

EXPLORATION OF FUTURE TENDENCIES OF THE LITHUANIAN LIFE INSURANCE MARKET

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***Abstract.** The objective of the research: The article treats the development tendencies of the Lithuanian life insurance market and evaluates its actual perspectives as compared to the markets of other European Union countries.*

The subjective of the research: The tendencies of the Lithuanian life insurance market development and its perspectives in the European context.

Research methods: The analysis of the life insurance market embodies the arranged, systemized and carefully analyzed empirical data. The research uses the primal statistical data of the Lithuanian life assurance market collected and generalized by the Lithuanian Life Assurers Association and the Insurance Supervisory Commission of the Republic of Lithuania, and the statistical data of the Department of Statistics to the Government of the Republic of Lithuania concerning Lithuanian macroeconomics indexes. Some notices and assertions are circumstantial to the personal experience of the author.

Introduction

Although the rates of the insurance density, penetration and expansion in Lithuania are noticeably lower than the corresponding rates of the European Union countries, the growing tendency of the signed insurance premiums amount and the growing significance of insurance activities are noticeable in our country as well. Notwithstanding the important role of life assurance services in the financial services market, the majority of the Lithuanian population does not completely comprehend the essence and purpose of life insurance and the benefit it may provide. In the countries with

high standards of living people are most likely to make savings rather than live for today only. In Lithuania most people still do believe that the government has to incur and plan the future and retirement expenses of the population. The people of Lithuania have already learned how to borrow, however, while bank credits portfolios are growing rapidly, people do not clearly understand that when taking a bank credit it is advisable and even necessary to get a life assurance if one does not want to leave the credit burden to the family members in case of an accident or premature death. The Lithuanian insurance market has been developing for only sixteen years

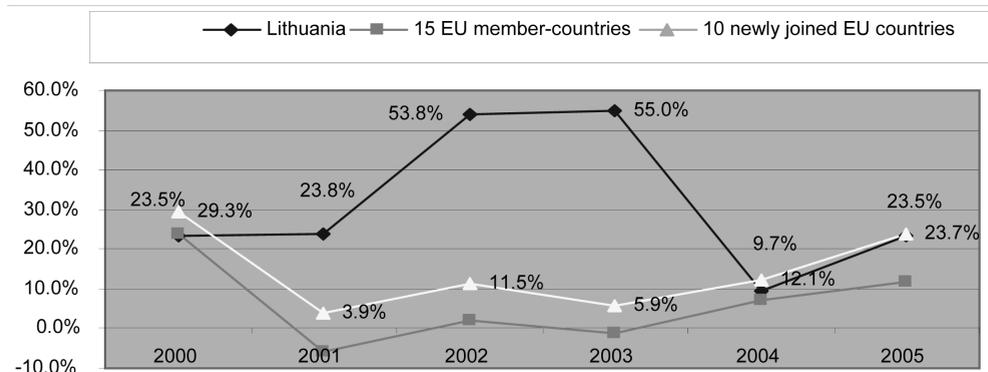
now, however and it is possible to measure its growing and developing tendencies referring to the data of the period of less than ten years with no possibilities to draw comparisons (up to 1999, statistical accounts showed not the signed but received insurance premiums).

The Lithuanian life assurance market in the context of the European Union

It is gratifying to note that the Lithuanian life assurance market (according to the signed insurance premiums), which has been growing over a period of six years (2000–2005) in average by 31.6% annually, stands out due to its rapid average tempos from other European countries – only Estonia with 34.5% is one step ahead of Lithuania, whereas markets of other European countries experienced an average growth by 6.5% annually (pic. 1). Such

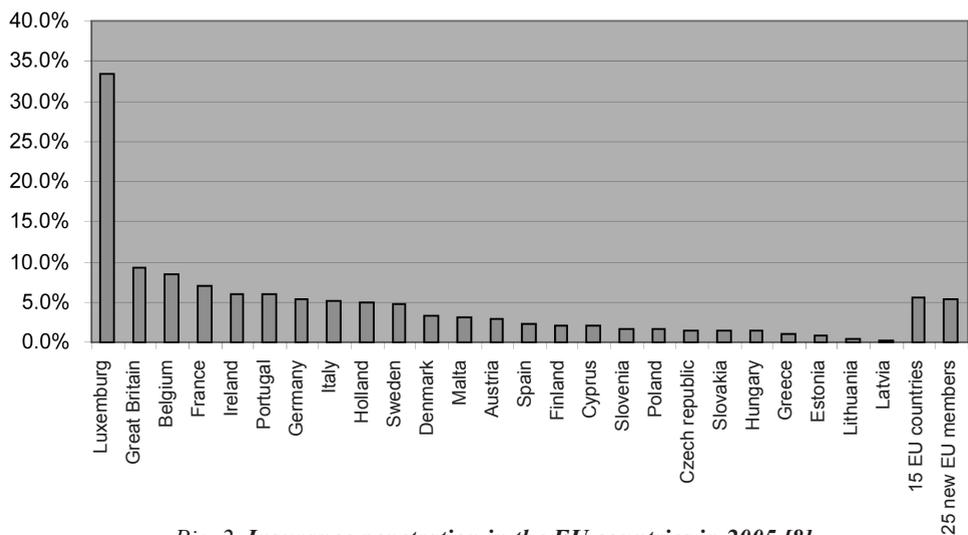
rapid growth of the country’s market as compared to the EU average could be explained by the constant growth of the country’s economy, extremely small size of the Lithuanian market at the very beginning of which the growth has been calculated, large starting volume of the EU countries life assurance premiums’ amount and the overall structure of the EU life assurance portfolio.

However, Lithuania still takes the last but one place according to the penetration of life assurance among other European countries (one step ahead of Latvia – 0.2%), lagging behind the average insurance penetration results of other EU countries almost 10 times (5.1% according to the 2005 data). Furthermore, Lithuania also lags behind the average insurance penetration of such new EU countries as Poland (1.6%), Slovenia (1.7%), Slovakia and the Czech Republic (1.5%), see picture 2.



Pic. 1. The growth of life assurance markets (according to the signed premiums), in %

* Compiled by the author. Here and forth the data of the 15 EU countries’ life assurance markets from “Insurance market report Lithuania”: Life & Benefits. Axco 2006. (last updated 2006, country visited July 2005) and the data from www.cea.assur.org is used.



Pic. 2. Insurance penetration in the EU countries in 2005 [8]

According to life assurance density (25 EUR in 2005)¹ Lithuania is lagging behind 50 times the average of the EU countries (1257 EUR in 2005), and more than 6 times behind the average of the 10 new EU countries (151 EUR in 2005).

It is necessary to identify factors, influencing more rapid growth of market, and to determine means of influence that stimulate the development of market in order to ensure the growth of the level of insurance system's functions. Insurance theoreticians and experts (Bagdonavičius, K., 2000; Bazanov A. N., Belinskaja L. V., Vlasov P. A. and oths., 2007; Black, K., Skipper, H. D., 1994; Kindurys, V., 2002; Raškinis, D., 2000) suggest evaluating the ratio between country's macroeconomic development and the growth of insurance market during an internal and long period.

According to insurance experts (Raškinis, D., 2000), the dependence of the growth of life assurance market on mac-

roeconomic development could be determined while evaluating and analyzing statistical data of the development of a country's economics and the development of insurance during the long period of up to 20 years. According to the determined dependence of such a long period of time and to the declared forecasts of the economic development it is possible to do prognoses concerning the growth of the insurance market of a country for a shorter period of time (up to 5 years). In D. Raškinis' opinion, the growth of life assurance market is more closely related to the actual income of the population than to the growth of the GDP. Such dependence of the actual income of population and the growth of life assurance market could be explained by the fact that life assurance is closely related to the insurance of private people and their risks and that conditions the dependence of the demand for life assurance products on the dynamics of the population income.

¹ 39 EUR in 2006.

The author respecting the opinion of the scientist, but also relying on a more often in practice² used forecasts according to the GDP growth (and having in mind that still population income for the most part depends on the actual growth of a country's economy, i.e. on the GDP dynamics) will use both methods (the actual income and the GDP indicators) while calculating the past period of life assurance market and country's economy dependence and will attempt to draw conclusions by comparing the differences and similarities of the received data.

In a short period of time both country's economy and insurance market's development are highly influenced by the cyclic fluctuations and other factors, but the author hopes that when using the statistical data of the period of 12 years the conclusions on the mutual dependence of the economical development of the country and the growth of the insurance market would be quite accurate.

Having in mind that Lithuania has moved to market relations at the beginning of the 90's, i.e. starting from 1991, and paying attention to the fact that the data concerning year 1993 may not be exact due to high levels of inflation, currency reform and bank crisis, the author will use statistical data concerning years 1995–2006 presented in table 1.

An assumption is made that both the GDP of the country and the growth of the population income are notions closely related to the development of life assurance

² The GDP indicator used in this paper (in the Lithuanian insurance companies and their parent companies in Sweden, Estonia) for budgeting process is the same as in non-life insurance.

market. Thus, the forecast of the general growth of life assurance market in 2007–2010 will be made according to the statistical data of the country's GDP, actual wages³ and the growth of life assurance market.

The Lithuanian life assurance market has been growing annually by 25.2% during the last eleven years, whereas the GDP has been growing by 6.2% annually and the average of the actual population wages by 6.3% (in 1995 the index of wages was 100), i.e. the GDP growth by 1% stipulated the average growth of the life assurance market by 4.08%, and the growth of the actual wages by 1% in average determined the growth of the Lithuanian life assurance market by 4.02%.

It should be noted that the calculations made by the author have proved the fact that the growth of the life assurance market is equally influenced both by the GDP and actual wages growth, at least as concerns the discussed 1995–2006 period, as the growth of the past years is practically identical. Although the growth of the actual population wages usually fall behind in time of the growth of the GDP, nevertheless, the change of these values over a long period of time is very close and, therefore, the correlation of the population wages and the life assurance market's growth is not substantially bigger as compared to

³ The data of the 2006 and publication "The economical and social development of Lithuania" published by the Department of Statistics. The index of the actual wages is usually calculated in a following way: the net wages index (the average monthly net wages of the calculated period divided by basic monthly net wages of the same period) of the calculated period is divided by the index of consumers' prices of the same period. The index of consumers' prices is the main indicator of inflation.

Table 1. The growth of the country's GDP, population income and life assurance market in 1995–2006.

	Life assurance market's growth, in %	GDP growth, in %	Wages index
1996	26.8	3.1	103,3
1997	7.1	8.5	113,4
1998	14.4	7.5	112,8
1999	11.3	-1.5	104,9
2000	3.03	4.1	94,9
2001	21.7	6.6	99,7
2002	49.9	6.9	103,8
2003	54.0	10.3	109,3
2004	9.6	7.3	104,9
2005	23.1	7.6	106,8
2006	56.5	7.5	115,2

Compiled and systemized by the author: www.dpk.lt and www.std.lt data.

Table 2. Forecasts of the Lithuanian GDP growth in 2007–2010

	2007	2008	2009	2010
GDP growth	7.2%	5.3%	5.0%	6.5%

www.finmin.lt data

the correlation of the GDP and the life assurance market. Therefore, the author will use only the forecasted GDP growth while evaluating the growth of the Lithuanian life assurance market in 2007–2010.

The experts of the biggest country's banks tend to think that the GDP will grow by 7% annually in 2007–2008, and by 5.5% in 2009–2010, whereas growth forecasts of the International Monetary Fund's experts are 7.2% in 2007, and 6.5% in 2008. According to the forecasted GDP growth by the Ministry of Finance specialists (table 1) it is easy to calculate that the average annual growth of the life assurance market in 2007–2010 should reach 24.5% and thus, in 2010 it should make 1,1 billion of LTL. The growth has been calculated with-

out evaluating other factors influencing the development of the insurance market. The author evaluated the past growth of the insurance market and its growth forecasts according to the volume of nominal collected insurance premiums in Lithuania (not considering inflation).

Nevertheless, the statistical data concerning the macro economical criteria of the country are not sufficient while making forecasts of the insurance market's growth. The development of the Lithuanian life assurance market is influenced by many other factors, such as society development, and law system changes, demographical changes and changes in the internal environment of insurance market. The sensitivity of the life assurance

market to the influence of other factors is enhanced by not only comparatively low market development criteria, but mainly by the penetration and density of life insurance. A comparatively low influence of other factors (as compared to the volume of the collected premiums) has a relatively great impact on the life assurance market's growth criterion (Raškinis, D., 2000).

Evaluating of future tendencies of the Lithuanian life assurance market

In order to evaluate the growth of the country's life assurance market more exactly, it is advisable to evaluate the quantitative influence of other factors. However, it is not possible in practice, and, therefore, these factors will only be mentioned hereafter and the implicit trend of their impact on the growth of life assurance market will be discussed.

Society development. The demand for insurance products is mainly influenced by population's attitude towards insurance activities and population's habits. As a long time has passed since population's disappointment in the country's financial system (including insurance activities), when due to the inflation and monetary reforms premiums of the insured had depreciated, the confidence in the country's banks has at last returned. However, the population's confidence in the insurance companies has not fully returned yet, there is a lack of the educative, explanatory and insurance popularization activities of various institutions, and first of all, of course, of the insurance companies themselves and of the Insurance Supervisory Commission. Cautious

declarations of the Insurance Supervisory Commission members evaluating benefits of life assurance, and especially, investment life assurance, do not commit to the insurance popularity and do not enhance the population's confidence in life assurance activities, and, which is more – do not stimulate the growth of the life assurance market. Furthermore, in author's opinion, certain life assurance companies cope with this problem in a rather nearsighted way by refusing their own identity and by identifying themselves as the branch of their parental bank company.

Many aspects of the society development influence the growth of the life assurance market, such as the increasing safety demand, the decreasing feeling of sureness about the future, the pursuit to ensure the usual standard of living in the future on retirement or in case of an accident (illnesses and disablement) as well as to ensure the ability to educate children. The forming insurance culture, the increasing comprehending of individual's own personal responsibility of the material wellbeing of his/her family, the better understanding of the benefits of insurance may have positive influence on the growth of the life assurance market. Furthermore, the increasing standards of living and the growing regular income of the population determine the greater interest of the public to saving (80% of the population of Lithuania are prone to make savings and 20% of the population are ready for long-term saving)⁴. The new outlook of the employers on their employees and their social

⁴ The data of the 2006 "Finansinio elgesio" market research by "Sprynter tyrimai", as per order of Hansabankas.

guaranties and the forming culture of the relations between employers and employees should also become one of the factors, influencing the growth of the life assurance market in a due time.

Law and tax systems and their changes. As often as not, the government in trying to protect the interests of consumers (i.e. the insured) constrains the activities freedom of insurance companies: various regulations are being imposed. When the Law on Equal opportunities (claiming that while equal opportunities are being implemented, the seller of goods or products has to organize equal conditions to receive the same services and to apply the same terms of payment and guaranties for the same products of the same value regardless of consumer's age, disablement, sex or believes) came into force in 2005, the Lithuanian life assurance companies raised the question of sex, as the legalized risk evaluation factor. If the sex factor as the risk evaluation factor was prohibited, the Lithuanian life assurance services would become noncompetitive in the EU market, the economical principles of the market would be seriously violated and the higher premiums paid by women as compared to premiums paid by men would be legitimized. The revision of the Law on Insurance concerning equal opportunities in 2006, solved the above mentioned problem; however, this case has only proved that due to the EU directives requirements, ambiguously evaluated by the country's functionaries, the influence of law environment on the assurance market growth should be forecasted with great caution.

The important changes in law environment of the country may influence the

changes in insurance activities' supervision. There are discussions concerning the merging together insurance, investment administration and bank supervision institutions. Therefore, it is quite difficult to make forecasts of the influence of different scenarios to assurance market.

The social politics of the Government is very important to the growth of assurance business. The complicating situation of the state insurance stimulates the growth of private pension insurance activities and self-dependent care of an individual's future depending on the income of that individual.

The Law on Pension Accumulation of the Republic of Lithuania was adopted in 2006. However, it is still too difficult to forecast what impact it will have on the development of assurance market. In the author's opinion, that may have positive influence to the popularity of the very services of life assurance, but it is already obvious that it will increase competition between the products of life assurance companies and pension funds.

Applied by the Government tax concessions to insurance companies and to the insured have a great impact on the growth of the Lithuanian life assurance market. In the author's opinion, the would-be reduced (as well as equalized for all kinds of income) income tax tariffs should have positive influence on the growth of the assurance market, although the question of concessions applied to insurance premiums is still present.

The impending "overheating" danger leaves place to believes and forecasts that the state tax system will be concentrated towards the long-term saving and invest-

ments rather than towards spending, and, thus, it is directly related to the growing perspectives of life assurance market.

Demographical factors have dual character. The changes of number and structure of the population are directly related to the changes in demand for insurance products. Although the number of inhabitants has been constantly decreasing in the past years (2000 – 3,499 mln. of people; 2000 – 3,469 mln.; 2004 – 3,436 mln.; 2006 – 3,394 mln.)⁵ the process is slow and long-lasting, therefore the direct demographic development impact on the insurance market over a short period of 2007–2010 should not be considerable. But during a longer period (assuming the tendency of the decreasing inhabitants number persists) that would result in the decrease of demand of individual insurance products and the deceleration of the development of insurance market.

As death and birth rates decrease, the average age of the country's inhabitants is likely to increase, the tendencies of the maturity of the society will persist, however, some positive influence could be found in this kind of situation, at least for a shorter period of time – this could stimulate the insured to pay more attention to cumulative life (pension) insurance, and on evaluating the growing purchasing power of the population it is quite obvious that such situation would positively influence the assurance market growth.

Competition. Life assurance services most often consist of two components: fund accumulation and insurance risks' preservatives. There are not many sub-

stitutes for insurance preservatives. Such needs of insurance clients may be partially fulfilled by non-life insurance services, such as health insurance and accident insurance, whereas in the field of accumulation and investments life assurance products compete with the services of investment funds, additional voluntary pension funds and with bank deposits.

As the Lithuanian insurance companies have fulfilled the EU directives requirements to ensure sufficient solvency reserves and to form minimum guarantee fund, and also the possible entering of new foreign companies into the Lithuanian market may give rise to competition, and this most probably would have a positive impact on the assurance market growth.

The integration of financial services. Having in mind that the majority of life assurance companies in Lithuania are bank companies, it is possible to predict the increase of not only cooperative relations in the sphere of product realization, but also a more profound integration of insurance and bank services. In the author's opinion, this process should in the short run set in motion the so far unpopular risk insurance, i.e. whole life assurance (premature death assurance). In view of the fact that two life assurance companies, whose market share according to the signed insurance premiums makes 70%, are directly administrated by two biggest country's banks and that all other insurance companies cooperate in one or another way with the banks as well (and also having in mind that bank assurance is mostly popular in countries where insurance market is not well developed and the confidence in banks and the use of bank services is rather high) the author draws a

⁵ Department of Statistics to the Government of the Republic of Lithuania. „Pagrindiniai šalies 1999-2006 m. ekonominės ir socialinės raidos rodikliai“.

Table 3. Factors influencing the development of life assurance market

<i>Factors that would positively influence the development of life assurance</i>	<i>Factors that would negatively influence the development of life assurance</i>
<ul style="list-style-type: none"> – increasing public interest in alternative means of saving; – integration of bank and insurance services; – returned confidence in financial institutions, rapid development of credit market stimulating to take out life assurance policy; – growing population interest in pension provision; – increasing regular income of the population; – low unemployment level; – increasing need of employees motivating in country’s companies; – favourable tax environment of life assurance; – returning money earned abroad; – stable growth of the state’s economy; – great potential of life assurance market; 	<ul style="list-style-type: none"> – increasing level of inflation that makes long-term saving products unappealing; – emigration; – obsolescence of society; – not quite favourable attitude of the population towards insurance, including life assurance;

Compiled by the author.

conclusion that bank insurance could become an accelerator of the country’s assurance market growth in 2007–2010.

The influence of the behavior of the insured. The behavior of the insured is the next factor influencing the growth of the country’s life assurance market. The number of the country’s inhabitants becoming potential insurance client will rise – this fact is inevitably related to changes in the pension system, the growth of population income and insurance popularizing activities of insurance companies and insurance companies’ associations. In Europe and in many other countries of the world 35% of the market is made by deposits, 15% – by life assurance and 14% – by pension funds and other, whereas in Lithuania to the present 90% of the market made deposits and only 2–3% – life assurance⁶, however a certain tendency of funds migration from deposits to life assurance

is noticeable. The behavior of the insured is considered to be one of the factors influencing the growth of the Lithuanian life assurance market.

There are many other factors influencing life assurance market as well; however their influence is quite ambiguous (table 3). But, nevertheless, it is advisable to group these factors according to their possible impact on the market development and, thus, it could be easier to notice obvious positive tendencies of growth of life assurance market in Lithuania.

Conclusions

1. Non-life insurance activities prevail over life assurance activities in Lithuania as opposed to the rest of the world, where life assurance usually takes about 60% of the insurance market. Nevertheless, constant growth of the comparative weight of life assurance in the overall insurance market took place in 2000–2006, and which is

⁶ www.dpk.lt

more, in 2006 the signed premiums of life assurance made 1/3 of the insurance market. It is probable that the share of life assurance will grow in the future.

2. Constant growth of the life assurance market has been noticed during the years 2000–2006 in Lithuania (36% in average annually according to the signed insurance premiums) that was mainly influenced by the improving macro economical factors, increasing stability in the financial sector, regained population confidence in financial institutions and arising traditions, culture and mentality of insurance.

3. Although the Lithuanian life assurance market is developing intensely there is still a substantial gap between Lithuania and other countries of the EU according to the insurance penetration and insurance share in the overall GDP of the country. A more precise analysis of these factors proves that the Lithuanian life assurance market is still undergoing the process of establishment, and having in mind that the nominal amounts of the insurance premiums directly depend on the number of the insured, it becomes obvious that the potential of further growth of the Lithuanian life assurance market should be higher than that of Latvia, Estonia and other comparable countries.

4. The Lithuanian life assurance market is one of the smallest in Europe – both by absolute and comparative rates of the insurance premiums' volume. However, it has a great expanding potential while effecting individual pension annuities' insurance and whole life assurance, as well as developing group cumulative policies insurance.

5. In the light of the fact that the major part of the country's insurance companies

are bank companies, not only cooperation in insurance products' realization sphere is most probable, but also a more profound integration of insurance and bank services. It is possible to forecast that this process should give rise to unpopular up to the present whole life assurance, and if this kind of assurance is correlated to other bank services (bank insurance), it may and most probably will become an accelerator of the Lithuanian life assurance market in 2007–2010.

6. According to the forecasts of the possible GDP made by the Ministry of Finance of the Republic of Lithuania and on assuming that the growth of life assurance market is directly related to the growth of the GDP, an average annual life assurance growth (due only to the macro economical development of the country) by 24.5% is quite possible in 2007–2010.

7. Having in mind the fact that the Lithuanian life assurance market is still not sufficiently developed (according to insurance indicators of other countries with the like economical development) and evaluating the possible positive influence of outside factors, it is quite plausible that the growth tempos of the Lithuanian life assurance market in 2007–2010 will be similar to the growth tempos in years 2000–2006, and so, the average annual market growth will reach 36%.

8. In consideration of the constant amount growth of the life assurance, when investment risks are accepted by the insured (unit-linked), insurance companies and their association should pay more attention and spend funds to the improvement of the population knowledge of insurance and investments that would help to

ensure timely interest of the insured in the state of their police and, therefore, prevent them from unexpected financial losses and, which is more, protect the reputation of insurance companies from exploding.

9. Bank life assurance companies

should make use of the experience of the EU countries and forward the integration of life assurance and bank services. Bank insurance could become an accelerator of the development of the Lithuanian life assurance market in a short time.

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