

Development Tendencies of the Lithuanian Insurance Market from 1990

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While the insurance activity becomes more intense and diverse it is necessary to pay more attention to the tendencies of development of the insurance market, as well as to analyze and evaluate these tendencies. The results of the research indicate further development potential of the Lithuanian insurance, both life and non-life. The article overviews the development tendencies of the Lithuanian insurance market by evaluating the direct and indirect indicators, i.e. the number of insurance companies, the sizes of insurance premiums, the insurance density, penetration, dynamics and development. Furthermore, the article evaluates the competitive abilities of the Lithuanian insurers and the level of competition concentration.

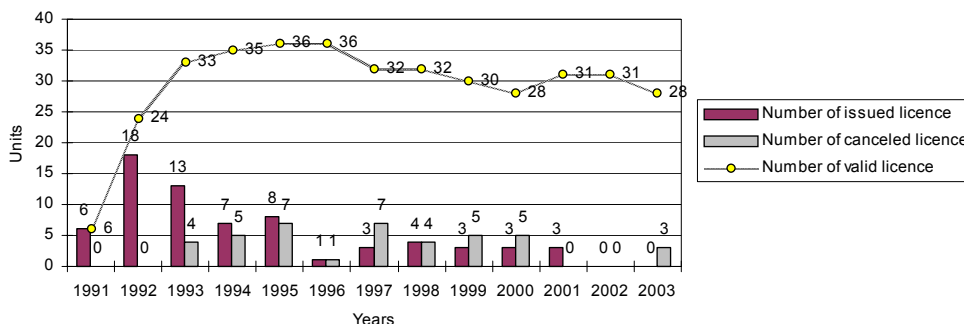
The change of the number of insurance companies

The state monopoly of insurance has been abolished after the Insurance Law of the Republic of Lithuania was adopted in 1990. During the first two years after the adoption of the Insurance law, 24 insurance companies has been established. 69 insurance companies were registered in 1991-2004 in Lithuania. The license to execute insurance activities received 11 life insurance companies and 58 non-life insurance enterprises. At present, less than half of these companies continue their activities, i.e. 28 insurance companies: 9 life and 19 non-life insurance companies (See Picture 1, next page).

Regardless of numerous cases of bankruptcies starting from 1993, the number of insurance companies was growing quickly. There were 36 insurance companies in 1996. After the new Insurance Law of the Republic of Lithuania was adopted in 1996, the number of insurance companies has started decreasing. The stable number of insurance companies in Lithuanian market fluctuated and was around 28-32. The number of insurance companies reached its maximum in 1996. However, in the following years the number of insurance companies operating in Lithuanian market

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Picture 1. The change of quantity of Lithuanian insurance companies in 1991-2003.



has decreased The establishment of insurance companies in Lithuania has now stopped. Not a single insurance company has been registered since 2002.

The change of number of the cancelled licenses was also influenced by the changes in the legal basis. New laws regulated insurance activities, so insurance companies had either to adapt or to leave the market. Insurance Law adopted in 1996 provided the separation of insurance branches. Insurance companies had to choose between two branches: either to execute life insurance activities, or non-life insurance activities. The number of life and non-life insurance companies has been changing since 1997. The growth of life insurance companies' number is shown in Picture 2.

The analysis of the change of insurance companies' quantity shows positive insur-

ance development tendencies. Life insurance companies make one third of the total number of insurance companies operating in Lithuania.

The dynamics of insurance companies

For analyzing the development of the Lithuanian insurance market over the period of 1998-2003 (just for this period we have a comparative data) it is better to divide it into two major periods, i.e. up to the end of the year 2000 and the period after 2000 up to the present. Such division is possible due to the turning point that took place in 2001 – the beginning of the insurance market development. The Lithuanian insurance market was decreasing starting from 1998 up to 2001 (Table 1).

Picture 2. The change of number of life and non-life insurance companies in 1991-2003 in Lithuania.

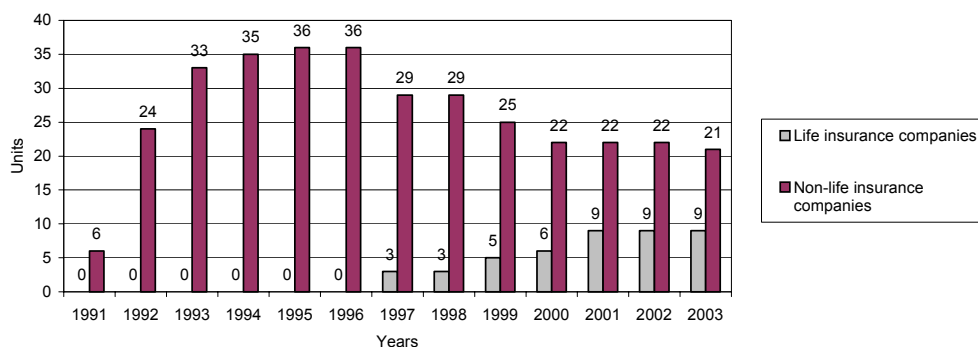


Table 1. The absolute and relative change of number of the written insurance premiums in 1998-2003 in Lithuania (mln LTU and %)

Year	Life		Non-life		Total	
	Millions LTU	%	Millions LTU	%	Millions LTU	%
1998	-	-	-	-	-	-
1999	7,51	11,3	-15,49	-4,1	-7,98	-1,8
2000	2,24	3,0	-4,51	-1,2	-2,26	-0,5
2001	16,56	21,7	24,17	6,7	40,72	9,3
2002	46,69	50,3	250,74	65,1	297,43	62,3
2003	74,74	53,6	-35,17	-5,5	39,57	5,1

It is possible to call years 2001-2003 the years of rapid growth of the Lithuanian insurance market. Both life and non-life insurance markets were designated with the unprecedented growth over the period of 2001-2002. The year 2002 is considered to be particularly successful for both insurance markets.

While analyzing the distribution of life and non-life insurance branches it is possible to notice that it was always the non-life insurance branch that dominated in the Lithuanian insurance market (Picture 3).

The dynamics of the written insurance premiums in Lithuania shows that the tendency of the development of insurance market is getting faster. Non-life insurance prevails in Lithuania, although the development tempo of both life and non-life insurance markets grows rapidly. Nevertheless, this tendency is changing – life insurance market has noticeably

grown during the year 2003 and has formed more than ¼ of common insurance market of Lithuania.

The change of indirect indicators of insurance market development

The potential of a country's insurance market is generally shown by the size of insurance premium per inhabitant, by the GDP share made by insurance and by ratio of insurance policies and number of inhabitants. What is the insurance market potential in Lithuania?

One of the indicators is *the density of insurance* or the size of the insurance premium per inhabitant. It shows the sum of moneys an inhabitant spends for insurance services over a certain period of time. The sum of insurance premiums per inhabitant in Lithuania is increasing, nevertheless, it is increasing very slowly. In 1998-2001 only 128 LTU (32 USD) were spent for insurance services – 22 LTU (5.5 USD) for life insurance and 106 LTU (26.5 USD) for non-life insurance. The situation changed in 2002 – the sum of insurance premiums increased 2 times. There were 223 LTU (55.75 USD) spent for insurance premiums per inhabitant: 40 LTU for life insurance (10 USD) and 183 (45.75 USD) – for non-life insurance services. The considerable increase of insurance density indicators started in 2002 and continued in 2003 as well (Table 2).

Picture 3. The distribution of life and non-life insurance branches of the Lithuanian insurance market according to the written insurance premiums in 1998-2003.

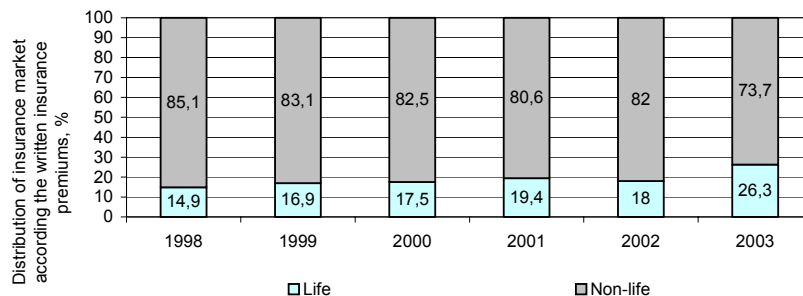


Table 2. The absolute and relative change of insurance premium share per inhabitant in Lithuania in 1998-2003 as compared to the previous years, LTU and per cent.

Year	Life		Non-life		Total	
	LTU	%	LTU	%	LTU	%
1998	-	-	-	-	-	-
1999	2,26	12,1	-3,60	-3,4	-1,34	-1,1
2000	0,78	3,7	-0,57	-0,6	0,22	0,2
2001	4,91	22,6	7,67	7,5	12,57	10,1
2002	13,52	50,8	72,51	65,7	86,03	62,8
2003	21,74	54,1	-9,47	-5,2	12,27	5,5

Notwithstanding the rapid increase in 2002, the insurance density indicator in Lithuania is one of the lowest in Europe. Having in mind, that these indicators in countries of Central, Eastern and Southern Europe reach 600 USD, and in countries of Northern and Western Europe 800-5000 USD are generally spent for insurance services per year (400-3000 USD for life insurance and 400-2000 USD for non-life insurance services), it is possible to conclude that Lithuanian insurance market still has great potential for increase.

The other indicator denoting the potential of insurance is *the insurance penetration* or the comparative share of insurance sector in the GDP. It shows the size of the written (or could be collected) insurance premiums over a certain period of time in gross domestic product of a state. The size of the written insurance premiums in the GDP of Lithuania has not changed for a long time and has remained low. In 1998-2001 insurance premium made in average 1.01% in GDP (0.17% of which life and 0.84 % non-life insurance). The situation changed cardinally in 2002, when the indicator of insurance penetration had increased significantly. The comparative share of insurance sector in GDP made 1,53%: 0,27% of which is life insurance and 1,25% non-life insurance. Notwithstanding the rapid insurance increase in 2002, the insurance penetration indicator in Lithuania is one of the lowest in Europe. Having in mind, that these

indicators in countries of Central, Eastern and Southern Europe reach 5%, and in countries of Northern and Western Europe from 4% to 14,75% (2 -10,25% for life insurance and 2 -4,5% for non-life insurance), it is possible to conclude that Lithuanian insurance market has great potential for increase.

The third indicator helping to denote the potential of insurance is *the insurance expansion* or the ratio of the concluded insurance policies and number of inhabitants. It shows the average number of insurance policies per inhabitant over a certain period of time. The number of insurance policies per inhabitant in Lithuania was increasing; nevertheless, it was increasing very slowly. In 1998-2001 it was only 1 insurance policy per year for two inhabitants, i.e. 0,484 of insurance policy for one inhabitant (the main part of which, or 0,478 for non-life insurance and the rest, or 0,06 for life insurance). The situation changed in 2002 when the expansion of insurance increased two times. It was already 1 insurance policy for an inhabitant per year, i.e. 1,033 of insurance policy per inhabitant – 1,009 of non-life insurance policy and 0,024 of life insurance policy. As compared to 2001, in 2002 the insurance expansion indicator increased 97,2%, although up to that time the increase was slightly perceptible, for the absolute change usually occurred by hundredths or thousandths parts of a unit.

Having analyzed the change of indirect indicators of Lithuanian insurance density, penetration and expansion it is possible to conclude that Lithuanian insurance market, both life and non-life, is still in the process of formation. The indicators denoting development of both life and non-life insurance market reflect the augmentation tendency of insurance market. The above mentioned indirect indicators of the expansion of insurance market denoting the tendencies of Lithuanian insurance market growth are still the lowest in Europe. The comparative analysis of insur-

ance density, penetration and expansion in Lithuania and in other European countries confirms that Lithuanian insurance market (both life and non-life) is still in the active development phase. The formation of the Lithuanian insurance market is slow.

The competitive ability of insurance companies in the market

The analysis of the inner environment of Lithuanian insurance market in 1991-2003 reveals two main tendencies of competition: great number of insurance companies operating in our country and great number of foreign capital companies.

46 insurance companies were registered in Lithuania in 1991-1995. Only 9 continue their activities now. Anyone could register insurance company 8-12 years ago. The only requirement was to have stated capital of 50 000 LTU (12 500 USD). This sum of money could be earned by metal or oil traders in a day. Therefore, the first insurance companies were established by people who were not acquainted to this kind of business, but knew, that insurance companies abroad gave considerable profit. Many of the companies of the kind invested the collected premiums without considering and, as a result, after first insurance event they usually ceased their activities. Therefore, it is reasonable to distinguish insurance companies into two stages:

- companies established before the Insurance Law was adopted in 1996;
- companies established after the Insurance Law was adopted in 1996.

There had been no calculations of technical reserves, no evaluation of solvency margin during the first stage because insurance laws of that time did not provided for such. Furthermore, the credit insurance was not perceived as one of the most risky of all insurance kinds.

Foreign investors directly and indirectly

controlling insurance companies and occupying large part of the life and non-life insurance markets have positive influence upon the Lithuanian insurance market. The capital comes together with experience in market management. Foreign investors implant their own culture of service in Lithuanian insurance companies. The care for clients positively influences the opinion about the quality of insurance services. The development potential of the Lithuanian insurance market increases as well.

When analyzing the situation in the Lithuanian insurance market in 1991-2003 it is necessary to take notice of insurance companies competing means by supporting activities. These means are generally popular among:

1. insurance companies operating in different branches of insurance;
2. insurance companies operating in the same branch of insurance;
3. insurance companies operating in the same branch of insurance and offering the same insurance products.

It is being noticed that first of all the competition in Lithuanian insurance market takes place mainly between different insurance branches – life insurance companies compete with non-life insurance companies. This could be seen through the promotion and supporting activities of such companies. Life insurance companies exceptionally indicate the importance of care for self-safety and safety of the loved ones: they prompt to care for health, remind of heavy/deadly diseases, loss of family bread-winner and etc. Whereas, it is possible to state that non-life insurance companies attract their customers due to the fact that some insurance branches are obligatory. As an example it is necessary to mention MTPL insurance.

The stronger competition could be seen among the insurance companies operating in the same branch of insurance activities. In this

case, Lithuanian insurers try to attract clients' attention by mentioning worldwide famous names or by long history of company activities. Especially it is essential to mention that company belongs to one of the biggest international insurance groups that have been operating for a long time in world's insurance market and continue the old traditions. It is also important to mention the countries of origin of the investors and owners. These means help to prove the reliability of a company and achieve clients' confidence.

Strong competition is also present among the companies operating in the same insurance branches and offering the same insurance products in the Lithuanian insurance market. It is especially noticeable among the most popular obligatory insurance products. Insurance companies attract clients by announcing the possibility to choose (in life insurance companies), exceptionally low insurance prices (in non-life insurance companies) or easy access of insurance services (in numerous branch offices of insurance company, petrol stations and supermarkets). They

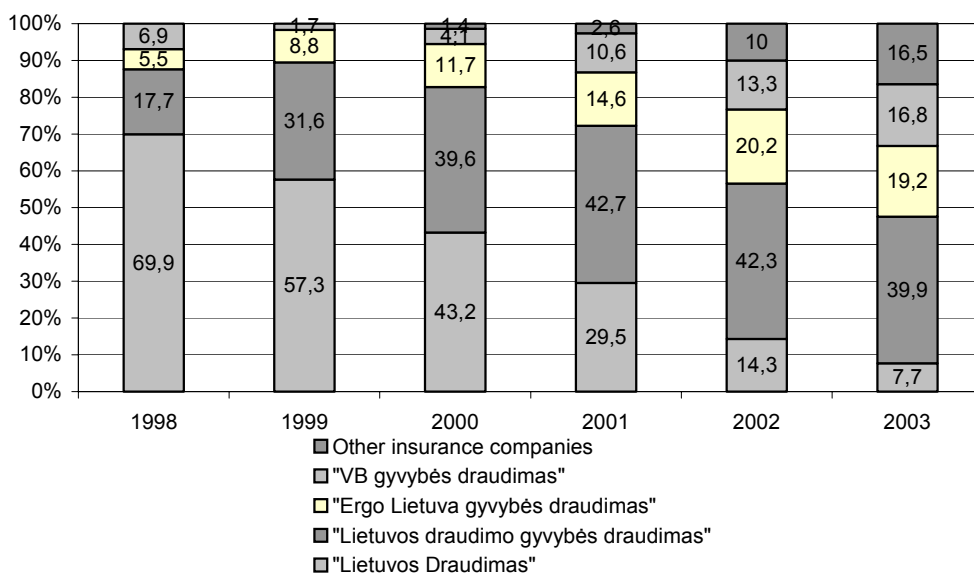
also announce some basic insurance conditions.

The concentration of insurance companies in the market

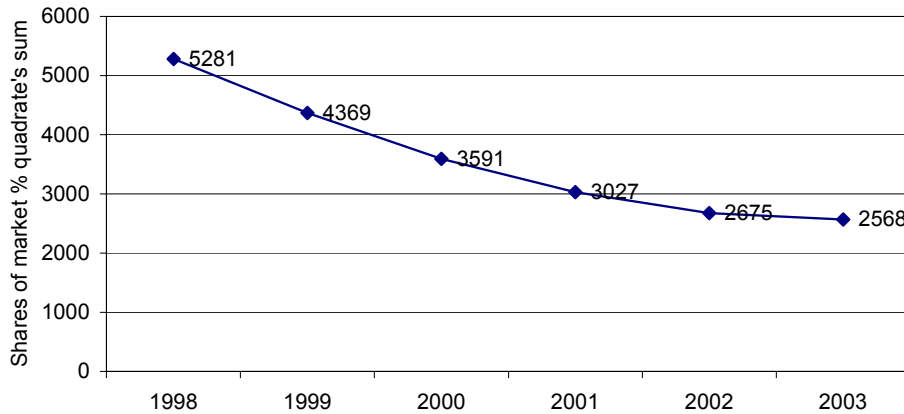
When analyzing life insurance market it is possible to notice that "Lietuvos draudimo grupė" was always the leader of this market. Joint stock company "Ergo Lietuva gyvybės draudimas", according to the occupied share of insurance market, takes the second place. Not far behind is joint stock company "VB gyvybės draudimas". The activities of the rest insurance companies for a long time have not been significant (their share of insurance market was only several per cents) and have become more active starting from 2002 (Picture 4).

Having counted the concentration of life insurance companies¹ over a period of 1998-2003 (we used Herfindale-Hirshman index²) we see, that the Lithuanian life insurance market at that period was strongly concentrated. Nevertheless, the concentration indicator

Picture 4. The shares of market of life insurance companies according to the written insurance premiums in 1998-2003 in Lithuania



Picture 5. The concentration of life insurance companies in 1998-2003 in Lithuania



was decreasing year after year (Picture 5).

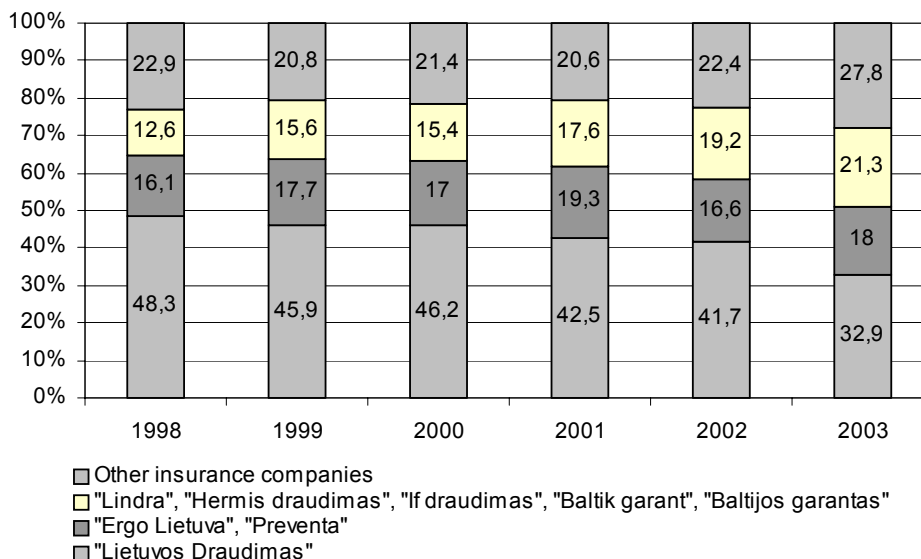
While analyzing Lithuanian non-life insurance market it is possible to notice, that notwithstanding great number of insurance companies in the market there still can be one leading company – “Lietuvos Draudimas”. According to the occupied share of insurance market, joint stock company “Ergo Lietuva” from the very beginning of its establishment,

takes the second place (Picture 6).

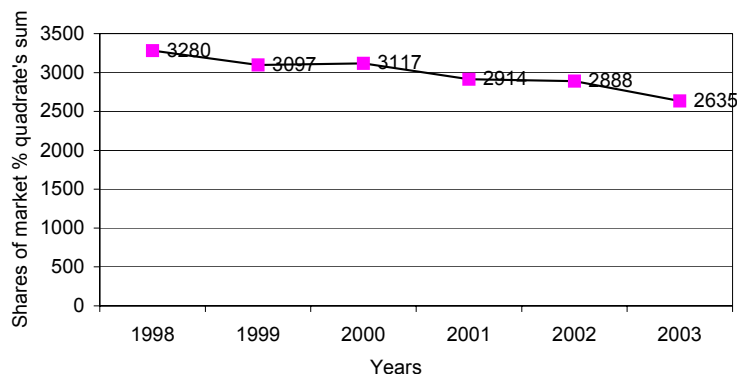
The calculated concentration indicators³ of non-life insurance market in 1998-2003 reveal strong but yet a little bit weaker concentration than that of life insurance companies (Picture 7).

In general, it is possible to make a conclusion that the influence of single subjects of market to the market development has de-

Picture 6. The shares of market of non-life insurance companies according to the written insurance premiums in 1998-2003 in Lithuania



Picture 7. The concentration of non-life insurance companies in 1998-2003 in Lithuania



creased. The concentration of insurance companies decreases with the decrease of market shares occupied by the companies – oligopolists.

Trying to summarize the development of the Lithuanian insurance market over the past six years it is possible to state that the insurance results change in a positive way. The formation of new law basis when implementing the EU directives in the country, increasing macroeconomics indicators of the country, development of technologies and positive tendencies of the inner insurance market: the increasing competition of the market and the decrease of companies' concentration, stipulate the development of insurance market.

Notes

- ¹ We assert that there are 5 life insurance companies in the market: 4 as separate ones and 1, as all companies combined together into one group.
- ² The market is not concentrated if the index is not bigger than 1000, moderately concentrated if the index is 1000-1800 and heavily concentrated, when index is 1800-10000.
- ³ The concentration indicators are calculated by dividing non-life insurance companies operating in the market into groups, where every group is considered to be indivisible unit.

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