



LIETUVOS BANKAS
EUROSISTEMA

Activities of financial market participants

Review of Lithuania's Insurance Market

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The review of insurance market developments covers the overall activities of all Lithuanian insurance 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 8 insurance undertakings and 101 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 the Republic of Lithuania are not assessed as these entities fall under financial supervision as well as the supervision of compliance with solvency capital requirements of the home supervisory authorities of the companies that have established them.

In the preparation of the review, the data and calculations of the Bank of Lithuania were used.

Abbreviations

EEA	European Economic Area
EU	European Union
MTPLI	motor third party liability insurance

1. OVERVIEW OF THE LITHUANIAN INSURANCE MARKET

After having exceeded the symbolic threshold of €1 billion of written premiums in 2021, Lithuania's insurance market successfully overcame the challenges posed by the pandemic over the last two years and completed the year with an annual growth rate of 9.0%. The life assurance market grew by 9.8%, to €319.3 million, non-life insurance premiums at the end of the year amounted to €721.4 million, and the growth rate, compared to 2020, stood at 8.6%.

Looking at the 2021 data, it is likely that general conclusions can already be drawn on the impact of the two-year COVID-19 pandemic on the insurance market. In the first year of the pandemic, the number of insurance contracts concluded decreased significantly. This revealed that when there is no possibility of direct physical contact with the policyholder, the contracting process stalls. This was particularly true for life assurance contracts, which are subject to higher requirements for the identification of consumers' needs. Insurers assessed this risk and took steps to reduce it by implementing a higher level of digitalisation in the field of contactless contracting. For example, based on the data provided by insurers, 44% of life assurance contracts were concluded electronically in 2021 and increased by 10 percentage points compared to 2020. In 2021, the non-life insurance market grew again after the contraction recorded due to the pandemic in 2020. The growth of the non-life insurance market was driven by an increase in the volume of premiums for land vehicles (CASCO) and property insurance groups. The coverage of MTPLI, which accounts for the largest share of non-life insurance, decreased for the second consecutive year. Initially, the decline in activity was due to the introduction of restrictions on movement and the increase in teleworking, followed by stronger competition between insurers providing services. Even after the lifting of the restrictions on movement, in 2021, the MTPLI market had not yet reached the 2019 volume either on the basis of contracts concluded or on the basis of premiums. Summing up the unusual two-year period, the pandemic could be said to have affected the insurance market, but the impact was not as significant as could have been expected. Insurers' quick reaction and proactive actions contributed to the assessment and management of new risks that arose during the pandemic, however, bringing to light the vulnerable fields of activity that require attention and investment of additional resources.

In the reporting period, the overall operating result of insurance undertakings registered in Lithuania was positive and amounted to €45 million. All but one insurance undertakings were profitable. Furthermore, all undertakings not only complied with their compulsory solvency capital requirements but also had a significant buffer exceeding the required capital. In 2021, insurance undertakings paid dividends of €47.6 million, most likely from the profits made over two years. In order to manage the uncertainty about the impact of the pandemic on the financial sector, undertakings were recommended not to allocate profits earned in 2019 to dividend payments or buy-backs in 2020. Undertakings implemented the recommendations, which resulted in an increase in their assets and equity. In the reporting period, considering that the worst-case scenario for the development of insurance undertakings did not materialise, the recommendations on the allocation of profits earned in 2020 were more lenient and, therefore, insurance undertakings paid dividends to shareholders after assessing the safe margin of the capital buffer.

On 8 March 2022, the Board of the Bank of Lithuania issued an insurance business licence to INVL Life UAB, which was granted the right to engage in life assurance and unit-linked life assurance. The newly established undertaking will take over the business in the Baltic States of Mandatum Life Insurance Company Limited, which is registered in Finland, and will operate in Latvia and Estonia through the branches set up in these countries.

According to the draft financial statements for 2021, insurance brokerage firms also operated profitably earning nearly €9.6 million, i.e. 43% more than in 2020.

As of 1 July 2020, the State Social Insurance Fund Board under the Ministry of Social Security and Labour (hereinafter — Sodra), which performs the function of the pension annuity payer and manages the Pension Annuity Fund, started providing the service of pension annuity payment of the funds accumulated in second-

pillar pension funds. In 2021, Sodra's activity gained momentum and €380.4 thousand of annuity benefits were paid during the first full year of operation.

2. DEVELOPMENT OF THE LITHUANIAN INSURANCE MARKET

Insurance services were provided by 19 insurers registered in Lithuania: 8 undertakings and 11 branches of companies registered in other EU countries. 8 insurers were engaged in life assurance activities, and 11 – in non-life insurance activities. 101 insurance brokerage firms were operating at the end of 2021.

2.1. INSURANCE PREMIUMS

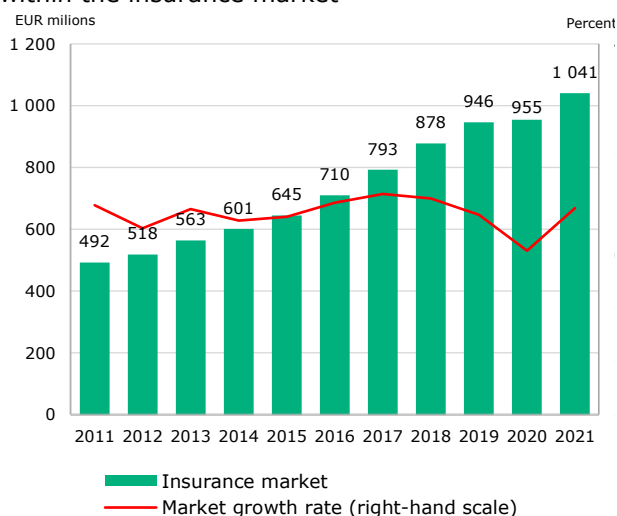
During the reporting period, insurance premiums of the insurance undertakings registered in Lithuania and branches of insurance undertakings of other EU Member States established in Lithuania amounted to €1,040.7 million, a year-on-year increase of as much as 9%. Life assurance premiums surged by 9.8%, up to €319 million, while non-life insurance premiums increased by 8.6% and amounted to €721 million.

Table 1. Insurance premiums

No	Types of insurance	Amount, EUR millions			Growth rate, %	
		2019	2020	2021	2020	2021
1.	Life assurance	270.4	290.7	319.3	7.5	9.8
2.	Non-life insurance	675.4	664.1	721.4	-1.7	8.6
3.	Total	945.9	954.9	1,040.7	1.0	9.0

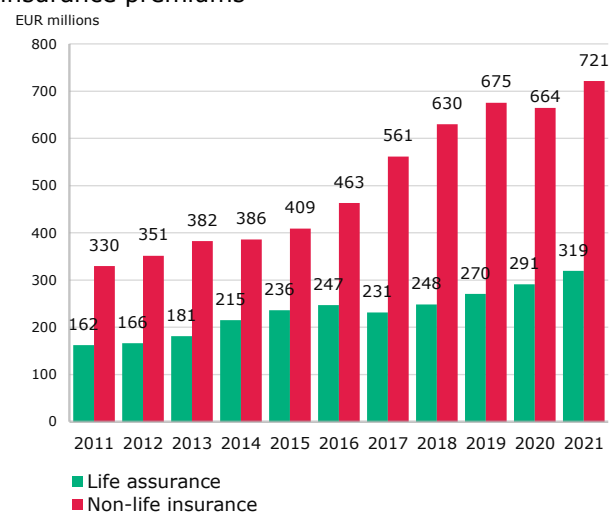
Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

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



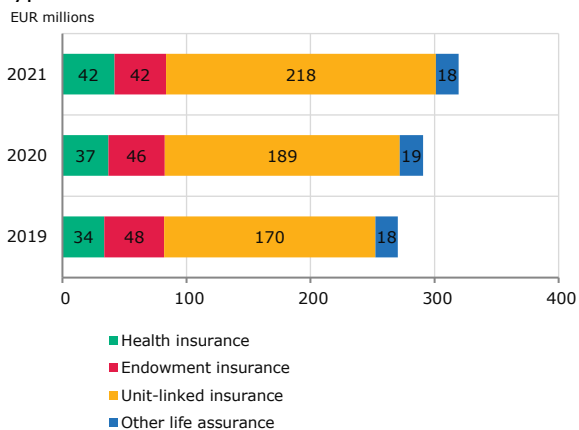
Source: Bank of Lithuania.

In 2021, unit-linked life assurance was a decisive factor in the growth of the life assurance market.

Unit-linked life assurance premiums, comprising over 68% of the entire portfolio of life assurance premiums, increased by another 14.9% and amounted to €217.5 million. In 2020, the number of new unit-linked life assurance contracts concluded decreased, while over the reporting period this number increased by 23.7%. This shows that both insurers and policyholders adapted to the challenges posed by the COVID-19 pandemic. Insurers accelerated digitalisation processes and adapted to work in a pandemic environment. The premiums of assurance on survival declined by 8.7% – the number of insurance contracts concluded decreased by as much as 57.5%. Although a downward trend in assurance on survival had been observed for several years, it

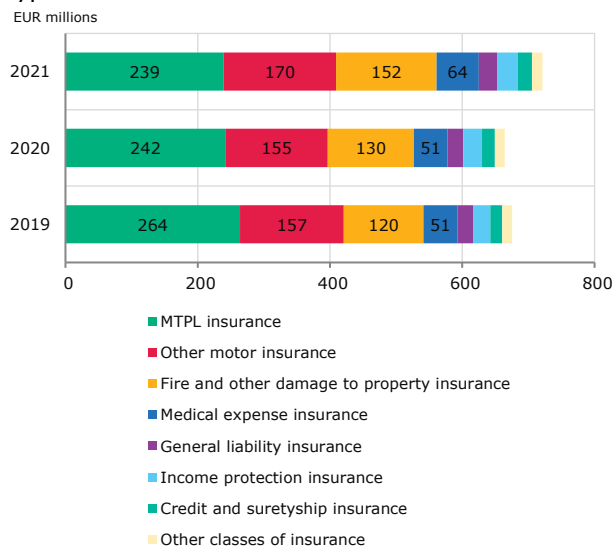
became even more pronounced in 2021. It stems from the prevailing low interest rate environment, leading to an ever-decreasing number of insurers selling this product. Moreover, low guaranteed interest does not encourage policyholders to choose this product. The number of contracts of insurance in case of death increased by 26%, while related insurance premiums were 2.7% lower. It is likely that the main reason for the growth of this type of insurance contracts was the change in the pricing of one insurance undertaking and the conclusion of new contracts in some cases over the past year. The premiums of health insurance, which constitutes a supplementary protection measure in addition to endowment assurance contracts, increased by 13.3% and amounted to €42 million.

Chart 3. Breakdown of life assurance premiums by type



Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

The growth of the non-life insurance market was driven by the increased volumes of CASCO and property insurance. MTPLI premiums, which represent the largest part (32.5%) of the non-life insurance market portfolio, decreased slightly to €234.1 million, i.e. 1.3% lower than in 2020 and even 9.5% lower than in 2019. As a result of the pandemic, the decrease in the volume of MTPLI in 2020 was not restored, and the number of MTPLI contracts concluded in 2021 remained almost unchanged (+0.2%). These results were influenced by the quarantine, which led to some employers encouraging their employees to work remotely, leading to lighter road traffic, as well as by competition among insurers. Competition is illustrated by the continuing decline in the average premium. There were other trends in insurance of land vehicles (CASCO), excluding rail vehicles. CASCO premiums showed robust growth, amounting to €169 million, i.e. 9.5% more than in 2020, and 23% more insurance contracts were concluded. The average CASCO premium continued to decrease and remained below the level in 2017-20. In addition to the increase in the coverage of CASCO in the segment of natural persons, legal entities were also more active in the use of this class of insurance.

Growth trends were also observed in the property insurance sector. Premiums of this type of insurance increased by as much 16.4%, up to €151.5 million. Property insurance premiums in the segment of legal entities grew rapidly, by as much as 25.3% and amounted to €49.2 million. However, the most significant part of property insurance continues to consist of residential property insurance – €88.2 million, an increase of 10.6%. The increase in the amount of premiums was faster than in the number of contracts concluded, suggesting a rise in the average premium.

While various pandemic restrictions were in place throughout 2021, travel insurance recovered slightly, as the number of medical expense insurance contracts increased by 30.5% and income protection insurance by 4%. It should be noted that there was an upsurge in the volume of supplementary voluntary health insurance

covering non-life insurance, where the health of the insured person is insured and the insurer bears the costs incurred by healthcare institutions or other institutions due to the treatment or other services granted to the insured person: the number of insurance contracts was higher by 51.9% compared to 2020, while the amount of insurance premiums increased by 26%, to €54.7 million.

2.2. INSURANCE CLAIMS

Last year, the amount of insurance claims paid by insurers last year grew at a similar pace as insurance premiums. The insurers engaged both in the life assurance and non-life insurance activities in Lithuania paid €547.1 million in insurance claims, which is an increase of 9.3%, compared to 2020. The amounts of both life assurance and non-life insurance claims followed an upward trend. Life assurance premiums increased by 10.1%, totalling €139.3 million, while non-life insurance premiums increased by 9%, totalling €407.8 million.

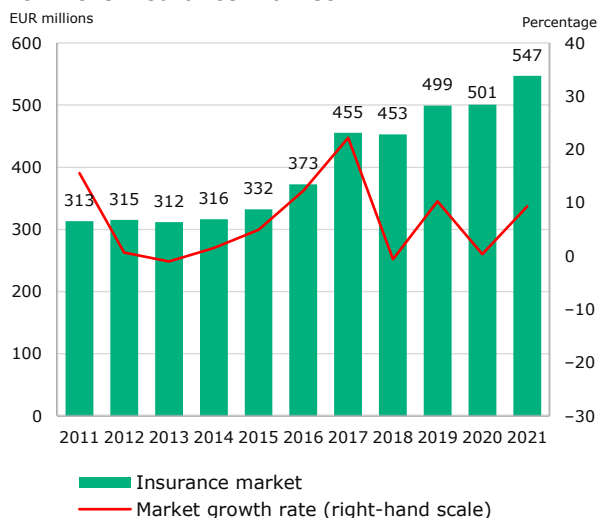
Table 2. Claims paid

No	Insurance branches	Amount, EUR millions			Growth rate, %	
		2019	2020	2021	2020	2021
1.	Life assurance	130.3	126.5	139.3	-2.9	10.1
2.	Non-life insurance	368.8	374.2	407.8	1.5	9.0
3.	Total	499.1	500.7	547.1	0.3	9.3

Source: Bank of Lithuania.

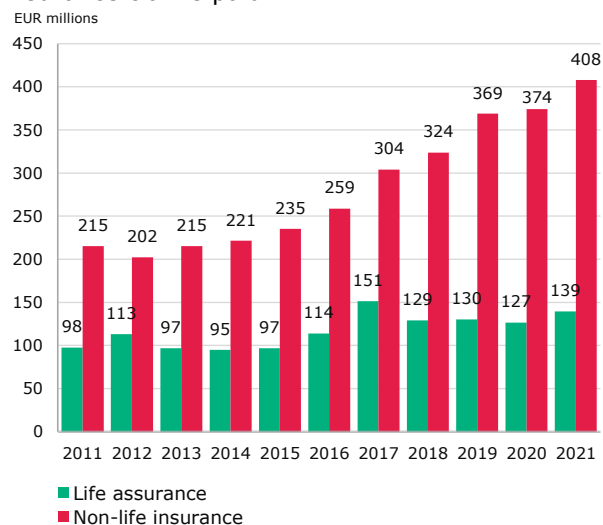
Although the pandemic was still ongoing, policyholders were reluctant to terminate unit-linked life assurance contracts, as in 2020, and the amount of claims paid out upon termination of contracts, including partial withdrawals of accrued amounts, was almost the same as in 2020 and amounted to €61 million, which was 7.7% lower than in 2019. The amount of claims in endowment insurance increased by 3.2% – over €25 million was paid out. It should be noted that the increase was due to claims upon the termination of contracts. These claims increased by as much as 25.6%. Insurers rarely enter into new endowment insurance contracts, therefore, in many cases this type of insurance contracts which are terminated had been in force for a considerable period of time and the claim paid upon their termination is quite significant. This trend in the growth of claims of this type of insurance was observed in the previous periods as well. The amount of health insurance claims decreased by 22.2%, to €11.6 million.

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



Source: Bank of Lithuania.

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



Source: Bank of Lithuania.

In 2020, insurance claims paid under MTPLI contracts totalled €144.4 million and were 0.1% lower than a year ago. The number of insurance claims paid under MTPLI contracts by insurers registered in Lithuania declined by 5.5%, compared to the previous year. Such trends in claims in terms of the absolute amount paid and the number of payments indicate an upturn of the average claim. The CASCO sector saw the growth of both premiums and claims. The amount of claims totalled €110 million, i.e. 9.5% more than in 2020. The growth in the number of claims was slower, amounting to 4.3%. Thus, it can be stated that the average CASCO insurance claim was increasing. Claims paid under property insurance amounted to €81 million, a year-on-year increase of 18.6%. Property insurance claims grew at a slightly faster pace than premiums; therefore, some insurers incurred losses in this type of insurance. Compared to 2019, the growth of crop insurance claims was more than threefold. During the reporting period, claims of this type of insurance continued to grow (+13.6%) and amounted to €9.7 million, but this growth is associated with a much higher number of crop insurance contracts (+55%).

3. REVIEW OF THE ACTIVITY OF THE PENSION ANNUITY FUND

In 2021, the Pension Annuity Fund managed by Sodra which was launched on 1 July 2020 started providing the service of pension annuity payment of the funds accumulated in second-pillar pension funds. In 2021, 754 applications were received and respective decisions for the payment of pension annuities (amounting to almost €10.7 million) were adopted. Residents most frequently opted for a standard pension annuity with a guaranteed payment period and, less frequently, for a deferred pension annuity. The Pension Annuity Fund established a technical provision in the amount of more than €13.8 million and paid €380.4 thousand over the first few months of operation, i.e. in 2021.

Table 3. Performance indicators of the Pension Annuity Fund

No	Type of pension annuity	Applications received and decisions adopted for the payment of a pension annuity, units		Pension annuity contributions, EUR		Pension annuity benefits, EUR	
		2020	2021	2020	2021	2020	2021
1.	Standard annuity ¹	52	150	884,036	2,593,626	11,261	96,719
2.	Standard annuity with a guaranteed payment period ²	155	509	2,673,951	7,866,635	33,248	283,668
3.	Deferred pension annuity ³	32	95	96,629	204,354	0	0
4.	Total	239	754	3,654,616	10,664,615	44,509	380,387

¹ Standard pension annuity is a service where the payer of a pension annuity, upon receiving a lump sum contribution from the funds accumulated in a pension fund, starts making pension annuity payments to pension annuity recipients until the end of life. Standard pension annuity is not hereditary.

² Standard pension annuity with a guaranteed payment period is a service where the payer of a pension annuity, upon receiving a lump sum contribution from the funds accumulated in a pension fund, starts making pension annuity payments to pension annuity recipients until the end of life. Where the recipient of a pension annuity dies before the guaranteed payment period defined in the decision on the standard pension annuity payment, the lump sum pension annuity benefit for the amount of pension annuities for the remaining guaranteed payment period that in the event of death had not been paid to the recipient under the standard pension annuity with a guaranteed payment period is to be inherited under the procedure established in the Civil Code.

³ Deferred pension annuity is a service where the payer of a pension annuity, upon receiving a lump sum contribution from the funds accumulated in a pension fund, starts making periodic pension annuity payments to pension annuity recipients when they reach the age of 85 until the end of life. Deferred pension annuity is not hereditary.

4. FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS LICENSED IN THE REPUBLIC OF LITHUANIA

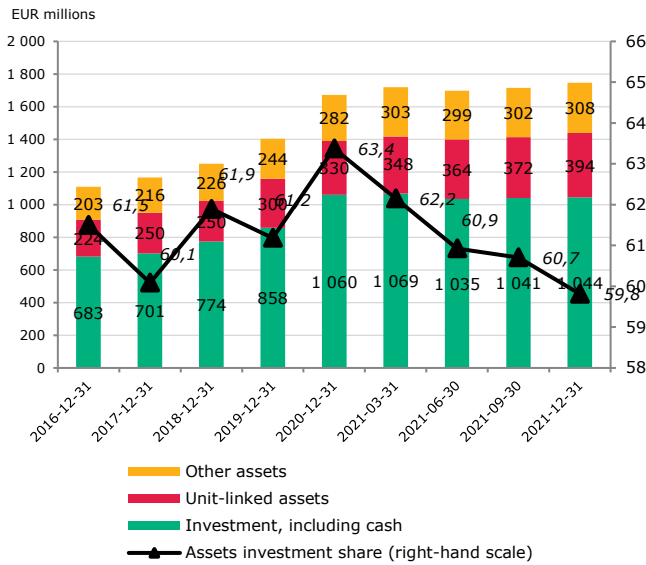
At the end of 2021, the value of assets managed by insurance undertakings was €1.746 billion and, compared to the end of the third quarter, increased by 1.8%, while compared to the end of 2020, the change was slightly higher – 4.4%. In the reporting period, the assets of life assurance undertakings grew by almost 4.6% and totalled €764.7 million, and non-life insurance undertakings managed €981.5 million worth of assets, the value of which grew by 4.3% over the year. The relatively modest growth in asset value of insurance undertakings in 2021 was significantly influenced by the dividend policies during the pandemic, whereby in order to manage the uncertainty about the impact of the pandemic on the financial sector, undertakings were recommended not to allocate profits earned in 2019 to pay dividends or to buy back their shares in 2020. Undertakings implemented the recommendations, which resulted in an increase in their assets and equity. In 2021, considering that the worst-case scenario for the evolution of insurance undertakings did not materialise, the recommendations on the allocation of profits earned in 2020 became less firm and, therefore, insurance undertakings, having taken into account the safe margin of the capital buffer, paid out dividends to shareholders, most likely on the basis of profits earned over two years. The amount paid totalled nearly €47.6 million.

Half of the assets managed by life assurance undertakings consist of assets entrusted to them by policyholders under unit-linked life assurance contracts. The value of these assets increased by more than 19% over the year, up to €393.8 million, and changes in assets were mainly influenced by the rapid conclusion of new contracts following the easing of lockdown restrictions. It should be noted that the constraints had a greater impact on the conclusion of new contracts, while the flow of periodic premiums paid under the previous contracts had been stable, resulting in no downturn in the unit-linked life assurance sector. Compared to the end of 2020, the amount of equity investment of life assurance undertakings (including cash) declined by 9.5%, amounting to €341.4 million. The negative change was significantly affected by the payment of more than €27 million to the shareholders of life assurance undertakings in 2021.

In the reporting period, the increase in the assets of non-life insurance undertakings was due to a 3% increase in equity investment (together with cash), amounting to €703 million at the end of the year. The shareholders of non-life insurance undertakings were paid €20.5 million in dividends.

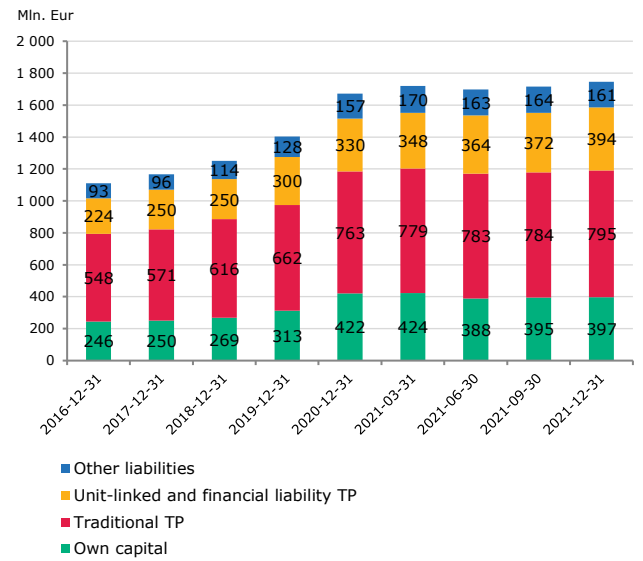
The increasing scope of unit-linked life assurance led to changes in the structure of liabilities: liabilities of life assurance undertakings accounted for more than 54% (€645.4 million), whereas liabilities arising from non-life insurance contracts totalled €543.3 million. The total equity of all undertakings totalled €396.6 million, with an increase of 0.4% over the year.

Chart 7. Composition of insurance undertakings' assets



Source: Bank of Lithuania.

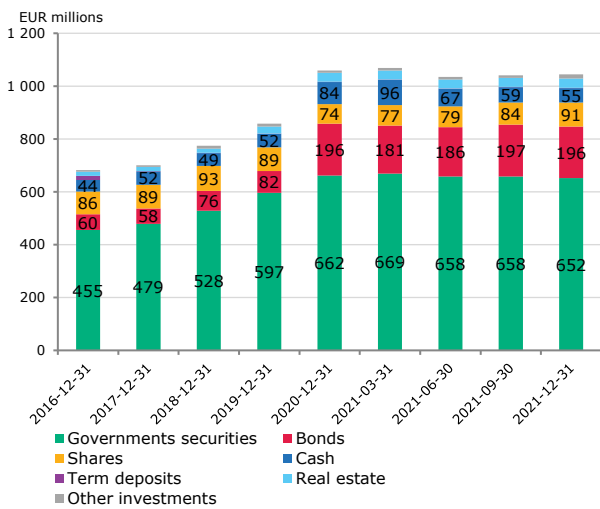
Chart 8 Composition of insurance undertakings' liabilities



Source: Bank of Lithuania.

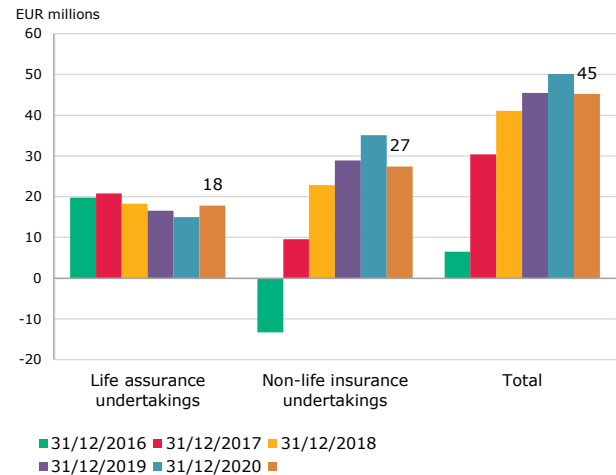
As of 31 December 2021, the total volume of equity investments of insurance undertakings exceeded €1 billion and amounted to €1.04 billion. The composition of the investment portfolio of insurance undertakings is rather conservative: the bulk of investments consists of government debt securities, which are less dependent on market fluctuations. As much as 62.4%, or €651.6 million, of total investment is invested in government securities, the majority of which (over 90%) was invested in securities issued by EEA governments. Investments in bonds of other companies were the second largest investment direction, accounting for 18.7% of all investments, or €195.7 million. The share of investments in non-EEA government securities is higher (20%). Investments in equity securities, including collective investment undertakings (CIUs), amounted to €91.1 million and its share in investment portfolio increased by 1.7 percentage points to 8.7%. The amount of cash held in the settlement accounts of credit institutions amounted to €54.5 million, almost €30 million less than a year ago. It is likely that the main reason for such changes was the significant payments made by insurance undertakings to shareholders in 2021.

Chart 9. Composition of insurance undertakings' equity



Source: Bank of Lithuania.

Chart 10. Operating result of insurance undertakings



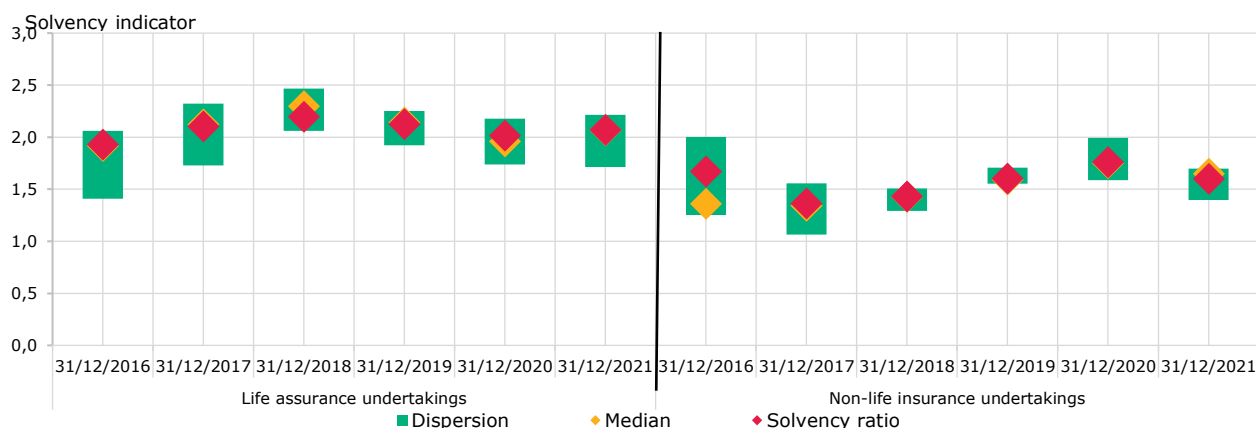
Source: Bank of Lithuania.

During the reporting period, insurance undertakings registered in the Republic of Lithuania earned €45.2 million in profit, i.e. almost 10% less than in 2020. The profit earned by life assurance undertakings amounted to almost €17.8 million, i.e. about 19% more than a year ago. While new life assurance contracts in 2020 decreased as a result of the pandemic, the administered portfolio of insurance contracts concluded in previous years secured financial stability for life assurance undertakings, while further strong market growth contributed to the positive performance in 2021. The profit of non-life insurance undertakings shrank by 21.9%, up to €27.4 million. The non-life insurance market grew by almost two-digit percentages following the easing or lifting of lockdown restrictions in 2021, but the number of insured events, the volume of claims and the formation of technical provisions for the payment of claims expanded even faster than premiums. All undertakings were profitable with the exception of one non-life insurance undertaking.

5. COMPLIANCE WITH SOLVENCY CAPITAL REQUIREMENTS

All insurance undertakings complied with their solvency capital requirements. Having calculated the capital requirement and evaluated the amount of available own funds in line with Solvency II requirements, the Bank of Lithuania concluded 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 31 December 2021, the solvency ratio of life assurance undertakings was 2.07 and that of non-life insurance undertakings – 1.60.

Chart 11. Indicators of insurance undertakings' solvency capital requirement



Source: Bank of Lithuania.

6. INSURANCE BROKERAGE FIRMS

During the reporting period, 31% of the contracts within the insurance market were concluded through the mediation of insurance brokerage firms. As of 31 December 2021, 101 insurance brokerage firms operated in Lithuania's insurance market. During the reporting period, insurance brokerage firms mediated in concluding 4.67 million of insurance contracts. Compared to 2020, their number increased by 56%. As usual, insurance brokerage firms were most active in the non-life insurance market. The composition of the portfolio of insurance contracts concluded through the mediation of insurance brokerage firms changed, with the largest share of contracts, i.e. 1.55 million or 33%, now attributed to MTPLI (cf. 50% of total contracts a year ago). Property insurance followed in the second place: the number of contracts of this type of insurance was 1.24 million or 27%, as in 2020. Sickness insurance was the third, followed by assistance insurance and accident insurance.

Table 4. Key performance indicators of insurance brokerage firms

No	Indicator	Amount			Growth rate, %	
		2019	2020	2021	2020	2021
1.	Insurance contracts concluded, thousand units	2,225.2	2,987.3	4,672.7	34.2	56.4
2.	Dynamics of sales revenue, EUR thousands	56,438	58,192	67,280	3.1	15.6
3.	Result for reporting period, EUR thousands	2,979	6,728	9,590	225.8	42.5

Source: Bank of Lithuania.

According to the (draft) financial statements as of 31 December 2021, insurance brokerage firms' sales revenue (insurance mediation activity) amounted to €67 million, which is 15.6% more than in 2020. During the reporting period, the activities of insurance broker firms were profitable — the firms earned almost €9.6 million in profit. Compared to 2020, their profit increased 42.5%. The main reason for the rise in profits is the increase in insurance brokerage firms' sales revenue. The operations of 82 insurance brokerage firms were profitable.

The assets and equity capital of insurance brokerage firms increased by 0.8% and 1.4% respectively during the reporting period. As of 31 December 2021, one insurance brokerage firm failed to comply with the minimum equity capital requirement (the capital cannot be less than €19,510 and less than 4% of the insurance premiums received by an insurance brokerage firm over a year payable to insurers).

Under the existing legal acts, insurance brokerage firms must hold insurance premiums collected, intended for settlement with insurers in separate bank accounts. It should be noted that this requirement was met over the reporting period. Over the year, insurance brokerage firms collected €125.8 million in insurance premiums, which was transferred to insurance undertakings.