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Over the first half of 2018, insurance premiums amounted to almost €440 million. On a year-on-year basis, they increased by 13.4%. Compared to the first half of 2017, non-life insurance premiums grew at a faster pace (15.9%), reaching €322 million. Life insurance premiums exceeded €117 million, a year-on-year increase of 7.1%. The largest contribution to these changes came from the buoyant growth in unit-linked insurance premiums. In terms of the non-life insurance portfolio, transport insurance recorded the strongest growth. Over the half-year, policyholders were paid €226 million in insurance claims – €12 million more than last year. The Bank of Lithuania projects that by the end of the year the growth rate of the insurance sector will remain largely unchanged, to reach 8-9% as projected at the start of the year. It is likely that the non-life insurance sector will expand by 10-12%, while the life insurance market will grow by 4-6%.

In the first half of 2018 almost all insurance undertakings operated at a profit, earning €22.3 million. All undertakings complied with their compulsory solvency capital requirements.

Activities of insurance brokerage firms were also profitable, earning them €5.2 million, an increase of 59.9% year on year.

The assessment of insurance market developments covers the activities of all market participants carried out in the territory of the Republic of Lithuania. The assessment of compliance with financial and capital adequacy ratios as well as of changes in these ratios covers 9 insurance undertakings and 97 insurance brokerage firms registered in the country (across the territory of their activities). The financial performance and capital ratios of branches operating in the territory of Lithuania are not assessed as these entities fall under financial supervision of the home supervisory authorities of the companies that have established them.

1. CHANGES IN THE LEGAL ENVIRONMENT OF THE INSURANCE MARKET

Seeking to harmonise the supervisory requirements for Lithuania's financial market participants (e.g. the procedures for inspections and imposition of sanctions, criteria for evaluating the good repute of the management of the supervised financial market participants, etc.), the Parliament of the Republic of Lithuania adopted 27 draft laws (including the draft Republic of Lithuania Law on Insurance).

Transposing Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution, **the amendments to the Republic of Lithuania Law on Insurance will come into effect on 1 October 2018**. They will establish requirements regarding insurance distribution for all sellers of insurance products, including ancillary insurance intermediaries, conditions for insurance distribution, the duty to act in the best interest of policyholders, the insured, beneficiaries and third parties, eligibility and competence requirements for insurance or reinsurance distributors, as well as requirements for the assessment of suitability and appropriateness of insurance products when concluding insurance-based investment product contracts.

2. DEVELOPMENT OF THE INSURANCE MARKET

At the end of the first half of 2018, insurance services were provided by 20 insurers registered in Lithuania: 9 undertakings and 11 branches of companies registered in other EU countries. 8 of them were engaged in life insurance activities, 12 – in non-life insurance activities. Over the reference period, the number of branches operating in the Lithuanian market decreased from 12 to 11: the Austrian insurer Vienna Insurance Group AG merged InterRisk Vienna Insurance Group AAS and BTA Baltic Insurance Company AAS, both of which were registered in Latvia (their branches are established in Lithuania). The number of insurance brokerage firms remained unchanged: at the end of Q2 2018, 97 firms were in operation.

Insurance premiums

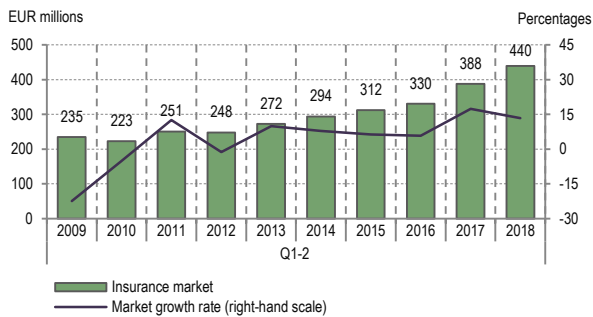
In the first half of 2018, the growth rate of insurance premiums was less pronounced compared to last year. On a year-on-year basis, the market expanded by 13.4%. Insurance market volumes were spurred by both life and non-life insurance branches, even though at different rates. Over the first half of 2018, year on year, life insurance premiums increased by 7.1%, to €117.4 million; non-life insurance premiums showed stronger growth, increasing by 15.9%, to €322.2 million.

Table 1. Insurance premiums

| Seq. No | Insurance branches | Amount, EUR millions | | | Growth rate, % | |
|-----------|--------------------|----------------------|--------------|--------------|----------------|-------------|
| | | 30/06/2016 | 30/06/2017 | 30/06/2018 | 2017 | 2018 |
| 1. | Life insurance | 100.1 | 109.7 | 117.4 | 9.6 | 7.1 |
| 2. | Non-life insurance | 230.1 | 278.0 | 322.2 | 20.8 | 15.9 |
| 3. | Total | 330.2 | 387.7 | 439.6 | 17.4 | 13.4 |

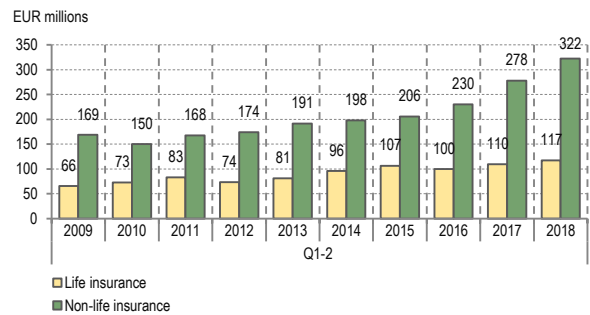
Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

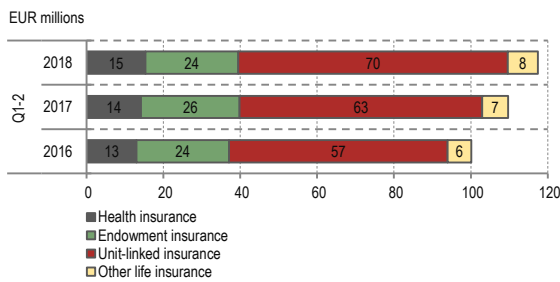
Chart 2. Dynamics of life and non-life insurance premiums



Source: Bank of Lithuania.

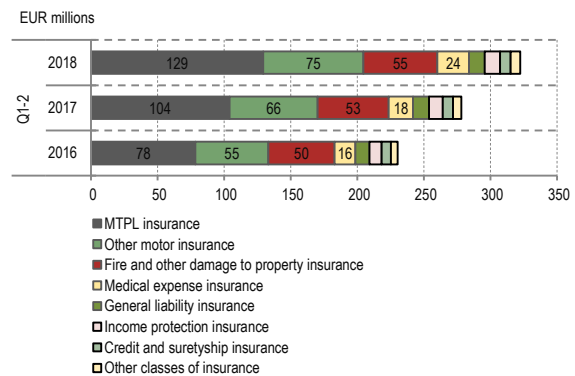
In the reference period, the volume of life insurance premiums expanded mainly on account of index- and investment unit-linked insurance, growing by 11% year on year. The largest contribution to the rise in non-life insurance volumes stemmed from a 24.5% increase in motor third party liability insurance and a 13.7% increase in CASCO insurance.

Chart 3. Breakdown of life insurance premiums by type



Source: Bank of Lithuania.

Chart 4. Breakdown of non-life insurance premiums by type



Source: Bank of Lithuania.

Insurance claims paid

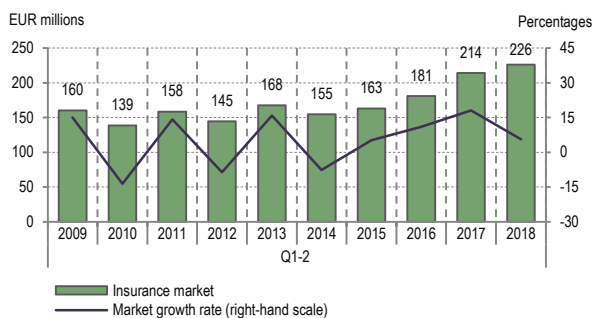
€226.1 million in insurance claims were paid in the first half of 2018, a year-on-year increase of 5.7%. The main bulk of them (69.8%, or €157.8 million) were paid under non-life insurance contracts, of which almost 68.1% were related to insured vehicles. In terms of life insurance, 58% of claims were paid due to the termination of insurance contracts, 31% were paid upon expiry of insurance contracts.

Table 3. Claims paid

| Seq. No | Insurance branches | Amount, EUR millions | | | Growth rate, % | |
|-----------|--------------------|----------------------|--------------|--------------|----------------|------------|
| | | 30/06/2016 | 30/06/2017 | 30/06/2018 | 2017 | 2018 |
| 1. | Life insurance | 54.9 | 70.6 | 68.2 | 28.6 | -3.4 |
| 2. | Non-life insurance | 126.2 | 143.3 | 157.8 | 13.6 | 10.1 |
| 3. | Total | 181.1 | 213.9 | 226.1 | 18.1 | 5.7 |

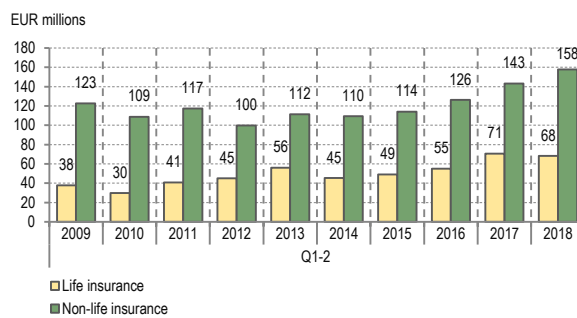
Source: Bank of Lithuania.

Chart 5. Dynamics and growth rate of claims paid within the insurance market



Source: Bank of Lithuania.

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

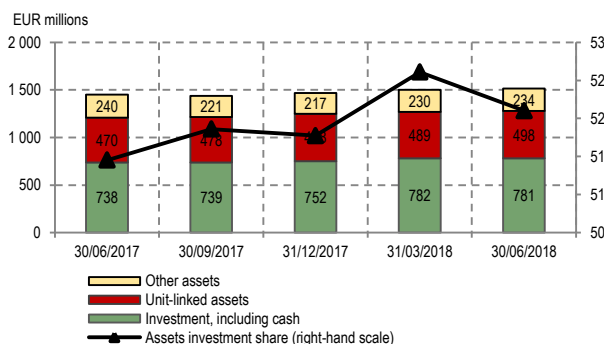


Source: Bank of Lithuania.

3. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

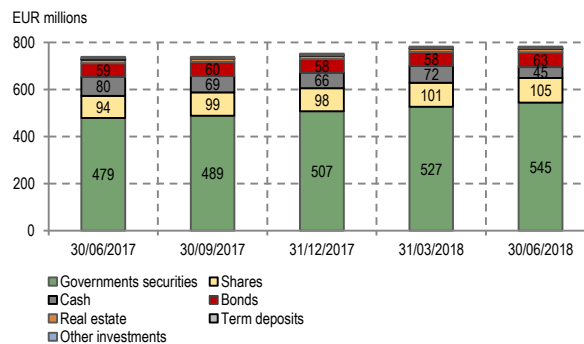
Assets and liabilities of insurance undertakings recorded no significant changes. At the end of the first half of 2018, assets managed by insurance undertakings amounted to €1.5 billion, growing by slightly less than 1% compared to the first quarter of the year. Moderate shifts in assets were led by dividends paid to shareholders, which comprised €21.4 million. The volume of equity investment remained largely unchanged, yet some structural changes were recorded. Investments in government securities increased by 2.3 percentage points, to account for 77.7% of the investment portfolio. Lithuania's government securities comprised 39.3% of the government securities portfolio, an increase of 1.6 percentage points.

Chart 7. Composition of insurance undertakings' assets



Source: Bank of Lithuania.

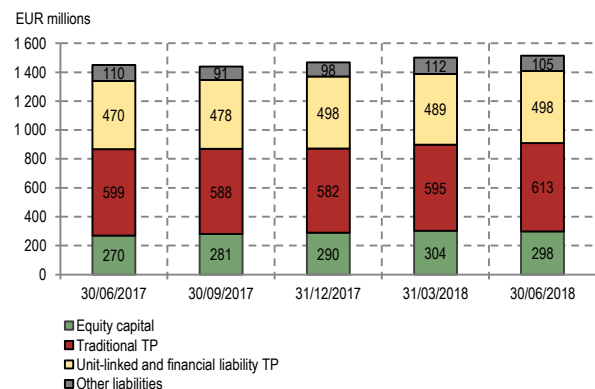
Chart 8. Composition of insurance undertakings' equity capital investment portfolio



Source: Bank of Lithuania.

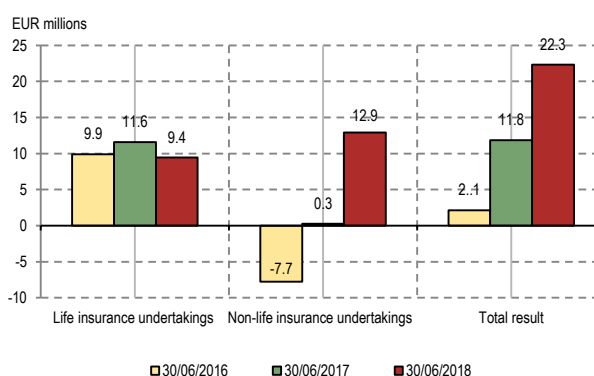
In Q2 2018, insurance undertakings' equity capital decreased by 6%, to stand at €298 million. Developments in equity capital were driven by the accumulated profit, which contracted following the pay-out of dividends to shareholders. One undertaking increased its capital by €6 million. At the end of the reporting period, insurance undertakings had formed €609 million in conventional technical provisions, an increase of 3.3% compared to the end of last quarter. According to the data as at 30 June 2018, insurance undertakings earned a €22.3 million profit. The first half of the year was profitable for both life and non-life insurance undertakings: life insurance undertakings earned €9.4 million in profit, non-life insurance undertakings – €12.9 million.

Chart 9. Changes in insurance undertakings' liabilities and equity capital



Source: Bank of Lithuania.

Chart 10. Operating result of insurance undertakings

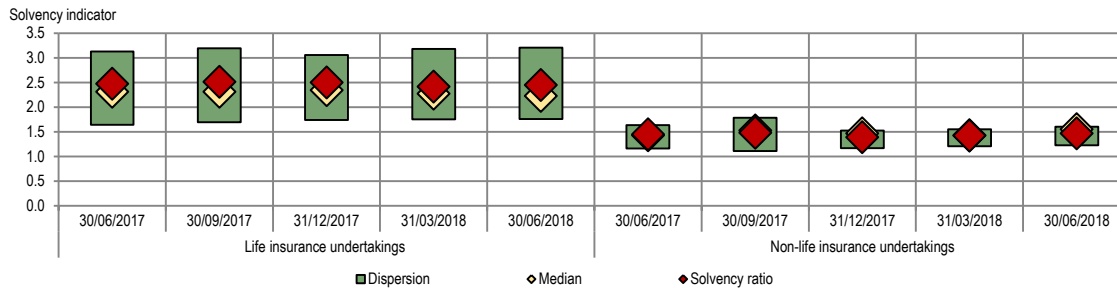


Source: Bank of Lithuania.

4. COMPLIANCE WITH CAPITAL REQUIREMENTS

All insurance undertakings complied with their solvency capital requirement. With the capital requirement calculated and the amount of available own funds evaluated in line with Solvency II requirements, it has been established that all insurance undertakings were solvent, i.e. held sufficient own funds to cover the solvency capital requirement and the minimum capital requirement. As at 30 June 2018, the solvency ratio of life insurance undertakings was 2.45, of non-life insurance undertakings – 1.46.

Chart 11. Indicators of insurance undertakings' solvency capital requirement



Source: Bank of Lithuania.

5. INSURANCE BROKERAGE FIRMS

According to the data as at 30 June 2018, the assets of insurance brokerage firms totalled €36.4 million, a year-on-year increase of 35.0%. The main bulk of their assets (26.4%) was comprised of cash. Cash held on a separate account amounted to nearly €3.0 million, well exceeding intermediaries' liabilities to insurance undertakings. Over the year, insurance brokerage firms collected €124.6 million in insurance premiums, which was transferred to insurance undertakings. In Q2 insurance brokerage firms operated at a profit, earning €5.2 million, a year-on-year increase of 59.9%. The operations of 76 out of 97 insurance brokerage firms were profitable. The number of contracts concluded by insurance brokerage firms was on the rise, yet their growth rate moderated to 8.8% from the previous reporting period.

Table 4. Key performance indicators of insurance brokerage firms

| Seq. No | Insurance branches | Amount, EUR millions | | | Growth rate, % | |
|---------|--------------------------------------------|----------------------|------------|------------|----------------|------|
| | | 30/06/2016 | 30/06/2017 | 30/06/2018 | 2017 | 2018 |
| 1. | Insurance contracts concluded, units | 812,975 | 905,844 | 985,365 | 11.4 | 8.8 |
| 2. | Dynamics of sales revenue, EUR thousands | 19,320.7 | 22,819.3 | 25,815.8 | 18.1 | 13.1 |
| 3. | Result for reporting period, EUR thousands | 2,479.3 | 3,280.0 | 5,245.2 | 32.3 | 59.9 |

Source: Bank of Lithuania.

Equity capital of insurance brokerage firms amounted to €20.4 million, a year-on-year increase of 24.8%. The minimum capital requirement is €18,760, or no less than 4% of an insurance brokerage firm's insurance premiums received over a year and payable to insurers. On the reporting date, all firms met the minimum capital requirement.

6. SETTLEMENT OF DISPUTES BETWEEN CONSUMERS AND INSURANCE MARKET PARTICIPANTS

In Q2 2018, 57% of all applications (108 out of 191) and 74% of all disputes settled at the Bank of Lithuania (102 out of 133) were related to insurers. During the same period in 2017, the Bank of Lithuania settled 86 disputes, hence year on year the total number of disputes with insurers increased by 19%.

As usual, the majority of disputes (97 out of 102) were related to non-life insurance contracts – motor third party liability insurance, property insurance and CASCO insurance. Consumers mainly disagreed with the insurers' decision not to recognise events as insurable and the size of compensation paid by insurers. They also asked to recommend insurers to abandon recourse claims.

In Q2 2018, 42 out of 102 disputes ended after the Bank of Lithuania adopted a decision over the subject matter of a dispute: in 19 cases consumer requirements were satisfied fully or partially and the Bank of Lithuania adopted recommendatory decisions, while 23 consumer claims were recognised as unreasonable and dismissed. On a year-on-year basis, trends in dispute settlement remained unchanged. Insurers failed to implement 4 out of 19 recommendatory decisions taken in favour of consumers. Information on recommendations that were not implemented was published on the Bank of Lithuania website.

It should be noted that in Q2 2018 20 consumer disputes with insurers ended in reaching a peaceful settlement or satisfying the consumer claim. The number of peaceful settlements has almost doubled on a year-on-year basis and almost tripled on a quarter-on-quarter basis. The number of peaceful settlements reached over the quarter (20) has been the largest since 2012 when the Bank of Lithuania began investigating consumer disputes.