LIETUVOS BANKAS
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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
GS	Government securities

Note:

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

I. REVIEW OF THE INSURANCE MARKET

The number of insurers established in the country and providing insurance services in the domestic market has remained unchanged over 2014: insurance services were provided by 24 insurers, of which 9 were engaged in life assurance and 15 —non life-insurance activities.

In 2014, insurance undertakings registered in Lithuania and branches of insurance undertakings of other European Union Member States established in Lithuania wrote premiums in the amount of EUR 600.9 million (LTL 2,074.6 million), i.e. 6.6 per cent more than in 2013 and a mere 1.2 per cent less than in 2007, when the volume of the country's insurance market was the largest.

Last year, both the life assurance and non-life insurance markets recorded growth in their premiums written, which grew at different rates though. Much stronger activity was observed in the life assurance market — premiums amounting to EUR 215.0 million (LTL 742.5 million) were written, i.e. 18.6 per cent more than in 2013 and a mere 6.2 per cent less than in 2007, when the volume of the insurance market was the highest. The non-life insurance market recorded strong growth (8.1%) in only the first quarter of the previous year. However, already in April, due to intense competition (which entailed decreasing tariffs within a number of non-life insurance classes), the growth rate of premiums written in the non-life insurance market per month more than halved, and started to decline in subsequent months. As a result, the accumulated premiums written in January to December 2014 reached quite a sluggish growth rate of a mere 1.0 per cent compared to 2013. Non-life insurance premiums written amounted to EUR 385.8 million (LTL 1,332.1 million), a decline of 8.5 per cent from 2008, when the volume of the non-life insurance market was the highest.

1 Table 1. Premiums written

Insurance branches	Premiums written in 2014 (EUR millions)	Comparison of premiums written in 2014 and in previous periods (%)		
		2014 / 2013	2014 / 2008	2014 / 2007
Life assurance	215.0	+18.6	+38.9	–6.2
Non-life insurance	385.8	+1.0	–8.5	+1.9
Total	600.9	+6.6	+4.3	–1.2

The double-digit growth rates of life assurance premiums were driven mainly by unit-linked life assurance, which accounts for the largest share (70.5%) of life assurance premiums written. In 2014 the amount of premiums written within this insurance class increased by 19.2 per cent — to EUR 151.6 million (LTL 523.3 million). This indicates higher risk tolerance by insurance policy holders: with a decline in the interest rates on deposits, they looked for alternatives for saving, which were riskier yet potentially more profitable. The demand for conservative investment sources increased as well: compared to 2013, 15.6 per cent more premiums in case of survival were written (the growth rate was that fast for the first time in the recent ten years), while their amount reached a record height – EUR 48.1 million (LTL 166.1 million). The volumes of annuities and insurance in case of death grew strongly as well, with their growth rates reaching 28 per cent (EUR 4.2 million (LTL 14.6 million) and EUR 10.1 million (LTL 35.0 million) in premiums were written respectively).

In 2014, growth in single premiums recorded particularly strong growth (40.0%); at the end of the year, they amounted to EUR 36.4 million (LTL 125.7 million). This change was due mainly to growth in the single premiums of unit-linked life assurance (40.6%) to EUR 31.1 million (LTL 107.4 million). This is related to growth in the disposable funds of insurance policy holders and the possibility to use these funds for investing activities.

The amount of the technical provisions of market participants engaged in the life assurance activity boosted by 14.6 per cent in 2014 and stood at EUR 813.2 million (LTL 2,807.8 million) at the end of the year. 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*. In 2014, *UAGDPB AVIVA Lietuva* joined them.

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

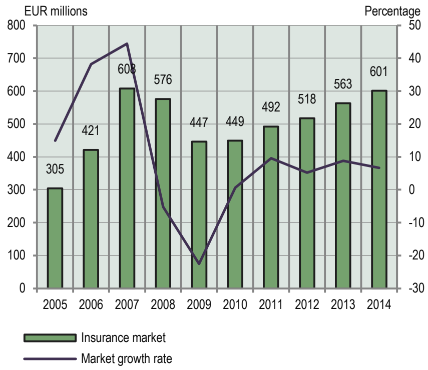


Chart 2. Year-on-year change in life assurance and non-life insurance premiums written in 2014

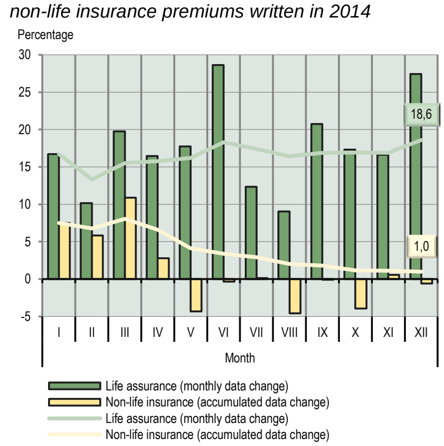


Chart 3. Dynamics of life assurance premiums written

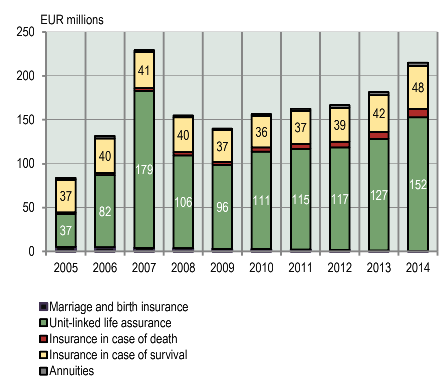


Chart 4. Concentration in the life assurance market in terms of the amount of technical provisions formed

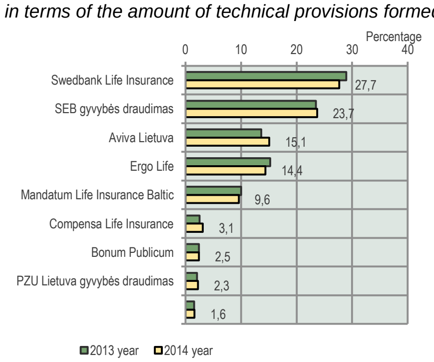


Chart 5. Dynamics of non-life insurance premiums written

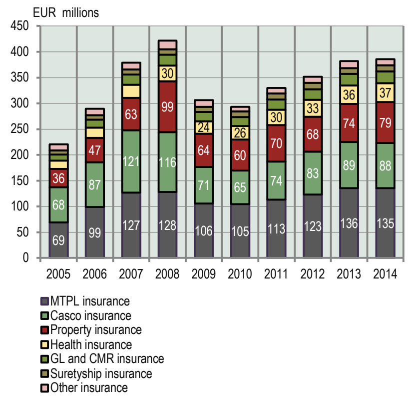


Chart 6. Concentration in the non-life insurance market in terms of premiums written within non-life insurance classes

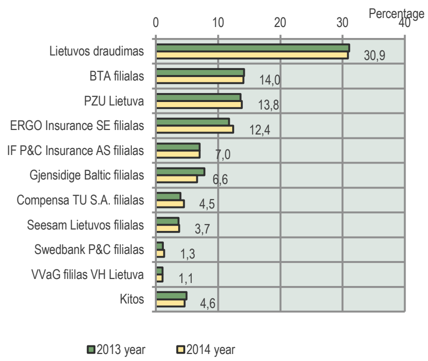


Chart 7. Dynamics of life assurance and non-life insurance claims paid

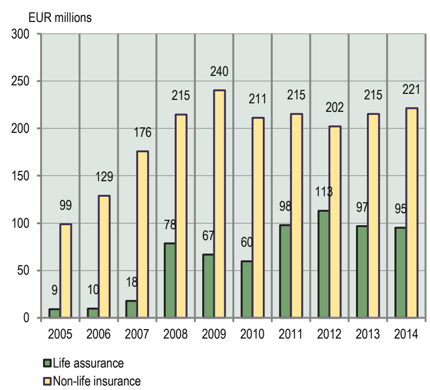
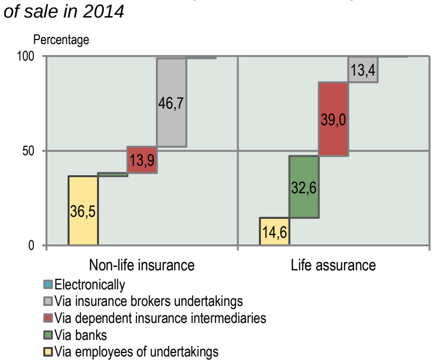


Chart 8. Distribution of premiums written by channels of sale in 2014



In the first half of 2014 growth slackened the most within the largest non-life insurance classes — MTPL and Casco. At the end of the year, EUR 135.3 million (LTL 467.1 million) of premiums were written within the MTPL insurance class, a year-on-year decline of 0.4 per cent in the volume of premiums. A negative change in Casco insurance activity was also observed: EUR 87.7 million (LTL 303.0 million) of premiums were written, a decline of 1.4 per cent from the previous period. The number of contracts concluded, however, grew within both insurance classes: within the MTPL insurance class — by 1.4 per cent more than in the previous period, while within Casco — 10.8 per cent.

Growth in the non-life insurance market was due mainly to changes in the property, health and general liability insurance classes. Within the property insurance class, EUR 79.2 million (LTL 273.4 million) of premiums were written, a year-on-year increase of 7.2 per cent. Within the health insurance class, steady enduring growth has been observed and record high insurance volumes have been recorded, the reason for that being an increase in the premiums written within the additional voluntary health insurance sub-class.

Increased competition in the non-life insurance market had an impact on changes in the market shares held as well. It should also be noted that essential changes are likely in the non-life insurance market in the near future, due to changes in the non-life insurance market participants shareholders holding the largest market share (see the Review of the Financial Performance of Insurance Undertakings).

Over 2014, insurers paid EUR 316.4 million (LTL 1,092.4 million) of insurance claims, a year-on-year increase of 1.5 per cent.

Table 2. Claims paid

Insurance branches	Amount (EUR millions)	Growth rate	
		2014 (%)	2013 (%)
Life assurance	95.0	-1,7	-14,5
Non-life insurance	221.4	+2,9	+6,5
Total	316.4	+1,5	-1,0

In 2014 life insurance benefits remained at similar levels as in 2013, amounting to EUR 95.0 million (LTL 327.9 million), a year-on-year decrease of 1.7 per cent. This decrease was driven by a 4.1 per cent decline in the benefits within the largest life assurance class — unit-linked life assurance. Similar levels of life assurance benefits have been observed since 2011, while the extraordinarily large amount of benefits in 2012 was due to the expiration of a great many of agreements that were valid for 10 years, concluded in 2002, before the change in the taxation environment. Part of benefit payments under these agreements were rescheduled to January 2013.

The growth of non-life insurance benefits was driven by an increase in the amounts paid within the property insurance class of 48.0 per cent, to EUR 33.3 million (LTL 115.0 million). This increase was due to the unusually low comparable base of insurance benefits within the property insurance class in 2013, which was particularly successful for property insurers. Within the MTPL insurance class, EUR 81.0 million (LTL 279.7 million) of insurance claims were paid over 2014, a year-on-year increase of 3.1 per cent. Casco insurance claims grew by 2.3 per cent, to EUR 63.2 million (LTL 218.1 million).

In the distribution of insurance products, different channels of sale dominated the life assurance and non-life insurance classes in 2014: 46.7 per cent of non-life insurance premiums were written via independent insurance intermediaries, 36.5 per cent via undertakings' employees, 13.9 per cent via dependent insurance intermediaries. Meanwhile life assurance is dominated by premiums written via dependent insurance intermediaries (39.0%); then, unlike in the case of life assurance, banks follow among major channels of sale (32.6%). A somewhat minor share of premiums was written via enterprises' employees (14.6%) and insurance brokerage firms (13.4%).

II. REVIEW OF THE FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

As mentioned in the first part of this Review, 10 registered insurance undertakings provided insurance services in the country in 2014, of which validity of the insurance business licence has been terminated for *UAB Būsto paskolų draudimas* and *UADB Industrijos garantas.* The geography of the business carried out by insurance undertakings varied: *UAB DK PZU Lietuva* and *ERGO Life Insurance SE* carried it out not only in Lithuania, but also in Estonia and Latvia, where their branches have been established. Further only the financial performance of insurance undertakings will be discussed; furthermore, it should be noted that the financial data under review are unaudited.

The year 2014 saw structural changes in the shareholders of insurance undertakings: when the UK insurance company Royal & Sun Alliance Insurance decided to sell its insurance business in the Baltic States, the shares of *AB Lietuvos draudimas* were acquired by the Polish insurance company *PZU S.A.*, which is also the major shareholder of *UAB DK PZU Lietuva* and *UAB PZU Lietuva gyvybės draudimas*. Seeking to manage concentration in the market, the Competition Council of the Republic of Lithuania allowed *PZU S.A.* to acquire shares of *AB Lietuvos* draudimas under the condition that *PZU S.A.* will transfer its business related to motor vehicles insurance (other than railway rolling stock) and property insurance activities carried out by *UAB DK PZU Lietuva.* However, *PZU S.A.* announced about its intention to sell *UAB DK PZU Lietuva* to the Kingdom of Norway's insurance company *Gjensidige Forsikring ASA*, which is currently operating via its branch established in Lithuania. Owing to this reason, further changes in insurance undertaking shareholders are scheduled in 2015.

According to unaudited data, the insurance undertakings registered in Lithuania earned EUR 24.1 (LTL 83.2 million) in profits in 2014. In assessing the 10 year period, more profit was only earned in 2007, when insurance undertakings earned 3.2 per cent more than in the previous year. Compared to 2013, the operating result of insurance undertakings in the reporting period was by even 36 per cent, or EUR 6.4 million (LTL 21.9 million) better. The profitability indicator of insurance undertakings (the ratio of pre-tax profits to premiums written) was 6.9 per cent (5.8% in 2013). The operations of all undertakings were profitable, except for two non-life insurance undertakings. For life assurance undertakings the last year was more profitable — their profits earned were almost twice as high as those of non-life insurance undertakings.

Insurance undertakings earned profits both from insurance and investing activities. However, as in 2013, the profits earned from the insurance activity were ahead of the result of the investing activity. The relatively high profits from the insurance activity — EUR 14.4 million, or LTL 49.7 million, were driven mainly by the life assurance undertakings' insurance activity performance. The return on non-life insurance undertakings' insurance activity was almost 6 times as small as that of life assurance undertakings.   Last year, the insurance undertakings' profits earned from the investing activity amounted to EUR 11.9 million (LTL 41.0 million). The rather high indicator of the return on investment (4.1%) was determined by growth in the values of previously acquired investment units in the reporting period.

The profitability indicators of insurance undertakings were high enough: the return on equity (ROE) indicator, showing the amount of profit per each currency unit invested by its owner, was 13.5 per cent at the end of 2014 (11.2% in 2013), while the return on assets (ROA) indicator, showing the ability to profitably manage assets and the asset share redeemable as profits, was 2.8 per cent (2.3% in 2013).

Chart 9. Dynamics of the operating performance of insurance undertakings

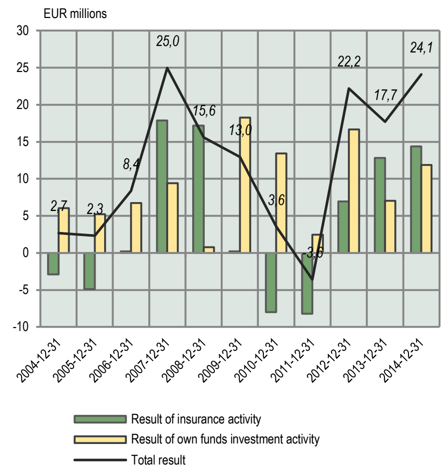


Chart 10. Dynamics of investment property and of the return on investment indicator

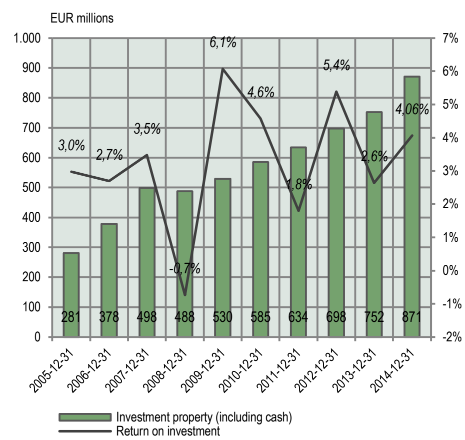


Chart 11. Dynamics of undertakings' profitability indicators

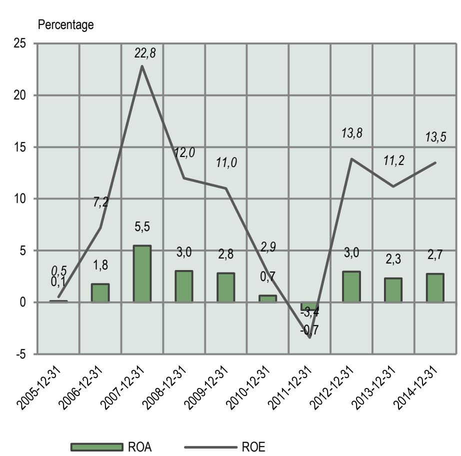


Chart 12. Dynamics of the composition of undertakings' assets

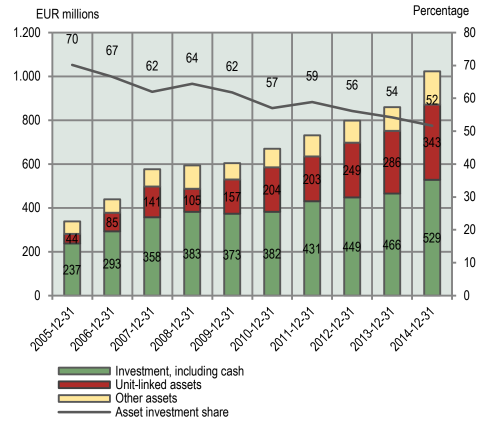


Chart 13. Dynamics of the composition of undertakings' investment

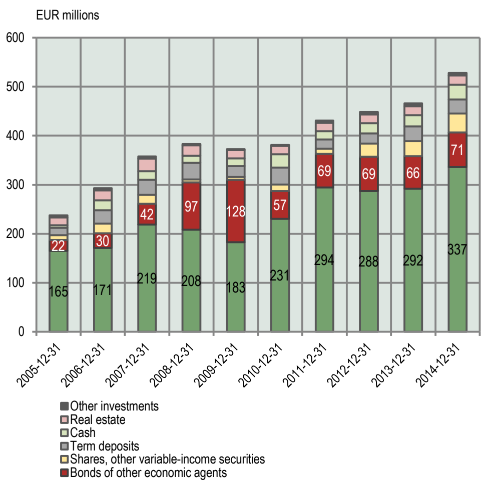
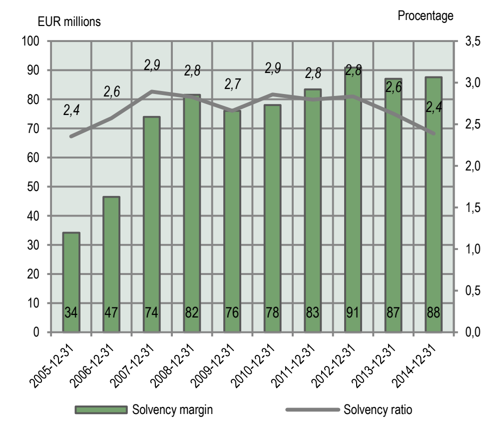


Chart 14. Dynamics of the solvency margin and solvency ratio of insurance undertakings



At the end of 2014, the assets of insurance undertakings stood at EUR 1,024 billion (LTL 3.534 billion), a year-on-year increase of 19 per cent. Such increase in their assets was due to investment by the Polish insurance undertaking *PZU S.A.* in order to expand the activity conducted by *UAB DK PZU Lietuva* in other European Union Member States (*UAB DK PZU Lietuva* acquired the branch of Denmark's insurance company *Codan Forsikring A/S* in Estonia). The bulk of the assets of insurance undertakings consists of investments — EUR 871.4 million (LTL 3.009 billion). Insurance undertakings' investments, in terms of their economic origin, are divided into investments of an undertaking and funds of insurers entrusted to undertakings, usually engaged in the life assurance activity, for management under unit-linked life assurance contracts. The funds of insurers entrusted to insurance undertakings for management boosted by as many as 20 per cent over the year and stood at EUR 342.9 million (LTL 1,184 billion). Investments of undertakings, which are used to cover traditional insurance technical provisions and equity as well as other liabilities, amounted to EUR 528.4 million (LTL 1.825 billion) at the end of 2014, an increase of 13 per cent over the year; however, the share of these investments in total assets of insurance undertakings, due to growth in life assurance investments, when the risk lies with the policyholder, declined steadily.

The composition of undertakings' investment portfolio has changed minimally over ten years. Most of the funds — 64% — have been invested in government securities. Compared to the end of 2013, investment in GS boosted by EUR 44.5 million (LTL 153.6 million), or 15.2 per cent, and amounted to EUR 336.6 million (LTL 1.162 billion). With very low interest rates of commercial banks on time deposits, the amount of investments in time deposits contracted by EUR 1.2 million (LTL 4.1 million), or 4 per cent. A total of EUR 28.8 million (LTL 99.4 million), or 5 per cent of undertakings' total investments, have been invested in time deposits. Insurance undertakings, in search of more profitable investments, despite a higher investing risk, invested in shares 24 per cent more than at the end of 2013. As of 31 December 2014, investment in shares amounted to EUR 37.9 million (LTL 131.1 million), or 7 per cent of total investment. The amount of investment in securities issued by economic agents boosted by 6.4 per cent, to EUR 70.6 million (LTL 243.7 million) as well.

One of the insurance market's key financial stability indicators is the solvency margin or its relative representation — the solvency ratio, which indicates whether insurance undertakings have sufficient own funds to cover contingency losses and losses not taken into account when calculating technical provisions. The solvency ratio is regulated by legal acts and must be higher than 1. As of 31 December 2014, the solvency ratio of insurance undertakings was 2.4; for life assurance undertakings, this ratio was 3.1, for non-life insurance undertakings — 2.0 (in five non-life insurance undertakings, three only are actively engaged in the insurance activity). The absolute value of the solvency ratio — the solvency margin — as of 31 December 2014 was EUR 87.6 million (LTL 302.4 million). Although the overall market solvency ratio decreased by 0.2 over the last year, this does not jeopardise market stability and the overall solvency ratio indicates that the market is financially stable.