

INSURANCE MARKET DEVELOPMENT

GENERAL INFORMATION

Market participants

At end-2009, there were 14 insurance companies operating in Latvia whereof four companies were engaged in life insurance and 10 companies - in non-life insurance business (incl. one mutual non-life insurance cooperative society), as well as 11 branches of foreign insurance companies.

One life assurance company and three non-life insurance companies at the end of 2009 operated as subsidiaries of EU states' insurers, and one non-life insurance company was a subsidiary of insurance company of the European Economic area member state (IJSC *ERGO Latvija dzīvība*, IJSC *Balta*, IJSC *ERGO Latvija*, IJSC *Gjensidige Baltic*, IJSC *Seesam Latvia*), and the market share of these insurance companies in total gross premiums written made up 54.3% at end 2009.

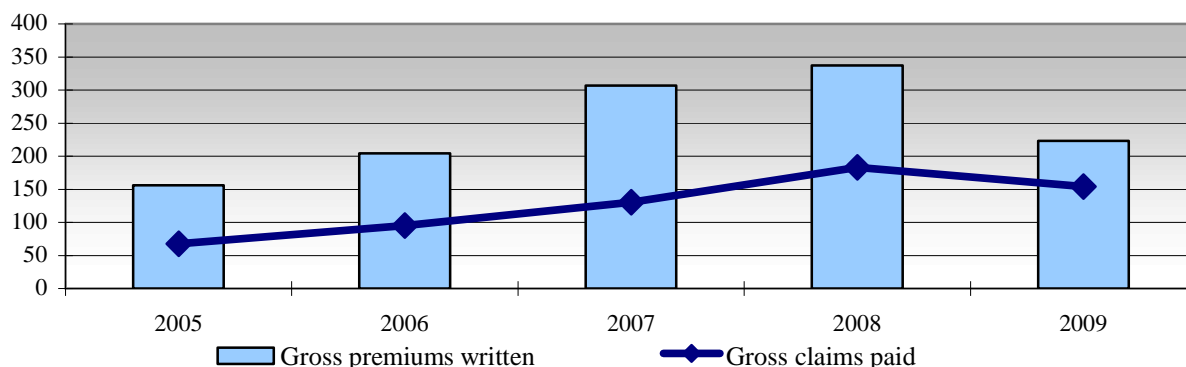
Premiums written and claims paid

By the end of 2009, a total of gross insurance premiums written on the insurance market accounted for 223.3 million lats or by 33.8% down from the end of 2008, and gross claims paid out constituted 153.9 million lats, or by 16% down from end-2008 (see Figure 1).

Figure 1

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID

(in period; million lats)



By end-2009, the share of direct life insurance in a total of gross premiums written by insurance companies was 8.7%.

The amount of gross premiums written by branches of foreign insurance companies at the end of 2009 grew more than twofold compared to the end of 2008 and gross premiums written by branches totalled 35.5 million lats in 2009. Also, the amount gross claims paid rose more than twofold and totalled 19.7 million lats. The increase was mainly due to the transfer of insurance contracts by insurance companies to those insurance companies that provided their insurance services in the Republic of Latvia through their branches.

The share of gross premiums written by branches of foreign insurance companies made up 13.7% of total insurance market, but gross claims paid – 11.4%. Following a decline in the business activities, the volume of gross premiums written per one Latvian resident¹ also decreased. As compared with the end of 2008 it contracted by 22.9% and was 115 lats at end-2009.

¹ According to information from the Central Statistical Bureau of the Republic of Latvia at www.csb.lv.

LIFE INSURANCE COMPANIES

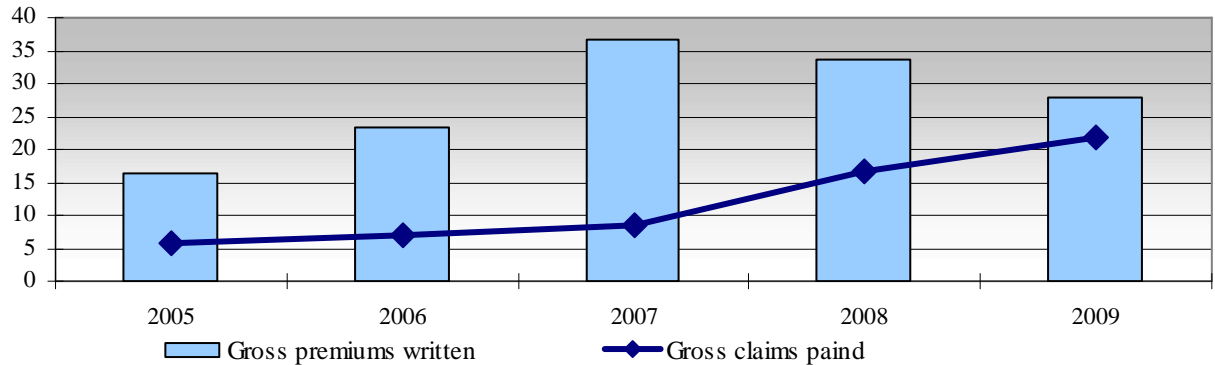
Performance indicators

At end-2009 the amount of gross premiums written by life insurance companies decreased by 17.4% y-o-y and totalled 27.8 million lats (see Figure 2). Whereas the volume of gross claims paid grew by 30.1% y-o-y and made up 21.8 million lats.

Figure 2

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID BY LIFE INSURANCE COMPANIES

(in period; million lats)



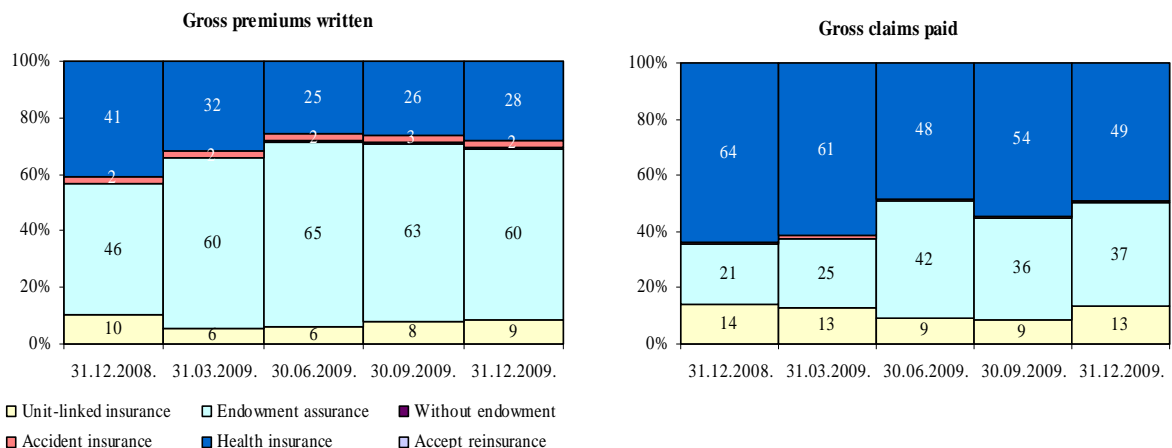
By end-2009, gross premiums written for life and health insurance constituted the greater part of gross premium portfolio of life insurance companies, 69.5% and 28.2%, respectively. A major share of life insurance was constituted by endowment assurance (60.1% of gross premiums written for life insurance) and premiums written for unit-linked life insurance (8.7% of gross premiums written for life insurance).

In 2009, the amount of gross premiums written for life insurance increased compared to end-2008 (from 56.7% at end-2008 to 69.5% at end-2009) and totalled 19.3 million lats (see Figure 3). The share of gross premiums written for health insurance declined notably and made up 7.9 million lats (from 40.9% at end-2008 to 28.2% at end-2009).

Figure 3

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID BY LIFE INSURANCE COMPANIES BROKEN DOWN BY CLASS OF INSURANCE

(as a percentage)



At end-2009, the greater part of gross claims paid was constituted by claims paid on life insurance, 50.5%, or 74.7% up y-o-y and totalled 11.0 million lats. The amount of gross claims paid on health insurance rose by 4.0% and was 10.7 million lats.

The largest amount of gross claims incurred for life insurance at end-2009 was 988 thousand lats (unit-linked life insurance).

In the reporting period, two life insurance companies operated with losses, however, overall life insurance companies made a 7 thousand lats profit.

The leverage ratio (solvency ratio) for insurance companies², which characterises the sufficiency of own funds at the disposal of an insurance company to ensure its minimum solvency³ at end-2009 was 159.5%. The lowest permissible margin for this ratio is 100%. A high solvency ratio shows that insurance companies are capable of operating more efficiently without jeopardizing their solvency.

At end 2009, technical provisions of life insurance companies were 100% covered by investments.

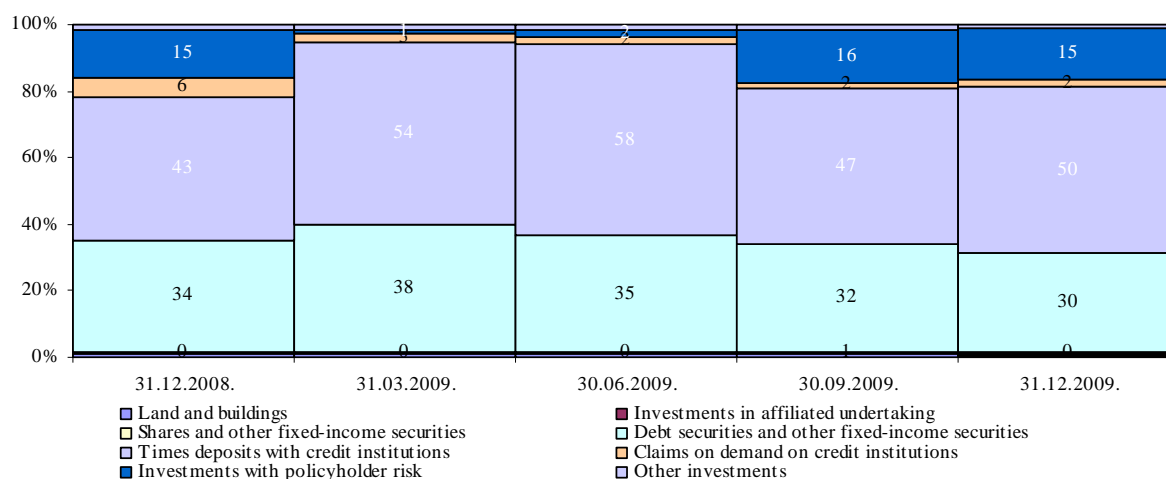
Investments

In 2009 total investments by life insurance companies amounted to 70.5 million lats. For the greater part, investments were made in time deposits with credit institutions, 35.0 million lats or 49.7% of total investments made by life insurance companies (see Figure 4. att.). Whereas the amount of investments made in debt securities and other fixed-income securities accounted for 21.1 million lats or 30.0% of total investments made by life insurance companies. Investments in favour of life insurance policyholders that cover investment risk totalled 10.7 million lats or 15.1% of total investments made by life insurance companies (compared to 14.7% at end-2008).

Figure 4

STRUCTURE OF INVESTMENTS BY LIFE INSURANCE COMPANIES

(as a percentage)



* Investments in favour of life insurance policyholders that cover investment risk.

On 31 December 2009, investments made by life insurance companies in Latvia constituted 71.0%, while 12.0% were invested in Luxembourg, 3.6% – in Germany, 2.4% – in France, but

² Own equity/solvency margin.

³ The minimum solvency or solvency margin is a calculable figure expressing the quantitative amount of risks related to concluded insurance contracts.

the rest 11.0% – in 12 more countries. 97.4% of total investments made in foreign countries were placed in the European Union states.

Return on investments⁴ of the average value of the investments by life insurance companies was 7.4% (compared to 3.1% at end-2008).

NON-LIFE INSURANCE COMPANIES

Performance indicators

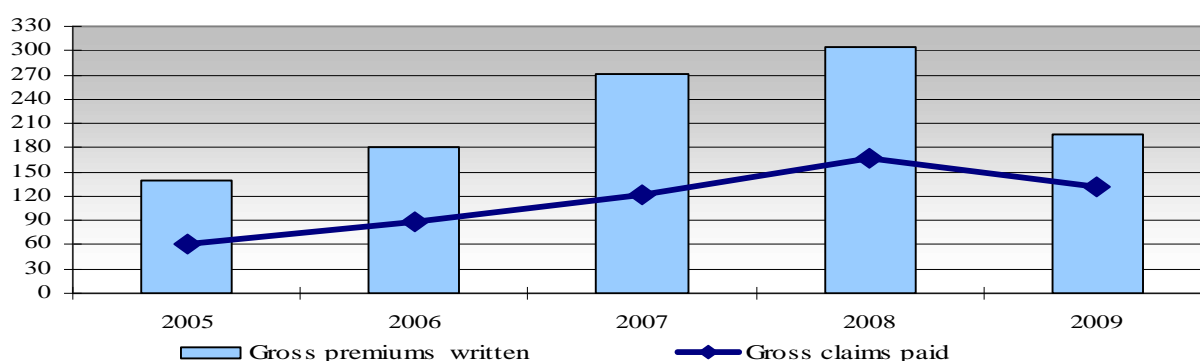
At end of 2009, gross premiums written by non-life insurance companies accounted for 195.5 million lats or by 35.6% down from end-2008 (see Figure 5).

The amount of gross claims paid contracted by 20.6% as compared with end-2008 and totalled 132 million lats.

Figure 5

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID BY NON-LIFE INSURANCE COMPANIES

(in period; million lats)

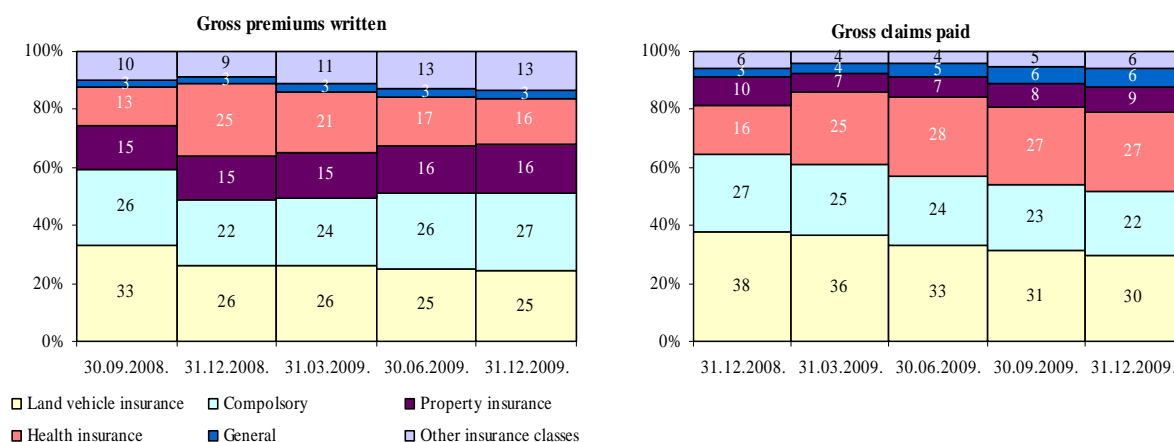


In the reporting period the greatest part of the portfolio of gross premiums written by non-life insurance companies comprised premiums written for compulsory third party liability insurance for inland motor vehicle owners, 26.8%, while 24.7% – premiums written for land vehicle insurance, 16% – for health insurance, 16.3% – for property insurance (see Figure 6).

Figure 6

GROSS PREMIUMS WRITTEN AND GROSS CLAIMS PAID BY NON-LIFE INSURANCE COMPANIES, BROKEN DOWN BY CLASS OF INSURANCE

(as a percentage)



⁴ Return on investments = net income from investments/average amount of investments in the reporting period, expressed as an annual percentage.

At the end of 2009, a major share of claims paid was on land vehicle insurance – 29.9% of total gross claims paid out, on health insurance – 27.3%, as well as claims paid on compulsory third party liability insurance for inland motor vehicle owners – 22.1% and property insurance – 8.7%. In terms of volume, the largest insurance claim in 2009, about 1.0 million lats, had incurred by general third party liability insurance.

In the reporting period, the non-life insurance companies operated with profit totalling 11.4 million lats (eight out of 10 non-life insurance companies reported profit in the reporting period). The combined ratio⁵, which characterises performance results for non-life insurance companies, was 96.0% in 2009.

Operating ratio⁶, characterising the overall operations of insurance companies taking into account the efficiency of the investment policy implemented by insurance companies, in the reporting period was 92.2%.

The leverage ratio (solvency ratio) for non-life insurance companies, which characterises the sufficiency of own funds at the disposal of an insurance company to ensure its minimum solvency⁷ was 151.7% in four quarters of 2009. The lowest permissible margin for this ratio is 100%.

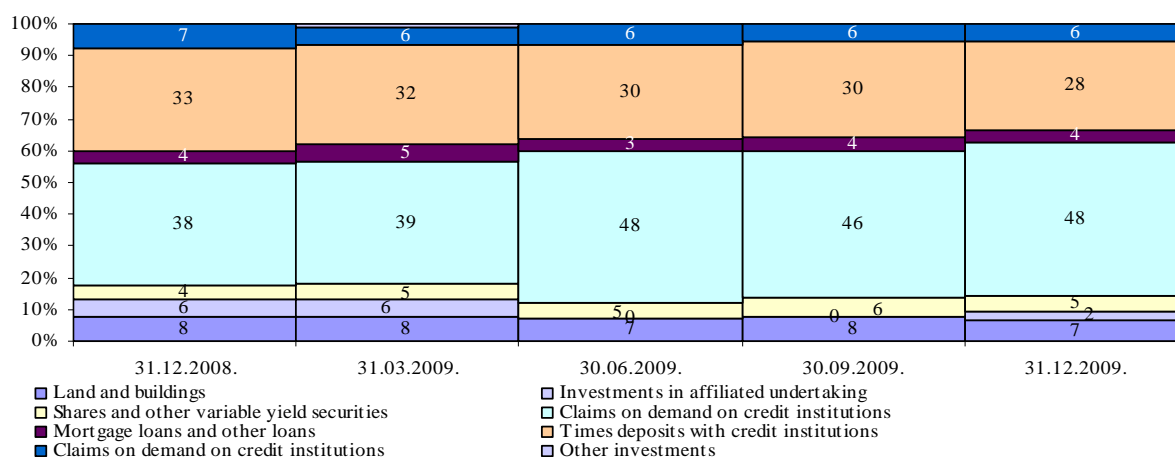
Investments

On 31 December 2009, total investments of non-life insurance companies accounted for 218.4 million lats. Investments in debt securities and other fixed-income securities constituted the greater part totalling 105.5 million lats or 48.3% of total investments of non-life insurance companies, and investments in time deposits with credit institutions were 60.8 million lats or 27.8% of total investments, while claims on demand to credit institutions made up 5.5% or 12.0 million lats (see Figure 7).

Figure 7

INVESTMENT STRUCTURE OF NON-LIFE INSURANCE COMPANIES

(as a percentage)



⁵ Combined ratio = loss ratio (incurred net claims/net earned premiums) + expense ratio ((net operating expenses + other net technical expenses)/net earned premiums).

⁶ Operating ratio = combined ratio – return on investments.

⁷ The minimum solvency or solvency margin is a calculable figure expressing the quantitative amount of risks related to concluded insurance contracts.

On 31 December 2009, of total investments made by the non-life insurance companies, 52.3% were placed in Latvia, 8.9% total investments were made in Lithuania, 5.9% – in Finland, 4.9% – in France, 7.8% – in Germany, 4.8% – in the Netherlands and 2.7% – in Estonia, but remaining 12.7% in 24 more countries.

Of total investments made in foreign countries, 97.6% were placed in the European Union states. In 2009, the return on investments⁸ for non-life insurance companies was 3.8%.

Technical provisions of non-life insurance companies in 2009 were 100% covered by investments.

⁸ Return on investments = net income from investments/average amount of investments in the reporting period, expressed as an annual percentage.