ACTIVITIES OF FINANCIAL MARKET PARTICIPANTS

LIETUVOS BANKAS

# Review of Lithuania's Insurance Market

## 2nd Quarter of 2014

ISSN 2335-8343 (ONLINE)



Gedimino pr. 6, LT-01103 Vilnius, Lithuania
Tel. +370 (5) 268 0029, fax +370 (5) 268 0038

www.lb.lt
info@lb.lt

## Contents

### List of tables



### List of charts



## Abbreviations

Casco Motor vehicles insurance (other than railway rolling stock)

MTPL Motor third party liability insurance

## Note:

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

# I. REVIEW OF THE INSURANCE MARKET

Twenty four insurers provided insurance services in the domestic market at the end of the first half of 2014, of which nine were engaged in life assurance and fifteen — in non-life insurance activities.

In the first half of 2014, the insurance undertakings registered in Lithuania and branches of insurance undertakings of other European Union Member States established in Lithuania wrote insurance premiums amounting to LTL 1,013.7 million, a year-on-year increase of 7.8 per cent., but still 2.9 per cent (or LTL 30.5 million) less than in the first half of 2008, when the volume of Lithuania's insurance market was the highest.

The sufficiently strong growth in insurance market volumes was due to growth in the two insurance branches — life assurance and non-life insurance; their growth rates varied though: the life assurance market grew by even 18.3 per cent (to LTL 331.0 million), the non-life insurance market — by 3.4 per cent (to LTL 682.8 million) over the year.

*1 Table. Premiums written*

| Insurance branches | Amount (LTL millions) | Growth rate | |
|---|---|---|---|
| | | H1 2014 (%) | H1 2013 (%) |
| Life assurance | 331.0 | ▲18.3 | ▲9.8 |
| Non-life insurance | 682.8 | ▲3.4 | ▲9.9 |
| Total | 1,013.7 | ▲7.8 | ▲9.9 |

The stunning performance of the life assurance market reflects a general improvement in the economic situation in the country — the gross domestic product (GDP) has been growing moderately for a few years already, while increasing by 3 per cent in the first half of the current year on year, and amounted to LTL 59,056 billion at the prices at that time. It should be noted that the amount of premiums written in the life assurance market exceeded the previously highest volumes recorded in the first half of 2007 by 0.5 per cent, or LTL 1.7 million.

Life assurance market growth was driven by volume growth across all of the life assurance classes, except for the marriage and birth insurance class, whose volumes have been contracting fast because of non-conclusion of new insurance contracts. The amount of premiums written within the largest insurance class — unit-linked life assurance — increased by even 17.7 per cent (to LTL 226.7 million), but did not reach the last year's volumes and lagged behind the highest market performance, achieved during the economic upswing in 2007, by 8.3 per cent. In the area of unit-linked life assurance, growth in the amount of single premiums distinguished itself: this amount rose by 52 per cent (to LTL 50.1 million), while the amount of periodic premiums — by 11 per cent. The rather significant growth in unit-linked life assurance premiums written suggests that, with the prevailing low interest rates environment, insurance policy holders also chose investment in riskier products of life assurance undertakings, which are likely to generate higher yields at the same time, in spite of a higher investment risk. However, a nearly one-fifth increase in the insurance premiums in case of survival written also suggests a higher demand for more conservative investment products. It should be noted that the growth rate of insurance premiums in case of survival written in the first half-year was the highest in the last ten years. The premiums in case of death written boosted substantially as well — by 27 per cent (to LTL 16.8 million).

The amount of technical provisions managed by market participants engaged in the life assurance activity continues to increase. The leaders in the life assurance market in terms of the amount of technical provisions formed are the

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

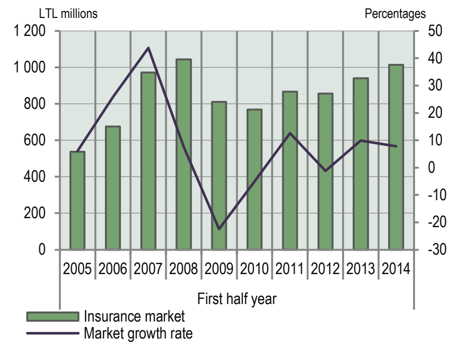



*Chart 2. Dynamics of life assurance and non-life insurance premiums written*

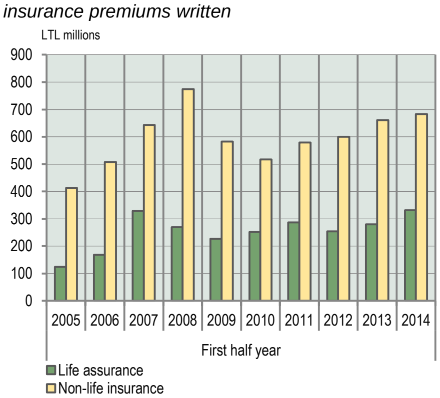



*Chart 3. Dynamics of life assurance premiums written*

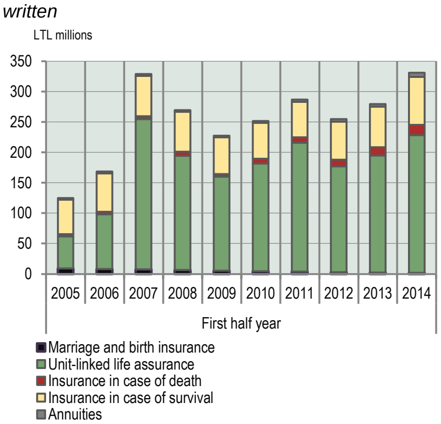



*Chart 4. Concentration in the life assurance market in terms of the amount of technical provisions formed*

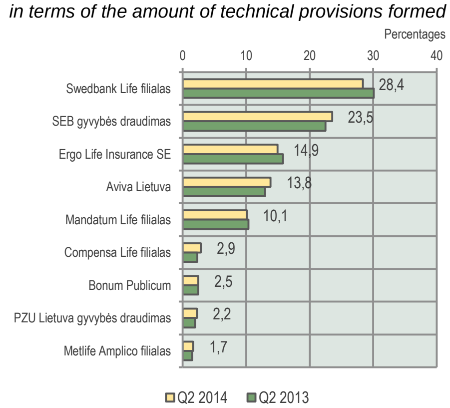


*Chart 5. Dynamics of non-life insurance premiums written*

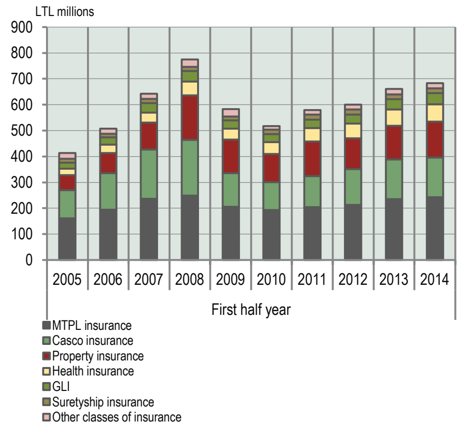



*Chart 6. Concentration in the non-life insurance market in terms of premiums written*

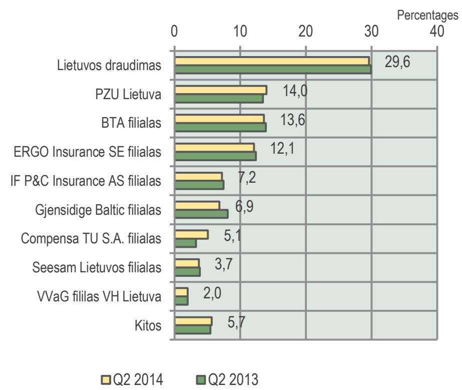



*Chart 7. Dynamics of claims paid in the entire insurance market (left-hand scale) and their growth rate (right-hand scale)*

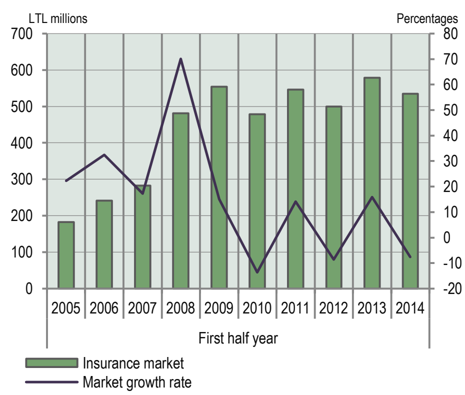
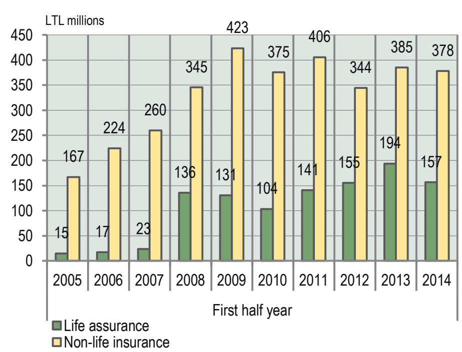



*Chart 8. Dynamics of life assurance and non-life insurance claims paid*




enterprises that have been operating in Lithuania longest and holding the oldest insurance portfolio — *Swedbank Life Insurance SE* Lithuania branch, *UAB SEB gyvybės draudimas* and *ERGO Life Insurance SE*. *UAGDPB AVIVA Lietuva* came very close to them this year.

High competition in the non-life insurance market had an impact on the changes in this market: fees on a number of non-life insurance types decreased, this being the reason why the dynamics of the volumes of non-life insurance classes was different from life assurance dynamics. In the first half of 2014, the amount of premiums written within the largest non-life insurance class — MTPL insurance — rose, albeit at an insignificant rate: it was 3.1 per cent larger than in the respective period a year ago, but 2.2 per cent smaller than during the economic upswing in the first half of 2008. The growth in the volumes of the MTPL insurance class was due to a 9.7 per cent increase in the legal persons' premiums written, while the amount of the residents' premiums written declined by 1 per cent. Rather sluggish growth has been observed in the Casco insurance class this year, with a year-on-year increase of a mere 0.2 per cent in the premiums written in the first half of 2014. Within the Casco insurance class, unlike in the MTPL insurance class, the amount of residents' premiums written grew (by 2.2%), while that of legal persons declined (by –1.1%). Growth in property insurance volumes was distinguished in the reference period, as compared to the changes in other non-life insurance classes: the premiums within the latter class grew by 6.7 per cent — to LTL 138.9 million. 4.8 per cent more health insurance premiums were written year on year (LTL 67.1 million), reaching the largest volume of this insurance class in the entire history of the Lithuanian insurance market. The record volumes of this insurance class have been achieved due to a rise in the premiums written within the additional health insurance sub-class (19.6%, to LTL 30.9 million).

The four largest non-life insurance market participants retained the highest positions in the first half of 2014; however, only *UAB DK PZU Lietuva* managed to increase its market share. The *IF P&C Insurance AS* branch took the fifth position, outperforming the *Gjensidige Baltic* Lithuania branch.

In the first half of 2014, insurers paid LTL 534.8 million in claims, a year-on-year decrease of 7.6 per cent.

*Table 2. Claims paid*

| Insurance branches | Amount (LTL millions) | Growth rate | |
|---|---|---|---|
| | | H1 2014 (%) | H1 2013 (%) |
| Life assurance | 156.6 | ▼19.2 | ▲24.9 |
| Non-life insurance | 378.2 | ▼1.8 | ▲11.9 |
| Total | 534.8 | ▼7.6 | ▲15.9 |

In the first half of 2014 life assurance claims paid contracted by 19.2 per cent, which suggests that the boom of claims paid has come to an end and was due to a great number of expired life assurance contracts that had been concluded by the end of 2002, before change in the tax environment. In the first half of this year, life assurance claims paid grew by a mere 1 per cent year on year.

The decrease in the amount of non-life insurance claims paid was due to a decline in credit insurance claims paid that almost halved (by 48%, to LTL 20.7 million). The amounts paid within the vehicles classes of insurance declined as well. LTL 137.0 million of insurance claims were paid within the MTPL class of insurance in the first half of 2014, a year-on-year decrease of 3.0 per cent. Casco insurance claims contracted by a mere 0.2 per cent — to LTL 108.4 million. The 53 per cent increase in the amounts of claims paid within the property insurance class (to LTL 58.0 million) was due to the crop insurance claims paid (LTL 12 million).

Considering the country's economic indicators and the insurance market performance for the first half-year, towards the end of the year insurance market growth is likely to be below expectations — about 6 per cent (instead of the forecasted 8–10%). The forecast for life assurance market growth is above 15 per cent (instead of the forecasted 9–11%); the growth rate of the non-life insurance market will be positive, however, at a mere 1per cent (the forecast was 8–10%).

# II. REVIEW OF THE FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

The number of insurance undertakings registered in the country remained unchanged over the half-year. Below, the financial performance of 10 insurance undertakings will be discussed, of which validity of the licence has been terminated for *UAB Būsto paskolų draudimas* and *UADB Industrijos garantas.*

The insurance undertakings registered in Lithuania earned LTL 67.6 million in profits in the first half of 2014. In estimating the 10 years period, this half-year was the most profitable: only one undertaking operated at a loss; it is not actively engaged in the insurance activity though. During the last two years, the profitability of insurance undertakings was mainly driven by the successful major — insurance — activity, which generated LTL 48.3 million in profits. Improvement of the operating result of direct insurance activity, by focussing on the formulation of pricing that would be in line with the risks, will further be one of the major goals for insurers. The profits from the investment activity reached LTL 23.7 million. Such a result was more than twice as high as that for the respective period last year. This change was due to an increase in the unrealised profit from securities: the market price of the securities of the Government of the Republic of Lithuania, generating higher yields, acquired in the previous periods, rose significantly because of a drop in the market yields of the respective securities. With the low interest rates investment environment settled down, reinvestment risk will be increasingly relevant for insurers, with a marked share of their portfolios consisting of long-term products with a guaranteed return.

As of 30 June 2014, the assets of insurance undertakings stood at LTL 3,066 billion, a year-on-year increase of 12.6 per cent. The major share of the assets of insurance undertakings consists of investments — LTL 2,689 billion. Insurance undertakings' investments, in terms of their economic origin, are divided into investments of an undertaking and funds of insurers entrusted to an undertaking for management under unit-linked life assurance contracts, which are characteristic of insurers engaged in life assurance. The funds of insurers entrusted to undertakings for management boosted by LTL 196 million over the year and represented more than half of the assets of life assurance undertakings. Changes in other asset positions were marginal. Investments of an undertaking, which are used to cover traditional insurance technical provisions and equity capital as well as other liabilities, amounted to LTL 1,623 billion as of 30 June 2014 (rising by LTL 132 million over the year). In the balance sheet of non-life insurance undertakings, these funds account for almost 70 per cent of their total assets.

The distribution of investments of insurance undertakings, subject to the nature of their funds, also taking into account the restricting legislative provision applicable to the funds 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 tech

*Chart 9. Dynamics of the operating performance of insurance undertakings*

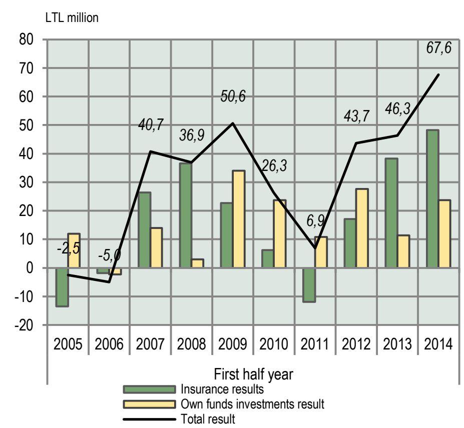



*Chart 10. Investment of insurance undertakings by source of financing as of 30 June 2014*

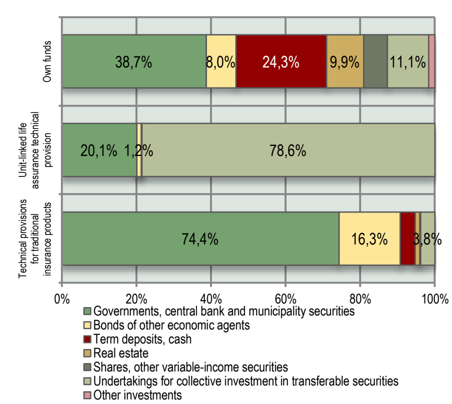



*Chart 11. Dynamics of the composition of undertakings' investment*

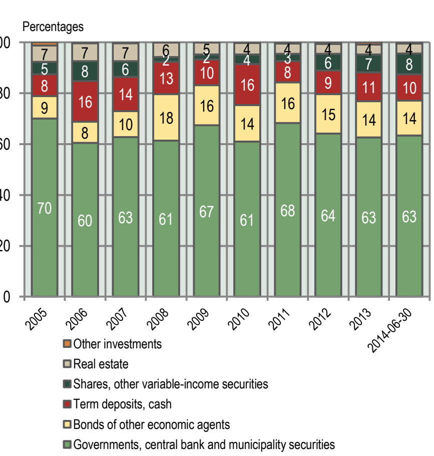
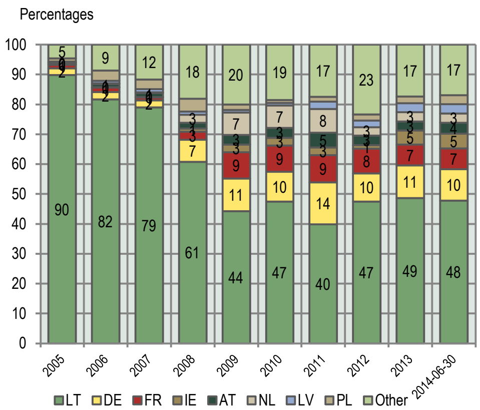


*Chart 12. Dynamics of the distribution of undertakings' investment by country of issuer*




nical provisions are invested conservatively, by investing most of them — 74.4 per cent — in government securities, 16.3 per cent in corporate bonds. Insurance policy holders, having entrusted their funds to undertakings for management through acquisition of unit-linked life assurance products, seek higher returns and are inclined to assume higher risks: 78.6 per cent of these funds have been invested in collective investment undertakings. The highest levels of diversification have been achieved by investing spare funds of undertakings not subject to the liabilities to cover technical provisions. The investment share of variable yields in this portfolio has been expanding, albeit marginally. It is important that insurance undertakings, in pursuit of higher yields, adequately assess the risk.

The composition of undertakings' investment portfolio has changed minimally over ten years. Most of their funds — 63 per cent — have been invested in government securities, almost 55 per cent — in the securities of the Government of the Republic of Lithuania. In the first half of 2014, undertakings mostly bought securities of the governments of Lithuania, Austria, Croatia, Hungary and Romania. In terms of the distribution of investments by country of issuer, the changes over ten years are impressive. While the major share has been invested in the investment products of the issuers of the Republic of Lithuania, their investment portfolio share contracted from 90 per cent in 2005 to 48 per cent as of 30 June 2014. As much as 99 per cent of total funds have been invested in EU Members States, of which Germany, France, Ireland and Austria were the most popular.

One of the key insurance market financial stability indicators is the solvency margin ratio, which indicates whether insurance undertakings have sufficient own funds to cover emergency and, when calculating technical provisions, not estimated losses. Its size is regulated by legal acts and must not be higher than 1. As of 30 June 2014, the solvency ratio of undertakings was 2.4; for life assurance undertakings, this ratio was 2.9, for non-life insurance undertakings — 2.0 (out of the five non-life insurance undertakings, only three are actively engaged in the insurance activity). The overall market solvency ratio decreased by 0.4 over the half-year; however, this does not jeopardise market stability as it is customary to reduce the solvency margin due to pay-outs of dividends to shareholders in the second quarter, which results in a decline in accumulated balance sheet profits.