



LITHUANIA: REVIEW OF THE INSURANCE SYSTEM

March 2018

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FOREWORD

This review was prepared to support the evaluation of Lithuania by the OECD's Insurance and Private Pensions Committee (IPPC) and its Working Party on Governmental Experts on Insurance, conducted as part of the process of Lithuania's accession to the OECD.

On 9 April 2015, the OECD Council decided to open accession discussions with Lithuania and on 8 July 2015, the Council adopted the Roadmap for the Accession of Lithuania to the OECD Convention, which sets out the terms, conditions and process for accession to the OECD. The IPPC is one of the OECD technical committees mandated to provide the Council with a formal opinion on Lithuania.

The IPPC reviewed Lithuania's insurance system, and examined Lithuania's position with respect to core OECD principles related to insurance systems.

The present report was finalised on the basis of information available as of 27 September 2017, and the IPPC agreed to declassify the review and publish it in accordance with paragraph 14 of the Roadmap.

TABLE OF CONTENTS

FOREWORD.....	3
1. Insurance system of Lithuania	8
1.1 Overview of the insurance sector	8
1.2 Evolution of the insurance industry.....	19
1.3 Products in the insurance sector	20
1.4 Competition in the insurance sector and entry/exit from the industry	21
1.5 State-owned insurers	26
1.6 Foreign penetration	26
1.7 Relationship of insurance with the pension.....	26
1.8 Compulsory insurance.....	27
1.9 Distribution channels.....	27
1.10 Reinsurance	28
1.11 Insurance associations	28
1.12 Risks of the insurance sector	29
2. Supervisory and Regulatory structure.....	30
2.1 Policy and regulatory initiatives.....	30
2.2 Governance and accountability of Bank of Lithuania.....	32
2.3 Compliance with international standards of supervision.....	35
2.4 Corporate governance.....	35
2.5 Investment regulations	36
2.6 Early intervention and winding-up/insolvency	37
2.7 Guarantee fund	39
2.8 Complaint-handling and consultation process.....	39
2.9 Dispute settlement	40
2.10 Market conduct rules	40
2.11 Role of Actuary	42
2.12 Taxation.....	42
3. Market liberalisation in insurance and private pensions	43
3.1 Establishment of foreign insurers and private pensions	43
3.2 Cross-border provision of insurance and private pension services	45
3.3 Trade Agreements and MoUs.....	46
4. OECD Legal Instruments on Insurance	47
4.1 Recommendation of the Council on Disaster Risk Financing Strategies.....	47
4.2 Recommendation of the Council on Good Practices for Mitigating and Financing Catastrophic Risks.....	47
4.3 Recommendation of the Council on Good Practices for Enhanced Risk Awareness and Education on Insurance Issues.....	48
4.4 Recommendation of the Council on Guidelines on Insurer Governance	50
4.5 Recommendation of the Council on the Establishment of a Check-List of Criteria to define Terrorism for the Purpose of Compensation	50
4.6 Recommendation of the Council on Good Practices for Insurance Claim Management	50
4.7 Recommendation of the Council concerning a Common Classification of the Classes of Insurance Recognised by the Supervisory Authorities of the Member Countries	51

Tables

Table 1.	Insurance penetration in Lithuania (% of GDP).....	8
Table 2.	Insurance density in Lithuania.....	10
Table 3.	Loss and Combined ratio of non-life insurers in Lithuania (%).....	13
Table 4.	Gross technical reserves	14
Table 5.	Profitability indicators (in percentage).....	16
Table 6.	Retention ratio (in percentage)	17
Table 7.	SCR and MCR ratios for insurance undertakings in Lithuania	18
Table 8.	Solvency margin	18
Table 9.	Market share of main products in life insurance market	21
Table 10.	Insurance undertakings in Lithuania and shareholder structure	22
Table 11.	Branches of insurance companies in Lithuania and shareholder structure	22
Table 12.	Market share of domestic undertakings and branches of EU countries by premiums (%)....	24
Table 13.	Concentration in terms of technical provisions and ownership profile of life insurers	25
Table 14.	Concentration in terms of technical provisions and ownership profile of non-life insurers..	25
Table 15.	Herfindahl index of the Lithuanian insurance market	26
Table 16.	Regulatory initiatives.....	31
Table 17.	Regulatory reforms planned or underway	32
Table 18.	Lithuania's proposed reservations to the Code of Liberalisation of Current Invisible Operations	45

Figures

Figure 1.	Lithuanian financial system: breakdown of assets	8
Figure 2.	Life insurance penetration in the OECD and Lithuania, 2014	9
Figure 3.	Non-life insurance penetration in the OECD and Lithuania, 2014.....	9
Figure 4.	Insurance density in the OECD and Lithuania, 2014	10
Figure 5.	Lithuanian insurance undertakings: gross written premiums	10
Figure 6.	Breakdown of gross premiums and claims: life and non-life insurance.....	11
Figure 7.	Life and non-life insurance premiums breakdown by product.....	11
Figure 8.	Life and non-life insurance in OECD countries and Lithuania, 2014	12
Figure 9.	Breakdown of Lithuanian insurers' investment portfolio	13
Figure 10.	Lithuanian insurers' investment portfolio allocation, by geography	13
Figure 11.	Insurance undertakings' investment breakdown, 2006-15.....	14
Figure 12.	Profitability of insurance undertakings in Lithuania	15
Figure 13.	Solvency ratio and solvency surplus	19
Figure 14.	Technical provisions in the Lithuanian insurance sector, 2014-15	20
Figure 15.	Number of domestic insurers and branches of EU countries	24
Figure 16.	Distribution of gross written premiums in Lithuania	28
Figure 17.	Organisational structure of Bank of Lithuania	33
Figure 18.	Financial products risk map.....	41
Figure 19.	Financial knowledge, attitudes and behaviour.....	49

Boxes

Box 1.	Ongoing consolidation process of the Lithuanian Insurance Market	16
Box 2.	UAB Būsto paskolų draudimas	23

EXECUTIVE SUMMARY

1. The Lithuanian insurance sector is small compared to other OECD countries, with the share of assets of insurance companies representing 3.6% of GDP as of 2016. In a largely banking-dominated financial system, total assets of insurance companies represented 4.3% of total assets of the financial system as of 2016.

2. As of 31 December 2016, nine insurance undertakings were incorporated in Lithuania, five in life insurance and four in non-life insurance. In addition, 12 branches of EU insurance undertakings were active in Lithuania as of the same date, three of them engaged in life insurance and nine in non-life insurance. Over the past decade, the market share held by EU branches has grown, reaching half the market. There are no branches of insurance undertakings of non-EU countries.

3. In 2016, gross insurance premiums written in Lithuania's insurance market exceeded the pre-crisis peak level, reaching EUR 709.8 million (representing a 10% year-on-year increase). Insurance penetration stood at 1.6% of GDP over the period 2010-14 and increased to 1.84% in 2016, albeit still low compared to OECD countries. Similarly, insurance density has been growing steadily since 2009 but remains low (EUR 249 per capita as of 2016) compared to OECD countries.

4. Non-life insurance dominates the insurance market in Lithuania, accounting for 63% of the total insurance market gross written premiums in 2016. The life insurance market is also growing rapidly and reached a record volume of EUR 247 million underwritten premiums in 2016. Growth in the life insurance market of Lithuania is largely attributed to the growth of unit-linked products (64% of total life insurance premiums written in 2016). Reinsurance activity is limited in Lithuania.

5. Lithuania's financial system is open, and its regulatory regime sound. The Bank of Lithuania (BoL) has been the single supervisory authority for the whole financial sector in Lithuania, including the insurance market, since 2012, following the merger of three institutions supervising banking, insurance and capital markets (BoL, Securities Commission and Insurance Supervisory Commission). The Supervision Service of the BoL performs both prudential and market conduct supervision of financial markets. Lithuania is a member of the International Association of Insurance Supervisors (IAIS) and as of 27 September 2011 a signatory of the IAIS Multilateral Memorandum of Understanding (MMoU) for cooperation and information exchange between insurance supervisors.

6. A number of issues related to regulatory arbitrage and information asymmetries have been identified by BoL in the unit-linked life insurance market of Lithuania, and are being addressed in draft legislation amending the Law on Insurance. The draft law aims at strengthening transparency and consumer protection, and levelling the playing field for investments of unit-linked-related portfolios versus other investments. The draft law will be incorporated in the legislation transposing the EU Insurance Distribution Directive into national legislation by 23 February 2018.

7. The BoL is responsible for investigating and handling complaints, and resolving disputes between consumers and financial services providers. The alternate dispute resolution mechanism is carried out by a 6-7 person committee consisting of Bank of Lithuania staff members in a committee format. In accordance with the G20/OECD High Level Principles on Financial Consumer Protection, the existence of independent and affordable redress mechanisms is essential to fairly and adequately protect consumers. In order to ensure the independence of the redress mechanism, Lithuania is currently considering the possibility of including independent members to the composition of the committee by changing the Law of

the BoL. The amendment of the Law, expected to come into force by 2018, will empower the Board of the BoL to delegate the function of the alternative dispute resolution to an entity with independent members.

8. Contrary to the framework for consultation of legal acts, the public consultation of resolutions and guidelines of the BoL was not standardised and lacked a method to address comments made. The public consultation process was reviewed and improved based on OECD recommendations, and amendments have been made in order to formalise the consultation process and make it more transparent. The stakeholders' comments to the Bank of Lithuania regulations and guidelines will be made publicly available, along with BoL's observations and opinion.

9. Lithuania however maintains restrictions on cross-border trade in financial services in Lithuania for non-EU/EEA service providers falling under the areas of insurance and private pension services of the Code of Liberalisation of Current Invisible Operations.

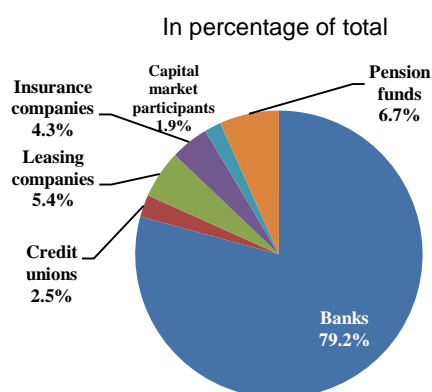
10. Overall, based on its review, the Insurance and Private Pensions Committee concluded that Lithuania is willing and able to implement the substantive OECD legal instruments within the Committee's competence. It further concluded that Lithuania's policies and practices are consistent with OECD best policies and practices in the area of insurance and private pensions markets.

1. Insurance system of Lithuania

1.1 Overview of the insurance sector¹

11. The Lithuanian insurance sector is small compared to other OECD countries, with the share of assets of insurance companies representing 3.6% of GDP as of 2016. In a largely banking-dominated financial system, total assets of insurance companies represented 4.3% of total assets of the financial system as of 2016.

Figure 1. Lithuanian financial system: breakdown of assets as of 2016



Source: Bank of Lithuania, as of 31 December 2016. Capital market participants consist of financial brokerage, collective investment undertakings, investment holding and management companies.

12. In 2016, gross insurance premiums written in Lithuania's insurance market reached EUR 709.8 million, a 10.0% year-on-year increase. In 2016, insurers paid EUR 373 million in claims, a year-on-year increase of 12.3%. Thirty-one percent of these claims were life insurance claims. Net premiums written in 2016 amounted to EUR 673.9 million (increased by 9.9% y-o-y), out of which EUR 243.1 million by life insurers.²

13. Insurance penetration remained constant at 1.6% of GDP over the period 2010-14 and increased to 1.84% in 2016; however, it remains low compared to OECD countries.

Table 1. Insurance penetration in Lithuania (% of GDP)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Penetration, %	1.5	1.7	2.1	1.8	1.7	1.6	1.6	1.6	1.6	1.6	1.7	1.8
Life insurance, %	0.4	0.5	0.8	0.5	0.5	0.6	0.5	0.5	0.5	0.6	0.6	0.6
Non-life, %	1.1	1.2	1.3	1.3	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.2

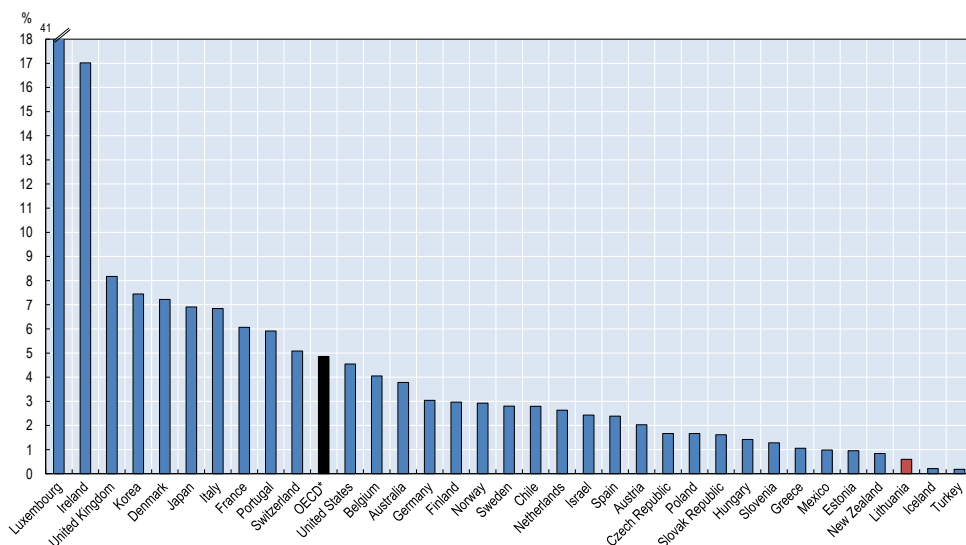
Source: Lithuanian authorities. Insurance penetration defined as gross insurance premiums in % of GDP.

¹ The activity of foreign insurers active in Lithuania by way of freedom to provide services is excluded from all charts and tables. As of 2015, such activity comprised of EUR 4.7 million of life insurance premiums written and EUR 24.7 million non-life insurance premiums written and represented 1.0% of the life insurance market and 4.5% of the non-life insurance market in Lithuania.

² Data on net premiums written prior to 2014 is incomparable as it represents only insurance undertakings registered in Lithuania for business written in the reporting country and abroad.

Figure 2. Life insurance penetration in the OECD and Lithuania, 2014³

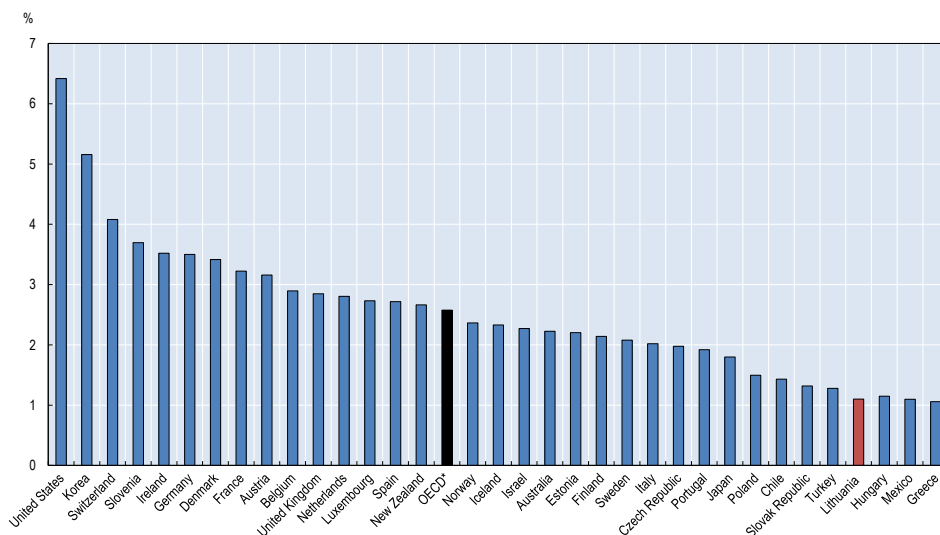
Total gross premiums as a percentage of GDP



Source: OECD Insurance Statistics 2014, OECD Global Insurance Statistics.

Figure 3. Non-life insurance penetration in the OECD and Lithuania, 2014

Total gross premiums as a percentage of GDP



Source: OECD Insurance Statistics 2014, OECD Global Insurance Statistics.

14. Insurance density in the Lithuanian market has been growing steadily since 2009 but remains low compared to OECD countries (EUR 249 per capita as of 2016).

³ The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Table 2. Insurance density in Lithuania

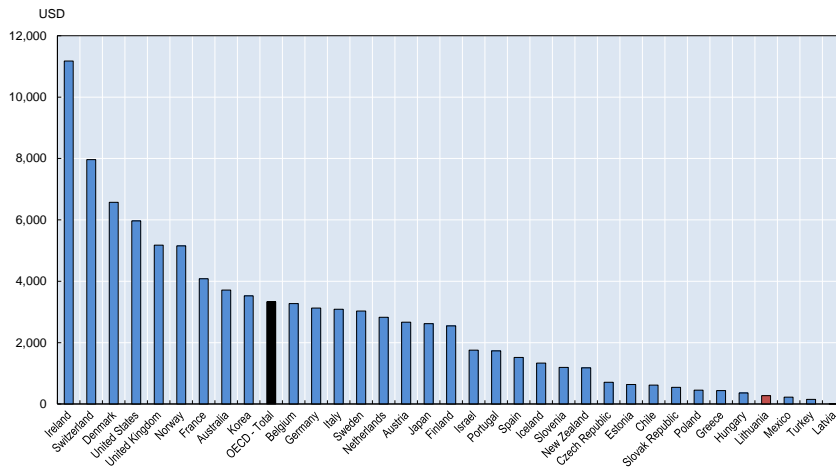
In EUR per capita

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Density, EUR	92.8	129.8	189.6	181.4	142.4	147.7	164.2	174.6	191.7	206.1	222.0	249.2
Life, EUR	25.6	40.6	71.5	48.7	44.7	51.4	54.2	56.1	61.7	73.8	81.0	86.6
Non-life, EUR	67.3	89.2	118.1	132.7	97.7	96.3	110.1	118.5	130.0	132.3	141.0	162.6

Source: Lithuanian authorities. Insurance density defined as gross insurance premium per capita.

Figure 4. Insurance density in the OECD and Lithuania, 2014

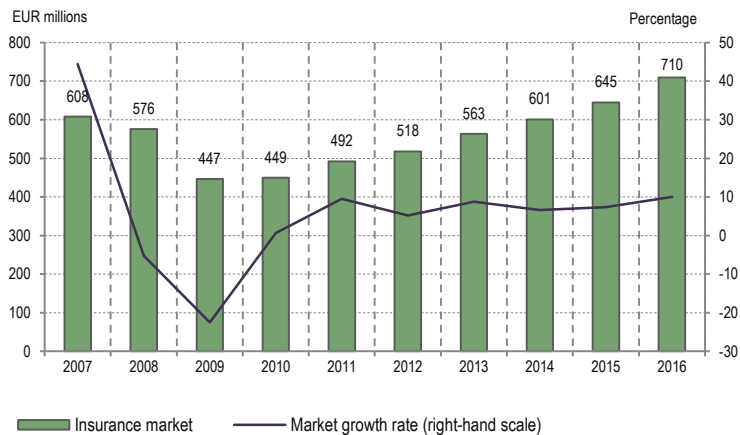
Total gross premiums per capita, in USD per inhabitant



Source: OECD Global Insurance Statistics.

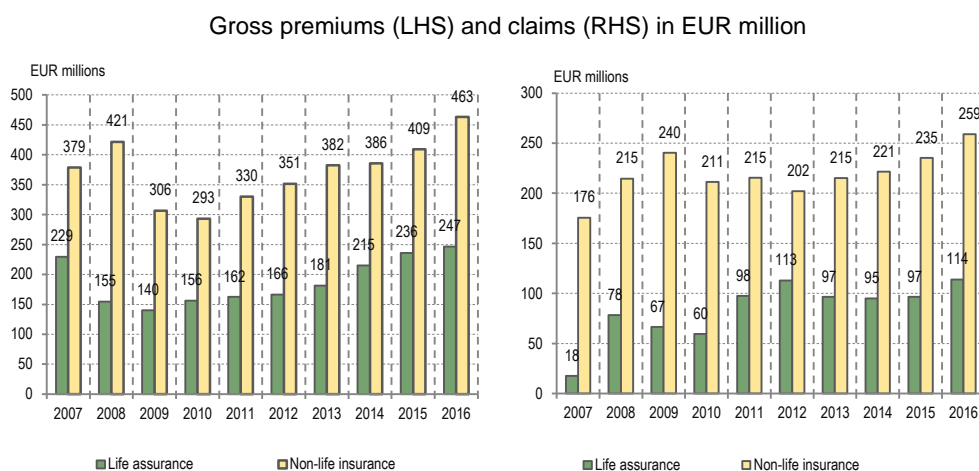
Figure 5. Lithuanian insurers: gross written premium

In EUR million



Source: Bank of Lithuania (2017).

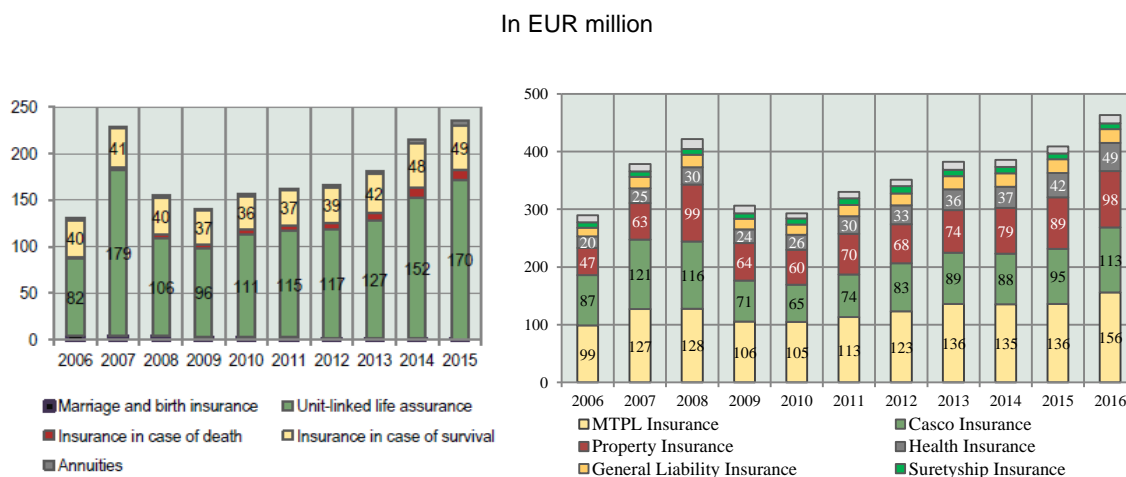
Figure 6. Breakdown of gross premiums and claims: life and non-life insurance



Source: Bank of Lithuania (2017).

15. According to Article 8 of *Law on Insurance*, insurance undertakings are not allowed to provide both life and non-life insurance in Lithuania⁴. Non-life insurance dominates the insurance market in Lithuania, accounting for 63% of the total insurance market gross written premiums in 2016 and recording a 13% year-on-year increase. The life insurance market is also growing rapidly and reached a record volume of EUR 247 million underwritten premiums or 4.6% year-on-year increase in 2016. Growth in the life insurance market is driven mainly by unit-linked products, which account for 64% of life insurance premiums written in 2016, and in particular new unit-linked life insurance contracts concluded (12.9% increase recorded in 2016).

Figure 7. Life and non-life insurance premiums breakdown by product

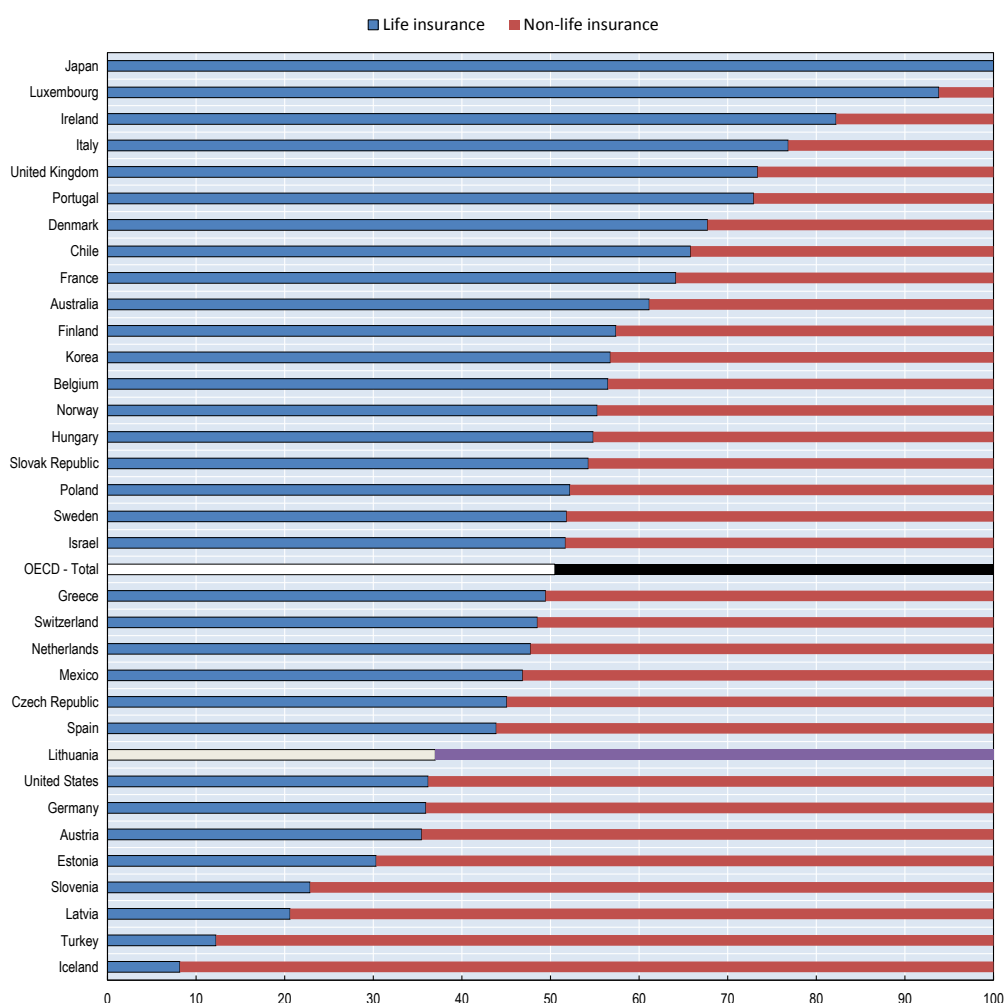


Source: Bank of Lithuania (2017).

⁴ Exceptions applying to the provision of accident and sickness insurance classes of non-life insurance activity, as well as in cases where the legislation of another EU/EEA Member State authorises an EU/EEA insurance undertaking to engage in both life and non-life insurance activity (Article 8 of Law on Insurance).

⁵ As of 1 January 2016, life assurance premiums written data are collected by lines of business consistent to Solvency II.

Figure 8. Life and non-life insurance in OECD countries and Lithuania, 2014



Source: OECD Global Insurance Statistics.

16. In 2016 the loss ratio⁶ in the non-life insurance sector has remained at the same level as in 2015. The non-life insurance claims paid in the motor third party liability and casco (land vehicles) insurance⁷ increased by 16% and 17% and the premiums increased by 15% and 17% respectively. Claims in the health insurance decreased by 7.7%, while premiums decreased by 5.3%

17. The net combined ratio⁸ of non-life insurance stood at 100.1% in 2016, having recorded a gradual increase since 2013, but at lower levels than in 2010. This net combined ratio for the Lithuanian insurance market excludes data of credit insurance providers.

⁶ Loss ratio calculated excluding the data of credit and health insurance providers.

⁷ Casco insurance is an abbreviation of casualty and collision insurance, with insurance compensating all damages or losses to a vehicle created by the possessor of the vehicle in a sudden and unforeseeable loss event or losses that have been created by third persons.

⁸ The net combined ratio is defined as the sum of the net incurred losses and net expenses divided by the net earned premiums.

Table 3. Loss and Combined ratio of non-life insurers in Lithuania (%)

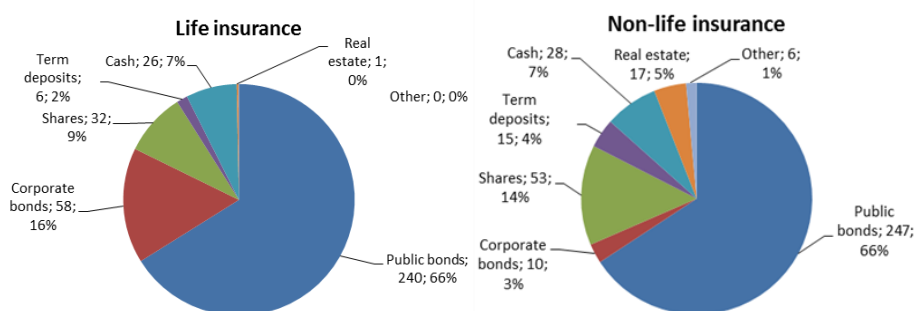
	2010	2011	2012	2013	2014	2015	2016
Gross loss ratio (%)	63.2	63.7	55.9	55.0	56.5	61.5	61.5
Gross combined ratio (%)	101.5	99.9	92.8	91.7	93.2	97.1	96.1
Net combined ratio (%)	104.4	102.0	97.4	94.0	94.8	98.0	100.1

Source: Lithuanian authorities.

18. Lithuanian insurers held EUR 1.399 billion of assets⁹ as of end of 2016, the bulk of which consists of investments (EUR 1.117 billion representing 79.8% of total assets). Investments used to cover traditional insurance technical provisions and equity as well as other liabilities amounted to EUR 653.2 million, with the rest representing funds of insurance policyholders managed by life insurers (EUR 463.3 million).

Figure 9. Lithuanian insurers' investment portfolio allocation by type

In EUR million and in percentage, as of 2016

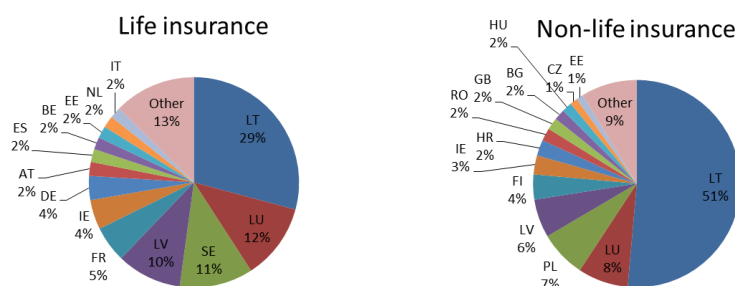


Note: Excludes assets linked to unit-linked products sold to policyholders. Other investments include time deposits and cash held in accounts.

Source: Lithuanian Authorities.

Figure 10. Lithuanian insurers' investment portfolio allocation, by geography

In percentage, as of 2016



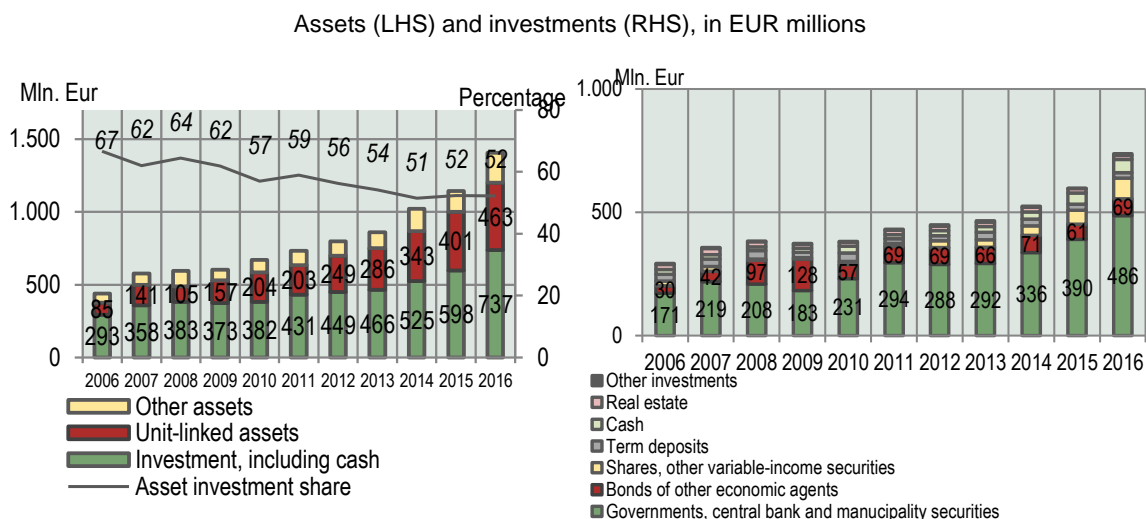
Notes: The "Other" category comprises countries whose shares do not exceed 1.5% for life insurance and 1.0% for non-life insurance.

Source: Lithuanian Authorities.

⁹ Balance sheet financials are available only for domestic undertakings (not for branches of EU undertakings) and include all business written in Lithuania and abroad.

19. Sixty-five percent of Lithuanian insurers' investment portfolio, excluding funds managed on behalf of policyholders, is placed in government bonds (65.9% as of end-2016). Investments in shares and UCITS represented 11.4% of the total investment portfolio in 2016, having increased by 20.3% year-on-year, as insurers seek higher yields. Corporate bond holdings decreased by 9.3%, reaching 9.3% of the total investment portfolio. Term deposits held decreased by 29.4% year-on-year due to the low interest rate environment, and account for 2.8% of the total, the amount of cash held in accounts decreased by 4.2% as at end-2015, accounting for 7.3% of the investment portfolio.

Figure 11. Insurers' asset and investment breakdown, 2006-16



Source: Bank of Lithuania (2017). Investments exclude policyholder funds managed by life insurers.

20. In 2016, gross technical provisions increased for both life and non-life insurance companies. The growth was driven mostly by increase of premium written (driven by the growth in insurance premiums in non-life insurance and by the changes in the tax regime for life insurance) that caused more than 30% year-on-year increase of provision for unearned premiums, and more than 15% increase of unit-linked insurance technical provision.

Table 4. Gross technical reserves

(EUR million)

	2010	2011	2012	2013	2014	2015	2016
Total gross technical reserves	561.4	582.4	633.7	639.8	747	875.4	1021.0
Life insurance gross reserves	313.8	379.4	431.3	479.3	557.9	643.2	710.4
Non-life insurance gross reserves	247.6	203	202.4	160.5	189.1	232.2	310.6

Source: Lithuanian authorities.

21. Profitability of insurers has fluctuated from EUR -3.3 million in 2011 to EUR 24.0 million in 2014, with positive profitability mainly attributed to the consistent profitability of the life insurance sector and the investment returns of insurers until 2014. According to unaudited data, as of 31 December 2016, insurance undertakings recorded EUR 6.5 million in profits; though the results of life assurance undertakings and non-life insurance undertakings diverged: life assurance undertakings recorded profits of EUR 19.8 million, while non-life insurance undertakings recorded losses of EUR 13.3 million. Out of four

undertakings engaged in non-life insurance, two operated at a loss, due to the reorganisation or restructuring processes that took place in the reporting period.

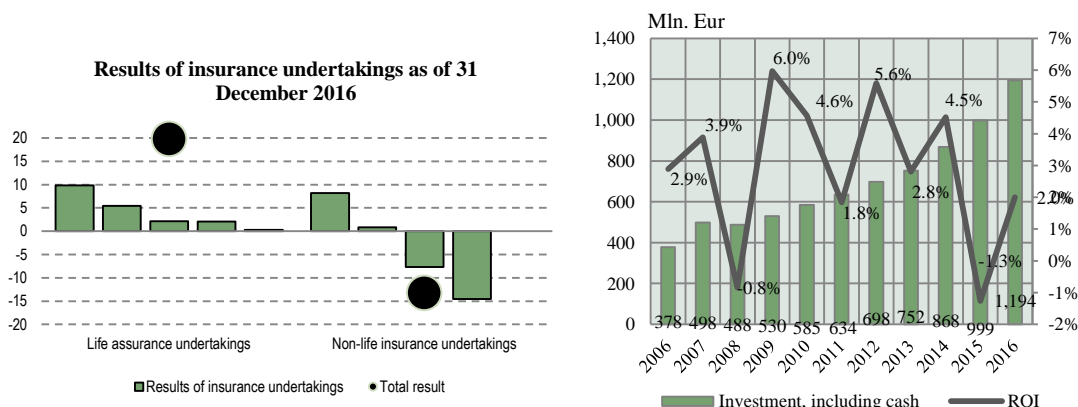
22. At the end of 2015 insurers recorded a loss of EUR 13.4 million driven by heavy investment losses. Excluding the one-off influence of M&A activity (see Box 1), the normalised operating result would be EUR 7.7 million, driven by the loss of EUR 23.5 million incurred by non-life insurers and which was not offset by the profit of EUR 10.1 million recorded by life insurers. Two life insurers and two non-life insurers were profitable, while three life insurers and three non-life insurers operated at a loss.

23. Similarly, excluding extraordinary investment losses in 2015 linked to the sale of part of a business of an insurer (see Box 1), investment results for the year would have been EUR 7.3 million, representing an ROI of 1.9%. There has been a drop in ROI which was influenced by the establishment of a new insurance undertaking, *UADB Compensa Vienna Insurance Group* in 2015. As of the end of 2016, ROI stood at 2.0%.

24. Given that, as of 1 January 2016, insurers in Lithuania started using International Accounting Standards (IAS) instead of local business accounting standards, the results of the 2016 reporting period are not comparable to those of previous periods.

Figure 12. Profitability and return on investment of insurers in Lithuania

2006-15, in EUR million



Source: Bank of Lithuania (2017).

25. Total ROE has followed a similar pattern with profitability over the period 2010-14, with life insurance ROE being consistently positive at above 14% levels, and non-life insurance fluctuating from negative 12.6% in 2011 to 10.7% in 2010. Total ROE and ROA have decreased significantly in 2015 and 2016, driven by M&A activity in non-life insurance sector and its impact on annual results.

Table 5. Profitability indicators of insurance undertakings in Lithuania

(in percentage)

	2010	2011	2012	2013	2014	2015	2016
Total ROE	2.4	-2.8	14.2	10.5	13.4	-6.5	2.6
<i>Life insurers</i>	15.3	18.5	20.0	14.2	22.2	13.3	17.8
<i>Non-life insurers</i>	-3.3	-12.6	10.7	8.0	7.6	-18.9	-9.9
Total ROA	0.5	-0.6	3.2	2.2	2.7	-1.2	0.5
<i>Life insurers</i>	2.1	2.6	2.9	2.0	2.8	1.5	2.5
<i>Non-life insurers</i>	-1.1	-4.0	3.6	2.7	2.6	-6.0	-2.8

Source: Lithuanian authorities.

Box 3. Ongoing consolidation process of the Lithuanian Insurance Market

The consolidation of the Lithuanian insurance market, which started three years ago with the exit of UK's Royal & Sun Alliance Insurance (RSA) from the Baltic market, has had an impact on the financial performance of the sector.

Following RSA's decision to sell its insurance business in the Baltic States and Poland, the shares of AB Lietuvos draudimas were sold to the Polish insurance company Powszechny Zaklad Insurance (PZU).

In addition to the acquisition of AB Lietuvos draudimas by UAB DK PZU Lietuva, the latter also acquired the branch of Danish insurance company Codan Forsikring A/S in Estonia through PZU Lietuva's Estonian branch and the portfolio of AAS Balta of Latvia which was transferred to PZU Lietuva's operating company in Latvia.

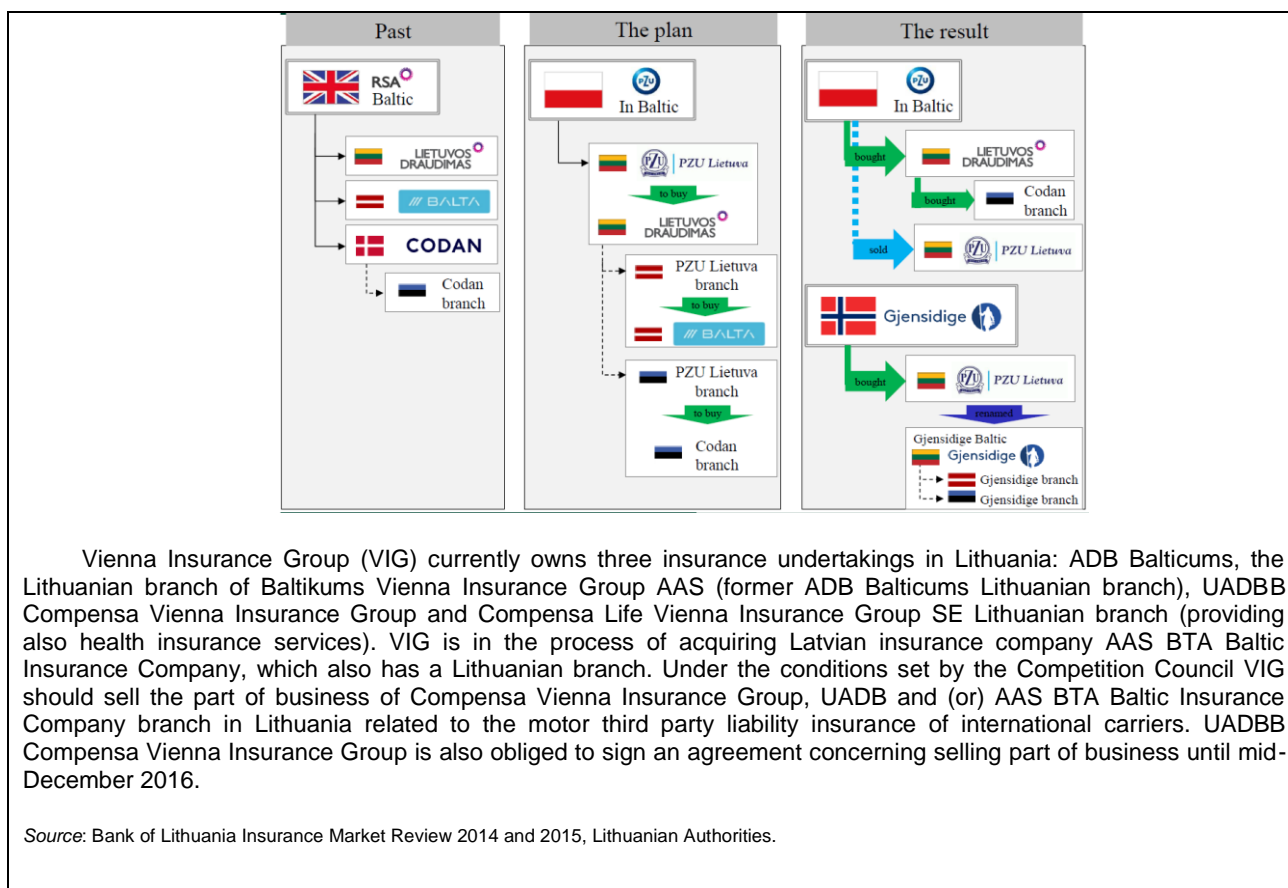
Given that PZU was also the major shareholder of UAB DK PZU Lietuva (non-life insurance) and UAB PZU Lietuva gyvybės draudimas, the Competition Council of Lithuania allowed PZU to acquire shares of AB Lietuvos draudimas under the condition that PZU would transfer its business related to motor vehicles insurance (other than railway rolling stock) and property insurance activities carried out by UAB DK PZU Lietuva.

PZU, however, decided to sell UAB DK PZU Lietuva to Norwegian insurance company Gjensidige Forsikring ASA, (Gjensidige), which was already active in the Lithuanian market through its branch, AAS Gjensidige Baltic Lithuania branch. Further to its acquisition by Gjensidige, PZU Lietuva changed its name into ADB Gjensidige in March 2016.

The branch of Codan Forsikring A/S in Estonia was initially acquired by UAB PZU Lietuva, resulting in the recording of a EUR 21 million goodwill, accounted for in the financial accounts of UAB PZU Lietuva. Such goodwill was planned to be amortised as a cost over a five-year period. Further to the decision of PZU to sell PZU Lietuva, however, Codan was acquired by AB Lietuvos draudimas and the goodwill amount was accounted for as 'Losses on the realization of investment' in the financial accounts of PZU Lietuva at the end of 2015. This extraordinary loss of EUR 21 million has had an impact on the financial performance of the non-life insurance market in 2015.

As a result of all the above actions there are two companies operating in the Lithuanian non-life insurance market: AB Lietuvos draudimas with a branch in Estonia and AB Gjensidige with branches in Estonia and Latvia.

In Q3 2015, a new market participant, UADB Compensa Vienna Insurance Group, launched its operations in Lithuania after taking over the portfolio of insurance contracts of Compensa TU S.A. Lithuania branch.



26. Reinsurance activity is limited in Lithuania. The retention ratio¹⁰ of insurers ranges from 93.7% to 97.1% over the period 2010-16.

Table 6. Retention ratio of insurance undertakings in Lithuania

(in percentage)

	2010	2011	2012	2013	2014	2015	2016
Total insurance market	94.6	93.7	94.3	94.7	97.1	95.1	94.0
<i>Life insurance</i>	98.3	97.8	98.2	98.2	98.4	98.0	98.9
<i>Non-life insurance</i>	93.3	91.8	92.4	92.6	96.2	93.4	91.6

Source: Lithuanian authorities. The data on retention ratio is available only for insurance undertakings registered in Lithuania and cover business written in the reporting country and business written abroad.

27. Insurers in Lithuania have exceeded the required solvency margin for the past 10 years. As of year-end 2015, the solvency ratio of insurers stood at 2.3 (2.7 for life insurers and 2.0 for non-life insurers). The solvency margin amounted at EUR 73.9 million as of 2015 and has remained stable over the period 2013-15. The overall market solvency ratio decreased to 2.0 in 2015 from 2.4 a year ago, driven by a decrease for life and non-life insurers over the year. Based on Solvency II reporting as of January 2016,

¹⁰ The data on retention ratio is available only for insurance undertakings registered in Lithuania and cover business written in the reporting country and business written abroad.

all insurance undertakings in Lithuania complied with the Minimum Capital Requirements (MCR) and Solvency Capital Requirement (SCR) levels. All undertakings complied with the MCR and SCR as of the end of 2016.

Table 7. SCR and MCR ratios for insurance undertakings in Lithuania

As of 31 December 2016, Solvency II reporting

	2016		
	Life assurance	Non-life insurance	Total
Total eligible own funds to meet the SCR (EUR million)	197.3	145.7	342.9
Total eligible own funds to meet the MCR (EUR million)	197.8	143.8	341.6
Solvency Capital Requirement (SCR) (EUR million)	89.6	85.9	175.6
Minimum Capital Requirement (MCR) (EUR million)	31.3	40.3	71.7
Ratio of Eligible own funds to SCR (%)	2.2	1.7	2.0
Ratio of Eligible own funds to MCR (%)	6.3	3.6	4.8

Source: Lithuanian Authorities.

28. The 9.1% decrease in available solvency margin for the total insurance market in 2013 was due to the reorganisation of the non-life EU insurers' subsidiaries in Lithuania to branches. ADB Ergo Lietuva was reorganised into the Lithuanian branch of Estonian insurance company ERGO Insurance SE. The available solvency margin for the ADB Ergo Lietuva was EUR 14.33 million as of year-end 2012. As data is provided only for insurance companies that are in operation at the end of each year, given the reorganisation of ADB Ergo Lietuva the available solvency margin for the total insurance market in 2013 reflected a EUR 14.12 million decrease.

Table 8. Solvency margins and solvency ratio of insurance undertakings in Lithuania

	2010	2011	2012	2013	2014	2015
Total available solvency margin (EUR million)	150.6	145.8	154.7	140.6	150.5	152.0
Life insurers (EUR million)	42.4	59.4	66.4	66.1	68.6	67.9
Non-life insurers (EUR million)	108.2	86.5	88.4	74.5	81.9	84.1
Total required solvency margin (EUR million)	72.4	67.1	70.7	66.9	75.8	78.2
Life insurers (EUR million)	19.4	24.3	24.4	26.0	27.6	29.9
Non-life insurers (EUR million)	53.0	42.8	46.2	40.9	48.2	48.3
Total solvency margin (EUR million)	78.2	78.7	84.1	73.7	74.7	73.9
Life insurance (EUR million)	23.0	35.0	41.9	40.1	41.0	38.0
Non-life insurance (EUR million)	55.2	43.7	42.1	33.6	33.7	35.8
Total solvency ratio	2.1	2.2	2.2	2.1	2.0	2.0
Life insurers	3.2	2.4	2.7	2.5	2.5	2.3
Non-life insurers	2.0	2.0	1.9	1.8	1.7	1.7

Note: The required solvency margin is the maximum of the required solvency capital or the minimum guarantee fund (EUR 3.7 million since 2013, earlier EUR 3.5 million).

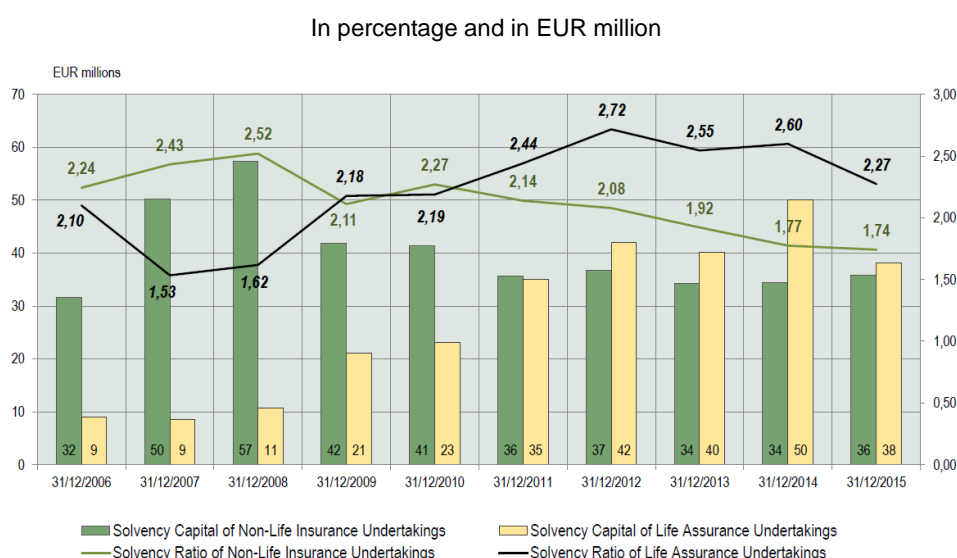
Source: Lithuanian authorities.

29. The own capital of insurance brokerage firms amounted to EUR 15 million as of December 2016, a year-on-year increase of almost 6.7%. The minimum capital requirement is EUR 18760, or not less than four per cent of an insurance brokerage firm's insurance premiums payable to insurers received over a

year. As of 31 December 2016, one firm did not comply with the minimum capital requirement, while three firms engaged in mediation activity took early action and brought in additional cash to absorb its losses. One more firm increased its authorised capital in the fourth quarter of 2016 to meet legislative requirements.

30. In 2015, the shareholders of seven insurance brokerage firms had to provide new capital so as to ensure compliance with the minimum equity capital requirement. An enforcement measure (warning) was applied to one insurance brokerage firm for violation of the minimum equity capital requirement in 2015, and the shareholders were obliged to eliminate shortcomings until the 30th of June 2015, a requirement which has been fulfilled by the broker. A penalty of EUR 6,500 was imposed to another insurance brokerage firm for non-compliance with the minimum equity capital requirement and for the provision of misleading information (reporting of lower amount of collected insurance premiums due to the insufficient amount of equity capital). Non-compliance was confirmed on an unplanned on-site inspection performed by the BoL. Another two insurance brokerage firms were warned for negligent bookkeeping with minor financial reporting misstatements corrected during the on-site inspection of the BoL. The information on the abovementioned sanctions has been publicly announced at the website of the BoL in order to discourage businesses from repeated infringement.

Figure 13. Solvency ratio and solvency capital of insurance undertakings in Lithuania



Note: Includes insurance companies operating as of 31.12.2015.
Source: Lithuanian Authorities.

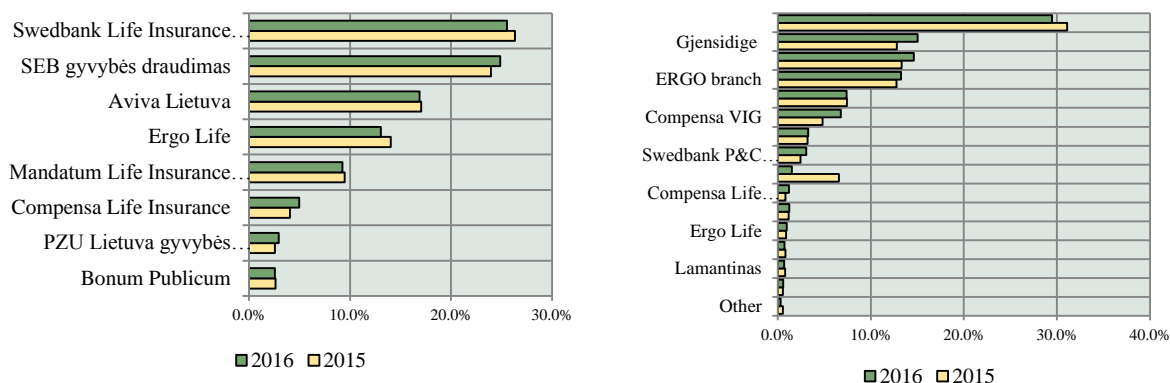
1.2 Evolution of the insurance industry

31. The Lithuanian insurance sector grew steadily before the crisis and reached EUR 608 million of gross written premiums in 2007. The sector started to recover in 2010 and exceeded pre-crisis levels of gross written premiums for the first time in 2015 with EUR 645 million of gross written premium, EUR 710 million in 2016. Stronger growth was observed in the life insurance market, partly explained by the increasing use of employee group health schemes till the year 2015. In 2016, EUR 373 million of insurance claims were paid, representing a 12.3% year-on-year increase.

32. Technical provisions of life insurers increased by 11.1% in 2016, reaching EUR 999.5 million. The largest technical provisions were formed by Swedbank Life Insurance SE Lithuania branch, which holds the largest share of the market, UAB SEB gyvybės draudimas and AVIVA Lietuva.¹¹

Figure 14. Concentration in the Lithuanian insurance sector, 2015-16

Life insurance (LHS), in terms of technical provisions formed and non-life insurance (RHS), in terms of premiums written



Source: Bank of Lithuania (2016).

1.3 Products in the insurance sector

33. Motor vehicle liability insurance is the largest class of the non-life insurance market, representing 33% of the market in 2015, followed by land vehicles (casco) insurance and fire and other property damage insurance (23% and 22% of the market respectively).

34. In 2011 life insurers in Lithuania introduced new insurance products with guarantee options: (i) unit-linked insurance (pension insurance) with a capital guarantee option¹², and (ii) guaranteed interest life assurance¹³ (capital accumulation principle similar to the unit-linked insurance). Unit-linked insurance accounts for the vast majority of the life insurance market, representing 72% of the life insurance market in 2015. Insurance savings products owe their popularity to their competitive pricing vis-à-vis pure insurance products, including the possibility for tax relief.

35. There are two types of with profit pension annuities: (i) conventional pension annuity with periodical payouts, and (ii) guarantee period pension annuity where payouts continue to be paid to the beneficiary in the event of death of the annuitant, until the end of the guarantee period set in the contract. According to the Law on the Accumulation of Pensions, the pension annuity cannot be decreasing, shall be paid to a former participant at least once every three months for his lifetime, and may be heritable.

¹¹ Technical provisions by EU/EEA insurance undertakings are submitted to the BoL for statistical purposes only.

¹² Guarantee offered for an additional annual fee of 0.2 per cent calculated each month on the basis of the guarantee amount. If the contract is terminated before the term period, the guarantee is not applied.

¹³ Guaranteed annual interest calculated each month on the basis of the accumulated amount. As of January 2016 all life insurers guaranteed an annual interest of 1.25 per cent. It is at the discretion of the insurer to increase the guaranteed interest rate.

36. Since the introduction of the 2nd Pillar pension system, only 411 pension annuities (338 of which being guaranteed period annuities) have been sold using withdrawn pension lump sum (data as of H1 2017).

Table 9. Market share of main products in life and non-life insurance market (%)

	2010	2011	2012	2013	2014	2015	2016
Life insurance	35	33	32	32	36	37	35¹⁴
Of which Unit link	71	71	70	70	70	72	
Of which Endowment	23	23	23	23	22	20	
Of which Term life	3	4	4	4	5	5	
Of which Annuities	1	1	2	2	2	2	
Of which Marriage and birth	2	1	1	1	0	0	
Non-life insurance	65	67	68	68	64	63	65
Of which Motor vehicle liability	37	35	36	37	36	33	
Of which Land vehicles (CASCO)	22	23	24	23	23	23	
Of which Fire and other property damage	21	21	19	19	21	22	
Of which Accident and sickness	9	9	9	9	9	10	
Of which General liability	5	5	5	5	5	5	
Of which Suretyship	4	4	4	3	3	3	
Of which Credit	1	1	1	1	1	1	
Of which Freight	1	1	1	1	1	1	
Of which Financial loss	1	1	1	1	1	1	
Of which Other	1	1	1	1	1	1	

Source: Lithuanian authorities.

1.4 Competition in the insurance sector and entry/exit from the industry

37. Insurers may be a company in the form of a public limited liability company, private limited liability company or European company (Societas Europaea) that have received a license issued by the Bank of Lithuania (BoL) for the provision of insurance services. Mutual insurance companies are not allowed in Lithuania.

38. Over the past decade, the number of insurance undertakings incorporated in Lithuania has decreased from 25 in 2005 to 90 in 2016, while the number of branches of insurance undertakings of other EU member states increased from three to 12. These changes were mainly driven by the reorganisation of groups active in the Baltic region and the transition of EU undertakings into branches. During the period 2005-16, three non-life insurers went bankrupt. Only one insurer was licenced over the past decade (non-life insurer Compensa Vienna Insurance Group, in 2015).

¹⁴ The breakdown of insurance into business lines has changed as of January 2016.

Table 10. Insurance companies in Lithuania and shareholder structure

Company	Main Shareholder	Shareholders of main shareholder
UAGDPB Aviva Lietuva	Aviva TU na Zycie SA (Poland)	Aviva Group Holdings Limited (UK)
UAB Bonum Publicum	AB Šiaulių bankas (Lithuania)	AB Šiaulių banko Group (Lithuania)
ERGO Life Insurance SE	ERGO International AG (Germany)	Münchener Rückversicherungs-Gesellschaft AG (Munich Re) (Germany)
UAB PZU Lietuva gyvybės draudimas	PZU S. A. (Poland)	State Treasury 35%; Aviva 5%; Other 61% (listing) (Poland)
UAB SEB gyvybės draudimas	SEB Life and Pension Holding AB (Sweden)	Skandinaviska Enskilda Banken AB (Sweden)
UADB Compensa Vienna Insurance Group	Vienna Insurance group AG (Wiener Versicherung Groupe) (Austria)	Wiener Stadtische Versicherungsanstalt Vermögensverwaltung VVaG (Austria)
UAB DK Lamantinas	Private persons (Lithuania)	-
AB Lietuvos draudimas	PZU S. A. (Poland)	State Treasury 35%; Aviva 5%; Other 61% (listing) (Poland)
UAB DK "PZU Lietuva" (in 2016 renamed ADB "Gjensidige")	Gjensidige Forsikring ASA (Norway)	

Source: Lithuanian Authorities.

Table 11. Branches of insurance companies in Lithuania and shareholder structure

Branch name	Company	Main Shareholder	Shareholders of main shareholder
Seesam Insurance AS Lithuanian branch	Seesam Insurance AS (Estonia)	Pohjola Insurance Ltd (Finland)	OP Financial group (Finland)
Compensa Life Vienna Insurance Group SE Lithuanian branch	Compensa Life Vienna Insurance Group SE (Estonia)	Vienna Insurance group AG (Wiener Versicherung Groupe) (Austria)	Wiener Stadtische Versicherungsanstalt Vermögensverwaltung VVaG (Austria)
Mandatum Life Insurance Baltic SE Lithuanian branch	Mandatum Life Insurance Baltic SE (Estonia)	Mandatum Life Insurance Company Ltd (Finland)	Sampo Plc (Finland)
ERGO Insurance SE Lithuanian branch	ERGO Insurance SE (Estonia)	ERGO International AG (Germany)	Münchener Rückversicherungs-Gesellschaft AG (Munich Re) (Germany)
Swedbank Life Insurance SE Lithuanian branch	Swedbank Life Insurance SE (Estonia)	Swedbank AS (Estonia)	Swedbank AB (Sweden)
AAS Gjensidige Baltic Lithuanian branch	AAS "Gjensidige Baltic" (Latvia)	Gjensidige Forsikring ASA (Norway)	
Baltikums Vienna Insurance Group Lithuanian branch (in 2016 renamed into Inter Risjk VIG)	Baltikums Vienna Insurance Group AAS (Latvia) (renamed Inter Risk VIG)	Vienna Insurance group AG (Wiener Versicherung Groupe) (Austria)	Wiener Stadtische Versicherungsanstalt Vermögensverwaltung VVaG (Austria)
Compagnie Francaise d'Assurance pour le Commerce Extérieur Lithuanian branch	Compagnie Francaise d'Assurance pour le Commerce Extérieur (Austria)	Compagnie Francaise d'Assurance pour le Commerce Extérieur (France)	Natixis (France)
BTA Insurance Company SE Lithuanian branch	BTA Baltic Insurance Company AAS (Latvia)	BTA Insurance Company SE (Latvia)	Private persons
If P&C Insurance AS Lithuanian branch	If P&C Insurance AS (Estonia)	If P&C Insurance Holding Ltd (publ) (Sweden)	Sampo Plc (Finland)
Swedbank P&C Insurance AS Lithuanian branch	Swedbank P&C Insurance AS (Estonia)	Swedbank AS (Estonia)	Swedbank AB (Sweden)
Vereinigte Hagelversicherung VVaG Lithuanian branch	Vereinigte Hagelversicherung VVaG (Germany) (mutual insurance company)	-	-

Source: Lithuanian Authorities.

39. As of 31 December 2016, nine insurance undertakings were incorporated in Lithuania, five in life insurance and four in non-life insurance. The insurance activity licence of UAB Būsto paskolų draudimas was withdrawn at the undertaking's request on 28 January 2016 (see Box 2). As of 2016, 12 branches of

EU insurance undertakings were active in Lithuania, three of them engaged in life insurance and 9 in non-life insurance.

Box 4. UAB Būsto paskolų draudimas

The state-owned insurance company UAB Būsto paskolų draudimas was founded in 1998 by the Lithuanian Government with a view to facilitate the granting of loans to households with a regular income, without the need for initial down-payment. Indeed, banks offered more favorable borrowing conditions to borrowers who had a mortgage insured by the UAB Būsto paskolų draudimas.

The important risks accumulated throughout the period 2005-08 became a threat to the continuity of the business of UAB Būsto paskolų draudimas. In order to better manage the flow of insured events, resolve cash flow problems and ensure the continuity of the business, an agreement was reached between UAB Būsto paskolų draudimas and commercial banks in 2009. Such deal allowed for insurance payments to be made to commercial banks in instalments over a fixed period or one, three or five years.

Despite measures taken the financial situation of UAB Būsto paskolų draudimas continued to deteriorate. In November 2013, the Board of Directors of the BoL decided to suspend the license of the company. The company was prohibited from concluding any new contracts and its activity was thereon focused on the administration of insured events.

The authorized capital of UAB Būsto paskolų draudimas had been increased by EUR 40.5 million over the period 2010-11 and the company was granted a EUR 8.7 million loan. In 2015, the shareholders decided not to invest any additional funds and to suspend the activity of the company.

At the end of 2015 the company was required to calculate capital requirements under Solvency II regulation. The calculated capital requirement stood at EUR 8.7 million, which was not covered by available own funds (EUR 4.3 million as of end of 2015). The company would therefore not be able to carry on its operation as of 1 January 2016, when Solvency II requirements would come into force.

Hence, on 28 December 2015, the shareholders of the company applied to the BoL for the revocation of its license of insurance activity. The Board of the BoL decided to revoke UAB Būsto paskolų draudimas' license and the company was obliged to transfer the rights and duties under insurance contracts until 31 January 2021.

Source : Lithuanian Authorities.

40. Over the past decade, the market share held by EU branches grew and has reached half of the market. There are no branches of insurance undertakings of non-EU countries.

41. Only one new insurance undertaking has been licensed over the past decade: Compensa Vienna Insurance Group non-life insurer, which acquired the insurance portfolio of Compensa TU S.A. Lithuania branch. Polish insurer MetLife Towarzystwo Ubezpieczenna Zycie i Reasekuracji Spolka Akcyjna wined up its branch in Lithuania and since March 2015 provides insurance services in Lithuania from Poland on a cross-border basis in Lithuania. Two insurance groups, PZU (Poland) and Vienna insurance group (Austria) have significantly expanded their market share in Lithuania over the past two years.

42. Changes in the structure of the market are to a large extent attributed to the reorganisation of domestic undertakings into EU branches. Following the accession of the Baltic countries to the EU in 2004, EU-member insurers entered the Baltic insurance markets in 2004. Given the small size of the individual Baltic country markets, European insurers chose to set up a single company in the Baltic region for capital management optimisation and cost reduction purposes, and conduct business through branches in other countries, taking over rights and obligations of previously independent undertakings. Over the past decade, a number of such undertakings moved their headquarters to Latvia and Estonia [UAB SAMPO

gyvybės draudimas (2008), UAB DK Baltic Polis (2008), AB Seesam Lietuva gyvybės draudimas (2008), AB If draudimas (2009), AB Swedbank gyvybės draudimas (2010), UAB BTA draudimas (2011), ADB Seesam Lietuva (2011), ADB Ergo Lietuva (2012)], while others established headquarters in Lithuania (ERGO Life Insurance SE, AB Lietuvos draudimas, UADB Compensa Vienna Insurance Group). In addition, ADB RESO Europa was reorganised and merged with AAS Gjensidige Baltic Lithuanian branch and UAB Draudimo kompanija Neris transferred its insurance portfolio to the Lithuanian branch of German insurer Euler Hermes Kreditversicherungs AG and started a voluntary liquidation process. More such reorganisations are expected in the market, for example by Norway's Gjensidige Forsikring ASA, currently managing two market participants in Lithuania: ADB Gjensidige and AAS Gjensidige Baltic Lithuania branch (total market share of 16.5 per cent), which are expected to be merged, and through the acquisitions of Vienna Insurance Group in Lithuania (see Box 2).

43. Besides the reorganisation of domestic undertakings into foreign company branches, three non-life insurers went bankrupt in 2005, 2008 and 2010 (see Section 2.7). The insurance activity licence of UAB Būsto paskolų draudimas was revoked on 28 January 2016 (see Box 2). In March 2016, UAB DK PZU Lietuva non-life insurer changed its name and legal form to ADB Gjensidige. Further consolidation is expected in the non-life insurance market given the increased competitive tension between the largest non-life insurers.

Table 12. Market share of domestic undertakings and branches of EU countries by premiums (%)

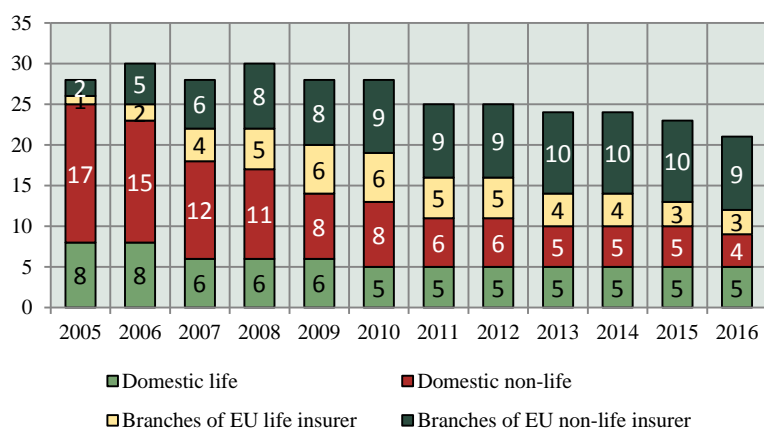
In percentage, by premiums written

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Domestic undertakings	99.2	98.7	92.6	92.9	80.5	70.6	57.4	59.6	50.6	50.5	50.5	55.3
Life insurance	99.8	99.6	87.7	88.1	83.9	52.0	52.8	57.5	57.6	56.9	58.0	59.2
Non-life insurance	96.0	95.2	94.3	94.7	78.9	80.5	59.7	60.6	47.2	46.9	46.0	53.2
Branches of EU undertakings	0.8	1.3	7.4	7.1	19.5	29.4	42.6	40.4	49.4	49.5	49.5	44.7
Life insurance	0.2	0.4	12.3	11.9	16.1	48.0	47.2	42.5	42.4	43.1	42.0	40.8
Non-life insurance	1.0	1.7	4.4	5.3	21.1	19.5	40.3	39.4	52.8	53.1	54.0	46.8

Source: Lithuanian authorities.

Figure 15. Number of domestic insurers and branches of EU countries

In number of undertakings



Source: Lithuanian authorities.

44. As of 2016, market share of three largest firms in the market were 59% for life insurance and 63% for non-life insurance. Market share of the five largest insurers were 80% for life insurance and 85% for non-life insurance.

Table 13. Concentration in terms of technical provisions and ownership profile of life insurers

Market share in percentage of technical provisions

Insurer	Technical provisions market share (%)	Ownership profile	Part of a conglomerate
Swedbank Life Insurance SE Lithuania Branch	25.5	Closely held	No
SEB gyvybės draudimas, UAB	24.9	Closely held	Yes
Mandatum Life Insurance Baltic SE Lithuania Branch	9.2	Closely held	Yes
Aviva Lietuva, UAGDPB	16.9	Closely held	No
Ergo Life Insurance SE	13.1	Closely held	No
Compensa Life Vienna Insurance Group SE Lithuania Branch	5.0	Closely held	No
Bonum Publicum, UAB	2.6	Closely held	No
PZU Lietuva gyvybės draudimas, UAB	2.9	Closely held	No

Note: Closely held company as per IAS definition of businesses owned by shareholders who are few in number or closely associated so that control of the enterprise is focused in a few hands.
Source: Lithuanian authorities.

Table 14. Concentration in terms of technical provisions and ownership profile of non-life insurers

Market share in percentage of gross written premiums

Insurer	Technical provision market share (%)	Ownership profile	Part of the conglomerate
Lietuvos draudimas AB	29.5	Closely held	No
AAS "BTA Baltic Insurance Company" Lithuania Branch	14.6	Closely held	No
Gjensidige ADB	15.0	Closely held	No
ERGO Insurance SE Lithuania Branch	13.2	Closely held	No
If P&C Insurance AS filialas	7.4	Closely held	Yes
AAS "Gjensidige Baltic" Lithuania Branch	1.5	Closely held	Yes
Seesam Insurance AS Lithuania Branch	3.3	Closely held	No
Compensa VIG ADB	6.8	Closely held	No
Swedbank P&C Insurance AS Lithuania Branch	3.1	Closely held	No
Vereinigte Hagelversicherung VVaG Branch	1.2	Closely held	No

Note: Closely held company as per IAS definition of businesses owned by shareholders who are few in number or closely associated so that control of the enterprise is focused in a few hands.
Source: Lithuanian authorities.

45. The Herfindahl Index¹⁵ for both the life and the non-life insurance market in Lithuania is moderate. Given the size of the market, the index indicates a good level of competition. The Herfindahl

¹⁵ A Herfindahl index between 1500 and 2500 is considered to be moderately concentrated and an index above 2500 to be highly concentrated according to the US Department of Justice. (<http://www.justice.gov/atr/public/guidelines/hhi.html>).

Index for the non-life insurance market was measured in terms of non-life gross premiums written, while the Herfindahl Index for the life assurance market was measured based on technical provisions.

Table 15. Herfindahl index of the Lithuanian insurance market

	2016
Life insurance	6 167
Non-life insurance	2 358

Source: Lithuanian authorities.

1.5 State-owned insurers

46. Būsto paskolų draudimas was the sole state-owned insurer in Lithuania, established in 1998 by the Government of Lithuania as a housing mortgage insurance provider. Following a deterioration of the company's financial situation during the crisis, Būsto paskolų draudimas did not meet the technical provisions requirements and in November 2013 the Board of the BoL suspended its insurance licence and prohibited it from concluding new contracts, focusing instead on the administration of insured events and debt recovery. Despite an increase in the company's authorised capital, the Board of the BoL revoked the company's insurance licence on 28 January 2016.

1.6 Foreign penetration

47. The insurance market in Lithuania is dominated by EU insurance undertakings. As of December 2016, two insurance companies out of 9 incorporated in Lithuania were domestically controlled. There were 11 EU branches.

48. EU/EEA-owned subsidiaries and branches of EU/EEA insurers represented 97.5% of life and 99.3% of non-life insurance market (98.7% of the total market) as of 2016:

- The market share of domestic undertakings controlled by EU/EEA shareholders comprised 56.3% in life assurance and 49.9% in non-life (52.1% of the total market)
- The market share of EU/EEA insurer branches amounted to 41.0% in life assurance and 44.3% in non-life (43.2% of the total market)
- Business written without establishment, i.e. by way of freedom to provide services comprised 0.3% of the life assurance market and 5.2% of non-life insurance market (3.5% of total), and the premiums written in the life and non-life insurance market amounted at EUR 0.8 million and EUR 24.7 million, respectively.

49. As of December 2016, there were only two insurers controlled by domestic shareholders, one life insurance and one non-life insurance company specialising in suretyship products: UAB Lamantinas, with sole shareholder a natural person and UAB Bonum Publicum, owned by domestic bank Šiaulių bankas. Šiaulių bankas is a listed company with the European Bank for Reconstruction and Development owing 18% of shares and other natural and legal persons owning less than seven per cent each.

50. There are no branches or undertakings of non-EU insurance undertakings in Lithuania.

1.7 Relationship of insurance with the pension

51. The Lithuanian public pension system comprises of a statutory mandatory social insurance scheme (PAYG, defined benefit), a state pension scheme, and a social assistance pension scheme (1st

pillar). In 2004, a statutory quasi-mandatory private funded scheme was introduced (defined contributions, 2nd pillar). A voluntary private-funded pension scheme also exists (3rd pillar).

52. The early retirement pensioners are not allowed to have income from work or other type of pension benefits (social assistance or state pensions) but it is possible to take a lump sum and/or purchase a pension annuity from the quasi-mandatory privately-funded pension scheme.

53. At retirement, a participant of a 2nd pillar pension plan has an obligation to purchase a pension annuity if the amount of the basic pension annuity calculated is not less than half the state social insurance basic pension. Currently a life-time annuity is mandatory when at the age of 62 the accumulated amount is at least EUR 13 354. Otherwise, the beneficiary can choose to receive the pension benefit as a lump sum or in programmed withdrawals. Since 2013, it is not possible to receive the benefit (annuity) earlier than 5 years before retirement and when the early old age state social insurance pension is paid out.

54. The voluntary private-funded pension scheme (3rd pillar) does not impose the purchase of an annuity as mandatory.

55. There are three insurance undertakings providing annuities (ERGO Life Insurance SE, Gyvybės draudimo UAB Bonum Publicum and UAB SEB gyvybės draudimas). The lump sum payment is the most popular option used, out of 34 673 benefit payments 411 were pension annuities sold until H1 2017 as accumulated funds are not yet sufficient.

56. Insurance companies therefore act as private pension providers. A pension accumulation company can be a management company or an insurance company holding a licence or authorisation issued by the supervisor to engage in the accumulation of pensions in Lithuania.

1.8 Compulsory insurance

57. The main compulsory line of insurance is motor third party liability (MTPL) introduced in 2002. MTPL insurance is the largest line of business in the non-life insurance market (MTPL written premiums account for 34.6% of non-life insurance as of 31 December 2016).

58. Compulsory professional indemnity insurance is mandatory for certain professions (advocates, bailiffs, notaries, buildings designers and contractors, auditors, assignees in bankruptcy, insurance intermediaries). The size of this line of insurance is small with written premiums of less than 2% of total non-life insurance premiums written.

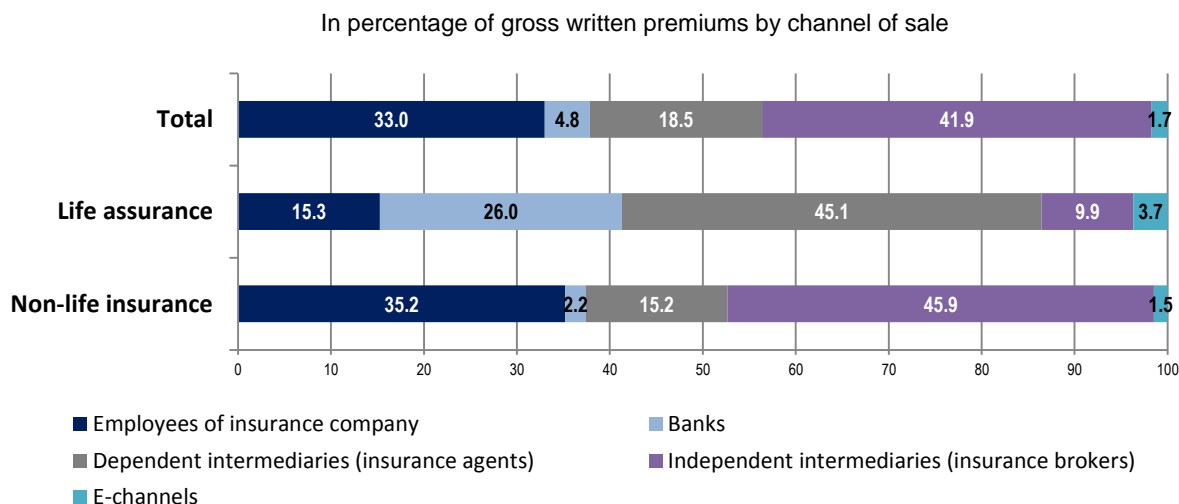
1.9 Distribution channels

59. The structure of distribution differs in life and non-life insurance products. The main distribution channels for the sale of life insurance products are dependent intermediaries (agents) and banks, as the largest life insurers are part of groups involved in banking activity and/or are leveraging on banks' networks and their capacity to bundle insurance and banking products. Banks sell packaged insurance and banking products by acting either as insurance intermediaries or as policyholders. The duties of banks (or consumer credit providers) towards clients offered packages of banking and insurance products are prescribed by a BoL opinion, and clients should be granted with the same rights and obligations as clients purchasing insurance as a separate product.

60. Non-life insurers tend to have their own sales network and/or depend mostly on independent intermediaries (brokers) who offer similar products by several insurers.

61. As of 31 December 2016, 97 insurance brokerage firms were active. Most insurers and brokerage firms have e-sales channels for basic non-life insurance products (such as MTPL) but sales through electronic channels remain low.

Figure 16. Distribution of gross written premiums in 2016



Source: Lithuanian authorities.

1.10 Reinsurance

62. There are no registered reinsurance companies in Lithuania and accepted reinsurance activity is insignificant. As of December 2015, only .6.0% of insurance was ceded to reinsurers (1.1% of life insurance and 8.4% of non-life insurance).

1.11 Insurance associations

63. There are two insurance associations active in Lithuania, one for life and one for non-life insurance companies operating in Lithuania:

- *Lithuanian Insurers Association*: formed by four non-life insurance companies registered in Lithuania (Lietuvos draudimas, Compensa, Gjensidige, Lamantinas) and six EU-Member life insurance companies operating in Lithuania through branching (BTA, IF, Seesam, ERGO, Swedbank P&C Insurance, Gjensidige) and the Motor Insurers' Bureau of Lithuania.
- *Life Insurance Companies Association*: formed by five Lithuanian life insurance companies (ERGO Life Insurance SE, SEB gyvybės draudimas, Bonum Publicum, PZU Lietuva gyvybės draudimas, Aviva Lietuva) and three EU-Member life insurance companies operating through branches in Lithuania (Swedbank Life Insurance SE, Mandatum Life Insurance Baltic SE, SE Compensa Life Vienna Insurance Group).

64. There are two insurance brokers associations active in Lithuania: the Lithuanian Insurance Brokerage Companies Association, comprising of 22¹⁶ companies and the National Insurance Brokerage Companies Association, comprising of 24¹⁷ companies.

1.12 Risks of the insurance sector

65. The main challenge for the insurance industry is the implementation of Solvency II, which came into effect on January 2016, and the compliance risks related to these changes in the legal environment. Another challenge for insurance companies in Lithuania is that, as of 1 January 2016, insurers in Lithuania must follow International Accounting Standards (IAS) instead of local business accounting standards.

66. Regulation on key information documents (KID) for packaged retail and insurance-based investment products (PRIIPs) came into force in December 2014. The European supervisory authorities currently work on the questions and answers that will help market participants and supervisors implement this Regulation and adopted Regulatory Technical Standards.

67. In May 2015, BoL launched a consultation process with the aim to review unit-linked insurance regulation, seeking to address issues identified in the sector (see Section 2.1). A Law on the amendment of the Law on Insurance was drafted and submitted to the Ministry of Finance for consideration.

68. According to the 2015 update of the National Risk Analysis¹⁸ of Lithuania, 19 possible risks that may trigger state-level emergencies were assessed and the risk of nine hazards was evaluated as high or very high, namely: (1) droughts (heat waves); (2) flood; (3) epizootic diseases (African swine fever, avian influenza); (4) epidemics and/or pandemics; (5) chemical incidents; (6) natural disasters and catastrophic weather phenomena (hurricanes, snowfalls, windstorms); (7) harmful organism infections; (8) pollution by radioactive materials; and (9) cyberattacks.

69. There is low risk of natural catastrophes in Lithuania. The most frequent natural catastrophes are storms without a significant impact on the overall growth of natural disaster risk due to their local character. The last major storm with 2 813 claims and evaluated damage of about EUR 1.82 million was recorded in 2010. The most frequent man-made disasters are fires and explosions.

70. There are state-sponsored insurance schemes for farmers (crops purchase, plants insurance against risks of drought, hail, rainfall, storm, winterkill) and for SMEs. There is also a state reinsurance system in case of severe drought¹⁹.

¹⁶ The companies forming the Lithuanian Insurance Brokerage Companies Association are as follows: Alexandr insurance brokers, Altas draudimo brokeris, AON Baltic, BALTO LINK, Benefita draudimas, Cito draudimas, Colemont draudimo brokeris, Draudimo brokerių aljansas, Draudina, Drausma, Esame kartu, FT Broker, GrECo JLT Lietuva, Jūsų patarėjas, Jūsų spurtas, MAI Baltics, Marsh Lietuva, NNSA, Rinkos spektras, Rizikos cesija, Socialinės garantijos, Voltera

¹⁷ The companies forming the National Insurance Brokerage Companies Association are as follows: Jopada, Olvirga, Lisandra, Sandėjas, Driežas LT, Drauseta, Spainetos draudimas, Elviladė, Naudra, Hokena, Klaimseta, Dataksas, Destinija, Sėkmės partneris, Serdra, Euromaksas, Arlina, Alyvos žiedas, Draudima, Draudimo rūmai, Corpus A draudimas, Raidra, Maksidora, Efektyvus sprendimas.

¹⁸ The National Risk Analysis of Lithuania is available on the website of the Fire and Rescue Department under the Ministry of the Interior: <http://www.vpgt.lt/go.php/Nacionalin%C4%97%20rizikos%20analiz%C4%97611>.

¹⁹ Pursuant to Order No 3D-333 of 13 June 2008 of the Minister of Agriculture of Lithuania on the Compensation Rules for Insurance Undertakings to Cover Part of the Costs Incurred by Paying Insurance Benefits for Losses Due to Severe Drought.

2. Supervisory and Regulatory structure

71. The BoL has been the single supervisory authority for all financial markets in Lithuania, including the insurance market, since 2012, following the merger of three institutions supervising banking, insurance and capital markets (BoL, Securities Commission and Insurance Supervisory Commission). The Supervision Service of the BoL performs both prudential and market conduct supervision of financial markets. The Lithuanian authorities explain that conflicts of interest are avoided by the decision-making mechanism in place, given that the Supervision Service Committee is a collegial body composed of the members from both departments (prudential supervision and the market conduct). The Board of the BoL is responsible for the adoption of decisions with material impact to the market.

2.1 Policy and regulatory initiatives

72. The *Law on Insurance* regulates insurance, reinsurance and insurance mediation activities in Lithuania. In 2003 a new Law on Insurance was adopted ahead of Lithuania's accession to the EU, drafted in accordance with legal acts of the EU, principles, standards and recommendations of the International Association of Insurance Supervisors (IAIS), the Code of Good Transparency Practice in Activities of Financial Institutions prepared by the International Monetary Fund (IMF), and conclusions of EU, World Bank and IMF experts. The new Law on Insurance removed limitations on entry from the internal EU market, introduced enhanced financial requirements for insurance companies and established provisions on supplementary supervision of insurance companies belonging to a group of companies and financial conglomerates, in accordance with EU law. Insurance brokers were distinguished as independent insurance intermediaries and insurance agents as dependent insurance intermediaries and detailed regulation on intermediaries' activities was introduced.

73. Regulation covering the sales of life insurance products was established in 2010, enforcing financial consumer protection and providing a procedure to determine the adequacy of the products offered as well as the information requirements before the customers enter into a life insurance contract.

74. In 2010, the Compulsory Insurance Concept was approved by the Government of Lithuania, seeking to ensure consistency and simplicity of the legislative base, analysis of the market and coordination of the terms of compulsory insurances with the market participants concerned. The Compulsory Insurance Concept is approved by the Government and requires that all state institutions take into consideration the provisions of this Concept when drafting legal acts related to compulsory insurance.

75. Stricter fitness and propriety requirements were introduced in 2013 for the governing bodies of insurance companies. On 14 November 2013 the Board of Directors of the BoL adopted a resolution introducing stricter fit and proper policy requirement and the requirement to perform on-going assessment of fitness and propriety for shareholders, manager and key function holders of insurance companies. Such resolution introduced new requirements and improvements in the fitness and propriety assessment that has been performed at the time of licencing since 1996. The assessment is carried out based on information provided to the BoL in the form of a completed questionnaire and is performed according to the good repute, qualification and experience assessment criterion determined in Article 11 of the Law on Insurance.

76. In the field of consumer protection, BoL issued in 2012 Guidelines on financial services advertising. The purpose of these Guidelines is to explain advertising requirements set in individual laws applying to types of financial products and assist financial market participants implement those requirements. Also, in order to monitor financial product market development trends and identify threats for consumers of financial services, financial market participants are required to provide BoL with information about new financial products or changes to already distributed ones, as prescribed by the resolution of the Board of the BoL which entered into force on 1 January 2013. Such requirements are

applied to financial products containing the greatest risk to retail clients (investment products, securities, mortgages or their packages).

Table 16. Regulatory initiatives

Year	Regulation
1996	Law on Insurance
1997	Law on the Prevention of Money Laundering
2001	Law on Compulsory Motor Third Party Liability Insurance
2002	Methodical recommendations for insurance companies and insurance brokers for the implementation of the Law on Prevention of Money Laundering
2002	Requirements for sound and prudent management and internal control of insurance companies in accordance with IAIS (methodological recommendations)
2003	New Law on Insurance, in accordance with legal acts of the EU, principles, standards and recommendations of the International Association of Insurance Supervisors (IAIS), Code of Good Transparency Practice in Activities of Financial Institutions prepared by the International Monetary Fund (IMF), and the conclusions of EU, World Bank and IMF experts.
2005-2009	Requirements for sound and prudent management and internal control of insurance companies in accordance with IAIS (mandatory instructions)
2006	Resolution No N-74 on detailed requirements for provision of information to policyholders of unit-linked contract before the conclusion of the contract and during the validity period of the insurance contract
2010	Regulation on the sales of life assurance products
2010	Compulsory Insurance Concept
2012	Bank of Lithuania Guidelines on financial services advertising, requirements for reporting on new financial products or changes in the already distributed ones (consumer protection)
2012, 2015	Amendments to the Law on Insurance to incorporate the Solvency II directive Amendments to the Law on Insurance to incorporate the Omnibus II directive on Solvency II and secondary legislative acts transposing EU Solvency II regime into national legislation
2014	Reinforcement of stricter fitness and propriety requirements (Resolution of the Board of the Bank of Lithuania adopted on 14 November 2013 No 03-181 on the Approval of the Provisions on the assessment of members of the management bodies and persons performing key functions of the financial market participants supervised by the Bank of Lithuania)
2016	Requirement for insurance companies to apply International Accounting Standards (Accounting Law)
2016	EC's Capital Markets Union: adjustments to capital charges on long-term investment - infrastructure

Source: Lithuanian authorities.

77. The BoL launched a public consultation in 2015 (Proposals on the Regulation of Unit-Linked Life Assurance and Improvement of Supervision), seeking to address issues identified in the unit-linked life insurance market. Issues for consultation were:

- i) regulatory arbitrage due to:
 - (a) less strict regulation of service provision in the unit-linked market in comparison with other investment services;
 - (b) lack of rules for management of insurers' internal funds (investments) offered to unit-linked insurance clients; and
 - (c) non-regulated underlying assets of unit-linked policies.

- ii) issues caused by information asymmetries, such as high commissions, undisclosed indirect costs, drawbacks of pre-contractual information, etc.

78. Following consultation with financial market participants and other parties concerned, a Law on the Amendment of the Law on Insurance has been drafted and submitted to the Ministry of Finance of the Republic of Lithuania for consideration in February 2016. The draft is currently being revised by the Ministry of Finance so as to incorporate insurance distribution issues for insurance-based investment products, transposing the Insurance Distribution Directive (which has to be transposed into national legislation by 23 February 2018). The draft law defines the obligations of insurers and insurance intermediaries so as to avoid conflicts of interest and sets requirements for investment management. It establishes the obligation for insurers to disclose information about all fees related to an endowment insurance contract prior to the conclusion of such contract. It further requires insurers to submit acquisition and distribution costs and insurance premiums payable throughout the life of the contract and for a period of at least three years, during which the insurer will have to lay out, deduct and regulate the calculation of surrender value and the fee for contract termination.

Table 17. Regulatory reforms planned or underway

Scheduled date	Planned regulatory reform
2017	EC's Capital Markets Union: adjustments to capital charges on long-term investment – infrastructure corporates
2018	Transposition into national law of the EU Insurance Distribution Directive (EU) 2016/97
2019	Transposition of results of the review of Solvency II (e.g. potential recalibration of capital requirements) Recovery and resolution regime for insurers (European level)
2017-18	Professional assessment of insurance brokers and financial brokers by private financial institutions
2018	Bank of Lithuania's Proposals on the regulation of unit-linked life assurance and improvement of supervision

Source: Lithuanian authorities.

2.2 Governance and accountability of Bank of Lithuania

79. The general statutory provisions of the BoL are established in the *Law on the BoL*. According to Article 42(2) of said law, its aim is financial market participants' compliance with the requirements set in legal acts regulating the financial market. Such compliance is ensured, inter alia, through the supervision by BoL of insurance companies, reinsurance companies, branches of foreign insurance and reinsurance companies established in Lithuania, insurance brokerage firms and branches of foreign insurance and reinsurance intermediaries established in Lithuania and through the fulfilment of other functions assigned to BoL by the *Law on Insurance*.

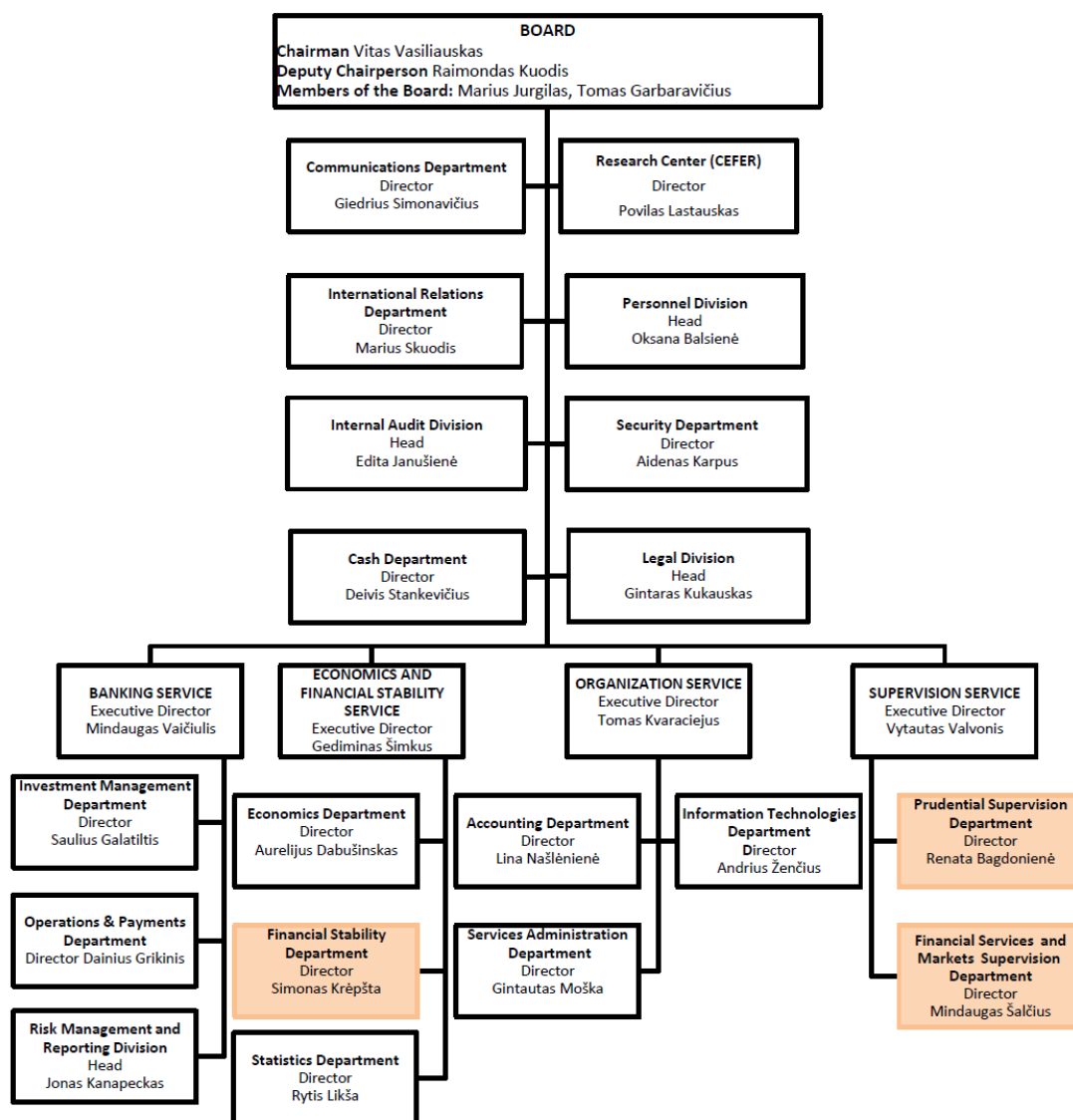
80. The operations of the BoL are conducted by four services: (i) Supervision; (ii) Economics and Financial Stability; (iii) Banking; and (iv) Organisation. There are four additional departments and three autonomous divisions: (i) International Relations; (ii) Security; (iii) Legal; (iv) Personnel; (v) Communications; (vi) Internal Audit and (v) Cash. There is also a research centre within the BoL.

81. Macroprudential supervision is performed by the Financial Stability Service department of the BoL, which falls under the Economics and Financial Stability Service.

82. The Supervision Service of the BoL performs both prudential and market conduct supervision of financial markets. It consists of two separate departments: the Prudential Supervision Department (PSD) conducting prudential supervision and the Financial Services and Markets Supervision Department

(FSMSD) responsible for market conduct supervision. Both departments are directly accountable to the Director of the Supervision Service. Each of the two departments is led by its own director and follows detailed internal regulations on their mission, functioning, organisational principles, rights and responsibilities focusing on prudential or market conduct supervision, respectively.

Figure 17. Bank of Lithuania Organisation Chart



Source: Bank of Lithuania, as of 16 January 2017.

83. The BoL is accountable to the Lithuanian Parliament (Seimas) and as such is required to submit audited annual financial statements to the Seimas. In addition, the Governor presents reports to the Seimas biannually on the implementation of the objectives of the Bank, the performance of its functions and developments in financial markets. The BoL reports its activities to the public via its annual report. Pursuant to a 2014 amendment to the Law on the National Audit Office, the latter may perform an audit on

the activities of the BoL, with the exception of the execution of tasks of the European System of Central Banks and the Eurosystem.

84. The Board of the BoL comprises a Chairperson (the Governor), two Deputy Governors and two Members of the Board. Only citizens of Lithuania that have not reached the age of 65 may be appointed Governor, Deputy Governor or Member of the Board of the BoL.

85. The Governor is appointed for a term of five years by the Seimas (Lithuanian Parliament), on the recommendation of the President of the Republic. The Governor might be dismissed by the Parliament prior to expiration of his term in office, on the recommendation of the President of the Republic. Deputy Governors and Members of the Board of the BoL are appointed for a term of six years and might be dismissed prior to the expiration of their term of office by the President of the Republic on the recommendation of the Governor. The Governor, deputy Governors and members of the Board can be dismissed prior to the expiration of his/her term of office only if he no longer fulfils the conditions required for the performance of his duties or if he has been found guilty of misconduct.

86. The Governor of the BoL may be appointed to his/her position for an unlimited number of terms of office, provided the age limit is not breached, while the Deputy Governors and Members of the Board may be appointed to their respective positions for no more than two consecutive terms.

87. Financial market supervision performed by the BoL is financed by supervisory fees levied on financial institutions and by funds of the BoL. Supervised financial market participants, including insurance and reinsurance companies, branches and insurance brokers, are required to pay contributions which are calculated as set out in Annex 1 of the Law on the BoL. The level of contributions for a particular year is established by the BoL following consultation with the financial market participants, taking into consideration risk-based supervisory activities. The detailed methodology of the calculation of contributions and the relevant payment procedure is established by the legal acts of the BoL.

88. Information exchanges between domestic and foreign supervisory authorities are undertaken through the exchange of MoUs. The supervision of financial groups is performed through supervisory colleges, on the basis of MoUs. The BoL is a signatory of the IOSCO MMoU for cross-border cooperation.

89. The Ministry of Finance of the Republic of Lithuania formulates policy regarding financial markets, financial institutions and their supervision, financial services, insurance, reinsurance and insurance mediation, financial sector stability, financial crisis prevention and management, restructuring of financial institutions, insurance of deposits and liabilities to investors. In addition to, the Law on the BoL provides for that the Board of the BoL develops a financial market supervision policy, except in cases where in accordance with the provisions of Regulation (EU) No 1024/2013 this is carried out by the ECB.

90. All draft laws are published in the official online public database where stakeholders can submit comments, while electronic/fax copies of draft laws are also sent out to stakeholders who might not use the database on a regular basis (industry associations). The minimum consultation time is 10 working days for draft laws of less than 10 pages and 15 working days for longer legal acts. Following the public consultation stage, draft laws are sent to the Ministry of Justice so as to confirm compliance with legislative rules, and then submitted to the Government. The preparation of legislation is subject to general legislative rules set in the Law on Legislative Framework, which requires an ex ante impact assessment. The extent of the ex-ante assessment is proportional to the expected scale of impact, and an assessment of the impact on administrative burden is also required where relevant. Inter-institutional working groups are established for the preparation of legal acts in cross-sector areas and the use of external experts and/or commissioning of specific studies/analyses/research is also envisaged.

91. Contrary to the framework for consultation of legal acts, the public consultation of resolutions and guidelines of the BoL was not standardised and lacked a method to address comments made. The public consultation process was reviewed and improved based on OECD recommendations, and amendments have been made in order to formalize the consultation process and make it more transparent. The consultation process with stakeholders has been standardised and supplemented with the provision that stakeholders' comments to the Bank of Lithuania regulations and guidelines will be made publicly available, along with BoL's observations and opinion.

92. Sixteen per cent of BoL's Supervision Service staff is allocated to the insurance supervision. Ten of them are allocated on a full-time basis to the supervision of the Lithuanian insurance sector within the Insurance Supervision division in Prudential Supervision department. Training programmes, courses and seminars are proposed based on the outcomes of the yearly staff evaluation process.

2.3 Compliance with international standards of supervision

93. Lithuania is a member of the International Association of Insurance Supervisors (IAIS) and as of 27 September 2011 a signatory of the IAIS Multilateral Memorandum of Understanding (MMoU) for cooperation and information exchange between insurance supervisors.

94. The insurance supervisory authority of Lithuania took part in the Financial Sector Assessment Program (FSAP) in 2002 and 2008. Identified shortcomings for the insurance sector at the time were around corporate governance and internal controls of insurance companies, the supervisors' independence, the lack of asset valuation standards, the lack of predictable approach to the imposition of sanctions, insufficient controls on money laundering in the insurance sector and fragmentation in the supervision of the financial markets overall. These shortcomings were addressed in the new Law on Insurance through additional regulation on corporate governance, licensing, accounting, market conduct, as well as through the establishment of a new consolidated and risk-based approach on supervision for the entire financial sector. A series of actions have been taken to improve the anti-money laundering (AML) and combating terrorist financing (CFT) framework in Lithuania, including the creation of a governmental working group (AML/CFT Coordination Group), amendments to the AML/CFT Law in 2014 and updated BoL guidelines for financial market participants in 2015, a national AML/CFT risk assessment and resulting action plan in 2015 and updated criteria on terrorist financing in 2016.

95. In 2004, the Insurance Supervisory Authority of Lithuania carried out a self-assessment against the IAIS Core Principles (ICPs). The observance of the 28 Principles was assessed, out of which 94% were fully implemented, and 6% of which were partially implemented.

2.4 Corporate governance

96. According to the *Law on Insurance* of Lithuania, insurers must have a management board, a head of administration and a general shareholders' annual meeting. An insurer may have a supervisory board. The *Law on Companies* of Lithuania stipulates the rights and powers of the company organs (shareholders' General Meeting, supervisory and management boards) as well as the process of adoption of their decisions.

97. Insurance undertakings are required to ensure sound and prudent management practices complying with the governance requirements as defined by the Law on Insurance, the European Commission Delegated Regulation (2015/35) and the BoL Resolution on the Sound and Prudent Management (Resolution No. 03-95 of 22 December 2015). Sound and prudent management requires compliance with requirements for risk management, internal control, remuneration policy, outsourcing, key functions (at least four key functions have to be implemented: risk management, actuarial, compliance and

internal audit), fitness and propriety (assessment of the supervisory board and management board members, head of the administration, key function holders).

98. Any natural or legal person or persons acting in concert who acquire, directly or indirectly, a qualifying holding (i.e. 10% of the authorised capital or voting rights) or increase such qualifying holding to 20%, 30% or 50% or more of the authorised capital or voting rights of an insurance or reinsurance undertaking in Lithuania, is required to notify in writing the BoL. In assessing the submitted notification, BoL assesses the suitability of the acquirer and the financial soundness of the proposed acquisition.

2.5 Investment regulations

99. There are no requirements for investment in particular asset classes under Solvency II regulation. Insurers have freedom of investment except for requirements restricting the types of assets or reference values to which policy benefits may be linked. Such rules are applicable only where the investment risk is borne by a policyholder who is a natural person, in accordance with Resolution No. 03-180 of the BoL issued on 30 November 2015, in line with the restrictions set out in Directive 85/611/EEC.²⁰

100. Insurers have to comply with investment management requirements defined in BoL Resolution on the Sound and Prudent Management No. 03-196 issued in December 2015 requiring regular review and monitoring of security, quality, liquidity and profitability of the portfolio as a whole by considering at least:

- i) any liability constraint, including policyholders' guarantees, and any disclosed policy on future discretionary benefits and, where relevant, reasonable policyholders' expectations;
- ii) the level and nature of risks that an undertaking is willing to accept;
- iii) the level of diversification of the portfolio as a whole;
- iv) the characteristics of the assets including: (i) credit quality of counterparties; (ii) liquidity; (iii) tangibility; (iv) sustainability; (v) existence and quality of collateral or other assets backing the assets; (vi) gearing or encumbrances; (vii) tranches;
- v) events that could potentially change the characteristics of the investments, including any guarantees, or affect the value of the assets;
- vi) issues relating to the localisation and availability of the assets including: (a) non-transferability; (b) legal issues in other countries; (c) currency measures; (d) custodian risk; (e) over-collateralisation and lending.

101. In case the investment management is outsourced, the insurer has to ensure compliance with the above requirements.

²⁰ Assets of policyholders who are natural persons can be invested in transferrable securities and money market instruments admitted to trading on a market, money market instruments not admitted to trading on a market, investment units and shares of collective investment satisfying certain conditions defined by said Resolution, deposits with maturity of up to 12 months and derivatives. Certain diversification rules apply to these asset types.

2.6 Early intervention and winding-up/insolvency

102. Over the past 10 years, early intervention measures have been used in a number of cases: suspension of business lines²¹; removal of members of the management board, directors or other key persons²²; reinforcement of governance arrangements²³; sanctions - penalties²⁴; sanctions – warnings and other non-economic sanctions²⁵

103. As prescribed by the *Law on Insurance* transposing Solvency II requirements, in case of breach of the SCR and MCR requirements the insurers have the following obligations:

- Insurers are required to inform the supervisor in case the SCR requirement is breached or when there is a risk of non-compliance in a three month period and submit within two months a realistic recovery plan to the supervisor for approval. The supervisor imposes necessary measures to achieve within a six month period (potentially extended to nine months) the re-establishment of the level of eligible own funds covering the SCR or the reduction of the risk profile to ensure compliance.
- In the event of exceptionally adverse conditions (an unforeseen, sharp and steep fall in financial markets, a persistent low interest rate environment, a high-impact catastrophic event) affecting insurance undertakings representing a significant share of the market or of the affected lines of business, as declared by EIOPA, and where appropriate after consulting the European Systemic Risk Board (ESRB), the supervisor may extend that period by a maximum of seven years, taking into account all relevant factors including the average duration of technical provisions.
- Insurers are required to inform the supervisor in case the MCR is breached or where there is a risk of non-compliance in a three month period. Affected insurers are then required to submit within two months to the supervisor (for approval) a short-term realistic finance scheme to restore within three months the eligible basic own funds at least to the level of the MCR, or to reduce its risk profile to ensure compliance with the MCR.

²¹ Baltikums draudimas (2007), Baltijos garantas (2009), Būsto paskolų draudimas (2013).

²² Baltijos garantas (2008), BTA draudimas (2009).

²³ Bonum Publicum.

²⁴ ADB Baltikums draudimas (2007), UAB PZU Lietuva gyvybės draudimas (2007,2010,2011), UAB Būsto paskolų draudimas (2007), DUAB Baltijos garantas (2007), UAB DK PZU Lietuva (2007), DUAB Baltijos garantas CEO G.Z. (2007), UAB BTA draudimas (2007, 2008, 2009), DUAB Baltijos garantas head of management board J.B. (2007); ADB RESO Europa (2009), ERGO Life Insurance SE (2014).

²⁵ UAB BTA draudimas (twice in 2007, three times in 2008, 2009), ADB Baltikums draudimas (3 times in 2007: suspension of MTPL business line, of other lines, and ultimately suspension of licence), DUAB Baltijos garantas (3 times in 2007, twice in 2008, in 2009 suspension of business lines, suspension of licence and revocation of licence), UAB ERGO Lietuva gyvybės draudimas (2007, 2008, 2010), UAB DK PZU Lietuva (2007), UAB Aviva Lietuva (2008), ADB Industrijos garantas (2008 and revocation of licence in 2015), AAS Gjensidige Baltic (2009), UAB DK PZU Lietuva (2009 and 2015), Compensa Towarzystwo Ubezpieczen S.A. Vienna Insurance Group (twice 2011), UADB ERGO Lietuva (2011), Coface Austria Kreditversicherung AG (2011), UAB Būsto paskolų draudimas (2013 and revocation of licence in 2016) and UADB Industrijos garantas (suspension of licences in 2013).

Insolvency/ Winding-up regime

104. Three insolvencies occurred in Lithuania in the past 10 years: DUAB Ingo Baltic in 2005, AB Baltikums draudimas in 2008 and AB Baltijos garantas in 2010.

105. DUAB Ingo Baltic, part of a group and with a five per cent market share in the non-life insurance market, was declared insolvent in 2005 following a series of inappropriate underwriting and business decision-making, lack of internal governance and control systems and insufficient technical provisions. DUAB Ingo Baltic was owned by Russian insurance company Ingosstrakh (56%) and Lithuanian UAB Baltijos garantas (44%). The foreign parent company failed to reach an agreement for a capital increase and the license of all business lines was suspended by the supervisor, however, the company continued administering its existing policy obligations. Court bankruptcy procedures were initiated as no capital injection or guarantees were available, resulting in a significant hit for many stakeholders (natural persons). The 2006 amendment of the *Law on Insurance* prolonged the policy expiry period to 30 days after the court decision to start bankruptcy proceedings comes into force, so to address similar cases.

106. In 2008, AB Baltikums draudimas, owned by Latvian Baltikums Apdrošinašanas Grupa with a six per cent market share in the non-life insurance market (mainly MTPL), failed to comply with the regulatory capital requirements and had its license for MTPL suspended. The company was obliged to get pre-approval by the supervisor for any major cash outflow (different thresholds for cash flows relating to insurance obligations and other were applied) and was required to present a recovery plan. Failure to abide by the requirements of the recovery plan resulted in suspension of its license for all business lines, however, the company continued administering the existing policy obligations for in-force business until it initiated court bankruptcy procedures.

107. AB Baltijos garantas, a small local insurance company with 1% market share in the non-life insurance market filed for bankruptcy in 2010 after several years of inappropriate underwriting and reinsurance decision-making, weak management, insufficient technical provisions, high expenses, fit and proper issues, internal governance and control issues. The company's main shareholder was legal entity Balgva with a 17% stake, which in turn was owned by two natural persons, holding a 17% and 19% stake in Balgva, respectively. Despite early intervention action taken and an increase in the amount of the minimum guarantee fund, the company continued facing capital deficiency problems. An adverse court decision on a big claim of a public company further worsened the capital position and the company was obliged to get prior supervisory approval for any major cash outflows (different thresholds for cash flows relating to insurance obligations and other were applied) and provide a recovery plan which included a capital increase. One of the company's Board members, who was also the CEO of the company and one of its main shareholders²⁶, was removed for breaching fitness and propriety requirements due to pending court cases relating to his involvement in DUAB Ingo Baltic as a CEO and Board member. As the shareholder did not proceed with the capital increase included in the agreed recovery plan, the license for major business lines and later for all lines of business was suspended, and the company continued administering only the existing obligations of in-force business. The licence was later withdrawn and the company was obliged to transfer in-force business to another undertaking. Almost all obligations arising from insurance contracts were finished and the company initiated court bankruptcy procedures.

²⁶ Shareholder holding a 17% stake in legal entity Balgva which was the main shareholder of AB Baltijos garantas. The same natural person was CEO and Board member of DUAB Ingo Baltic and was accused in several court cases of various forms of misconduct.

2.7 Guarantee fund

108. According to the *Law on Compulsory Insurance against civil liability in respect of the use of motor vehicles*²⁷, the Treasury of the Bureau of Insurers of Motor Vehicles of the Republic of Lithuania (Bureau) is established to guarantee the payment of compensation for personal injury on a road accident, damage to property and/or non-pecuniary damage. There are no other guarantee funds besides the Treasury of the Bureau.

109. The Bureau pays compensation in cases where the damage is caused by an uninsured motor vehicle, by a motor vehicle and/or responsible person causing a road accident and which cannot be identified, by a responsible person who has the insurance contract which is in force, but a responsible insurer (a member of the Bureau) is the subject of bankruptcy proceedings.

110. The Bureau is managed by the General Meeting of Members of the Bureau, the Council of the Bureau, and the Head of the Bureau (Article 30 of the law). The Ministry of Finance does not participate in the management body of the Bureau and supervises its activity by monitoring its financial accounts, investments and funding position, adjusting the share of contributions to the Bureau by its members as appropriate. Representatives of the Ministry of Finance and the BoL have the right to attend the general meetings of members of the Bureau in an advisory capacity.

111. The annual amount of disbursements by the Treasury of the Bureau stood at approx. EUR 5.5 million euros in 2015 and 3.4 million euros in 2016. The current free net assets of the Bureau (financial reserves over and above all expenditures, including technical provisions) stand at EUR 20.8 million. There has been no use of borrowed funds throughout the history of the Bureau's activity.

2.8 Complaint-handling and consultation process

112. The Financial Services and Markets Supervision Department (FSMSD) of BoL evaluates all complaints about financial services providers, including insurance undertakings. The FSMSD either responds to consumers within 20 working days from the day of registration of the complaint, or forwards the complaint to the competent authority within five days of registration of the complaint. Consumers can submit anonymous complaints about financial services providers via the BoL website.

113. The FSMSD can conduct investigations (for a maximum of 90 days, including on-site inspections) and apply sanctions to the law-breaching financial services providers. Depending on the infringement, the FSMSD can impose warnings and fines, prohibit the financial services provider from engaging in financial services activities and revoke licences. Information about applied sanctions is published on the BoL website.

114. In case the FSMSD receives information about illegal or suspicious activity in the financial market, it conveys the information either to the police (responsible for conducting criminal investigations) or to the Financial Intelligence Unit²⁸ (responsible for the investigation of suspicious transaction reports).

115. Upon receipt of a complaint, BoL evaluates the subject-matter. Complaints related to a possible breach of legislation by financial services providers are being handled by the Long-term Savings and Insurance Product Supervision Division according to the complaints-handling procedure. Complaints related to contractual provisions and financial requirements trigger a dispute settlement procedure by the

²⁷ Last amended on 17 May 2007 - No X-1137.

²⁸ The Financial Intelligence Unit is the Financial Crime Investigation Service of the Ministry of Interior of the Republic of Lithuania.

Financial Disputes Resolution Division according to the specific legal requirements around extrajudicial investigations of such type of complaints. Complaints related to dual subject-matters, i.e., information about a possible breach of law as well as requests to settle individual disputes trigger two different procedures by the previously mentioned divisions.

2.9 Dispute settlement

116. As of January 2012, the BoL is responsible for the extrajudicial investigation of complaints and the resolution of disputes between consumers (natural persons only)²⁹ and financial institutions about most financial problems, including insurance disputes.

117. The procedure for the investigation of disputes between consumers and financial market participants is prescribed by the *Law on Consumer Protection*. Policyholders need to submit in writing to the financial services provider the circumstances of the dispute and their demand. In case the policyholder does not receive a response within 14 days or the response is not sufficient, the consumer has the right to submit to the BoL the circumstances of the dispute within one year. The submission to the BoL needs to comply with the requirements indicated in the description of the *Procedure for the Investigation of Disputes between Consumers and Financial Market Participants*.

118. During the investigation, the BoL informs the financial market participant about the consumer's submission and requests comprehensive written explanations and supporting evidence by the financial services provider within 10 days. The BoL investigates the dispute within 90 days from the consumer's submission (in case of complex disputes, this timeframe may be extended to 120 days) following the adversary principle: the parties of the dispute must prove the circumstances used as the grounds for their demands or explanations.

119. The BoL acts as mediator in disputes between the two parties (free of charge) so as to ensure that an agreement that is satisfactory to both parties is reached. If the parties fail to settle the dispute BoL decides upon the substance of the dispute and makes the decision to either fully or partially satisfy the consumer's demands, or to reject them. Such decisions are recommendations and therefore both parties maintain the right to apply to court for the settlement of the dispute according to the judicial procedure.

2.10 Market conduct rules

120. Financial consumer protection in Lithuania is set up by a set of laws: Civil Code of Lithuania, Law on Consumer Protection of Lithuania, Law on Prohibition of Unfair Business-to-Consumer Commercial Practices of Lithuania, Law on Advertising of Lithuania (and relative Guidelines on Financial Services Advertising by the BoL) and laws regulating the provision of certain types of financial services (e.g. payments, consumer credit, securities).

121. The State Consumer Rights Protection Authority coordinates the activities of state institutions in protecting consumers. BoL is responsible for investigating and handling disputes between consumers and financial services providers. As a supervisory authority, BoL also monitors the compliance of financial market participants with the laws and requirements set by legal acts.

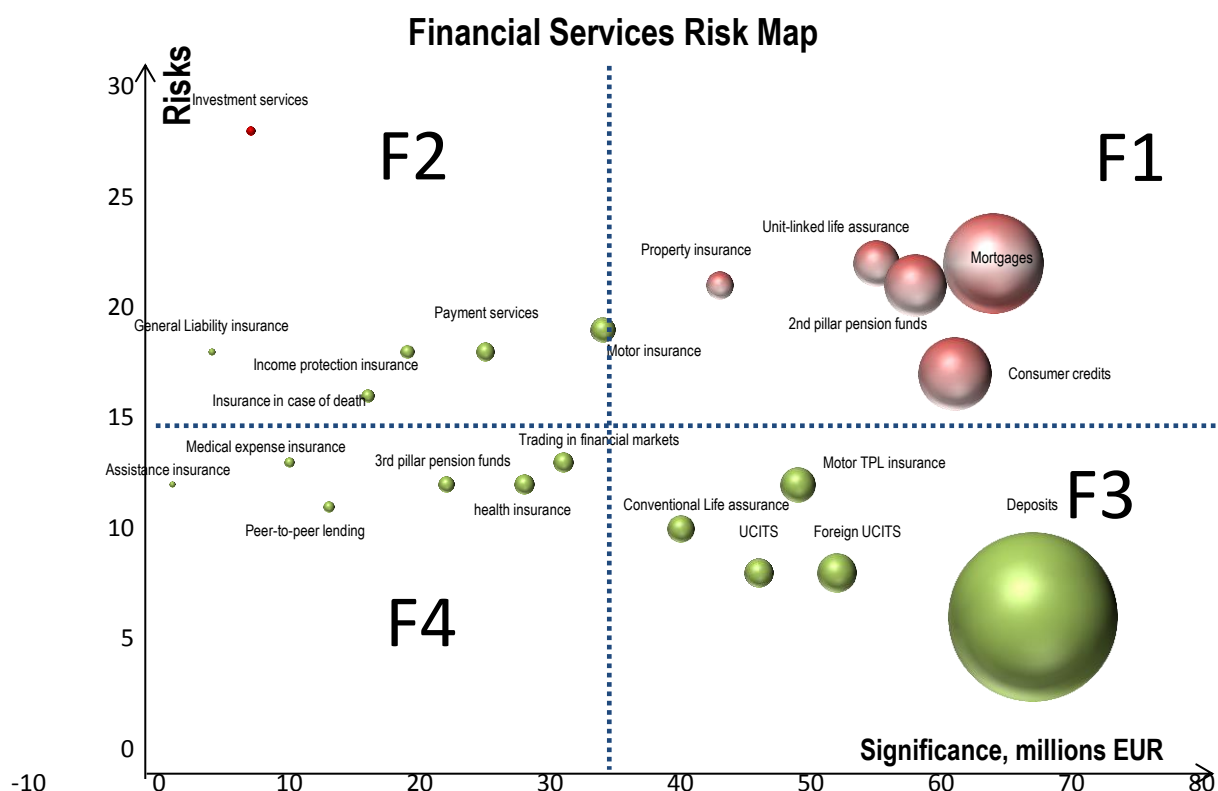
122. Complaint handling and redress are both carried out by the Bank of Lithuania. Alternative dispute resolution is carried out by a panel of BoL staff members.

²⁹ Professional customers are not considered to be consumers in the field of non-judicial dispute settlement.

123. Every year the BoL creates a financial products risk map, based on the product risks to consumers and the size of the market. The main risk areas in recent years consist of private pension funds, unit-linked life insurance and mortgages. A number of regulatory changes have been initiated by the BoL in the area of unit-linked life insurance, driven by the results of dedicated inspections, research and mystery shopping by the BoL, which indicated issues of information asymmetry and regulatory arbitrage (see Section 2.1). Draft amendments of regulations will be incorporated in the legislation implementing the Insurance Distribution Directive (IDD).

Figure 18. Financial products risk map

As of June 2017



Source: Lithuanian Authorities.

124. A revision of the existing supervision processes and documentation around financial services will be implemented according to the new structure of the Financial Services and Markets Supervision Department which was approved in July of 2017. A specific division is now responsible for the overall supervision of specific financial services (e.g. Long-term Saving and Insurance Product Supervision Division is responsible for supervision, regulation and analysis of pension funds and insurance products. Each of the divisions will now be fully responsible for the risk assessment within its supervision segment. It is expected that the adjusted supervision process will start in 2018.

125. The Law on Advertising sets prohibitions on the use of misleading (Art. 5) and unlawful comparative advertising (Art. 6) in B2B and B2C cases (these are also prohibited as unfair competition (Art. 15(1) (7) of the Law on Competition)). Following the enactment of the Law on Prohibition of Unfair Business-to-Consumer Commercial Practices, Lithuania has implemented the Unfair Commercial Practices Directive which sets a common standard for consumer protection. The Law on Advertising establishes that

consumers whose protected interests were violated have the right to bring a claim to the court on (i) cessation of use of the advertising; (ii) compensation for damage inflicted; and (iii) obligation to publish statements of definite content, correcting the misleading advertising.

126. In the framework of their internal control procedures, insurers are required to review contracts and other supplementary information (e.g. questionnaires used to identify customer needs, investment risk tolerance) and have in place complaints handling procedures. Insurers organise consumer protection trainings for intermediaries, ensuring that in the sales process the following legal requirements are met: fair, objective and impartial treatment of customers; precise identification and assessment of the customer's needs; provision of information related to insurance contracts to customers, with emphasis on the essential terms of the contract and the risks which the policyholder assumes upon conclusion of a contract.

127. Regulatory requirements for life insurance products have been introduced in 2011 (BoL Resolution No. N-196)³⁰, requiring the assessment of the prospective customer's needs, the relevancy of the product offered, and information on the terms of the insurance contract.

128. According to the Law on Insurance, only natural persons of good repute who have passed the qualifying examination of insurance brokers, have entered in the list of insurance brokers administered by the BoL and have become members of the Chamber of Insurance Brokers can be insurance brokers (Article 165 (1)). BoL holds the qualifying examination of insurance brokers, the procedure of which is determined by the Law on BoL (Article 165 (1)).

2.11 Role of Actuary

129. According to the *Law on Insurance*, insurance undertakings are required to appoint a person responsible for the actuarial function. This person should have knowledge and experience of actuarial and financial mathematics commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking.

130. In terms of oversight, the Board of the insurer must submit information about actuaries hired to the BoL, following which the BoL assesses whether the appointed actuary is of good repute, qualifications and experience, as required by the Law on Insurance. The BoL also performs on-site inspections, often including inspections of the actuarial function. The BoL has the right to demand that the bodies of an insurer replace the actuary within a time period set by the BoL.

2.12 Taxation

131. Life insurance premiums paid by Lithuanian residents can be deducted from personal income tax, if:

- life insurance premiums are paid for his own benefit or for the benefit of his spouse or children until 18 years old or older disabled children;
- life insurance contracts provide for the payment of insurance benefits not only in the case of an insurance event but also upon the expiry of the insurance contract;
- the recipient of the premiums is insurance undertakings operating in a EEA Member State or an OECD Member State

³⁰ http://www.lb.lt/legal_acts_regulating_the_insurance_market

132. The total amount of deductions (life insurance premiums, pension premiums, professional training, etc.) should not exceed 25% of the individual's taxable income. The deduction of pension and life insurance premiums is also subject to a ceiling of EUR 2 000 per year.

3. Market liberalisation in insurance and private pensions

3.1 Establishment of foreign insurers and private pensions

133. According to Article 72 of the *Law on Insurance*, EU/EEA foreign insurers have the right to establish subsidiaries, provide services or establish branches in Lithuania in accordance with the internal market's freedom of services.³¹ Insurance undertakings authorised in different EU Member States are subject to the same requirements as domestic insurers. Therefore domestic undertakings and branches of EU foreign insurers are treated equally under national legislation, with the exception that the financial supervision of branches of foreign insurers is carried out by the respective home supervisor. There are therefore no prudential requirements for branches of EU/EEA insurers in Lithuania.

134. EU/EEA insurers wishing to provide insurance falling within the group 'Liability arising out of the use of motor vehicles operating on the land, with the exception of carriers civil liability/third party insurance' must additionally provide to BoL documents evidencing that the insurer is a member of the Insurers' Bureau of Lithuania and participates in the guarantee fund of the Bureau, as well as information about the representative of the insurer in Lithuania.

135. There are no branches of non-EU/EEA insurance undertakings in Lithuania. According to the *Law on Insurance*, non-EU/EEA foreign insurers have the right to engage in insurance activity only through a branch or subsidiary established in Lithuania (Article 77 Paragraph 1). Activity and supervision of non-EU/EEA branches of insurance undertakings are subject to the same requirements as insurance undertakings of Lithuania, taking account of exceptions and characteristics of the legal status and activity of a branch. There are no restrictions on the types of business conducted, volume of business, and value of contracts. The same fit and proper requirements are equally applicable both for staff of local insurers and branches of foreign insurers.

136. Insurance undertaking of non-EU insurers who are members of the WTO and who have not established a branch, have the right to carry out the activities of voluntary insurance of insurance classes listed in subparagraphs 5, 6, 11 and 12 of paragraph 3 of Article 7 of said Law (aircraft insurance, ships insurance, insurance against liability arising from the use of aircraft or ships) as well as activities of voluntary insurance of cargo transported by ships (sea and internal waters) and aircraft³².

137. According to Article 80 of Law on Insurance, when establishing a branch, third country insurance undertakings active in both life assurance and non-life insurance activities at the same time, have the right to engage only in non-life insurance activities.

138. Both the licence to engage in insurance activity for a local company and the authorisation to establish an insurance branch for a non-EU/EEA foreign insurer are issued within six months from the submission of the application and documentation required.

³¹ Branches of non-life insurers established in Switzerland can be established and operate under the same rules as applicable to EU/EEA branches of insurance undertakings, to the extent the Agreement between the European Economic Community and the Swiss Confederation concerning direct insurance other than life assurance does not provide otherwise (Article 75 of Law on Insurance).

³² The aforementioned activities are subject to the restrictions set out in paragraph 4 of Article 73 of the Law on Insurance.

139. According to Paragraph 2, Article 80 of the *Law on Insurance*, an insurer of a non-EU/EEA country must own assets in Lithuania equivalent in Euro to at least 1/2 of the minimum capital requirement absolute floor for insurers registered in Lithuania. As prescribed by Paragraph 4, Article 40 of the *Law on Insurance*, the absolute floor of minimum capital requirement is equal to:

- EUR 2.5 million for insurers engaged in non-life insurance activity;
- EUR 3.7 million for insurers engaged in life assurance activity; or
- EUR 3.7 million for insurers engaged in at least one of the activity of insurance risks in the insurance classes (insurance against civil liability arising out of the use of land motor vehicles; insurance against civil liability arising out of the use of aircraft; insurance against civil liability arising out of the use of ships (sea and internal waters); general civil liability insurance; credit insurance; suretyship insurance).

140. The assets representing the Solvency Capital Requirement must be kept within the Member State where the activities are pursued up to the amount of the Minimum Capital Requirement and the excess within the EU.

141. According to Article 87 of *Law on Insurance*, a non-EU/EEA insurer operating a branch in Lithuania must, for the entire period of activity of the branch, enter into a demand deposit contract with a commercial bank for an amount of minimum 1/4 of the amount referred to in paragraph 4 of Article 40 of the *Law on Insurance* (minimum capital requirement), according to the insurance classes in which the established branch intends to engage (transposing Article 162 of Solvency II). Such requirement is only applicable to non EU/EEA branches. The funds of such deposit are included in the calculation of minimum own funds required by branches of insurance or reinsurance undertakings of third countries, which should be at least a half of the minimum own funds required by insurance and reinsurance undertakings established in Lithuania according to Article 40 of *Law on Lithuania* and depending on the activities to be carried out or already carried out.

142. A foreign insurer applying for the issuance of a branch license has to submit documents certifying that the foreign insurer has appointed a highly-qualified and experienced head of the branch with an impeccable reputation and that sufficient powers have been granted to him so that he could create the rights and obligations for the non-member country insurer to represent this insurance undertaking in the court of Lithuania and in other state authorities and state governing institutions, as well as highly-qualified and experienced persons responsible for risk management, actuarial, compliance and internal audit functions of the branch with impeccable reputations.

143. Insurance mediation activity in Lithuania may be carried out by insurance agents inscribed on the list of intermediaries administered by an insurance undertaking in the name and interest of which the insurance agent acts (tied insurance intermediary) or insurance broker undertaking (independent insurance intermediary) or branch of foreign insurance intermediary established in Lithuania and insurance intermediaries of EU/EEA states both with or without establishing a branch in Lithuania and which have gone through the notification procedure. Reinsurance and reinsurance mediation activity may be carried out by foreign reinsurers both with and without establishing a branch in Lithuania (Articles 4 and 5 of *Law on Insurance*).

144. Cross-border insurance intermediation activity without establishing a branch may be provided only by EU/EEA insurance intermediary companies. Non-EU/EEA insurance intermediation companies wishing to pursue activity in Lithuania are required to establish a subsidiary or a branch. Reinsurance and

reinsurance mediation activity may be carried out by foreign reinsurers both with and without establishing a branch in Lithuania (Articles 4 and 5 of Law on Insurance).

145. A pension fund management company is allowed to delegate part of its management functions to another non-EEA management company only when the supervisory authority has concluded an agreement on the exchange of information with the relevant supervisory authority of a third country in which one or more functions have been delegated to an authorised and licensed management company (Article 9 of Law on Supplementary Voluntary Pension Accumulation). A depositary of a pension fund can only be a bank having the right to provide investment services in Lithuania or in an EU/EEA state and having its registered office or branch established in Lithuania.

3.2 Cross-border provision of insurance and private pension services

146. As of 2016, approx. 450 providers of insurance services from EU/EEA countries operated in Lithuania through the ‘single passporting’ mechanism.

147. Cross-border provision of insurance services by non-EU/EEA foreign insurers is not permitted without the establishment of a branch or a subsidiary in Lithuania. Non-EU/EEA insurers may provide insurance services only through a branch or subsidiary established in Lithuania. According to paragraph 1-4 of Article 3 of Law on Insurance, insurers of WTO members have the right to carry out the activities of voluntary insurance of aircraft, ships, aircraft liability and liability of ships, as well as activities of voluntary insurance of cargo transported by ships and aircraft, without establishing a subsidiary or branch in Lithuania (see Section 3.1).

148. In line with the requirements of Solvency II Directive, there are no restrictions on the provision of reinsurance services in Lithuania by non-EEA reinsurers.

149. According to Law on Supplementary Voluntary Pension Accumulation, participants to a pension fund have the right to transfer to another pension fund managed either by the same company or by another pension fund management company that is established in Lithuania and licensed by the BoL.

Table 18. Lithuania’s proposed reservations to the Code of Liberalisation of Current Invisible Operations

[Draft as of 30.06.2017]

D/2	Insurance relating to goods in international trade <i>Annex I to Annex A, Part 1, D/2</i> Remark: The reservation which includes the activity of promotion, does not apply to voluntary third party liability insurance for ships and aircraft, voluntary insurance of ships and aircraft and voluntary insurance of goods in transit (including merchandise, baggage and all other goods) by foreign insurers.
D/3	Life insurance <i>Annex I to Annex A, Part I, D/3, paragraphs 1 and 3</i> Remark: The reservation which includes the activity of promotion, does not apply to undertakings established in the EU.
D/4	All other insurance Annex I to Annex A, Part I, D/4, paragraphs 4 and 5. Remark: The reservation which includes the activity of promotion, does not apply to undertakings established in the EU.
D/7	Entities providing other insurance services <i>Annex I to Annex A, part IV, D/7</i> Remark: The reservation, which includes the activity of promotion, applies only to intermediation services

	and agencies of services providers other than undertakings established in the EU. The reservation does not apply to intermediation and representation services of reinsurance contracts.
D/8	Private Pensions <i>Annex I to Annex A, part IV, D/8, paragraph 1</i> Remarks: The reservation, which includes the activity of promotion, applies only to private pension services provided in Lithuania by non-resident service providers other than undertakings established in the EU. The reservation applies to a depository of a pension fund which can only be a bank having its headquarters or a branch established in Lithuania and having the right to provide services in Lithuania or in the EU.

Source: OECD.

3.3 Trade Agreements and MoUs

150. Lithuania is a member of the World Trade Organisation (WTO) and the EU with commitments under GATS and EU trade agreements. Under GATS, Lithuania has undertaken specific commitments with regards to market access for cross-border supply of maritime and aviation insurance, reinsurance and retrocession and services auxiliary to insurance, such as consultancy, actuarial, risk assessment and claim settlement services (excluding intermediation, such as brokerage and agency).

151. Lithuania has concluded 7 bilateral MoUs in the area of insurance supervision (Denmark, Estonia, Latvia, Finland, Ukraine, Germany and Switzerland); and on exchange of information between Latvia and Estonia. Lithuania has also signed MoUs with EU and international organisations (EBA, EIOPA, ESMA, IOSCO and IAIS).

4. OECD Legal Instruments on Insurance

152. Lithuania provided a self-assessment of its implementation of insurance-related instruments in its Initial Memorandum. Lithuania accepts all legal instruments under the Committee's purview and has demonstrated a willingness and ability to implement these legal instruments.

153. Since the date of the submission of the Initial Memorandum by Lithuania, the Council adopted a new instrument in the area of insurance, namely the Recommendation on Disaster Risk Financing Strategies. In accordance with the Accession Roadmap, for legal instruments adopted after the submission of the Initial Memorandum, Lithuania was requested to take a position as soon as possible and has submitted its position on the Recommendation on Disaster Risk Financing Strategies on 30 March 2017.

4.1 Recommendation of the Council on Disaster Risk Financing Strategies

154. Lithuania accepts this recommendation.

155. National legislation such as the Law on Civil Protection (No VIII-971) and the Law on Agricultural and Rural Development, regulate risk assessment, management and disaster response in line with EU best practice and OECD principles for disaster risk management strategies.

156. The national risk assessment, which publicly disclosed on the website of the Fire and Rescue Department, includes the detailed single-hazard and multi-hazard assessments, as well as data on material losses incurred during the past periods.

157. Financial assistance to farmers and SMEs (in case of European Union support – to all enterprises) to purchase crop and plant insurance against risks of drought, hail, rainfall, storm, winterkill is provided by the State and European Union. Such compensations are granted up to 65% of the insurance premium. In addition, the State Reinsurance System providing compensations to insurance companies for the benefits paid for losses caused by severe drought has been established.

158. In regards to private insurance business, the connection between the insurance premium and insurance risk is established in the Civil Code of the Republic of Lithuania. The provisions of the Code foresee a possibility of taking the increase and decrease of insurance risk into account while setting the insurance premium before making a decision and during the validity of the insurance contract, thus enabling to promote the risk reduction through pricing.

4.2 Recommendation of the Council on Good Practices for Mitigating and Financing Catastrophic Risks

159. Lithuania accepts this recommendation.

160. The Republic of Lithuania Law on Civil Protection establishes the legal and organisational framework for the functioning of the civil protection system, defines the competences of state and municipal institutions and agencies, the rights and duties of other agencies, economic entities and residents. The Fire and Rescue Department under the Ministry of the Interior is appointed as Coordinating Institution of the civil protection system, which is also responsible for the performance of the Lithuanian national risk assessment.

161. The Government reserve is formed in the State budget, which may be used to finance emergency response measures, mitigation of consequences thereof, and partial compensation for the losses incurred.

162. In addition, the state reinsurance system, which provides compensations to insurance companies for the benefits paid for losses caused by severe drought, has been established.

4.3 Recommendation of the Council on Good Practices for Enhanced Risk Awareness and Education on Insurance Issues

163. Lithuania accepts this recommendation.

164. In 2013, the Board of BoL approved the Conception of Financial Education for 2013–2016³³. In addition, BoL introduced the financial education initiative “Money Bee” (Pinigų bitė) and the financial education website, www.pinigubite.lt, which provides unbiased information and various calculators, other instruments, related to effective and responsible personal finance management.

165. In 2012, BoL became a member of the OECD International Financial Education Network (OECD/INFE). A financial literacy household survey has been conducted based on the OECD/INFE questionnaire and methodology, and BoL and the Ministry of Education and Science of Lithuania have initiated Lithuania’s participation in OECD PISA financial literacy assessment of students (2015).

166. The PISA financial literacy assessment provides an overall picture of 15-year-olds’ ability to apply their accumulated knowledge and skills to real-life situations involving financial issues and decisions.³⁴ Based on the results of the 2015 PISA financial literacy assessment, Lithuania scored below the average of the 10 OECD countries and economies that participated in the assessment. Some 32% of students in Lithuania perform at, or below, the baseline level (Level 1), and there are more students who score at Level 1 than at any other proficiency level.³⁵ Less than 5% of students in Lithuania perform at the highest level (Level 5).³⁶

167. The results of the international survey of financial literacy competencies performed in 2016 on the basis of the global OECD/INFE toolkit for the collection of cross-comparable data showed that the level of financial knowledge in Lithuania has room for improvement. Although the overall level of financial literacy in Lithuania, measured by combining scores on knowledge, attitudes and behaviour, stands above the average score of the thirty countries participating in the OECD/INFE survey, it is still slightly below the average of OECD member countries participating in the survey.

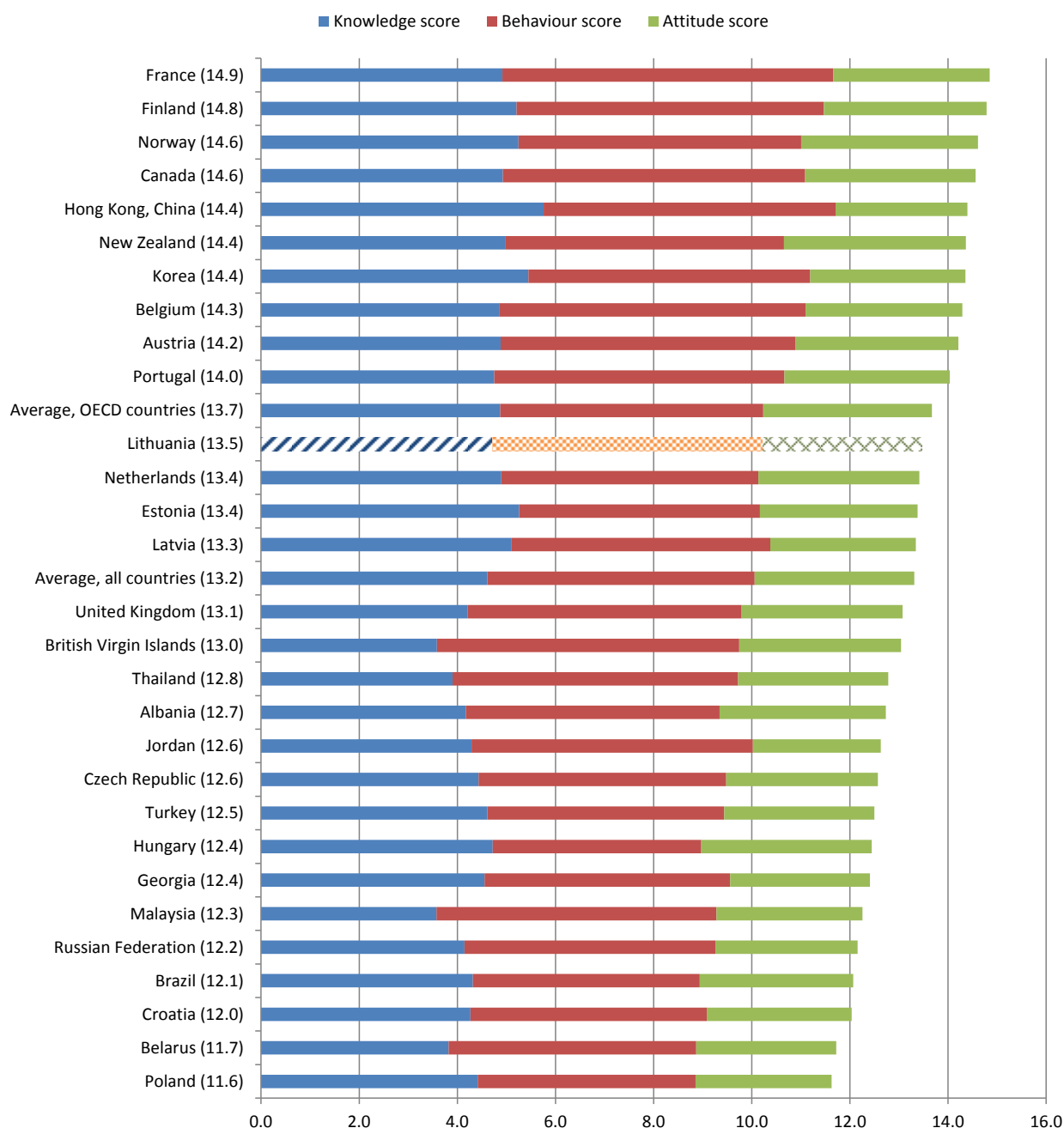
³⁴ OECD (2017), PISA 2015 Results (Volume IV): Students’ Financial Literacy, PISA, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264270282-en>.

³⁵ The single continuous scale of financial literacy is divided into five levels. Questions at Level 1 are considered to be the easiest. At best, students performing at Level 1 can recognise the difference between needs and wants, can make simple decisions on everyday spending, and can recognise the purpose of everyday financial documents, such as an invoice.

³⁶ Level 5 questions are considered to be the most challenging for 15-year-old students at the end of compulsory education. Students performing at Level 5 can look ahead to solve financial problems or make the kinds of financial decisions that will be only relevant to them in the future. They can take into account features of financial documents that are significant but unstated or not immediately evident, such as transaction costs, and they can describe the potential outcomes of financial decisions, showing an understanding of the wider financial landscape, such as income tax.

Figure 19. Financial knowledge, attitudes and behaviour

Stacked points (weighted data): all respondents, sorted by overall score (reported in parenthesis)



Notes: Average, all countries and Average, OECD countries report the mean of the country/economy scores. Each country/Economy is therefore given equal weight. The overall score has a maximum of 21 score points (a combination of a maximum of 7 for knowledge, 9 for behaviour and 5 for attitudes).

Source: OECD/INFE 2016, International survey of adult financial literacy competencies (www.oecd.org/daf/fin/financial-education/OECD-INFE-International-Survey-of-Adult-Financial-Literacy-Competencies.pdf).

168. BoL, together with the Ministry of Finance, Ministry of Education and Science, State Tax Inspectorate and SoDra, have jointly prepared a Plan for the Financial Education of the Public (2017-2020), aiming to improve residents' savings and tax habits and encourage them to rationally select financial products and services.

4.4 Recommendation of the Council on Guidelines on Insurer Governance

169. Lithuania accepts this recommendation.

170. *Law on Insurance* establishes that a governance system should include an adequate transparent organisational structure with a clear allocation and appropriate segregation of responsibilities and an effective system for ensuring the transmission of information. The system of governance includes the compliance with the requirements for fit and proper, risk management, own risk and solvency assessment, internal control, internal audit, actuarial function. Insurance undertakings are required to have written policies which clearly set out their governance system and which need to be approved by the administrative or management body and revised at least annually or before any significant change is implemented in the system.

171. Law on Insurance requires undertakings to disclose annually a report covering the essential and concise information on their solvency and financial condition. BoL sets the information disclosure requirements.

4.5 Recommendation of the Council on the Establishment of a Check-List of Criteria to define Terrorism for the Purpose of Compensation

172. Lithuania accepts this recommendation.

173. The Law on Compensation of Harm Due to Violent Crimes and the Order of the Minister of Justice of 20 March 2009 No 1R-88 establish the list of crimes, the consequences of which are compensated for. The list includes the act of terror.

174. The Government Reserve Fund may be used, inter alia, to ensure emergency and/or emergency event response, mitigation of consequences thereof and partial compensation for the losses incurred. The modalities of the Reserve Fund and its use are established in the Republic of Lithuania Law on the Budget Structure and Government resolutions.

175. According to *Law on Insurance*, insurance rules must define insurable and non-insurable events. Although a terrorist act is not included in the list of cases where the insurer is released from payment of the indemnity (as, for example, in the case of war or impact of radioactive radiation), insurance undertakings may choose not to insure the risk of terrorism and to specify terrorism as non-insured event in insurance policy conditions.

176. The acts of terrorism are defined in the Criminal Code.

4.6 Recommendation of the Council on Good Practices for Insurance Claim Management

177. Lithuania accepts this recommendation.

178. According to *Law on Insurance*, insurance policy conditions must specify loss evaluation procedure, procedure for calculation of benefits and time periods for their payment, procedure for resolution of disputes between the policyholder and the insurer and must be published on the website of the insurance undertaking.

179. The board of the insurance undertaking establishes the procedure and rules for reporting, accounting and investigating insured events. The Board also establishes the procedure for examination of complaints submitted by policy holders, insured persons, beneficiaries and injured third parties as well as the procedure for providing responses to applicants, a description of which must be published on the website of the insurance undertaking.

180. The examination practice of the Supervisory Authority corresponds to the elements of the OECD Guidelines for Good Practice for Insurance Claim Management.

4.7 Recommendation of the Council concerning a Common Classification of the Classes of Insurance Recognised by the Supervisory Authorities of the Member Countries

181. Lithuania accepts this recommendation.

182. *Law on Insurance*, which transposes Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) into national law, reflects the modalities of the recommendation concerning the common classification of insurance classes and specifies branches (life and non-life) and classes of insurance used for licencing purposes.

183. The detailed description of insurance classes of life assurance and non-life insurance branches is approved by the BoL.