



LIETUVOS BANKAS

Review of Lithuania's Insurance Market

3rd Quarter of 2014

ISSN 2335-8343 (ONLINE)

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Abbreviations

Casco	Motor vehicles insurance (other than railway rolling stock)
MTPL	Motor third party liability insurance
GS	Government securities

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 on 30 September 2014, of which nine were engaged in life assurance and fifteen — in non-life insurance activities.

Over the first three quarters 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 1,496.6 million, i.e. 6.3 per cent more than in the same period last year, but 1.8 per cent or LTL 27.2 million less than in the three quarters of 2008, when the volume of Lithuania's insurance market was the highest.

The 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 16.9 per cent (to LTL 489.2 million), the non-life insurance market — by 1.8 per cent (to LTL 1,007.4 million).

Table 1. Premiums written

Insurance branches	Amount (LTL millions)	Growth rate	
		Q3 2013 (%)	Q3 2014 (%)
Life assurance	489.2	▲ 16.9	▲ 10.7
Non-life insurance	1,007.4	▲ 1.8	▲ 9.7
Total coins	1,496.6	▲ 6.3	▲ 10.0

With the country's gross domestic product (GDP) gradually growing and the income level of the public increasing, the life assurance market is also rapidly growing, although in January–September the result was 8.3 per cent smaller than the result from 2007, when the volume of life assurance was largest.

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 life assurance class — unit-linked life assurance — increased by even 15.9 per cent (to LTL 332.2 million), but lacked LTL 79.1 million till the highest market performance of 2007. In the area of unit-linked life assurance, growth in the amount of single premiums distinguished itself: this amount grew by 51 per cent (to LTL 64 million), while of periodical fees — by 10 per cent (to LTL 268 million). 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 in cases of survival, three fourths of the amount of premiums written in the insurance market were at a record high and amounted to LTL 118.4 million, while the growth rate of insurance premiums written was the highest in the last ten years. The premiums in case of death written boosted substantially as well — by 28 per cent (to LTL 26.1 million).

The amount of technical provisions managed by market participants engaged in the life assurance activity continues to increase. At the end of the third quarter of 2014 it amounted to LTL 2,687.3 million. The leaders in the life assurance market in terms of the amount of technical provisions formed are the 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.

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

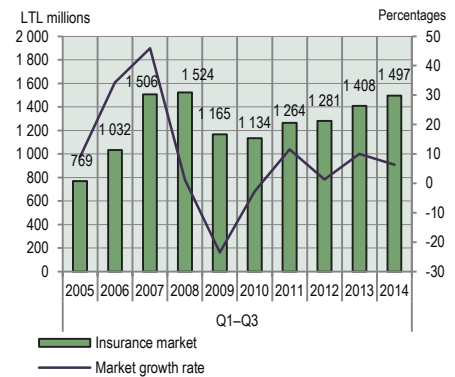


Chart 2. Dynamics of life assurance and non-life insurance premiums written

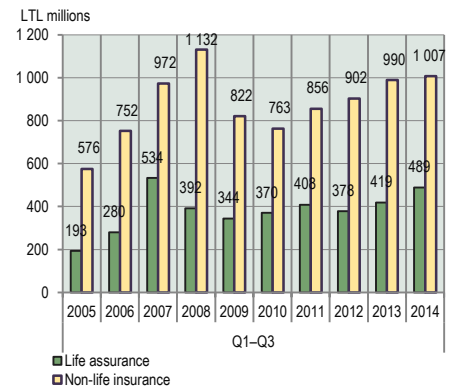


Chart 3. Dynamics of life assurance premiums written

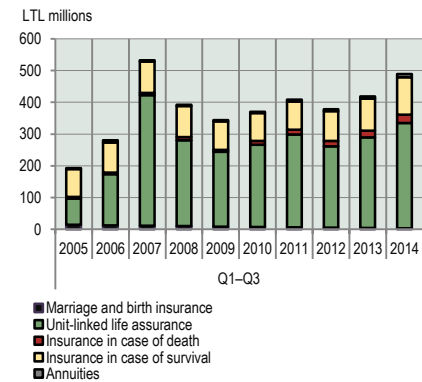


Chart 4. Concentration in the life assurance market in terms of the amount of technical provisions formed

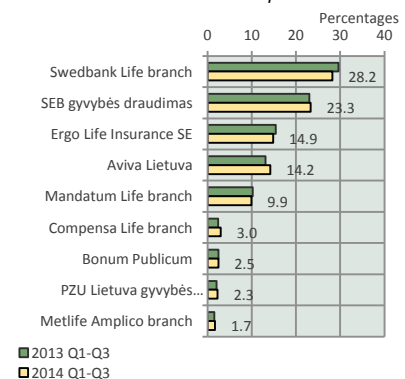


Chart 5. Dynamics of non-life insurance premiums written

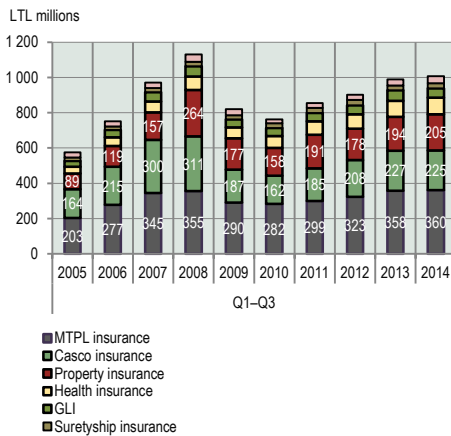


Chart 6. Concentration in the non-life insurance market in terms of premiums written

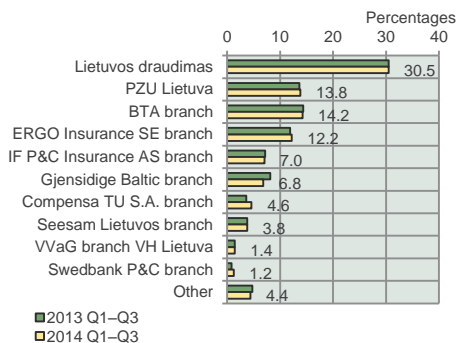


Chart 7. Dynamics of claims paid in the entire insurance market (left-hand scale) and their growth rate (right-hand scale)

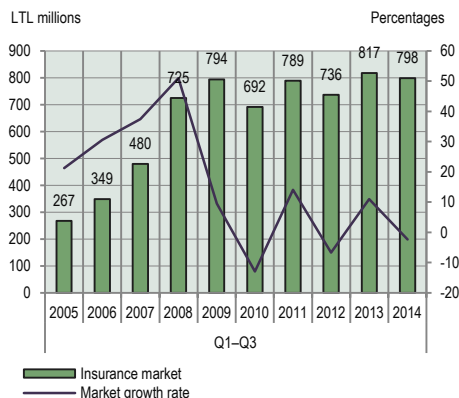
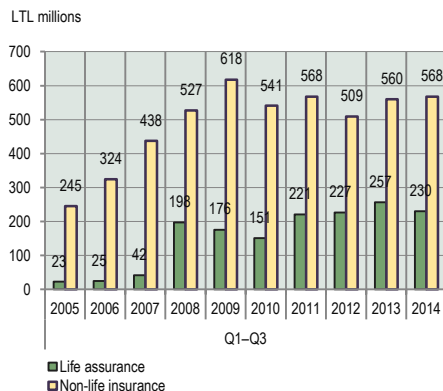


Chart 8. Dynamics of life assurance and non-life insurance claims paid



Intense 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 volume of the non-life insurance group increased rather cautiously. In January–September 2014, the amount of premiums written in the largest branch of insurance within the non-life insurance class — MTPL insurance — amounted to LTL 360.5 million in insurance premiums, and this is 0.8 per cent more than in the same period a year ago. Although the growth in the premiums written in the MTPL insurance group wasn't very large, the volume of this insurance class became the largest over the whole history of Lithuania's insurance market. The growth in the volumes of the MTPL insurance class was due to a 3.5 per cent increase in the legal persons' premiums written, while the amount of the residents' premiums written declined by 1 per cent. In January–September of this year the volume of the Casco insurance class decreased — over the three quarters of 2014, 0.8 per cent less premiums were written than during the same period the year before. Unlike the MTPL insurance class, the amount of legal persons' premiums written declined (–2.7%), while residents — increased (2.0%). 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 6.1 per cent — to LTL 205.4 million. The volume of health insurance (94.8%) was at a record high over the whole history of Lithuania's insurance market due to the growth of premiums written within the additional health insurance sub-class (15.4% — to LTL 37.9 million).

The four largest non-life insurance market participants retained the highest positions in the market in the first three quarters of 2014; however *UAB DK PZU Lietuva* and *ERGO Insurance SE* branch were able to increase their market share, while the market share of *BTA Insurance Company* branch decreased. With permission from the Competitiveness Council for the Polish insurance undertaking *PZU S.A.* to acquire up to 100 per cent of the shares of *AB Lietuvos Draudimas*, under the condition that *PZU S.A.* will transfer business related to Casco and property insurance activities carried out by *UAB DK PZU Lietuva*, in the near future major changes in sharing the insurance market are expected.

Over the first three quarters of 2014, insurers paid LTL 798.1 million of claims, a year-on-year decrease of 2.3 per cent.

Table 2. Claims paid

Insurance branches	Amount (LTL millions)	Growth rate	
		Q3 2013 (%)	Q3 2013 (%)
Life assurance	230.3	▼ 10.3	▲ 13.3
Non-life insurance	567.7	▲ 1.3	▲ 10.0
Total coins	798.1	▼ 2.3	▲ 11.0

In January–September 2014 the 10.3 per cent decrease in life assurance benefits was due to the unusually high 2013 comparative data base, which formed due to the mass, at the end of 2002, prior to the change in the tax environment, expiration of agreements concluded within a 10-year period and the resulting unusual increase in the volume of premiums at the end of 2012 and beginning of 2013. The volume of premiums this year indicate long-term trends and, compared to January–September 2012, increased by almost 2 per cent.

The growth of non-life insurance benefits was driven by the increase in the amount paid within the property insurance class of 53.8 per cent (to LTL 91.7 million), and it was mostly influenced by the crop insurance claims paid (a growth of almost LTL 13 million). The great increase in premiums paid within the property insurance class slightly offset the decreased credit insurance claims (42.2% to LTL 35.6 million). In the MTPL insurance class over the three quarters of 2014, LTL 206.6 million in insurance claims was paid, or 2.4 per cent more than in the same period in 2013. Casco insurance claims declined by 1.1 per cent — to LTL 159 million.

II. REVIEW OF THE FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

The number of insurance undertakings registered in the country did not change over the three quarters of this year, i.e. 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 84.9 million in profits in the first three quarters of 2014. In assessing the 10 year period it is clear the profit from the three quarters of this year was one of the largest and only one undertaking operated at a loss. Profit from the primary insurance activity was also at a record high — LTL 56.7 million was earned. 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 investment activities amounted to LTL 34.1 million, and this was 66.3 per cent than a year earlier. This profitability 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 September 2014, the assets of insurance undertakings stood at LTL 3,306 billion, a year-on-year increase of 16.9 per cent. The major share of the assets of insurance undertakings consists of investments — LTL 2,715 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 181 million over the year and represented more than half of the assets of life assurance undertakings.

Of the other positions the largest increase was in the share of deposit and money accounts in the investment structure. The growth was a result of the subordinated loan granted by the Polish insurance undertaking *PZU S.A.* to the subsidiary *UAB DK PZU Lietuva*. It should be used for acquiring the *Codan Forsikring A/S* branch in Estonia and to maintain a sufficient solvency margin.

Investments of an undertaking, which are used to cover traditional insurance technical provisions and equity capital as well as other liabilities, amounted to LTL 1.834 billion as of 30 September 2014 (rising by LTL 211 million over the year). These funds amount to 74 per cent of the assets of non-life insurance undertakings.

The distribution of investments of insurance undertakings, depending on the nature of their funds, also taking into account the legislative restrictions 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. The funds that cover technical provisions are invested conservatively, their largest share — 73.3 per cent is invested in government securities; corporate bonds amount to 16.0 per cent. Insurance policy holders, having entrusted their funds to undertakings for management through acquisition of unit-linked life assurance products, seek higher returns

Chart 9. Dynamics of the operating performance of insurance undertakings

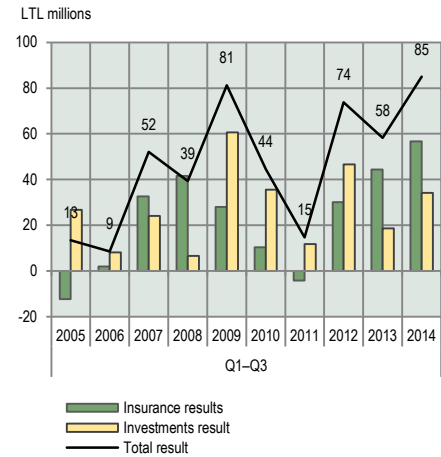


Chart 10. Investment of insurance undertakings by source of financing as of 30 September 2014

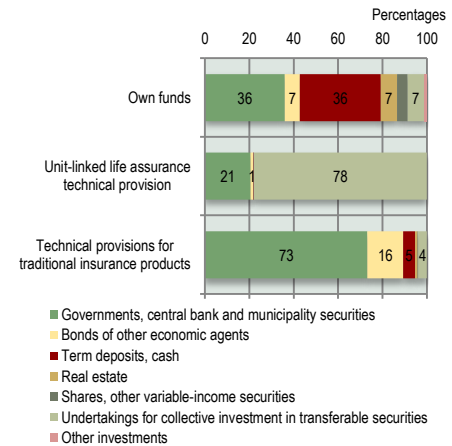


Chart 11. Dynamics of the composition of undertakings' investment

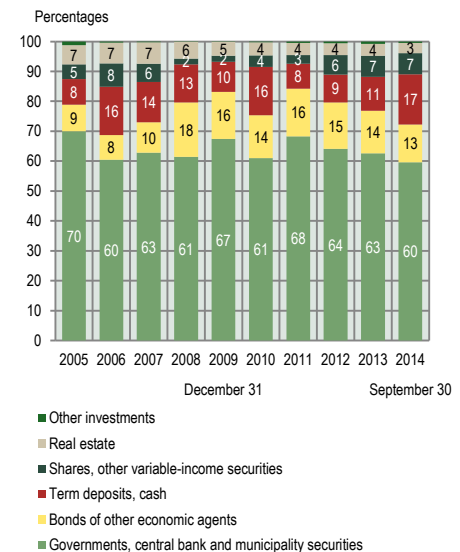


Chart 12. Dynamics of the distribution of undertaking investment by country of issuer

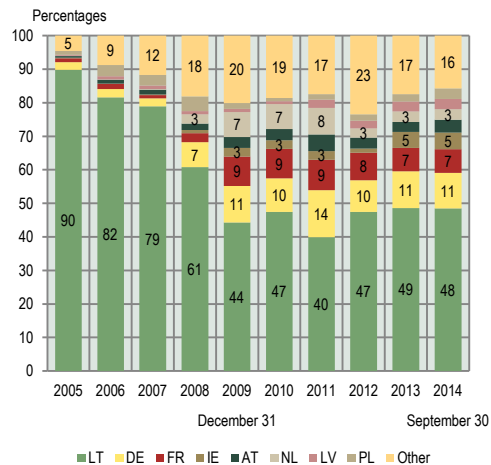
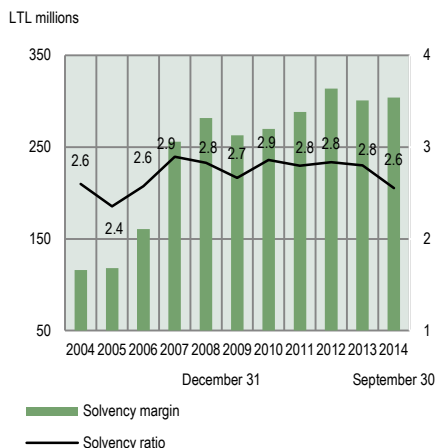


Chart 13. Dynamics of the solvency margin and solvency ratio of insurance undertakings



and are inclined to assume higher risks: 78.0 per cent of these funds have been invested in collective investment undertakings. The highest diversification level is reached by investing the funds, left over from liabilities to cover technical provisions, of undertakings. The investment share of variable yields in this portfolio has been expanding, albeit marginally. It is important that in seeking to generate higher yield and orienting the investment portfolio towards a greater credit risk, insurance undertakings are sufficiently assessing risk.

The composition of undertakings' investment portfolio has changed minimally over ten years. Most of their funds — 60 per cent — have been invested in government securities, almost 56 per cent — in the securities of the Government of the Republic of Lithuania. On 30 September 2014 undertakings mostly had invested in government securities of Lithuania, Germany, France, Belgium and Austria. In terms of the distribution of investments by country of issuer, it can be seen that 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 on 30 September 2014.

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 solvency ratio is regulated by legal acts and must be higher than 1. As of 30 September 2014, the solvency ratio of undertakings was 2.6; for life assurance undertakings, this ratio was 3.1, for non-life insurance undertakings — 2.2 (out of the five non-life insurance undertakings, only three are actively engaged in the insurance activity). The absolute value of the solvency ratio — the solvency margin or 30 September amounted to LTL 304 million and second in size over the past 10 years. Although the overall market solvency ratio decreased by 0.2 over the three quarters of the 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.