiums did not even account for a third of the insurance market (30.8%), while in 2015 – 34.0 per cent of the entire insurance portfolio. With stronger growth in the non-life insurance market, its share in the entire insurance portfolio expanded as well – the non-life insurance share accounted for 69.2 per cent in the reporting period (66% a year ago).

The decline in the life assurance market was due mainly to a decline in the volume of single insurance premiums – a decline of more than EUR 10 million (40.5%). While single premiums account for a smaller share in the premium composition (9.8%), the fluctuations in their volume are particularly unsteady and have a weighty influence on the developments in the life assurance portfolio size. The decline in single insurance premiums was not offset by a 4.7 per cent increase in periodic life assurance premiums.

The non-life insurance market has been witnessing a rebound. Premiums written amounted to EUR 344.6 million, with motor third party liability insurance dominating – EUR 120.0 million (a year-on-year increase of 12.7%), other motor insurance (comprising Casco and railway rolling stock insurance) – EUR 82.2 million (an increase of 17.1%) and property insurance – EUR 74.0 million (an increase of 11.4%). Two types of transport insurance, accounting for almost 59 per cent of non-life insurance market premiums, grew by more than EUR 14 per cent from the respective period in the previous year, to account for 66 per cent of the entire volume of market growth. Only the premiums within the credit and suretyship insurance class and in the general third-party liability insurance class were smaller. Within all other non-life insurance classes, the premiums increased over the three quarters; the strongest growth rate was recorded within the assistance and financial loss insurance classes.

In terms of the volume of insurance premiums, it can be seen that the share of undertakings and branches registered in the country has been changing: the undertakings registered in the country account for a larger premium share: in 2016 – 55 per cent, in 2015 – 50 per cent of total premiums. Such a change can be mostly related to the establishment of a new insurance undertaking – *UADB Compensa Vienna Insurance Group* – in the second half of last year and with the taking over of the insurance portfolio of the branch of the same insurance group established in Lithuania at the beginning of this year. Both life assurance and non-life insur-

ance markets are dominated by undertakings registered in the country; the volume of their insurance premiums accounted for 59 per cent and 52 per cent respectively (in 2015 – 58% and 46%).

Insurance contracts

4.45 million insurance contracts were concluded over the three quarters of 2016. No significant changes occurred in the composition of contracts concluded: even 97 per cent of total contracts were concluded within the non-life insurance market, with contracts insuring motor third party liability prevailing (49.0%). In terms of the portfolio of existing contracts, the share of life assurance contracts is naturally somewhat larger, nearly 20 per cent. The number of existing contracts within the insurance market grew by almost 4 per cent over the third quarter (within the non-life insurance market – by 4.5%, the life assurance market – 1.8%).

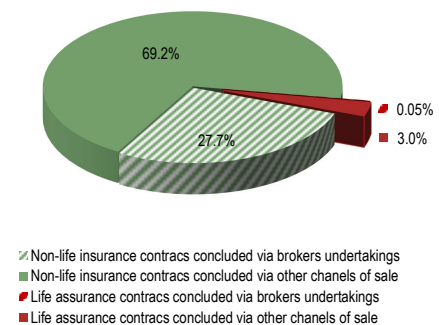
28 per cent of total contracts have been concluded through the mediation of insurance brokerage firms. Independent intermediaries were more active in the non-life insurance market, with 29 per cent of contracts concluded through their mediation. Insurance brokerage firms were not active in concluding life assurance contracts, with only 1.5 per cent of contracts concluded.

Insurance claims paid

EUR 271.5 million in claims were paid within the insurance market over the three quarters, an increase of 12 per cent year on year. EUR 81.0 million was paid within the life assurance market, an increase of 14.0 per cent year on year. Average claim was smaller than a year ago as growth in the number of claims outpaced (17%) growth in the amount paid (14%). 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 per cent, while the total amount of claims paid – by almost 18 per cent. Claims paid due to termination of life assurance contracts or partial payment of the accumulated amount account for 57.2 per cent of total insurance claims paid.

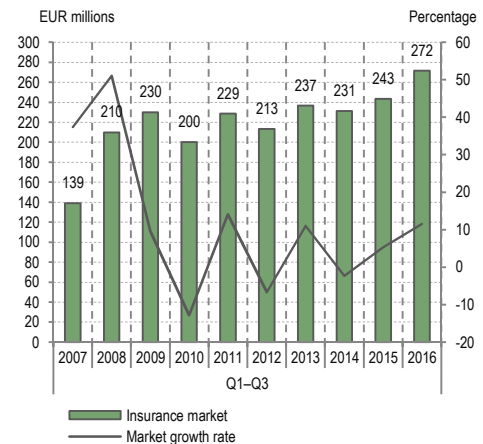
The share of non-life insurance claims paid accounted for 70.2 per cent of total claims paid – which is almost the same as that of premiums. EUR 190.5 million were paid under non-life insurance contracts, an increase of 10.5 per cent year on year. The volume of claims paid expanded almost twice as less (11%) as their number (20%), i.e. the average non-life insurance claim paid was smaller this year. Almost 70 per cent of claims paid were related to insured vehicles. Claims paid under motor third party liability and other vehicle insurance contracts posted a year-on-year increase of 13 per cent, those paid due to insured events that occurred under property insurance contracts – an increase of 44 per cent.

Chart 5 Insurance contracts concluded



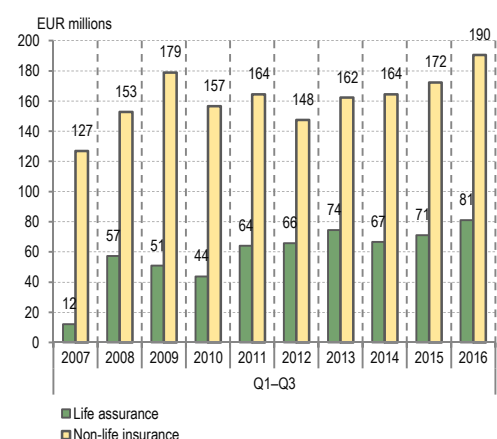
Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

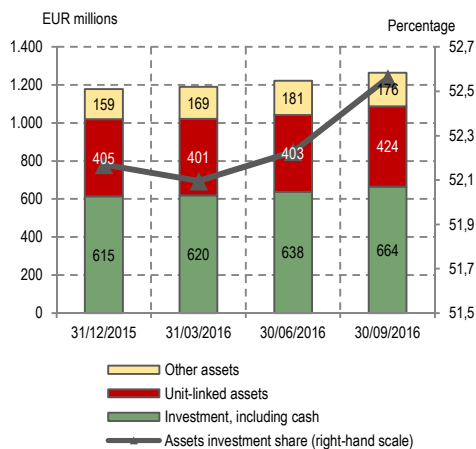
Chart 7. Dynamics of life assurance and non-life insurance claims paid



3. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

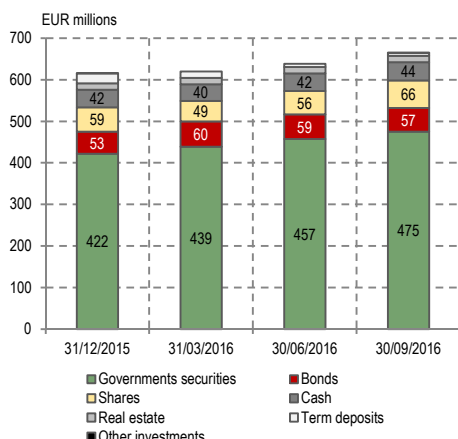
Assets and investment

Chart 8. Composition of insurance undertakings' assets



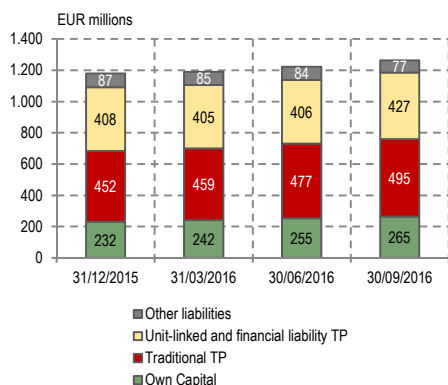
Source: Bank of Lithuania.

Chart 9. Composition of insurance undertakings' investment portfolio



Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

Both the assets and investment of insurance undertakings posted growth. The assets managed by insurance undertakings amounted to EUR 1,264 billion at the end of the third quarter, a 7.2 per cent increase in this indicator over the three quarters: at the end of 2015, the on-balance sheet value of insurance undertakings' assets was EUR 1,179 billion. The increase in the assets amount is related to the decisions, taken by the shareholders of two undertakings, to strengthen the undertakings' capital base rather than financial market changes determining asset growth. Investments (together with money held with banks, excluding the funds of unit-linked insurance) accounted for 52.6 per cent of total assets of insurance undertakings, or EUR 664.2 million.

Insurance undertakings choose conservative investment products, lowering the investment credit quality bar though. Despite the fact that there remained no more restrictions on assets covering insurance technical reserves 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 (71.5% or EUR 474.8 million) have been invested in government securities (GS). The investment amount grew by EUR 53 million, or 12.6 per cent, over this year, while the value of investment in corporate bonds – by EUR 4.1 million (to EUR 57 million). Nevertheless, 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 and corporate bonds. Zero- or very low interest being paid entailed a sharp decrease in the amount of deposits with banks; e.g. as of 31 December 2015, undertakings had invested in banks EUR 24.0 million, while as of 30 September 2016 – only EUR 6.6 million. The amount of cash with banks held on accounts remained almost unchanged and accounted for 6.7 per cent of total investment.

According to the data as of 30 September 2016, the assets of insurance brokerage firms equalled to EUR 24.8 million, an increase of 11.4 per cent from the end of last year. Most of these undertakings' assets consisted of cash (34%) and receivables (32%). Cash held on a separate account amounted to EUR 2.1 million – and was well above the intermediaries' liabilities to insurance undertakings.

Own capital and liabilities

In the first three quarters of 2016, insurance undertakings' own capital increased by 14.1 per cent, to EUR 264.7 million. The own capital of life assurance undertakings grew by 16.7 per cent because of their profitable operations (to EUR 135 million), of non-life insurance undertakings, due to the strengthening of their capital base – by 11.6 per cent (to EUR 129.8 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 12.1 million in the second and third quarters of 2016. As of 30 September 2016, the authorised capital of all undertakings amounted to EUR 67.2 million, an increase of 22 per cent from the end of last year.

As of 30 September 2016, technical provisions of undertakings amounted to EUR 921.7 million, an increase of 7.1 per cent from the end of last year. For an undertaking engaged in the insurance activity, technical provisions – insurer's liabilities, calculated according to the procedure established by legal acts, arising from insurance, reinsurance or financial contracts – account for the main share of total liabilities. Technical provisions other than the unit-linked life assurance technical provision and financial liabilities increased by 9.4 per cent over the year – to EUR 494.5 billion. Technical provisions of non-life insurance undertakings rose by 12.8 per cent (to EUR 254.8 million), of life assurance undertakings – 6 per cent (to EUR 239.7 million). Strong growth in the non-life insurance market resulted in the most pronounced increase in the unearned premiums technical provision as a relative representation as of the beginning of this year – 14.8 per cent; however, in absolute value, unit-linked life assurance technical provisions, whose change is mainly subject to financial market fluctuations, posted the strongest growth (EUR 20.6 million).

Operating result

According to the data as of 30 September 2016, insurance undertakings earned EUR 6 million in profits; the results of insurance branches diverged though: life assurance undertakings operated at a profit, non-life assurance undertakings – at a loss. Life assurance undertakings' profits amounted to EUR 13.9 million. Compared to the results for the respective period last year, the profits of life assurance undertakings posted an increase (adjusted for IAS, it amounted to EUR 9.4 million as of 30 September 2015). A great contribution to the operating result of life assurance undertakings stemmed from investing activities (profit – EUR 7.7 million). The third quarter of this year was a success for all life assurance undertakings (in the respective period of 2015, three life assurance undertakings incurred a loss); while for non-life assurance undertakings it brought a loss of EUR 7.9 million. 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 under way.

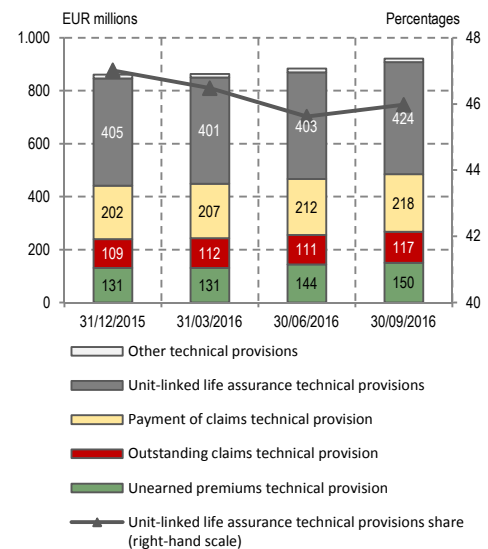
The operation of insurance brokerage firms in the third quarter was profitable; undertakings providing mediation services earned EUR 3.6 million in profits. This is the largest profit earned in the last three years. Such a result was achieved due to an increase in corporate sales revenues of 12.8 per cent (to EUR 29.3 million) as a result of a slight increase in operating expenses (by 0.9%, to EUR 15.8 million). Most undertakings – 77 out of 97 – operated at a profit.

4. MEETING OF CAPITAL REQUIREMENTS FOR UNDERTAKINGS

Meeting of capital requirements for insurance undertakings

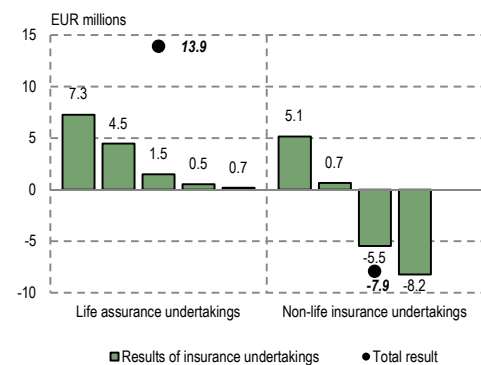
All insurance undertakings met solvency margin requirements. After coming into force of Solvency II requirements as of this year, when calculating their capital adequacy, insurance undertakings must not only assess their operating activities risk, but also other risks arising in their activity. So, after calculating capital requirement and evaluating the amount of own funds available, all insurance undertakings were solvent, i.e. held sufficient own funds to meet increased capital requirements. As of 30 September 2016, the solvency ratio of life assurance undertakings was 2.4, of non-life insurance undertakings – 1.7.

Chart 11. Composition of technical provisions



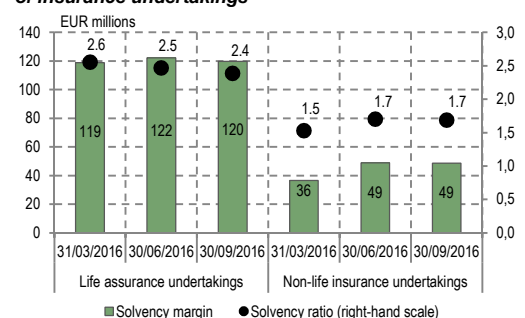
Source: Bank of Lithuania.

Chart 12. Results of insurance undertakings as of 30 September 2016



Source: Bank of Lithuania.

Chart 13. Solvency margin and solvency ratio of insurance undertakings



Source: Bank of Lithuania.

Meeting of capital requirements for insurance brokerage firms

The own capital of insurance brokerage firms amounted to EUR 14.2 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. On the reporting date, three undertakings engaged in mediation activities took advance measures and contributed additional cash against losses to comply with the minimum capital requirement. Meanwhile one undertaking did not comply with the minimum capital requirement as of 30 September 2016, increasing its authorised capital in the fourth quarter of this year though to meet legal requirements.

Testing of insurance brokerage firms

A third of insurance brokerage firms operating in Lithuania have been tested in order to assess their compliance with the separate account requirement. Insurance brokerage firms had to provide information on their holdings of funds on separate accounts (collected insurance premiums are accumulated in these accounts, they can only be used for settlement with insurers) and other accounts, as well as in the cash register. Undertakings also provided information about existing liabilities to insurance undertakings. It was verified whether the liabilities (debts) to insurance undertakings tallied with the balances of cash held by insurance brokerage firms on separate accounts. Insurance undertakings in turn were asked to submit data on brokerage firms' liabilities to them for the insurance contracts concluded on their behalf. It was verified whether the value of liabilities to insurance undertakings recorded in brokerage firms' financial statements tallied with the receivables from insurance brokerage firms specified by insurance undertakings.

It has been identified that part of insurance brokerage firms managed collected insurance premiums improperly and provided false information to the Bank of Lithuania. Five insurance brokerage firms provided false information to the Bank of Lithuania, did not record their liabilities to insurance undertakings either in their financial statements or in additionally provided information as they did not have sufficient funds on separate accounts. They improperly managed collected insurance premiums, using them to meet their other objectives. The amount of penalty imposed on four undertakings for that varies between EUR 250 and EUR 10,000, one undertaking was warned. Enforcement measures were applied subject to infringements on legal acts and non-compliance with the requirements laid down therein.

5. PROTECTION OF CONSUMER RIGHTS

78 applications regarding disputes which arose with insurance undertakings were received in the third quarter of 2016. 30 decisions regarding the subject matter of disputes have been taken: in five cases consumer requirements were satisfied, in three cases – partly satisfied, while in twenty two cases they were rejected; in nine cases, the dispute ended in a peaceful agreement or a financial market participant satisfying a consumer's claim.

In the settlement of disputes arising within the insurance sector, disputes regarding refusal by insurers to recognise events as insured events within the property insurance class should be singled out. It should be noted that existing legal acts entitle insurers offering voluntary insurance contracts for insurance policy holders to self-establishing an insurance risk threshold. It is important to note that an insurer, in concluding an insurance contract and assessing information submitted by a consumer prior to conclusion of the contract, assesses the insurance risk assumed; therefore, the insurance policy holder must, prior to conclusion of a contract, inform the insurer about material circumstances, which are clearly specified in a component of the insurance contract (rules). Such circumstances may include, e.g. information that a housing to be insured is not permanently inhabited. The insurer, when concluding a contract, taking into account non-disclosure of all material information that could help assess the insurable risk, upon occurrence of an event may refuse to recognise it as an insured event and pay an insurance claim, e.g. as a result of a flooded flat, if it is not permanently inhabited.

Annex. Key indicators of the insurance sector

Table 1. Insurance premiums

Seq. No	Insurance branches	30/09/2014	30/09/2015	30/09/2016	Growth rate in 2015	Growth rate in 2016
		amount, EUR millions			%	
1.	Life assurance	141.69	157.45	153.33	11.1	-2.6
2.	Non-life insurance	291.75	306.02	344.63	4.9	12.6
3.	Total	433.45	463.47	497.96	6.9	7.4

Source: Bank of Lithuania.

Table 2. Claims paid

Seq. No	Insurance branches	30/09/2014	30/09/2015	30/09/2016	Growth rate in 2015	Growth rate in 2016
		amount, EUR millions			%	
1.	Life assurance	66.71	71.05	81.03	6.5	14.0
2.	Non-life insurance	164.42	172.36	190.47	4.8	10.5
3.	Total	231.13	243.41	271.50	5.3	11.5

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*	30/09/2016	change over Q3	31/12/2015*	30/09/2016	change over Q3
		amount, EUR millions			amount, EUR millions		
1.	Assets	763.71	812.40	6.4	415.31	451.39	8.7
1.1.	Intangible assets	2.20	2.04	-7.3	17.81	17.87	0.3
1.2.	Investment	316.12	342.59	8.4	257.21	277.25	7.8
1.2.1.	Land, buildings and other real estate	0.25	0.25	0.0	15.26	15.00	-1.7
1.2.2.	Equity securities	30.72	35.97	17.1	28.29	30.06	6.3
1.2.3.	Debt securities	278.35	300.81	8.1	196.46	231.13	17.6
1.2.4.	Deposits with credit institutions	6.75	5.53	-18.1	17.21	1.06	-93.9
1.2.5.	Other investment	0.05	0.03	-39.4	0	0	0
1.3.	Life assurance investment when investment risk is borne by insurance policy holder	404.55	423.77	4.8	0	0	0
1.4.	Other asset positions	40.84	44.00	7.7	140.29	156.27	11.4
1.4.1.	Cash and cash equivalents	16.76	21.27	26.9	25.00	23.13	-7.5
2.	Owners' equity and liabilities	763.71	812.40	6.4	415.31	451.39	8.7
2.1.	Capital and reserves	115.51	134.96	16.7	116.29	129.77	11.6
2.2.	Technical provisions	633.83	666.30	5.1	226.58	255.38	12.7
2.3.	Other positions of liabilities	14.36	11.14	-21.8	72.44	66.24	-8.6

*Balance sheet statement data is presented as reflected in the comparability column of statements submitted by undertakings as of 30 September 2016, i.e. adjusted for 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		
		30/09/2015*	30/09/2016	change over the year, %	30/09/2015*	30/09/2016	change over the year %
		amount, EUR millions			amount, EUR millions		
1.	Income from insurance activity	100.51	102.78	2.3	157.46	185.29	17.7
2.	Cost of insurance claims paid	-43.37	-49.11	13.2	-94.95	-122.48	29.0
3.	Change in technical reserves not included in other items	-37.02	-32.49	-12.2	-2.01	-0.07	-96.4
4.	Net operating cost	-24.33	-24.69	1.5	-58.85	-71.26	21.1
5.	Investment profit (loss)	9.41	15.90	69.0	4.47	3.12	-30.2
6.	Result of other activities	1.50	1.28	-14.5	-2.00	-2.61	30.7
7.	Income tax	0.00	0.25	-9,828.4	-1.45	0.10	-107.2
8.	Operating result for reporting period	6.71	13.94	107.7	2.67	-7.90	-395.9

Data of profit (loss) and other comprehensive income statement is presented as reflected in the comparability column of statements submitted by undertakings as of 30 September 2016, i.e. adjusted for IAS requirements.

Source: Bank of Lithuania.

Table 5. Key indicators of activities of insurance brokerage firms

Seq. No	Indicators	30/09/2014	30/09/2015	30/09/2016	Growth rate in 2015	Growth rate in 2016
		Amount			%	
1.	Insurance contracts concluded, units	1,037,203	1,104,093	1,234,663	6.4	11.8
2.	Income from sales, EUR millions	24.23	25.94	29.28	7.1	12.8
3.	Result for reporting period, EUR millions	2.60	2.71	3.57	4.2	31.6

Source: Bank of Lithuania.