



# Review of Lithuania's Insurance Market of 2015

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## Contents

I. REVIEW OF THE INSURANCE MARKET .....	3
II. REVIEW OF THE FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS .....	6
III. SETTLEMENT OF DISPUTES BETWEEN CONSUMERS AND INSURANCE MARKET PARTICIPANTS .....	7
IV. REVIEW OF THE INSURANCE INTERMEDIARY MARKET .....	9

## List of tables

Table 1. Premiums written .....	3
Table 2. Claims paid .....	5

## List of charts

Chart 1. Dynamics and growth rate of premiums written within the entire insurance market.....	3
Chart 2. Dynamics of life assurance and non-life insurance premiums written.....	3
Chart 3. Dynamics of life assurance premiums written .....	3
Chart 4. Concentration in the life assurance market in terms of the amount of technical provisions formed .....	3
Chart 5. Dynamics of non-life insurance premiums written .....	4
Chart 6. Concentration in the non-life insurance market in terms of premiums written within non-life insurance classes.....	4
Chart 7. Distribution of premiums written by channels of sale .....	4
Chart 8. Dynamics and growth rate of claims paid within the entire insurance market.....	4
Chart 9. Dynamics of life assurance and non-life insurance claims paid.....	5
Chart 10. Dynamics of the operating performance of insurance undertakings .....	6
Chart 11. Dynamics of investment property and of the return on investment indicator.....	6
Chart 12. Dynamics of the composition of insurance undertakings' assets.....	6
Chart 13. Dynamics of the composition of insurance undertakings' investment .....	7
Chart 14. Dynamics of the solvency margin and solvency ratio of insurance undertakings .....	7
Chart 15. Dynamics of the number of contracts concluded .....	9
Chart 16. Distribution of contracts concluded by insurance class .....	9
Chart 17. Dynamics of income from sales.....	9

## Abbreviations

Casco	Motor vehicles insurance (other than railway rolling stock)
GLI	General liability insurance
CMR	Carrier third party liability insurance
MTPL	Motor third party liability insurance
GS	Government securities
UCITS	Undertakings for the collective investment in transferable securities

## Note:

The Review of Lithuania's Insurance Market has been prepared on the basis of preliminary unaudited data.

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

# I. REVIEW OF THE INSURANCE MARKET

Insurance premiums written in Lithuania's insurance market in 2015 recorded the largest number over the entire period of independence. The amount of premiums written over the year reached EUR 645.1 million, an increase of 7.4 per cent from 2014. The market growth rate was expected and was in line with the forecasts published by the Bank of Lithuania (forecast market growth of 7–8%). The forecast for Lithuania's insurance market development in 2016 is 6–7 per cent.

As of 31 December 2015, twenty three registered insurers, established in Lithuania, rendered insurance services, eight of which were engaged in life assurance and fifteen in non-life insurance activities. On 30 July 2015, a private limited liability company, *Compensa Vienna Insurance Group*, joined the ranks of insurers, although it was not yet active during the reporting period.

Growth in the life assurance market was 9.7 per cent and reached a record volume: EUR 236 million in premiums was written. The volume of premiums written grew by 2.9 per cent from 2007, when the life assurance market had reached its highest operating performance.<sup>1</sup> The non-life insurance market grew (by 6.0) in volume and this growth was faster than a year ago, while the premiums written amounted to EUR 409.1 million.

The life assurance market share has been expanding steadily since 2008 and accounted for 37 per cent of Lithuania's insurance market in the reporting period. Positive shifts in the domestic economy, the changing attitude of residents prompt the need to accumulate funds for a long period of time, which determines choosing life assurance products more often and faster expansion of the life assurance market portfolio. This notwithstanding, non-life insurance still dominates the insurance market, i.e. residents tend to safeguard their property or insure civil liability rather than their health or life. Last year, there were almost two valid insurance contracts, with the amount of insurance premiums of EUR 223, per capita.

Table 1. Premiums written

Insurance branches	Amount (EUR millions)	Growth rate	
		2015, %	2014, %
Life assurance	236.0	+9.7	+18.6
Non-life insurance	409.1	+6.0	+1.0
Total	645.1	+7.4	+6.6

Growth in life assurance premiums was mainly driven by a positive change in unit-linked life assurance, which accounts for the major share (72.1%) of the portfolio of premiums written: the latter insurance class increased by 12.3 per cent (EUR 18.6 million) in volume (to EUR 170.2 million). More active sale of new contracts (the number of contracts concluded rose by 30.2%) and a 21.1 per cent increase in the amount of single insurance premiums led to such strong growth in this type of insurance. Such changes suggest that, with the improvement of the residents' economic situation, insurance policy holders look actively for ways to more profitably invest their disposable income amid a low interest rate environment.

The most popular among traditional life assurance products — insurance in case of survival — increased marginally in volume (by 0.9% or EUR 0.4 million) — to EUR 48.5 million. It should be noted that, compared to 2014, the number of contracts of this type of insurance concluded fell by 2.8 per cent. This signals that, as the economic situation improves, insurance policy holders look for higher financial benefits by invoking alternative, potentially cheaper saving methods.

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

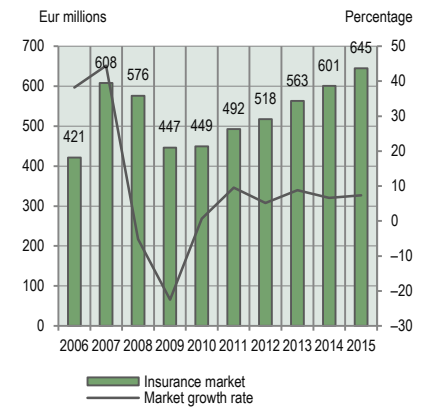


Chart 2. Dynamics of life assurance and non-life insurance premiums written

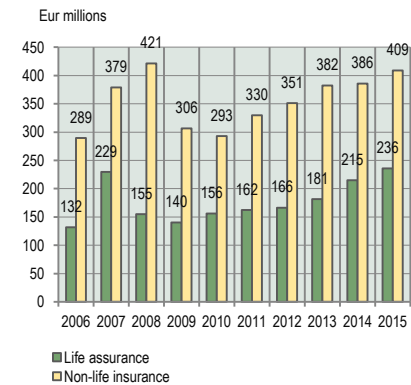


Chart 3. Dynamics of life assurance premiums written

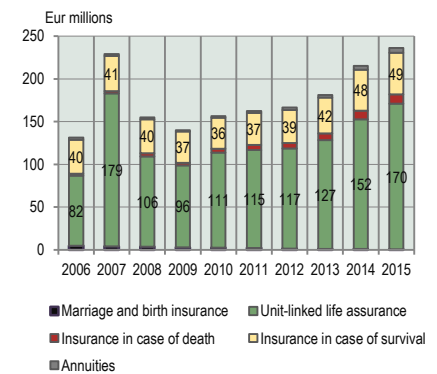
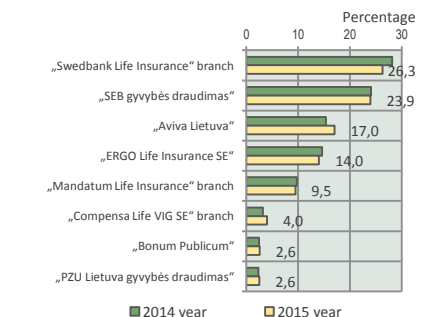


Chart 4. Concentration in the life assurance market in terms of the amount of technical provisions formed



<sup>1</sup> It should be noted that, as the company *MetLife Towarzystwo Ubezpieczeń na Życie i Reasekuracji Spółka Akcyjna* commenced activity as of 1 March 2015 without establishment, the statistical data is only available for January and February 2015; as a result, excluding the data of the latter insurer, the insurance market would grow at a 8.2 per cent rate; accordingly, the life assurance market would grow by 12.3 per cent.

Chart 5. Dynamics of non-life insurance premiums written

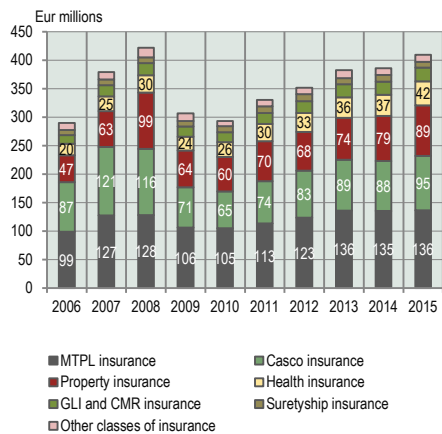


Chart 6. Concentration in the non-life insurance market in terms of premiums written within non-life insurance classes

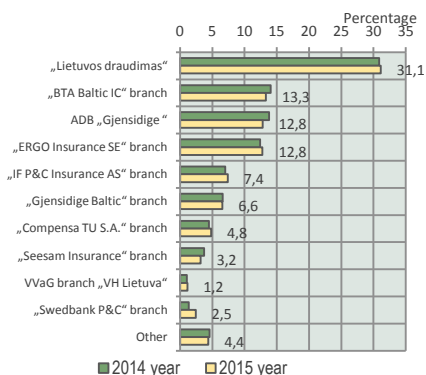


Chart 7. Distribution of premiums written by channels of sale

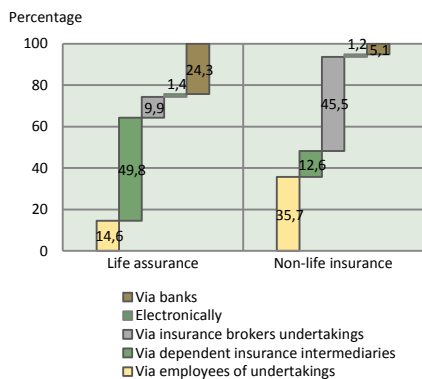
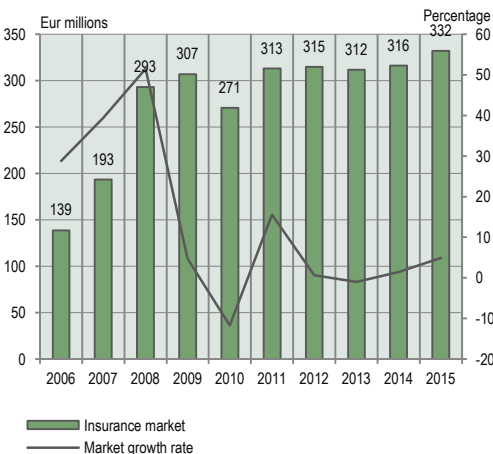


Chart 8. Dynamics of claims paid within the entire insurance market (left-hand scale) and their growth rate (right-hand scale)



Annuities and insurance in case of death grew fast in volume, at a growth rate of 27.7 per cent (to EUR 5.4 million) and 9.1 per cent (to EUR 11.1 million) respectively. Increased volume in the insurance in case of death class shows that insurance policy holders also chose life assurance without the element of funds accumulation, especially if they have financial liabilities.

The changes in the life assurance market are more exactly reflected not in the amount of premiums written but in the amount of technical provisions, which reflects more adequately the degree of risk assumed by insurers. The amount of the technical provisions of market participants engaged in the life assurance activity boosted by 12.5 per cent in 2015 and stood at EUR 899.4 million at the end of the year. As in previous years, in terms of the amount of technical provisions formed, the leader is the company's *Swedbank Life Insurance SE Lithuania* branch, which holds the largest market share, Lithuania branch, *UAB SEB gyvybės draudimas* and *UAGDPB AVIVA Lietuva*.

The non-life insurance market grew faster than a year ago (by 6.0%) and the premiums written amounted to EUR 409.1 million. Within the non-life insurance market, the health insurance class recorded the fastest growth; however, the most significant influence stemmed from growth in insurance premiums within the largest insurance classes — MTPL, Casco and GLI.

The development of the MTPL and Casco insurance classes was driven by an economic recovery, the increasing volumes of the sales of new motor vehicles; on the other hand, price competition hindered the rate of growth. Intense competition among insurers determined that the volume of the MTPL insurance class increased marginally in the reporting period — by 0.6 per cent (to EUR 136.1 million). The volume of insurance within this insurance class was increased by residents' premiums written and decreased by a decline in the premiums written by legal persons, which dropped by nearly the same percentage point. Major impact on growth of 8.7 per cent within the Casco insurance class (to EUR 95.4 million) is likely to have stemmed from the acquisitions of new motor vehicles in Lithuania, which increased by 5,000 units. Within this insurance class, unlike in MTPL, residents' and the commercial segment's premiums written rose in similar volumes.

Greater activity in the credit market in 2015 and strong growth in the housing market in the second half-year increased the volume of premiums written within the property insurance class, which grew at a double rate compared to the entire non-life insurance market, i.e. 12.5 per cent (to EUR 89.0 million). The health insurance class, which has been growing for several consecutive years, each time, enlarges the portfolio share held: after picking up to EUR 42.3 million (15.5%) in 2015, it accounted for 10.3 per cent of the non-life insurance market portfolio. Employers in Lithuania have been using the increasingly popular employee health insurance as a motivation, which determined that, with the improvement of the economic situation, the commercial segment within this insurance class grew by 25.7 per cent in volume over the year (to EUR 10.6 million).

The active processes of changes in insurer shareholders and enterprise mergers taking place for a few recent years are not coming to an end yet. As of the third quarter of 2015, Norway's insurance company *Gjensidige Forsikring ASA* manages two market participants in Lithuania — *ADB Gjensidige* and *AAS Gjensidige Baltic Lithuania* branch. Their total market share accounts for 19.4 per cent. It should be noted that, as of 1 March 2016, *UAB DK PZU Lietuva* changed its name and legal form to become *ADB Gjensidige*. The leader within the non-life insurance market remained unchanged: *AB Lietuvos draudimas* held 31.1 per cent of the market. A

new market participant, *UADB Compensa Vienna Insurance Group*, is engaged in its activities after taking over the portfolio of insurance contracts of *the Compensa TU S.A.* Lithuania branch.

The life assurance and non-life insurance branches were dominated by different channels of sale: over 45 per cent of non-life insurance premiums and nearly 10 per cent of life assurance premiums were written via independent insurance intermediaries (brokerage firms) and 13 per cent and 50 per cent respectively via dependent insurance intermediaries, over 35 and 14 per cent via employees of an enterprise, and 5 and 24 per cent via banks.

Within the life assurance branch, the channel of dependent insurance intermediaries strengthened the most (their portfolio share expanded by 7.2 p.p.), thereby reducing the influence of the banks' sales channel (the portfolio share shrank by 6.8 p.p.). Conversely, within the non-life insurance branch the banks' sales channel increased the portfolio share by 3 p.p., whereas the portfolio shares of independent insurance intermediaries contracted by 1.9 p. p.

In 2015, insurers paid EUR 332 million in claims, a year-on-year increase of 4.9 per cent.

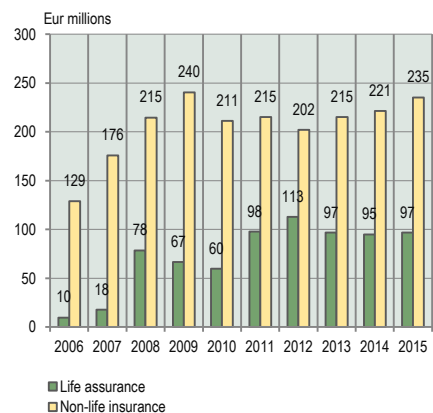
Table 2. Claims paid

Insurance branches	Amount ( EUR millions)	Growth rate	
		2015, %	2014, %
Life assurance	96.7	+1.8	-1.7
Non-life insurance	235.3	+6.3	+2.9
Total	332.0	+4.9	+1.5

Life assurance claims paid increased by 1.8 per cent (to EUR 96.7 million). The increase was mainly driven by claims paid within the unit-linked life assurance class upon the termination of the contract.

Non-life insurance claims paid grew faster than in 2014, by 6.3 per cent (to EUR 235.3 million). The MTPL and Casco insurance classes posted the strongest growth in claims paid (8.9% and 11.9% respectively). The increasingly popular employee health insurance and its growing volume entail the increase in the amounts of claims paid: they rose by 15.3 per cent (to EUR 21.7 million).

Chart 9. Dynamics of life assurance and non-life insurance claims paid



## II. REVIEW OF THE FINANCIAL PERFORMANCE OF INSURANCE UNDERTAKINGS

As of 31 December 2015, ten insurance undertakings registered in Lithuania (hereinafter — insurance undertakings) provided insurance services in the market. Their financial activities are subject to supervision by the Bank of Lithuania. Of them, the insurance activity licence of *UAB Būsto paskolų draudimas* was revoked at the undertaking's request on 28 January 2016. *ERGO Life Insurance SE* has established branches in Latvia and Estonia, *AB Lietuvos draudimas* — a branch in Estonia, while *UADB Compensa Vienna Insurance Group*, which, in the fourth quarter of 2015, took over the insurance portfolio of the *Compensa TU S.A. Vienna Insurance Group* branches in Lithuania and Latvia, has since then been operating in Latvia as well; therefore, the operating results of the above-named countries too are included in the financial statements of these undertakings.

According to unaudited data, in 2015 the operating result of insurance undertakings was a loss of EUR 13.4 million; however, excluding the influence of the implemented transaction of the purchase-sale of part of the business of one of the undertakings, the operating result would be EUR 7.7 million. The insurance market's result was determined by the loss of EUR 23.5 million incurred by non-life insurance undertakings, which was not offset by the profit of EUR 10.1 million earned by life assurance undertakings. Nevertheless, the distribution of the number of undertakings that operated profitably or at loss was equal: the operations of two life assurance undertakings and two non-life assurance undertakings were profitable, three life assurance undertakings and three non-life assurance undertakings operated at a loss.

The operating results of insurance undertakings in 2015 were driven by a particularly heavy loss on investing activities — EUR 13.8 million. The profit from the insurance activity (EUR 2.2 million), compared to last year, was relatively moderate as well. And yet it should be noted that the heaviest losses on the investing activities incurred over ten years should be related to the above-named transaction of the purchase-sale of part of business. Excluding the influence of this transaction, insurance undertakings would have earned a profit of EUR 7.3 million from their investing activity and the indicator of the return on investment would not have been -1.3 but 1.9 per cent. Compared to 2014 (when it was 4.5), this indicator fell for several reasons: with the establishment of a new insurance undertaking, *UADB Compensa Vienna Insurance Group*, in 2015, the value of investment property rose; in addition, as the environment of low interest rates persists, it is increasingly difficult for insurance undertakings finding investments that would generate higher returns. While nearly all insurance undertakings earned profits from investing activities in 2014, they failed to achieve this 2015: the investing activities of two life assurance undertakings and two non-life assurance undertakings were loss-bearing.

The insurance activity was not profitable for all insurance undertakings either, but the results of three life assurance undertakings determined that the total profit of life assurance undertakings from their core activity amounted to EUR 7.2 million and offset the loss incurred by non-life insurance undertakings (EUR 5.0 million). Hence, despite the drop, compared to 2014, the total operating result of the entire insurance market was still positive, compared to 2014.

As of 31 December 2015, the assets of insurance undertakings amounted to EUR 1,144 billion. The bulk of the assets of insurance undertakings

Chart 10. Dynamics of the operating performance of insurance undertakings

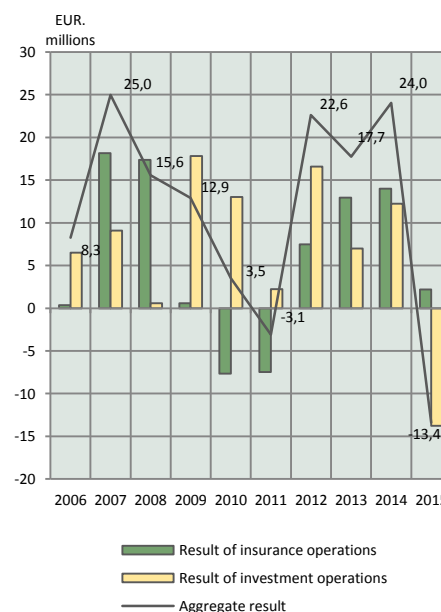


Chart 11. Dynamics of investment property and of the return on investment indicator

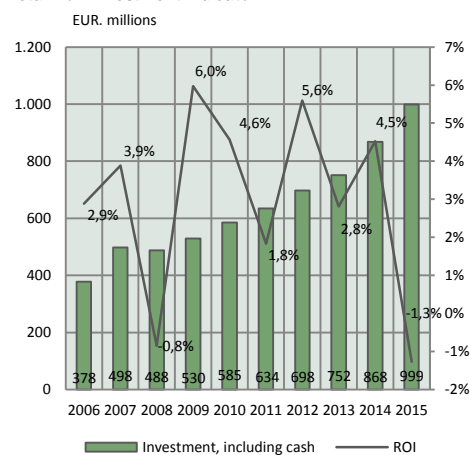


Chart 12. Dynamics of the composition of insurance undertakings' assets

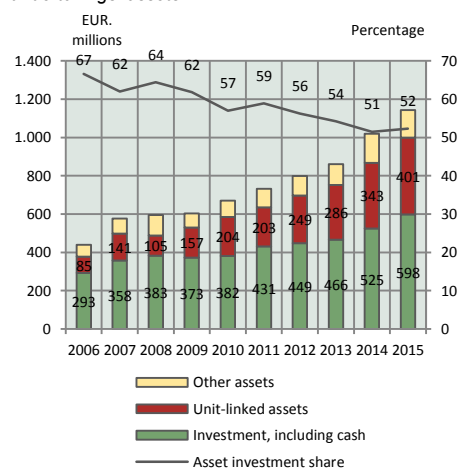
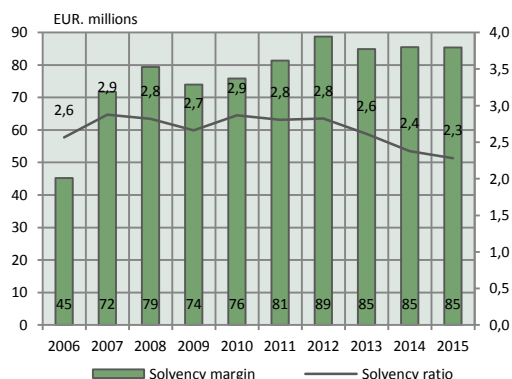


Chart 13. Dynamics of the composition of insurance undertakings' investment



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



cash in accounts accounted for 7.6 per cent of the investment portfolio of insurance undertakings (excluding the funds entrusted by insurance policy holders for management), while time deposits — a mere 4.0 per cent (in 2014, the share of these investments was almost equal — 5.6% and 5.4% respectively).

One of the key financial stability indicators of the insurance market 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. As of 31 December 2015, the solvency ratio of insurance undertakings was 2.3, of life assurance undertakings — 2.7, of non-life insurance undertakings — 2.0. The absolute value of the solvency ratio — the solvency margin — was EUR 85.3 million as of 31 December 2015. The overall market solvency ratio decreased minimally over the year (by 0.1 p.p.); the results within different insurance branches diverged though: the solvency ratio of life assurance undertakings fell by 0.4 p.p. over the year, of non-life insurance undertakings remained unchanged. The solvency margin remained practically unchanged over the last three years. Under legal acts regulating the value of the solvency ratio, undertakings are obligated to maintain this indicator as no less than 1.

### III. SETTLEMENT OF DISPUTES BETWEEN CONSUMERS AND INSURANCE MARKET PARTICIPANTS

In 2015, the Bank of Lithuania filed and addressed 474 applications regarding claims that arose from the contractual relationship in providing financial services. Most of the applications regarding disputes came from the insurance sector: in 2015 — 277 (59% of all cases of disputes). Compared to 2014, when there were 263 such applications regarding disputes (58% of all cases of disputes), the number of disputes and their relative share, compared to other sectors, grew marginally.

Most disagreement between consumers and insurers engaged in the insurance activity stemmed from MTPL insurance contracts (31% of all applications regarding disputes with insurance undertakings). The most frequent reason for applying was the insurer's refusal to recognise an event as an insured event, when, after a traffic event occurred, it was decided on the insurer's obligation to pay an insurance claim. A large share of disputes over MTPL insurance also arose concern-

consists of investments — EUR 999.1 million (87.4%). Investments of insurance undertakings, in terms of their economic origin, are divided into those of an undertaking and funds of insurance policy holders entrusted to undertakings, engaged in the life assurance activity. The funds of insurance policy holders entrusted to insurance undertakings for management amounted to EUR 401.3 million as of 31 December 2015, i.e. more than half of total assets managed by life assurance undertakings. Investments of undertakings which are used to cover traditional insurance technical provisions and equity as well as other liabilities amounted to EUR 597.8 million at the end of 2015.

In the composition of the insurance undertakings' investment portfolio (excluding the funds entrusted by insurance policy holders for management), most of the funds are traditionally invested in government securities (as of 31 December 2015 — 65.3%). Nevertheless, insurance undertakings, seeking higher returns, have been further increasing their share of investments in variable-yield securities (shares and UCITS): at the end of 2015, these investments amounted to EUR 56.8 million in value (year on year the rate of growth was 49.7%), which accounted for 9.5 per cent of the insurance undertakings' investment portfolio (excluding the funds entrusted by insurance policy holders). With growth in investments in varying-yield securities, less investment (–13.0%) was made in corporate bonds, thus the portfolio share of these investments became almost equal (10.3% and 9.5% respectively). It is also observed that, as the interest rates on time deposits fell to unprecedented lows, less investment was made in time deposits (a fall of 15.4% year on year); however, the amount of funds held in accounts spiked particularly (at a growth rate of 54.6%). At the end of 2015,

ing the amount of an insurance claim, when no agreement could be found on the damage of what size the insurance claim paid should compensate.

Another popular insurance class, regarding which quite many disputes arose, was Casco: such disputes accounted for 20 per cent of cases of disputes over insurance over the year. Most often disputes arose over non-recognition of an event as an insured event, refusal to pay an insurance claim. A smaller share of disputes consisted of disputes over the amount of claim payable or already paid. Another quite sizeable share of disputes consisted of those over real estate (housing) insurance contracts (19%), accidents, health insurance contracts (10%) and other insurance classes.

In addition to the above-named groups of disputes between consumers and insurers, the Bank of Lithuania addressed disputes over conclusion and performance of an insurance contract. While settling disputes, issues relating to the discharge of the obligations of an insurer to introduce the other party to a contract to the standard terms and conditions of the insurance contract and to ensure the legal definition and consistency of these terms and conditions, were identified. Insurers were submitted recommendations for the improvement of the process of the conclusion and carrying out of insurance contracts as well as revision of insurance policy terms and conditions in order to avoid disputes between consumers and financial market participants of a similar nature in the future.



Chart 15. Dynamics of the number of contracts concluded

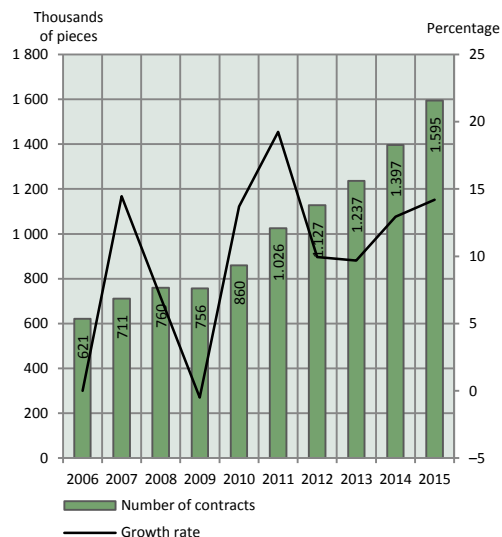


Chart 16. Distribution of contracts concluded by insurance class

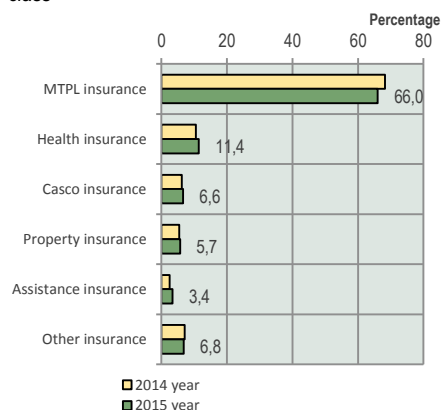
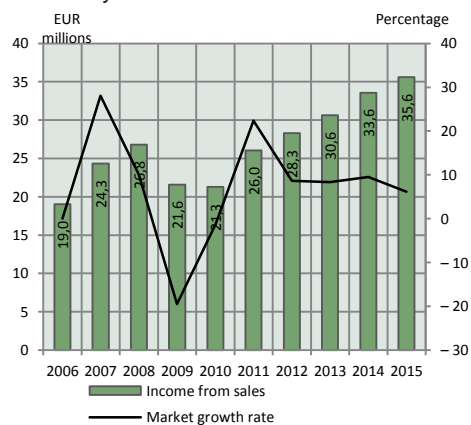


Chart 17. Dynamics of income from sales



income from sales continues to be *UADBB Aon Baltic*, with its assets accounting for over 33.0 per cent of the sector's assets, income — nearly 20.0 per cent of the total income of insurance brokerage firms from sale; this undertaking's profit earned accounts for about a fifth of the sector's profit. Under existing legal acts, insurance brokerage firms must hold insurance premiums collected, intended for settlement with insurers, on separate bank accounts. It should be noted that in the reporting period this requirement was met. Insurance brokerage firms held EUR 0.4 million more on separate accounts than were their liabilities to insurers. As of 31 December 2015, insurance brokerage firms held nearly EUR 1.4 million on separate bank accounts, while their liabilities to insurers (insurance premiums payable) were less (EUR 1.0 million).

## IV. REVIEW OF THE INSURANCE INTERMEDIARY MARKET

As of 31 December 2015, 96 insurance brokerage firms operated in Lithuania's insurance market. Last year, one licence of an insurance brokerage firm was issued, while two were revoked at the request of the firms themselves. In 2015, insurance brokerage firms acted as intermediaries in concluding 1.6 million of insurance contracts and pension accumulation agreements, a year-on-year increase of 14.2 per cent. As usual, insurance brokerage firms were most active in the non-life insurance market. 1,591.2 thousand insurance contracts were concluded via their mediation — 31.6 per cent per cent of total contracts concluded by this branch in the insurance market. As many as 99.7 per cent of the insurance contracts and pension accumulation agreements concluded via insurance brokerage firms were non-life insurance contracts. The portfolio composition of insurance contracts concluded via insurance brokerage firms over 2015 was similar to that in the previous periods. The largest share of total contracts (66.0%) was concluded within the MTPL insurance class. Second most popular was health insurance and Casco insurance. 11.4 per cent and 6.6 per cent of such contracts were concluded respectively.

According to the financial statements provided by insurance brokerage firms, as of 31 December 2015, assets of undertakings amounted to EUR 23.5 million, equity capital — EUR 13.5 million, income from sales — EUR 35.6 million. The overall operating result of the intermediary market was a profit of EUR 2.8 million. The operations of 69 insurance brokerage firms were profitable. The assets and equity capital of insurance brokerage firms increased over 2015 — by 5.1 and 11.6 per cent respectively. An enforcement measure — warning — was applied to one insurance brokerage firm for violation of the minimum equity capital requirement (the capital cannot be less than EUR 18,760 or 4% of the insurance premiums received by an insurance brokerage firm over a year, payable to insurers) and a penalty of EUR 6,500 for also the provision of misleading information to another one. Seven insurance brokerage firms also had to take action to ensure compliance with the minimum equity capital requirement in 2015. The shareholders of these undertakings brought in funds to cover the losses. Two insurance brokerage firms were warned for negligent bookkeeping.

In 2015, income from sales of insurance brokerage firms (the insurance mediation activity) amounted to EUR 35.6 million, an increase of 6.5 per cent year on year. The income from sales of the five largest insurance brokerage firms accounted for approximately 44.4 per cent of the total income of insurance brokerage firms. The leader among the insurance brokerage firms in terms of