



LIETUVOS BANKAS

Review of Lithuania's Insurance Market

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Abbreviations

Casco	Motor vehicles insurance (other than railway rolling stock)
MTPL	Motor third party liability insurance
GLI	General 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 quarter of 2014, of which nine were engaged in life assurance and fifteen — in non-life insurance activities.

In the first quarter 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 that amounted to LTL 486.9 million, a year-on-year increase of 10.3 per cent. In the first quarter of this year, Lithuania's insurance market volume exceeded the volumes recorded in the previous years, i.e. it was record-large and exceeded the volume of activities in the first quarter of 2008 that could not be reached for five years by 2 per cent (LTL 10 millions).

The record large volumes of the insurance market were due to growth in the two insurance branches; however, the growth in the life assurance and non-life insurance branches was not uniform: the life assurance market grew by 14.6 per cent (to LTL 152.3 million), the non-life insurance market — by 8.5 per cent (to LTL 334.6 million) over a year.

Table 1. Premiums written

Insurance branches	Amount (LTL millions)	Growth rate	
		Q1 2014 (%)	Q1 2013 (%)
Life assurance	152.3	▲ 14.6	▲ 10.4
Non-life insurance	334.6	▲ 8.5	▲ 11.1
Total	486.9	▲ 10.3	▲ 10.9

The life assurance market has improved its best performance, achieved in the first quarter of 2007, by 5.9 per cent, or LTL 8.5 million. The non-life insurance market lacked 2.1 per cent, or LTL 7.3 million, to achieve the highest volumes recorded in the first quarter of 2008.

The record high premiums written in the traditional life assurance branch suggest a higher demand for more conservative investment products. The growth rate of insurance, in the case of survival premiums written for the first quarter (LTL 37 million), was the highest in the last ten years — 16 per cent. The insurance in case of death premiums written boosted substantially as well — by 22.0 per cent (to LTL 7.8 million). The volume of unit-linked life assurance (LTL 102.7 million written) did not reach those recorded in the previous years, but lagged behind the highest market performance, achieved during the economic upswing in 2007, by a mere 1.1 per cent. The rather significant growth (13.1%) in unit-linked insurance 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. The number of life assurance contracts concluded increased across all classes of insurance; however, the growth rate of the number of traditional life assurance contracts was much higher than that of unit-linked life assurance (13.9% and 6.7% respectively). The significant boost in the life assurance market allows to state that, with growth in the domestic economy and increasingly higher financial awareness, the public is starting to have more confidence in life assurance products and understand their benefits.

The growth in life assurance market volumes is also suggested by the developments in the life assurance contracts in force: as of 31 March 2014, 409 thousand life assurance contracts were in force, a year-on-year increase of 4.8 per cent.

The amount of technical provisions managed by market participants engaged in

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

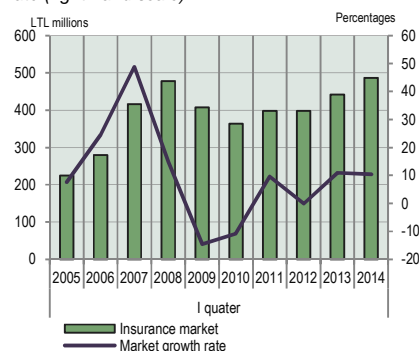


Chart 2. Dynamics of life assurance and non-life insurance premiums written

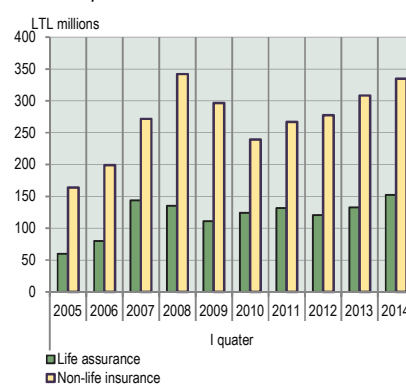


Chart 3. Dynamics of life assurance premiums written

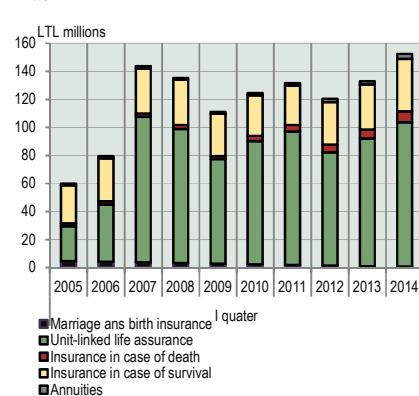


Chart 4. Concentration in the life assurance market in terms of the amount of technical provisions formed

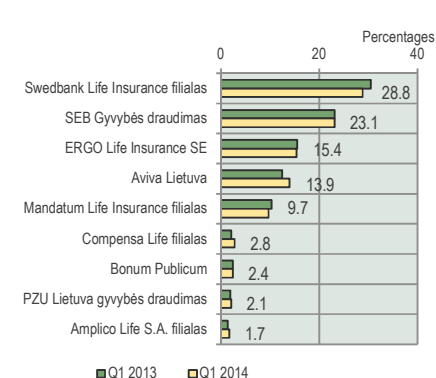


Chart 5. Dynamics of non-life insurance premiums written

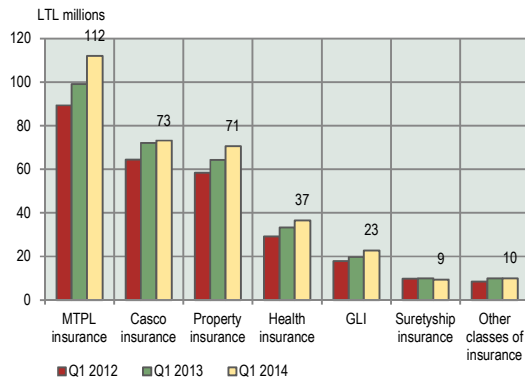


Chart 6. Concentration in the non-life insurance market in terms of premiums written

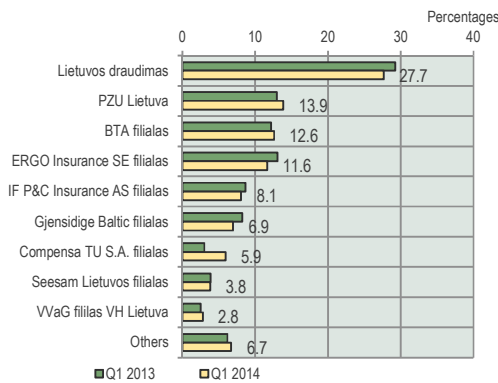


Chart 7. Dynamics of claims paid in the entire insurance market (left-hand scale) and their growth rate (right-hand scale)

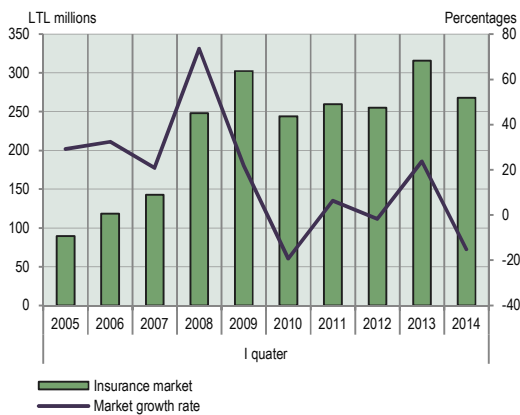
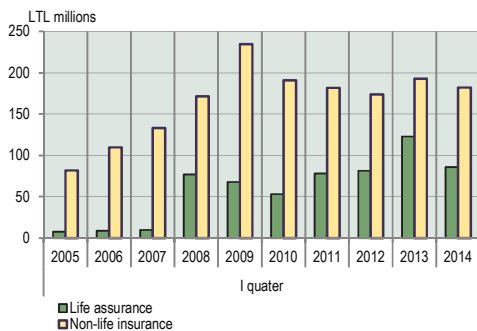


Chart 8. Dynamics of life assurance and non-life insurance claims paid



life assurance activities continues to increase. 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.

In the first quarter of 2014, the amount of premiums written in the largest branch of insurance within the non-life insurance class — MTPL insurance — continued to increase significantly (up to LTL 112.1 million), a year-on-year increase of 13 per cent. It should be noted that this is the highest volume of the latter insurance group in the history of the non-life insurance market. The strongest growth has been observed in the commercial segment, where the amount of MTPL premiums written boosted by as much as 24.3 per cent. The number of MTPL insurance contracts concluded grew at a slower pace (8.3%) than the premiums written, which suggests the increasing average premium.

The increase in the number of cars in Lithuania entails the increase in the demand for Casco insurance. In the first quarter of 2014, 57 thousand insurance contracts were concluded, an increase of 9.8 per cent year on year; however, the amount of premiums written grew by a mere 1.6 per cent year on year — to LTL 73.1 million. Due to high competition in the non-life insurance market, a decline in the average Casco premium has been observed.

Asset insurance volumes lag marginally behind Casco insurance volumes. LTL 70.6 million of asset insurance premiums were written in the first quarter of 2014, an increase of 10 per cent year on year. The volumes of insurance of property owned both by legal persons and individuals recorded growth (of 9.0% and 10.9% respectively).

The non-life insurance market leaders, holding about 70 per cent of the non-life insurance market, are not changing already for a few consecutive years; however, this market is likely to face cardinal changes.

In April 2014, the Polish insurance enterprise *PZU S.A.*, managing the enterprise *UAB DK PZU Lietuva*, which holds 13.9 per cent of Lithuania's non-life insurance market, announced about its intentions to acquire *AB Lietuvos draudimas*. Having implemented these intentions, one entity would hold a significant position in Lithuania's non-life insurance market.

In the first quarter of 2014, insurers paid LTL 267.8 million claims, a year-on-year decrease of 15.2 per cent.

Table 2. Claims paid

Insurance branches	Amount (LTL millions)	Growth rate	
		Q1 2014 (%)	Q1 2013 (%)
Life assurance	85.9	▼30.2	▲51.3
Non-life insurance	182.0	▼5.6	▲10.9
Total	267.8	▼15.2	▲23.8

The decline of 30.2 per cent in the life assurance claims paid in the first quarter of 2014 suggests that the boom of claims paid has come

to an end due to a great number of expired insurance contracts that were concluded before the end of 2002, before change in the tax environment. Part of the payments under these contracts was rescheduled to January 2013; as a result, the insurance claims for the first quarter of 2013 were record-large.

The amount of non-life insurance claims decreased by 5.6 per cent — to LTL 181.9 million. This decrease was driven by a decline in credit insurance claims that almost halved. The amounts paid within the vehicles classes of insurance declined as well. LTL 70.8 million of insurance claims were paid within the MTPL class of insurance, a year-on-year decrease of 0.6 per cent. Casco insurance claims declined by 2.0 per cent — to LTL 56.8 million. Considering the change in the number of claims, it should be noted that the decline in the amount of MTPL claims is related to the decline in the number of claims, while the decline in the number of Casco insurance claims — with the decrease of the average claim. The increase of 1.8 per cent in the claims paid within the property insurance class (up to LTL 20.0 million) was due to the larger amounts of claims for property owned by individuals. The insurance claims for property owned by legal entities, conversely, declined (by 8.8%).

II. REVIEW OF THE FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

As was indicated in the first part of this Review, at the end of the first quarter insurance services in the domestic market were provided by 24 insurers, 10 of which are insurance undertakings registered in Lithuania, 14 — branches of insurance undertakings registered in other EU countries. The insurance business licences of two insurance undertakings — *UAB Būsto paskolų draudimas* and *UADB Industrijos garantas* — have been suspended. The financial indicators of 10 insurance undertakings (that operated as of 31 March 2014) are discussed below.

The insurance undertakings registered in Lithuania earned LTL 61.2 million in profits in 2013. Unlike in the previous periods, the profitability of insurance undertakings was mainly driven by the successful major — insurance — activity (the insurance result amounted to LTL 44.4 million). The prevailing low interest rate environment last year had an impact on the insurance undertakings' investment performance: the annual return on investment (ROI) declined by 2.3 p. p. — to 1.5 per cent, while the investment performance was one of the lowest, as compared to that for the last five years. It is important that, in pursuit of higher profitability, insurance undertakings weigh risks and do not orientate their investment portfolio towards higher credit risk, because this could jeopardise financial stability in Lithuania's insurance sector. With low interest rates, insurers will have to aim for better direct insurance activity performance by focussing on pricing in line with the risks in particular.

The unaudited data for the first quarter of 2014 shows positive trends — the insurance undertakings registered in Lithuania continue to exhibit impressive efficiency performance. At the end of the first quarter insurance undertakings recorded LTL 37.1 million of profits that, as in 2013, were mainly driven by the insurance activity performance much ahead of the figure for the own funds investment performance.

The assets of insurance undertakings boosted by 7.7 per cent and stood at LTL 2.97 billion in 2013, as compared to 2012. Most of the assets of insurance undertakings consist of investment (in 2013 — LTL 2.52 billion).

Chart 9. Dynamics of own funds investment performance and return on investment

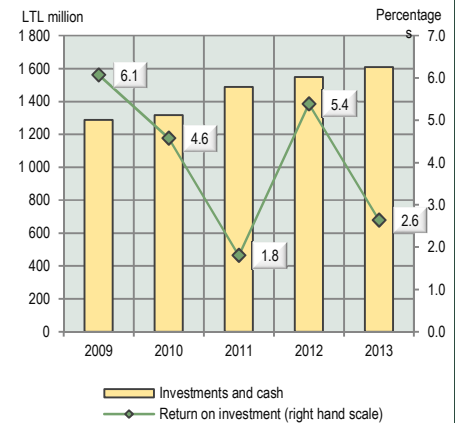


Chart 10. Dynamics of the operating performance of insurance undertakings

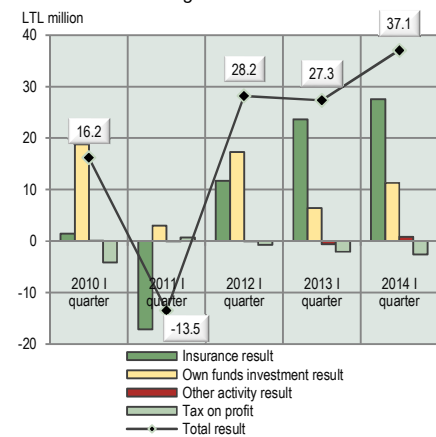


Chart 11. Dynamics of the distribution of undertaking investment by country of issuer

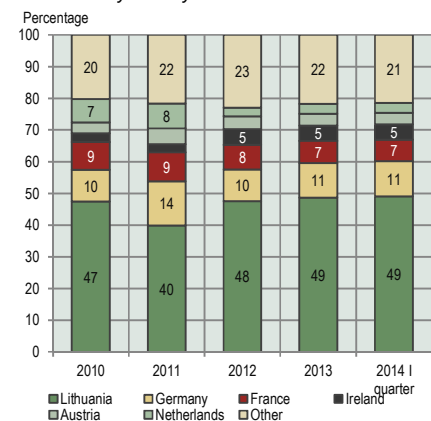


Chart 12. Dynamics of the composition of the investment of undertakings

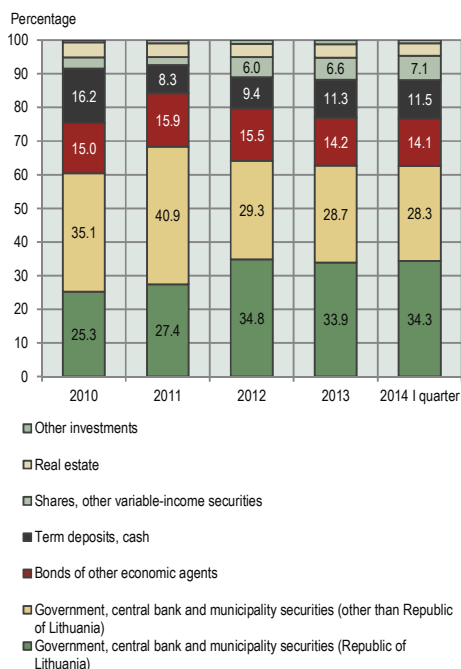
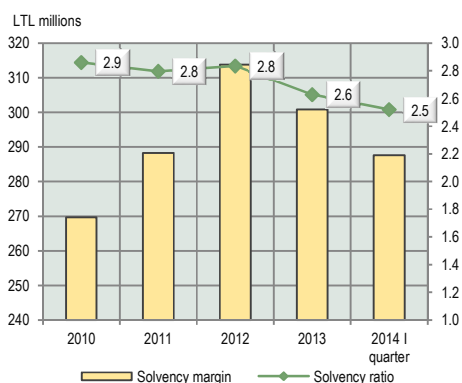


Chart 13. Dynamics of the solvency margin and solvency ratio of insurance undertakings



Insurance undertakings' investments, in terms of their origin, are divided into investments of an undertaking and investments of insurers entrusted for management of an undertaking under unit-linked life assurance contracts. Investments of an undertaking are such investments that are used to cover traditional insurance technical provisions as well as equity capital and other liabilities. The growth mentioned above was due to a 3.7 per cent increase in the value of insurance undertakings' investments and a 14.7 per cent increase in the life assurance investment amount, when investment risk lies with the insurance policy holder. In the first quarter of 2014, the assets of insurance undertakings boosted and stood at LTL 3.02 billion. The asset composition of insurance undertakings was similar to that in 2013: insurance undertakings' investment grew by 2.3 per cent (to LTL 1.57 billion), while life assurance investment, when investment risk lies with the insurance policy holder, grew as well, albeit at a slower pace, and recorded growth of 1.3 per cent (to LTL 1.00 billion).

The applicable legislative acts limit the possibilities for insurance undertakings to concentrate their holdings of investments designated for covering traditional insurance technical provisions in one asset group or economic agent. Due to this reason, insurance undertakings diversify their investment portfolio. Comparison of investment in 2013 and the first quarter of 2014 reveals that the composition of insurers' investment portfolio remained basically unchanged and continued to be conservative — most investments went to the securities generating steady income, such as government securities (62.6%), corporate bonds (14.5%), and term deposits with banks (11.48%).

However, insurance undertakings started looking for more profitable and, thus, riskier investments — investment in shares and other securities of variable yields have been recording growth. At the end of the first quarter of 2014, the latter investment expanded by 12 per cent as compared to those recorded at the end of 2013 (to LTL 117.8 million) and accounted for 7.1 per cent of investment (LTL 105.6 million at the end of 2013 and LTL 19.4 million in 2008).

At the end of the first quarter of 2014, as in the previous periods, the issuers of the Republic of Lithuania accounted for the largest share of investment in terms of the country of issuer (49%), German issuers — 11, French — 7, Irish — 5, Austrian — 4, Dutch — 3, all other states — less than 3 per cent.

However, when separately evaluating the distribution of government securities among the states, higher concentration of the securities of the government of the Republic of Lithuania is observed — they account for more than half (55%) of the securities of the government, central bank and municipality.

One of the key insurance market financial stability indicators — the solvency margin ratio, which indicates whether insurance undertakings have sufficient own funds for covering emergency and, when calculating technical provisions, not estimated losses, while decreasing, but is still rather large — 2.5 (solvency margin requirements are met when the solvency ratio is higher than 1). The sufficient backing of insurance market technical provisions with assets and a high solvency margin indicate financial stability in the market.