LATVIA
Key characteristics of the insurance market

1 Introduction

1.1 General

At the end of 2017 (2017 Q4), 6 insurance companies[1] in Latvia submitted their Solvency II related reporting package to the Latvian National Supervisory Authority (NSA). These companies accounted for 0,006% of Total assets of insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in Latvia by insurance activities and the importance of the country within the EU, based on Total assets.

Table 1 - Insurance reporting submissions

Insurance reporting submissions	**#**
Life undertakings	0
Non-Life undertakings	4
Reinsurance undertakings	0
Composite undertakings	2
Total	**6**
Total assets LV / Total assets EU %	**0,006%**
Ranking LV based on Total assets EU	**28**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), Latvia was the number 28 country in the EU insurance market in terms of assets held with an amount of 706 million EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, Latvia ranked number 28 in terms of absolute amount with 57 million EUR invested in this category. However, with 8,1% of Total assets of this category, Latvia was significantly below the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 22,8% of the total balance sheet relates to the life business (i.e. non index-linked and unit-linked business), while 38,5% represented non-life obligations.

Table 2 - Solvency II balance sheet (S.02.01) and EU comparison (solo)

in Mio EUR	**LV**			**EU**				
	Amount	**Rank**	**%**	**%**	**Avg**	**Min**	**Max**	**StD**
Investments, deposits, cash and cash equivalents	555	28	78,7%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	57	28	8,1%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	93	26	13,2%	8,1%	8,4%	2,1%	19,5%	4,9%
Total assets	**706**	28	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**
Technical provisions - life	161	28	22,8%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	272	27	38,5%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	57	28	8,1%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	53	28	7,5%	8,9%	9,0%	4,0%	21,3%	3,9%
Total liabilities	**542**	28	**76,9%**	**86,9%**	**77,6%**	**49,1%**	**92,7%**	**11,1%**
Excess of assets over liabilities	163	28	23,1%	13,1%	22,4%	7,3%	50,9%	11,1%
Total liabilities + Excess of assets over liabilities	**706**	28	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

[1] In the report, the term 'insurance companies' indicates both direct insurance and reinsurance companies. The insurance market covered in this factsheet therefore refers to insurers and reinsurers.

The balance sheet item Investments, deposits, cash and cash equivalents will be further detailed in section 2, while section 3 will focus on Assets held for index-linked and unit-linked contracts.

1.3 Solvency II ratios

At the end of 2017 (2017 Q4), the Latvian insurance market as a whole had available own funds that were significantly above the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio amounted to 135% without long-term guarantee (LTG) and transitional measures and is approximately significantly below that of the EU, which amounted to 237% at year-end 2017. Out of the 28 EU Member States, Latvia is ranked at the 28th position in terms of the reported SCR ratios.

Table 3 - Solvency II own funds and SCR (S.23.01) and EU comparison (solo)

in Mio EUR	LV		EU				
	Amount	Rank	%	Avg	Min	Max	StD
Total available own funds to meet the SCR	162	28	-	-	-	-	-
SCR	120	28	-	-	-	-	-
Surplus available own funds	**42**	**28**	-	**-**	**-**	**-**	**-**
Ratio of Eligible own funds to SCR	**135%**	**28**	**237%**	**225%**	**135%**	**361%**	**52%**
Ratio of Eligible own funds to SCR (10th percentile)	128%	20	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	133%	27	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	144%	28	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	164%	28	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	173%	28	457%	396%	173%	643%	99%
Ratio of Eligible own funds to MCR	**282%**	**28**	**640%**	**613%**	**282%**	**933%**	**170%**

Source: EIOPA statistics and Deloitte-CEPS analysis

EIOPA's report on long-term guarantees measures and measures on equity risk published on 18 December 2018 mentions the average impact of the use of LTG and transitional measures. At year-end 2017, no results were shown for Latvia since the undertakings do not apply any of the measures.[2]

[2] https://eiopa.europa.eu/Publications/Reports/2018-12-18%20_LTG%20AnnualReport2018.pdf

2 Investments, deposits, cash and cash equivalents

2.1 Scope

The asset allocation of Latvian insurance undertakings is mainly analysed through the reported Solvency II Exposure List (S.06.02). The classification of the Solvency II Balance Sheet (S.02.01) follows the legal nature of the assets in terms of classification, which can differ, from the exposures reporting.

Based upon the comparative view below, we note that amounts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01) do not differ[3].

Table 4 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list LV		Solvency II balance sheet LV		Difference
	#	%	#	%	#
Life undertakings	0	0,0%	0	0,0%	0
Non-Life undertakings	4	66,7%	4	66,7%	0
Reinsurance undertakings	0	0,0%	0	0,0%	0
Undertakings pursuing both life and non-life insurance activity	2	33,3%	2	33,3%	0
Total	**6**	**100,0%**	**6**	**100,0%**	**0**

in Mio EUR	Exposure list LV		Solvency II balance sheet LV		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl. participations and equities	7	1,2%	7	1,2%	0,0%
Holdings in related undertakings, including participations	n/a	n/a	1	0,2%	n/a
Equities	n/a	n/a	6	1,1%	n/a
Equities - listed	n/a	n/a	1	0,1%	n/a
Equities - unlisted	n/a	n/a	5	0,9%	n/a
Collective Investments Undertakings	64	11,5%	64	11,5%	0,0%
Bonds	350	63,0%	350	63,0%	0,0%
Loans and mortgages	2	0,4%	2	0,4%	0,0%
Property	17	3,0%	17	3,0%	0,0%
Deposits	23	4,2%	23	4,2%	0,0%
Cash and cash equivalents	92	16,6%	92	16,6%	0,0%
Other investments	0	0,0%	0	0,0%	0,0%
Total	**555**	**100,0%**	**555**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

2.1.1 Listed and unlisted equity

The distinction between listed and unlisted equity is made based upon the reported Solvency II Balance Sheet (S.02.01). Table 5 compares the listed and unlisted equity, whereby Holdings in related undertakings (including participations) are excluded.

Table 5 - Listed and unlisted equity exposure based upon Solvency II balance sheet (S.02.01)

in Mio EUR	LV			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	1	28	12,8%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	5	25	87,2%	16,3%	25,0%	0,4%	87,0%	21,1%
Total equities	**6**	**25**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the quarterly reporting as of Q4 2017, Latvian insurers invested 12,8% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 1 million EUR, Latvia ranked number 28 in the EU.

[3] Some companies reporting under Solvency II are exempted from reporting the Solvency II Exposure List. The decision to exempt certain companies from particular reporting obligations lies with individual National Competent Authorities.

With an invested amount of 5 million EUR, unlisted equity constituted a significant portion of the equity investment category of the directly-held equity investments, i.e. 87,2%. This placed Latvia as the number 25 in the EU.

2.2 Asset exposure

From an asset exposure perspective, the insurance market in Latvia mainly invested in Government bonds and Corporate bonds (in total 63,1% of Total Investments, deposits, cash and cash equivalents), Collective Investment Undertakings (11,5%), and Cash and cash equivalents (16,6%).

Within the bond categories, the insurance market was equally exposed to government securities (55,5%) and to corporate debt (7,6%), both categories for which Latvia ranked last in the EU. Comparing the different assets classes, we note that the government bonds asset class shows the highest standard deviation of 18,9%.

The category of Collective Investment Undertakings was the third most important for the Latvian insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Debt funds, Equity funds, and Real estate funds for which Latvia ranked respectively number 27, number 27, and number 20 in the EU.

Equity was only the seventh category to which the Latvian insurers had the most exposure. Equity of real estate related corporation constitutes 0,2% within the 1,2% of the total equity exposure.

Table 6 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LV			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**7**	**28**	**1,2%**	**12,0%**	**9,5%**	**1,1%**	**28,1%**	**6,5%**
Common equity	6	28	1,1%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	1	25	0,2%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	0	-	0,0%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings	**64**	**27**	**11,5%**	**19,2%**	**12,8%**	**1,5%**	**41,6%**	**9,3%**
Equity funds	8	27	1,4%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	46	27	8,4%	7,8%	5,6%	0,8%	18,0%	4,9%
Money market funds	0	-	0,0%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	1	27	0,2%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	6	20	1,1%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	3	17	0,5%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	0	-	0,0%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	0	-	0,0%	2,0%	0,9%	0,0%	7,2%	1,7%
Government bonds	**308**	**28**	**55,5%**	**28,7%**	**39,7%**	**10,0%**	**77,0%**	**18,9%**
Corporate bonds	**42**	**28**	**7,6%**	**26,9%**	**21,6%**	**1,8%**	**47,3%**	**11,2%**
Structured notes	**0**	**-**	**0,0%**	**1,3%**	**0,5%**	**0,0%**	**2,5%**	**0,6%**
Collateralized securities	**0**	**-**	**0,0%**	**0,6%**	**0,6%**	**0,0%**	**9,3%**	**1,8%**
Mortgages and loans	**2**	**28**	**0,4%**	**4,8%**	**3,8%**	**0,3%**	**26,3%**	**5,2%**
Property	**17**	**27**	**3,0%**	**2,0%**	**3,5%**	**0,8%**	**11,6%**	**2,6%**
Deposits	**23**	**27**	**4,2%**	**2,8%**	**3,6%**	**0,2%**	**16,6%**	**3,6%**
Cash and cash equivalents	**92**	**26**	**16,6%**	**1,4%**	**4,3%**	**0,5%**	**16,6%**	**3,5%**
Other investments	**0**	**-**	**0,0%**	**0,1%**	**0,1%**	**0,0%**	**0,9%**	**0,3%**
Not reported	**0**	**-**	**0,0%**	**0,0%**	**0,0%**	**0,0%**	**0,3%**	**0,1%**
Total Investments, deposits, cash and cash equivalents	**555**	**28**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

2.2.1 Asset exposures between Life, Non-Life and Composite insurance undertakings, and reinsurers

For Latvia, the undertaking type is not published. In accordance with Article 70(2) of the EIOPA Regulation, EIOPA may only divulge information and data - in summary or in aggregated form – so that individual financial institutions cannot be identified.

2.3 Equity exposure

Based upon the information included in the Solvency II Exposure List (S.06.02) and Balance Sheet (S.02.01), equity exposures can be calculated and presented in different ways:

- Equity exposure as the sum of Equity (Common equity, Equity of real estate related corporation and Other equity), Equity and Private equity funds, and Equity risk included in structured notes;
- Equity of real estate related corporation could be seen as a property exposure. Therefore equity exposures are presented including and excluding Equity of real estate related corporation;
- The equity amounts of the Solvency II Exposure List does not provide further details whether the equity exposures relate to listed or unlisted equity positions. In addition, the Solvency II Exposure List does not mention whether the equity relates to Holdings in related undertakings, including participations;

Therefore the listed and unlisted share amounts reported in the Solvency II Balance Sheet are considered and integrated as an equity exposure indicator. A rescaling is performed in case a difference is noted between the two Solvency II information sets (Exposure List versus Balance Sheet). The adjusted equity exposure stemming from this analysis excludes the Equity exposure coming from Holdings in related undertakings, including participations. These holdings can potentially be important within insurance groups.

Table 7 - Equity exposure based upon Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02)

in Mio EUR	LV			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**7**	**28**	**1,2%**	**12,0%**	**9,5%**	**1,1%**	**28,1%**	**6,5%**
Common equity	6	28	1,1%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	1	25	0,2%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	0	-	0,0%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings - Equity funds	**8**	**27**	**1,4%**	**3,8%**	**3,2%**	**0,4%**	**14,7%**	**3,5%**
Equity funds	8	27	1,4%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
Structured notes - Equity risk	**0**	**-**	**0,0%**	**0,2%**	**0,1%**	**0,0%**	**0,6%**	**0,1%**
Total Equity exposure	**15**	**28**	**2,6%**	**16,0%**	**12,7%**	**2,5%**	**37,4%**	**8,4%**
Equity without Equity of real estate related corporation	**6**	**28**	**1,1%**	**11,0%**	**8,4%**	**1,1%**	**24,1%**	**6,1%**
Equity exposure without Equity of real estate related corporation	**14**	**28**	**2,4%**	**15,0%**	**11,7%**	**2,4%**	**33,3%**	**7,9%**
Equities market value balance sheet (rescaled to CIC scope)	**6**	**25**	**1,1%**	**3,6%**	**3,2%**	**0,1%**	**20,6%**	**4,0%**
Equities - listed (rescaled to CIC scope)	1	28	0,1%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	5	25	0,9%	0,6%	0,6%	0,0%	5,2%	1,0%
Equity exposure based upon (Un)Listed equities (rescaled)	**14**	**27**	**2,4%**	**7,6%**	**6,5%**	**1,2%**	**29,8%**	**6,7%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The observed standard deviations at EU level are relatively high given the asset allocation in percentage between the different asset classes at EU level.

In Latvia, we note that equity exposures coming from Collective Investment Undertakings amount to 1,4% and are higher than the listed and unlisted equity exposures which in total amount to 1,1%. Hereby the listed and unlisted equities in Latvia are not similar to the asset allocation at EU level.

2.3.1 Direct and indirect equity exposure

Table 8 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LV			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	**7**	**28**	**47,1%**	**75,2%**	**73,4%**	**39,2%**	**94,5%**	**15,9%**
Common equity	6	28	40,9%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	1	25	6,3%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	0	-	0,0%	3,9%	5,7%	0,0%	35,3%	8,8%
Indirect equity	**8**	**27**	**52,9%**	**24,8%**	**26,6%**	**5,5%**	**60,8%**	**15,9%**
Collective Investment Undertakings - Equity funds	8	27	52,9%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	8	27	52,9%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	0	-	0,0%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	0	-	0,0%	1,3%	0,7%	0,0%	4,0%	1,0%
Total Equity exposure	**15**	**28**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, the insurance market in Latvia was invested less in Direct equity (47,1% of Total equity) than in Indirect equity (52,9% of Total equity).

In terms of direct equity exposure, Latvia ranked number 28 and number 25 in the EU, with regards respectively to the exposure amount to Common equity and Equity of real estate related corporation.

Within the Indirect equity category, Equity funds constituted the bulk of investments with 52,9% of Total equity.

2.3.2 Equity by location

Table 9 - Equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR		LV		
	EU home	EU other	outside EU (1)	Total
Equity	**6**	**1**	**0**	**7**
Common equity	5	1	0	6
Equity of real estate related corporation	1	0	0	1
Other	0	0	0	0
Collective Investment Undertakings - Equity funds	**0**	**8**	**0**	**8**
Equity funds	0	8	0	8
Private equity funds	0	0	0	0
Structured notes - Equity risk	**0**	**0**	**0**	**0**
Total Equity exposure	**6**	**8**	**0**	**15**

in %		LV		
	EU home	EU other	outside EU (1)	Total
Equity	**84,7%**	**10,2%**	**5,0%**	**100,0%**
Common equity	82,4%	11,8%	5,8%	100,0%
Equity of real estate related corporation	100,0%	0,0%	0,0%	100,0%
Other	-	-	-	-
Collective Investment Undertakings - Equity funds	**0,0%**	**99,9%**	**0,1%**	**100,0%**
Equity funds	0,0%	99,9%	0,1%	100,0%
Private equity funds	-	-	-	-
Structured notes - Equity risk	**-**	**-**	**-**	**-**
Total Equity exposure	**39,9%**	**57,6%**	**2,4%**	**100,0%**

(1) The following countries are included in the class 'outside EU': IS, LI, NO, AU, CA, JP, US, CH and countries grouped under the caption 'Rest of World'. In addition some investments are not assigned to an individual country and are also included in this class.

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the Q4 2017 reporting with regards to the location of equity investments, insurers established in Latvia favoured domestic investments to a large extent, dedicating to these 84,7% of their direct equity investments, and none of their indirect investments.

Table 9 also showed that besides the home market, Latvian insurers invested significantly more in equity of other EU Member States than that of non-EU Member States. France, the Rest of World and the Netherlands were the preferred destinations.

Table 10 - Direct equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	LV	
	Amount	**%**
Home country	**6**	**84,7%**
LV	6	84,7%
Top 5 countries (outside home country)	**1**	**15,3%**
FR	0	4,2%
Rest of World and unassigned	0	4,1%
NL	0	4,0%
DE	0	2,0%
US	0	1,0%
Home + Top 5 countries (outside home country)	**7**	**100,0%**
Total Direct equity exposure (with real estate corporation)	**7**	**100,0%**

in Mio EUR	LV	
	Amount	**%**
Home country	**5**	**82,4%**
LV	5	82,4%
Top 5 countries (outside home country)	**1**	**17,6%**
FR	0	4,8%
Rest of World and unassigned	0	4,7%
NL	0	4,6%
DE	0	2,3%
US	0	1,1%
Home + Top 5 countries (outside home country)	**6**	**100,0%**
Total Direct equity exposure (without real estate corporation)	**6**	**100,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3 Index-linked and unit-linked investments

3.1 Scope

Based upon the comparative view below, we note a slight difference with respect to the Assets held for index-linked and unit-linked contracts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01).

Table 11 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list LV		Solvency II balance sheet LV		Difference
	#	%	#	%	#
Life undertakings	0	0,0%	0	0,0%	0
Non-Life undertakings	4	66,7%	4	66,7%	0
Reinsurance undertakings	0	0,0%	0	0,0%	0
Undertakings pursuing both life and non-life insurance activity	2	33,3%	2	33,3%	0
Total	**6**	**100,0%**	**6**	**100,0%**	**0**

in Mio EUR	Exposure list LV		Solvency II balance sheet LV		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	57	100,0%	57	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3.2 Asset exposure

Table 12 depicts a more detailed view of the Assets held for index-linked and unit-linked contracts, based upon the Solvency II exposure list (S.06.02).

Table 12 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LV			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**0**	**-**	**0,0%**	**19,3%**	**4,5%**	**0,0%**	**30,1%**	**7,1%**
Common equity	0	-	0,0%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	0	-	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	0	-	0,0%	0,4%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings	**56**	**28**	**97,4%**	**63,2%**	**73,1%**	**30,1%**	**97,5%**	**16,3%**
Equity funds	12	28	21,1%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,3%	0,1%	0,2%	0,0%	2,9%	0,6%
Debt funds	27	27	47,4%	12,1%	19,0%	4,8%	47,5%	11,4%
Money market funds	0	-	0,0%	2,2%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	7	28	11,9%	14,8%	13,1%	0,4%	30,5%	7,7%
Real estate funds	0	-	0,0%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	9	22	16,3%	1,6%	2,4%	0,0%	16,3%	3,8%
Infrastructure funds	0	-	0,0%	0,0%	0,1%	0,0%	2,4%	0,5%
Other	0	-	0,4%	4,6%	6,9%	0,0%	44,3%	10,0%
Government bonds	**0**	**-**	**0,0%**	**6,4%**	**6,9%**	**0,0%**	**31,4%**	**8,4%**
Corporate bonds	**0**	**-**	**0,0%**	**3,9%**	**6,0%**	**0,0%**	**22,7%**	**6,9%**
Structured notes	**0**	**-**	**0,0%**	**1,6%**	**4,1%**	**0,0%**	**18,9%**	**4,9%**
Collateralized securities	**0**	**-**	**0,0%**	**0,1%**	**0,1%**	**0,0%**	**0,9%**	**0,2%**
Mortgages and loans	**0**	**-**	**0,0%**	**0,2%**	**0,2%**	**-3,7%**	**2,5%**	**1,0%**
Property	**0**	**-**	**0,0%**	**1,3%**	**0,6%**	**0,0%**	**7,6%**	**1,5%**
Deposits	**0**	**-**	**0,0%**	**1,2%**	**2,0%**	**-0,3%**	**14,5%**	**3,3%**
Cash and cash equivalents	**2**	**25**	**2,6%**	**1,2%**	**2,2%**	**0,0%**	**8,5%**	**2,5%**
Other investments	**0**	**-**	**0,0%**	**0,4%**	**0,3%**	**0,0%**	**8,1%**	**1,5%**
Not reported	**0**	**-**	**0,0%**	**1,2%**	**0,1%**	**0,0%**	**2,3%**	**0,4%**
Total Investments, deposits, cash and cash equivalents	**57**	**28**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The Collective Investment Undertakings (97,4%) and the Cash and equivalents (2,6%) represent the two asset classes of the index-linked and unit-linked investments. Overall, we note a significantly different asset exposure allocation in comparison to the asset exposure for non-index-linked and unit-linked investments. Hereby we refer to section 2 for further details.

Relatively to the EU average, we observe a significant large difference between the portion of index-linked and unit-linked related assets that were invested in Debt funds, 47,4% in Latvia compared to 19,0% in the EU.

3.3 Equity exposure

The Solvency II balance sheet (S.02.01) does not include a further split in different asset classes for the Assets held for index-linked and unit-linked contracts. Hence the rescaling exercise as presented in section 2 cannot be performed here.

Table 13 - Equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LV			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**0**	**-**	**0,0%**	**19,3%**	**4,5%**	**0,0%**	**30,1%**	**7,1%**
Common equity	0	-	0,0%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	0	-	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	0	-	0,0%	0,4%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings - Equity funds	**12**	**28**	**21,4%**	**26,5%**	**29,3%**	**11,2%**	**57,5%**	**10,4%**
Equity funds	12	28	21,1%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,3%	0,1%	0,2%	0,0%	2,9%	0,6%
Structured notes - Equity risk	**0**	**-**	**0,0%**	**1,2%**	**2,7%**	**0,0%**	**15,0%**	**3,5%**
Total Equity exposure	**12**	**28**	**21,4%**	**47,1%**	**36,5%**	**11,7%**	**58,6%**	**10,9%**
Equity without Equity of real estate related corporation	**0**	**28**	**0,0%**	**16,0%**	**4,2%**	**0,0%**	**29,2%**	**6,8%**
Equity exposure without Equity of real estate related corporation	**12**	**28**	**21,4%**	**40,0%**	**36,2%**	**11,7%**	**58,6%**	**10,8%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In Latvia, we note that total equity exposures related to index-linked and unit-linked contracts (21,4%) are significantly higher in comparison to non index-linked and unit-linked contracts (2,6%). Equity funds are the main contributors to the total equity exposures.

3.3.1 Direct and indirect equity exposure

Table 14 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	LV			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	**0**	**-**	**0,0%**	**38,3%**	**11,1%**	**0,0%**	**54,2%**	**15,2%**
Common equity	0	-	0,0%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	0	-	0,0%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	0	-	0,0%	1,3%	0,8%	0,0%	9,7%	2,2%
Indirect equity	**12**	**28**	**100,0%**	**61,7%**	**88,9%**	**45,8%**	**100,0%**	**15,2%**
Collective Investment Undertakings - Equity funds	12	28	100,0%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	12	28	98,8%	58,6%	81,0%	44,9%	100,0%	16,0%
Private equity funds	0	-	1,2%	0,5%	0,5%	0,0%	6,9%	1,4%
Structured notes - Equity risk	0	-	0,0%	2,6%	7,4%	0,0%	35,8%	9,6%
Total Equity exposure	**12**	**28**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, Latvian insurers invested all of their Assets held for index and unit-linked contracts in Indirect equity (100% of Total equity).

Within the Indirect equity category, Equity funds constituted the bulk of investments, amounting to 98,8% of Total equity whereas allocation to Private equity funds constituted a negligible part.

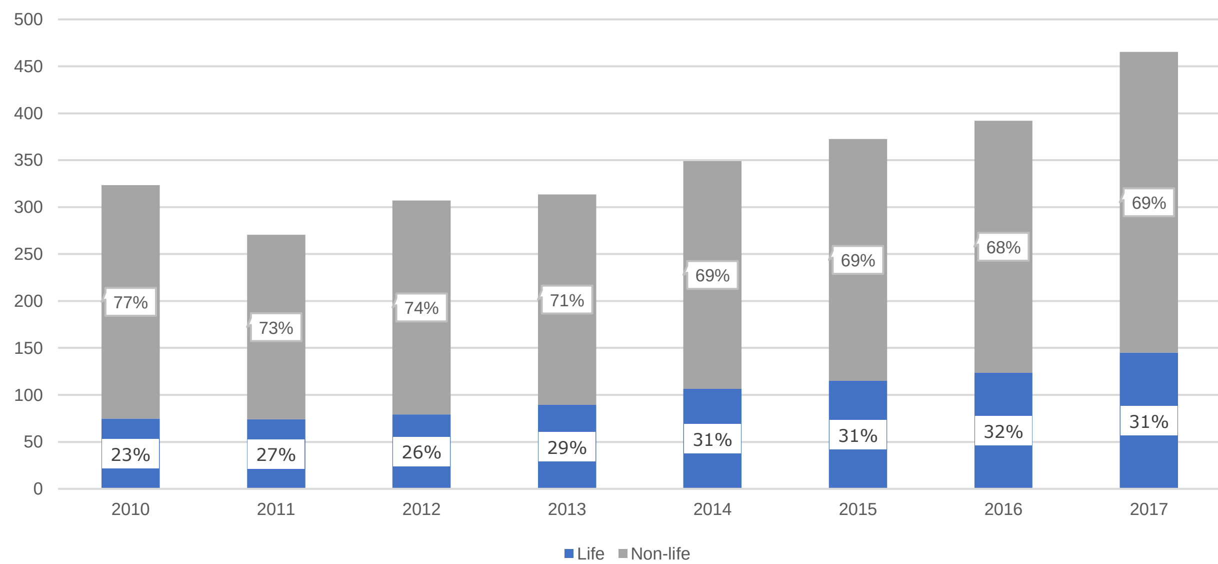
4 Insurance products

4.1 Overview

This section covers the most important insurance products offered in Latvia and the volume of the market. Data reported in this section obtained from the Latvian Financial and Capital Market Commission (FCMC) and the Latvian Insurers Association (LIA).[4]

The Latvian insurance market has been growing, over the last years, at an average annual rate of 5,9%. In 2017, gross written premiums increased by 18,7% to 465 million EUR. Both segments of the market, life and non-life, have been part of this development. However, the expansion of the life insurance business is more noticeable as it almost doubled (94,2%) its premium income since 2010. On the other hand, even though non-life premiums increased by 28,6% during the last eight years, they represent 70% of the total insurance market premiums.

Graph 1 - Gross written premiums (in Mio EUR)



Note: Data of 2010 are not equitably comparable to those of following years, because starting from the 2011, data include performance results of insurers only on the territory of the Republic of Latvia.

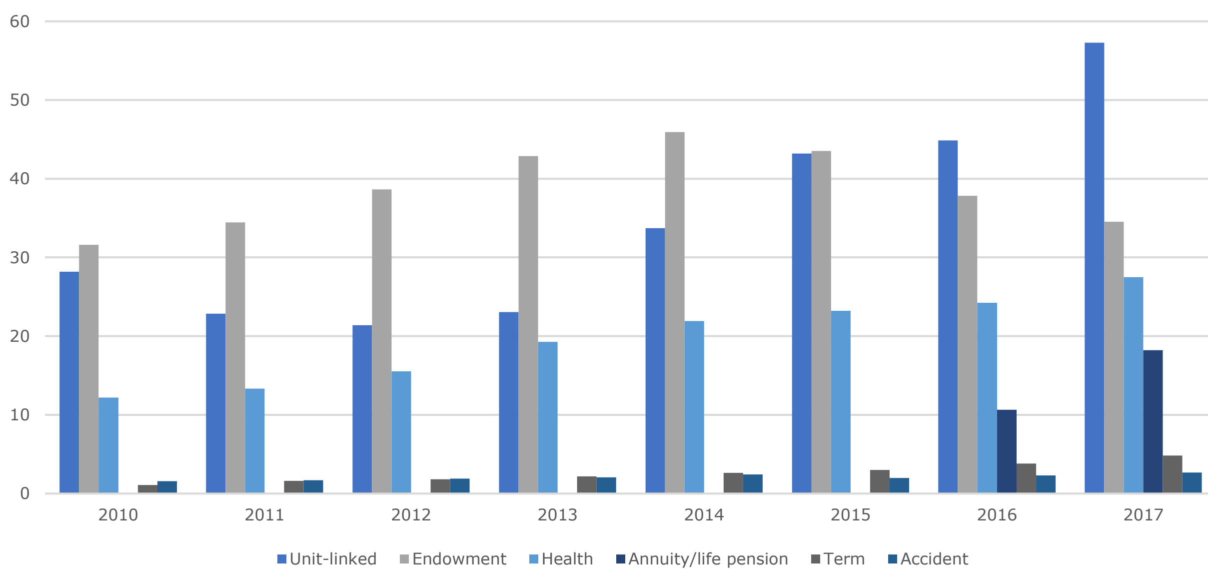
Source: FCMC and LIA

[4] Available at http://www.fktk.lv/en/ and http://www.laa.lv/en/.

4.2 Life insurance products

Following a small decline by 1% to 74 million EUR in 2010, life insurance premiums expanded and totalled 145 million EUR by the end of 2017. The life insurance segment can be split into two main classes: i) life insurance, which includes unit-linked, endowment, annuity/life pension and term; and ii) health and accident. Unit-linked products gained popularity over the last years and premiums rose from 23 million EUR in 2011 to 57 million EUR in 2017, representing approximately 40% of the life insurance premiums. On the other hand, premium income due to endowment products after reaching a pick of 46 million EUR in 2014, dropped to 34 million EUR by 2017 (down by 24,7%). Accident and health products represent collectively 21% of the market, or 30 million EUR in premiums, while annuities account for 12,5% or 18 million EUR.

Graph 2 - Gross written premiums for life insurance products (in Mio EUR)



Note: Unit-linked, endowment and term categories, encompasses life insurance. Data for annuity/life pension products are not available prior 2016.

Source: FCMC and LIA

4.3 Non-Life insurance products

The non-life segment of the Latvian insurance market grew in 2017 by 19,4% to 320 million EUR. Three product classes represent more than 88% of the gross written premiums.

4.3.1 Motor

Motor related insurance is the most common non-life insurance product in Latvia. In 2017 accounted for 50,2% or 161 million EUR of the non-life premiums. Half of this amount (50,5%) is due to motor third party liability insurance while the rest due to motor hull (CASCO) insurance.

4.3.2 Accident and health

Accident and health insurance is the second largest non-life business line, accounting for 19,32% of non-life premiums. Gross premiums written amounted in 2017 to 62 million EUR, 9,8% up compared to year ago.

4.3.3 Property

In 2017 property insurance represented 18,8% of all non-life business. Premiums recorded a growth of 12,6% and stood at 60 million EUR.

4.3.4 General liability

Total gross premiums written in general liability insurance business amounted to 14 million EUR, exhibiting a growth rate of 14% to 2016. Liability premiums accounted for 4,3% of total non-life premiums written during 2017.

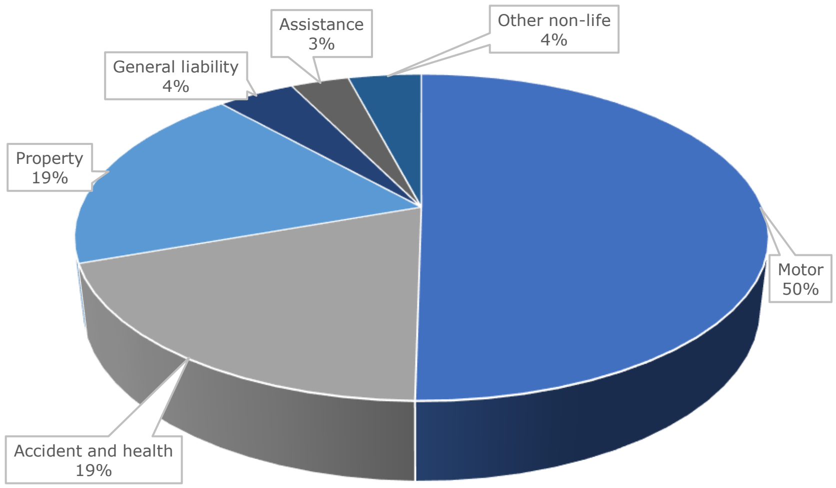
4.3.5 Assistance

In Latvia, assistance insurance accounted for about 3,2% or 10 million EUR of the non-life insurance products premiums.

4.3.6 Other non-life

Premiums for other non-life insurance business, such as credit and suretyship, legal protection, financial loss, as well as marine, aviation and transport, increased by 25,4% in 2017 to 13 million EUR.

Graph 3 - Allocation of gross written premiums for non-life insurance products (in %)



Note: Motor includes motor hull (CASCO) insurance and motor third party liability (compulsory and voluntary). Other non-life insurance includes credit and suretyship, legal protection, financial loss, as well as marine, aviation and transport.

Source: FCMC and LIA

4.4 Average duration

In 2016, EIOPA published their Insurance Stress Test Report[5]. No duration for Latvia as data for Latvia are not shown or identified as the number of participants was less than three in this two country.

[5] EIOPA, 2016, 2016 EIOPA Insurance Stress Test Report. https://eiopa.europa.eu/publications/surveys/eiopa-bos-16-302%20insurance%20stress%20test%202016%20report.pdf

5 Accounting & Tax framework

5.1 Accounting framework

The EU has introduced rules, as laid down in Directive 2013/34/EU, to promote the convergence of accounting standards at global level and to ensure consistent and comparable financial reporting across the EU. Regulation 1606/2002/EC requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards, the so-called IFRS.[6]

1. Applicable GAAP at consolidated level: IFRS required for all companies[7];
2. Applicable GAAP at statutory level: IFRS required for all companies[7];
3. Prudential regulatory framework: Solvency II for the calculation of the Solvency Capital Requirement.

5.2 Tax framework

5.2.1 Capital gains on shares

Capital gains derived from the disposal of shares in resident or non-resident companies are exempt from corporate income tax until a distribution is made.

Proceeds of disposal of direct shareholdings held for at least 36 months may be deducted from the taxable basis.

The sale of shares in company where more than 50% of the assets consist of Latvian real estate, is subject to a 3% withholding tax.

5.2.2 Capital losses on shares

Capital losses are not recognized for corporate income tax purposes.

5.2.3 Taxation of dividends

A 100% exemption applies on the re-distribution or if the following conditions are met:

1. A residency requirement: The underlying dividends are received from a subsidiary that is not tax resident in black-listed country;
2. A non-deductibility requirement: the dividends have not been treated as tax-deductible in the payer’s country of residence;
3. A taxation requirement: the distributing entity is subject to corporate income tax in its residence state or income tax on the dividends has been withheld in the distributing jurisdiction.

If the dividend does not qualify for an exemption, it is taxed at the ordinary tax rate of 25% at the moment of distribution at the level of the payer.
Latvian source dividends are not subject to withholding tax (WHT), unless when paid to black-list jurisdictions (20% WHT).
A foreign tax credit is available for tax paid abroad, but the credit is limited to the lower of the foreign tax paid or the Latvian tax attributable to the foreign income.

[6] https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en
[7] https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/latvia-ifrs-profile.pdf

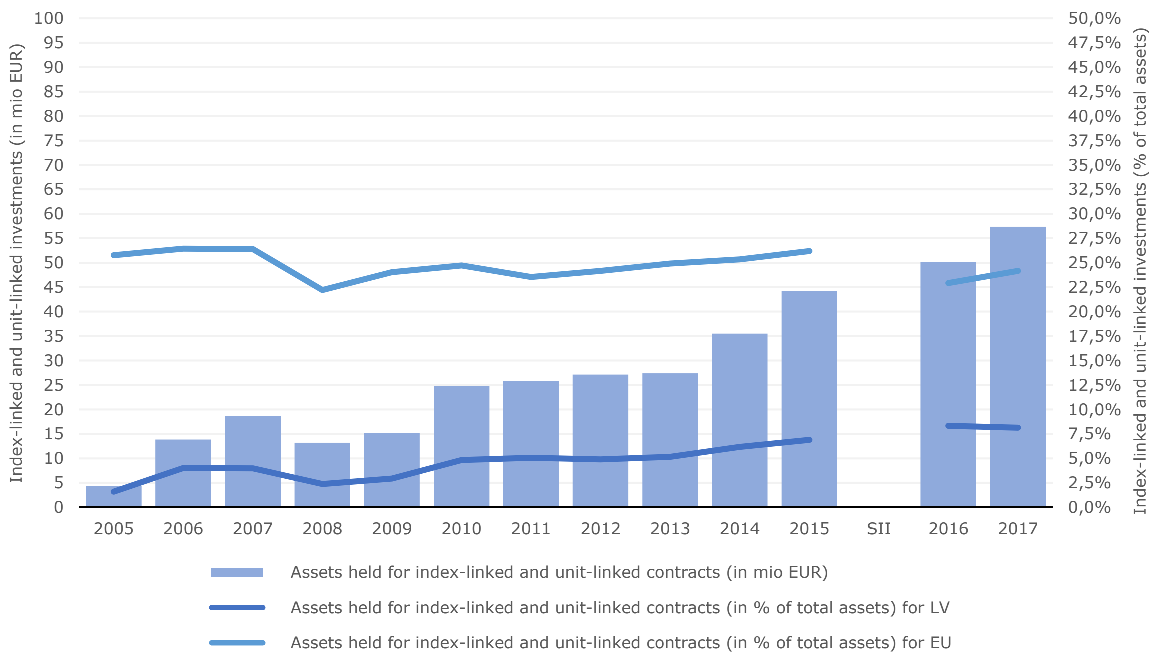
6 Historical data

The following section contains historical overviews of Solvency I, Solvency II and ECB data in order to provide insights on possible short and long-term trends.

6.1 Index-linked and unit-linked investments in comparison to total assets

Based upon the Solvency I and Solvency II (S.02.01) historical information, the evolution of the index-linked and unit-linked investments in comparison to total assets of Latvia is compared to the EU. The break in Graph 4 shows the transition from the Solvency I to the Solvency II regulatory framework. Under Solvency II assets are presented based upon their market value.

Graph 4 - Evolution of index-linked and unit-linked investments based upon Solvency I and Solvency II



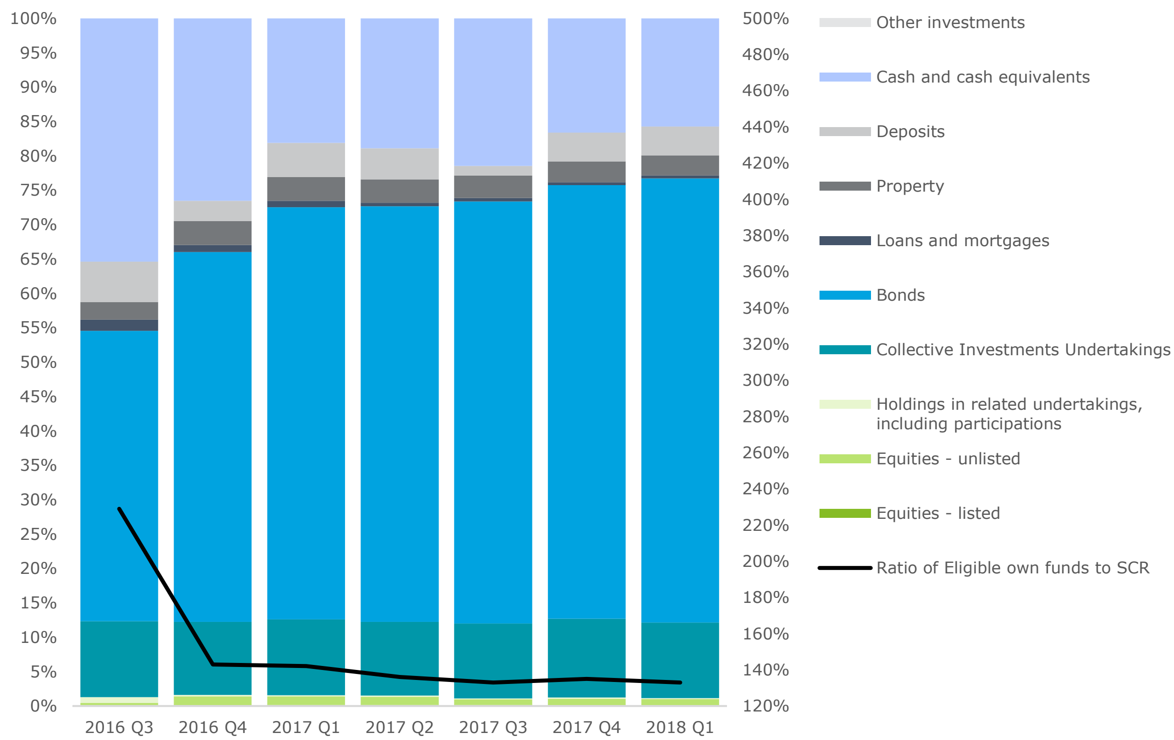
Source: EIOPA Solvency I and Solvency II statistics and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets in Latvia increased over the observation period. Note that the graph for the EU shows a relatively stable behaviour over the observation period, with a slightly increasing trend as from 2011.

6.2 Solvency II – excluding index-linked and unit-linked investments

Based upon the Solvency II (S.02.01) quarterly data from 2016 Q3 until 2018 Q1, the evolution of the different asset categories is depicted in Graph 5. Furthermore, the evolution of the SCR ratio is shown over the seven quarters.

Graph 5 - Evolution Solvency II balance sheet (S.02.01) items (Total Investments, deposits, cash and cash equivalents) and SCR ratio



Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The composition of the Latvian insurers' balance sheet has shown some fluctuation over the quarters since the introduction of Solvency II on 1 January 2016[8]. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds shows an increasing trend and Cash and cash equivalents show a decreasing trend.

Bonds have constituted the major part of the Latvian insurers' balance sheet since the introduction of Solvency II.

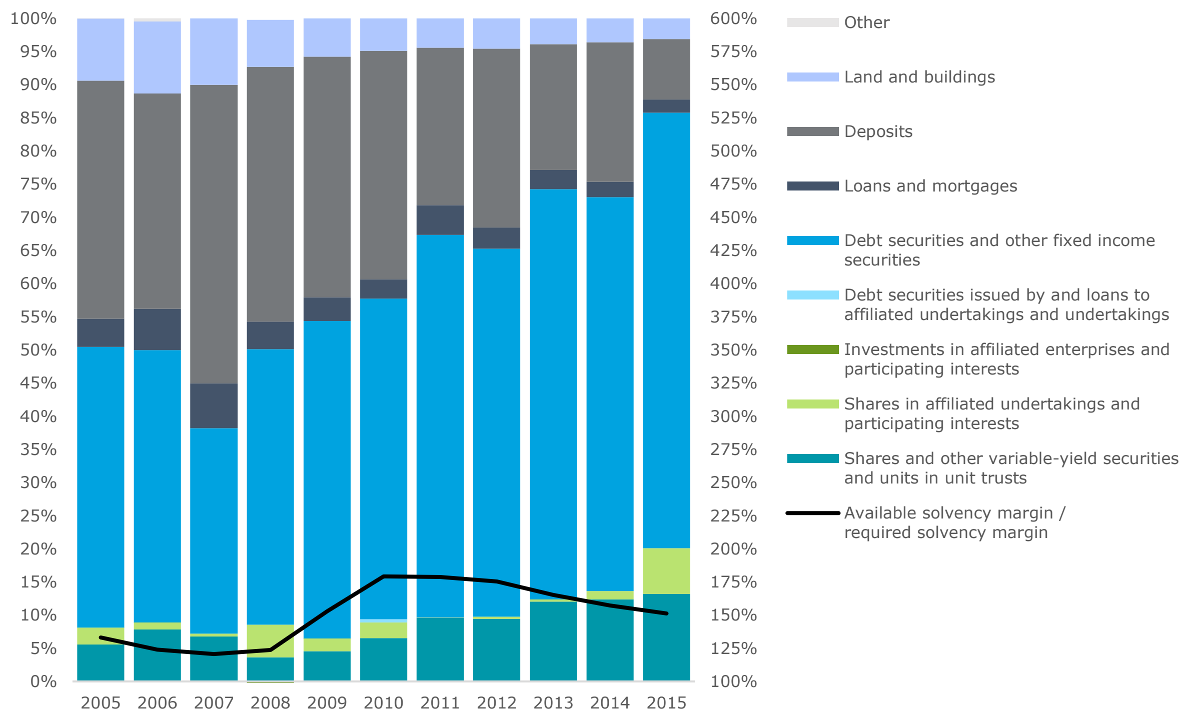
For Latvia, the SCR ratio shows a very significant drop from 2016 Q3 to 2016 Q4. After this drop, the SCR ratio has remained stable.

[8] Day one reporting, 2016 Q1 and Q2 are not publicly available

6.3 Solvency I – excluding index-linked and unit-linked assets

Based upon the Solvency I yearly data from 2005 until 2015, the evolution of the different investment asset categories is depicted in Graph 6. Furthermore, the evolution of the solvency ratio is shown over the history.

Graph 6 - Evolution Solvency I balance sheet items (Total Investments, deposits, cash and cash equivalents)

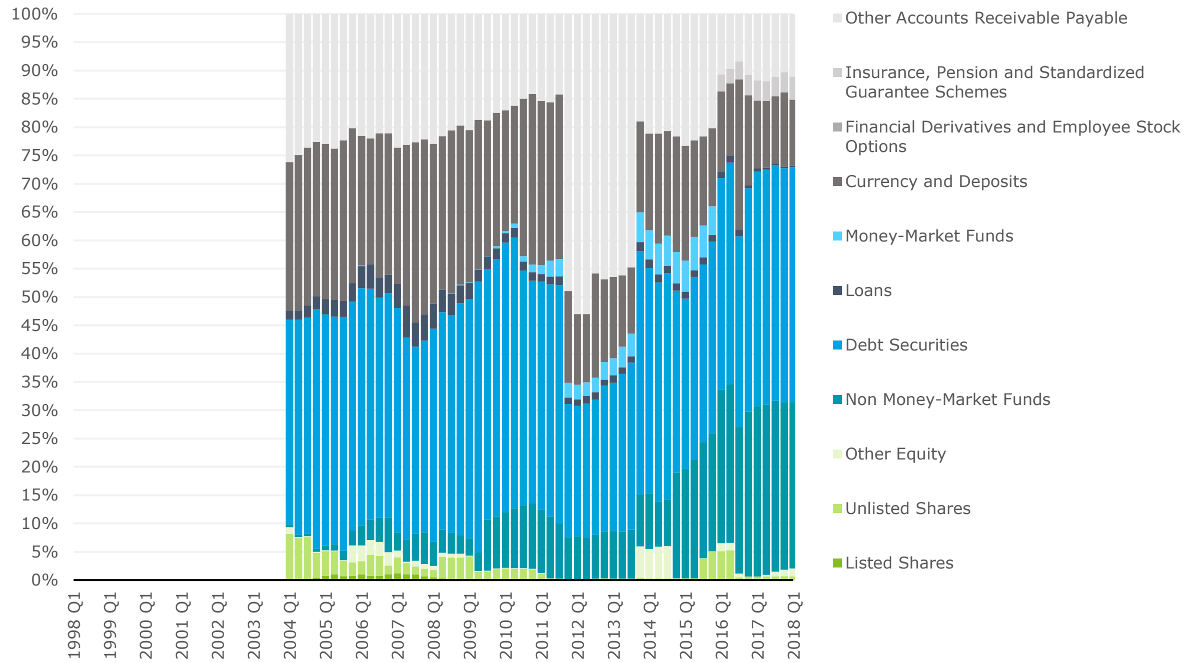


Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

Graph 6, which relates to Solvency I figures suggests the following observations. The dominance of Bonds that we observed under the rules of Solvency II has been a chraracteristic of the Latvian insurers' balance sheet for more than a decade. The percentage of Deposits in the balance sheet has decreased over the observation period, and was replaced with mainly Debt Securities and other fixed income securities.

6.4 European Central Bank – including index-linked and unit-linked assets

Graph 7 - Evolution ECB balance sheet items (asset categories)



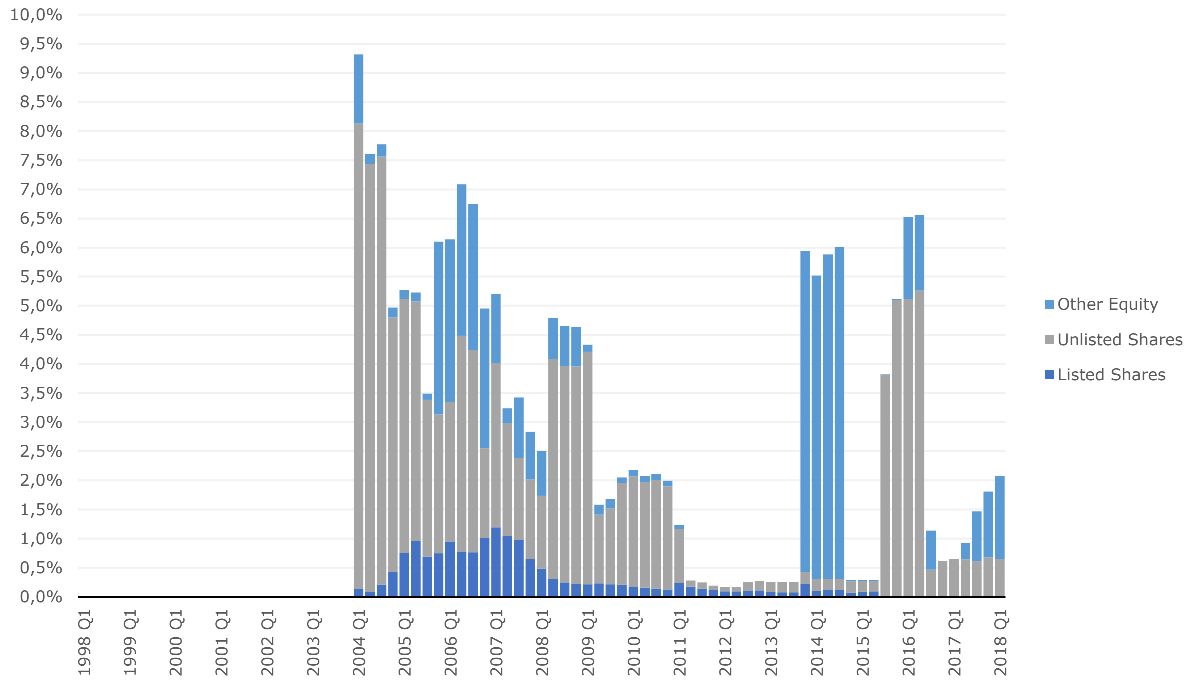
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 7 relates to figures of investments by Latvian Insurers since 2004 Q1 as reported by the ECB. No data is available before 2004 Q1, as Latvia was not a member of the European Union yet. It can be observed that the dominance of bonds in the investments, which is observed in Solvency I, and II (see graphs above) is confirmed as a long-standing characteristic of Latvian insurers. However, over the last years, there is an increasing importance of the Non Money-Market Funds. During the period 2011 Q4 to 2013 Q3, the Other Accounts Receivable Payable increased very significantly and decreased again in 2013 Q4.

On the next page, the Equity asset classes are presented in a more detailed view. Furthermore, the evolution of the listed shares (normalized to a start value of 100) of Latvia is plotted against the aggregated EU data.

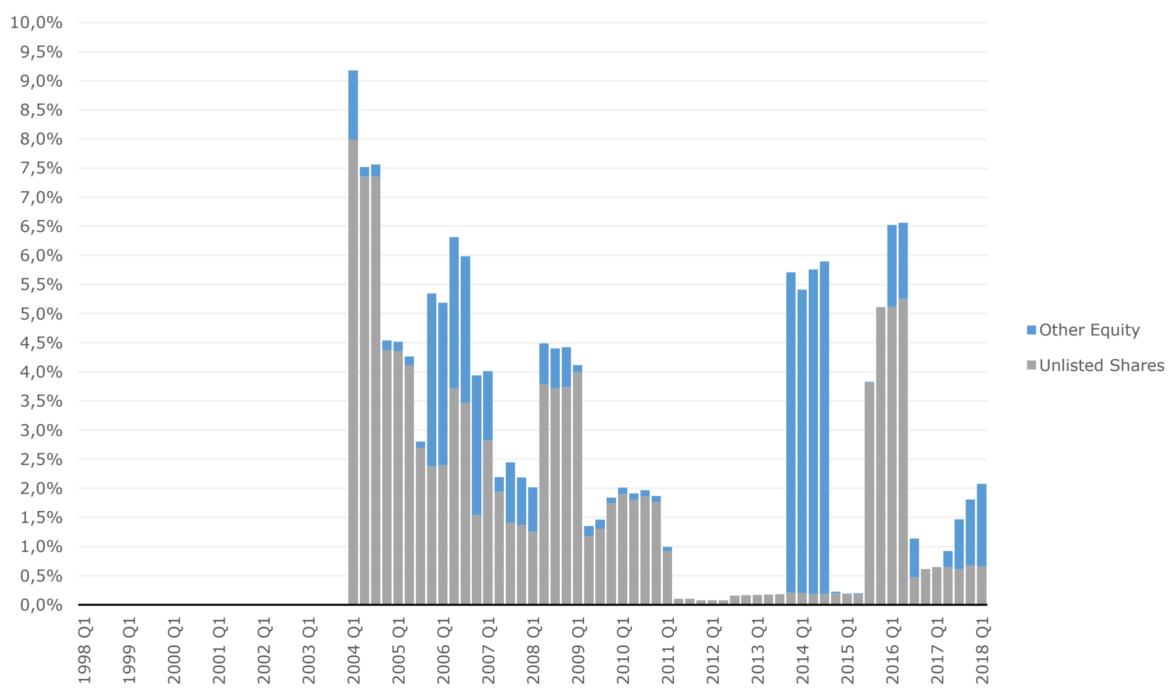
We remark that these graphs include index-linked and unit-linked assets, which cannot be individualized from the figures published by the ECB.

Graph 8 - Evolution ECB balance sheet items (equity categories)



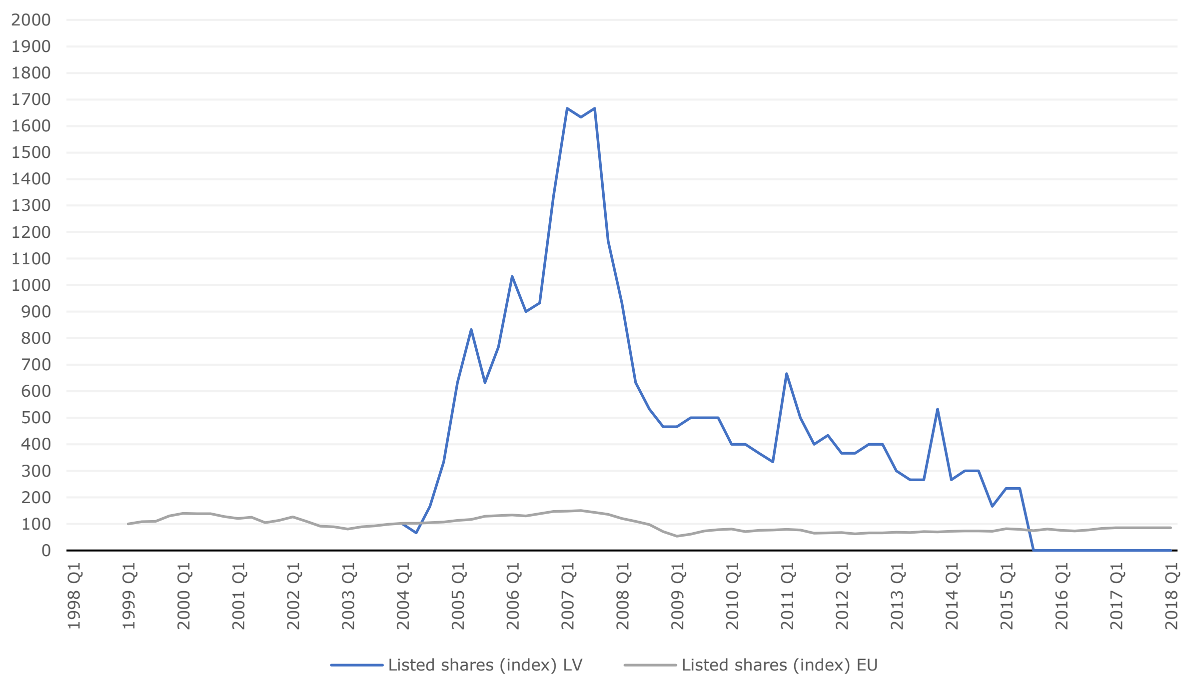
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 9 - Evolution ECB balance sheet items (Unlisted Shares and Other Equity)



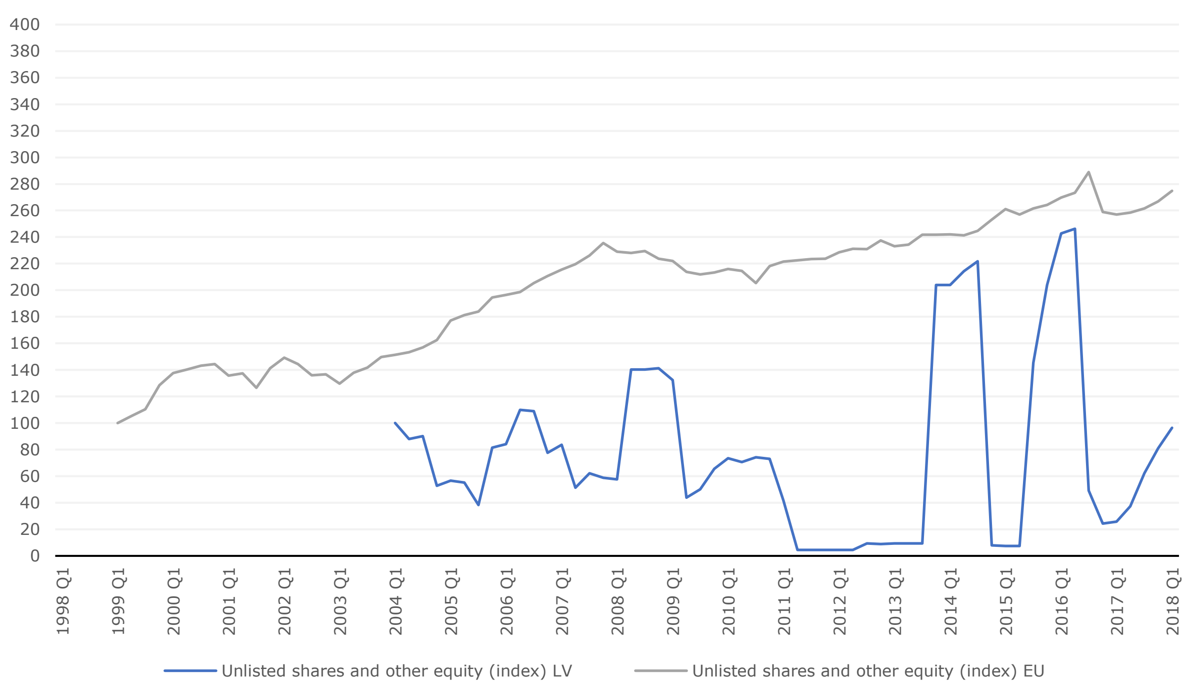
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 10 - Evolution ECB listed shares LV and EU (as index)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 11 - Evolution ECB unlisted shares LV and EU (as index)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

6.5 Trends in Equity Investments

This section provides a trend analysis of the equity investments of insurers in Latvia using the balance sheet data of the insurance sector from the ECB Statistical Data Warehouse. Given the availability of the equity split in the ECB database, the analysis focuses on investments in listed shares and investments in unlisted shares and other equity.

6.5.1 Listed Shares

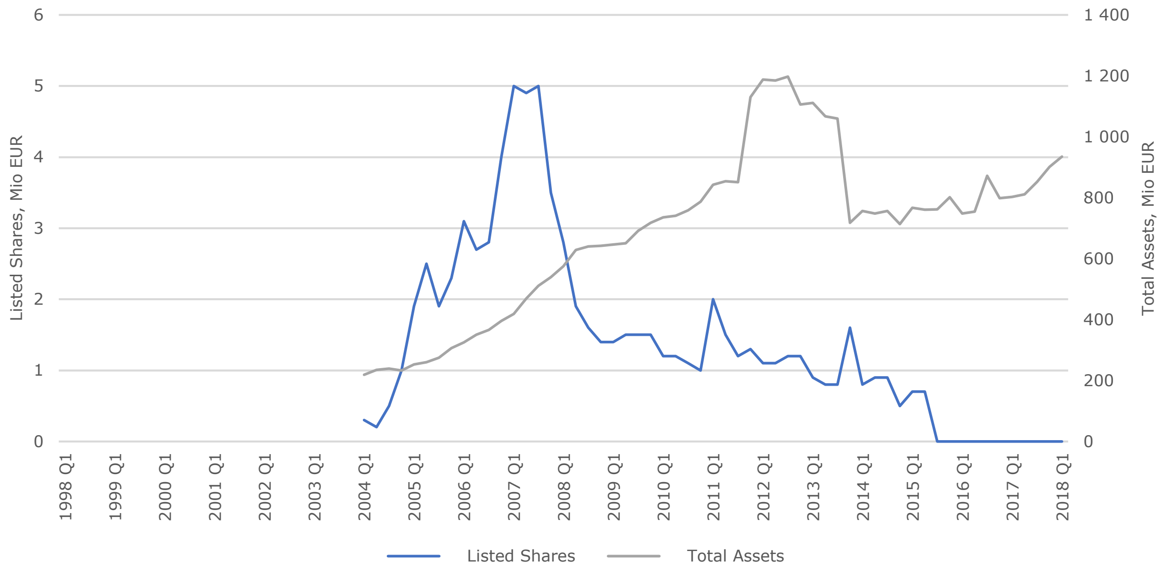
In the analysis below, the listed shares of insurance corporations are plotted against the total assets in the industry both in amounts and in indexed values. The aim of this comparative analysis is to understand the evolution of listed shares in the overall insurance market. Similarity of the growth patterns in the listed shares and total assets can be considered as an indication of the extent to which the equity investments are driven by a good (or bad) economic environment in the industry at a certain point in time. A presentation of the variables only in amounts might dilute the magnitude of the growths for countries with large assets because in such a representation, the listed shares will be overstated. Therefore, we also plot each series as indexed to the initial point in their available history.

In the next step, we focus on the relationship with the listed shares and stock market indices. The ECB QSA balance sheet items are valued at market prices at the end of each quarter. Therefore, it is plausible to assume that the changes in the stock prices are reflected on the amounts held in listed shares. In order to remove this "price effect" from the observed amounts of listed shares and approximate the "real" amounts held in shares, we consider adjusting the observed amounts in listed shares. Even though we observe high correlations with listed shares and several stock indices, since the exact destinations of the portfolio invested in listed shares at each period is not observable, we build a "Weighted Equity Index" similar to the EIOPA Equity Dampener.

Amounts invested in listed shares and the total amount of assets of the insurance sector are plotted in Graph 12 while the indexed values of the series are presented in Graph 13. In 2007 Q2, listed shares climb to its highest amount of 5 million EUR. After this date, the investments start decreasing and finally become 0 in 2015 Q3.

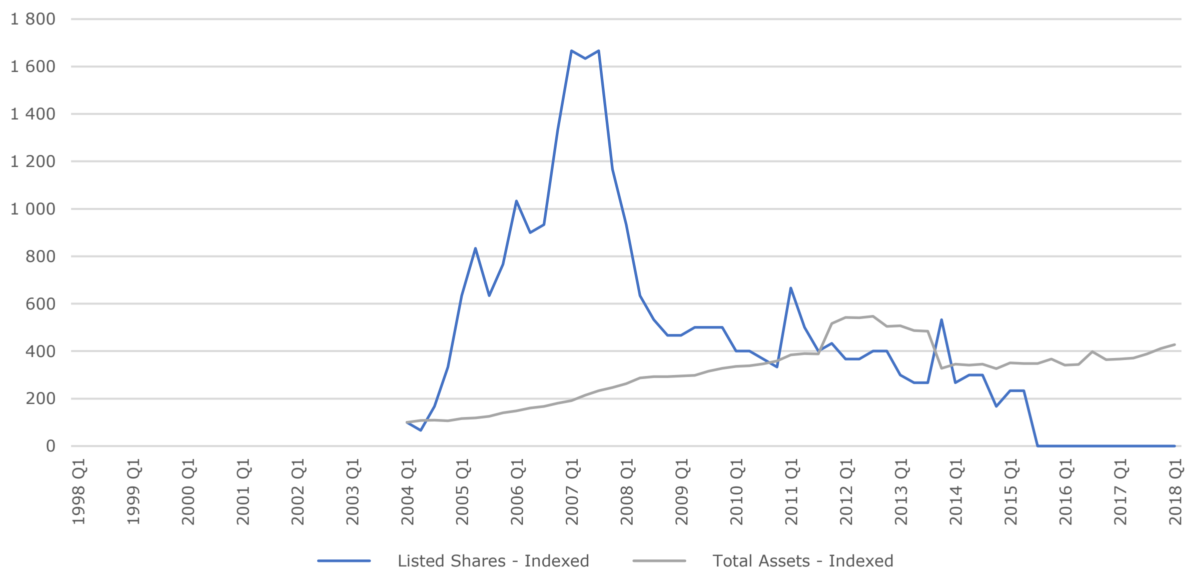
On the indexed values of total assets and investments in listed shares, differences in the growth pattern of these two series can be better observed. We observe that the indexed values of listed shares go up to 1600 and drop to 0 towards the end of the observation period. The erratic behaviour can be related to the small values of investments in this equity type in the country. On the other hand, over the period of 2004 – 2018, indexed values of total assets increase by 327% compared to the initial values.

Graph 12 - Evolution of Listed Shares and Total Assets (in Mio EUR)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

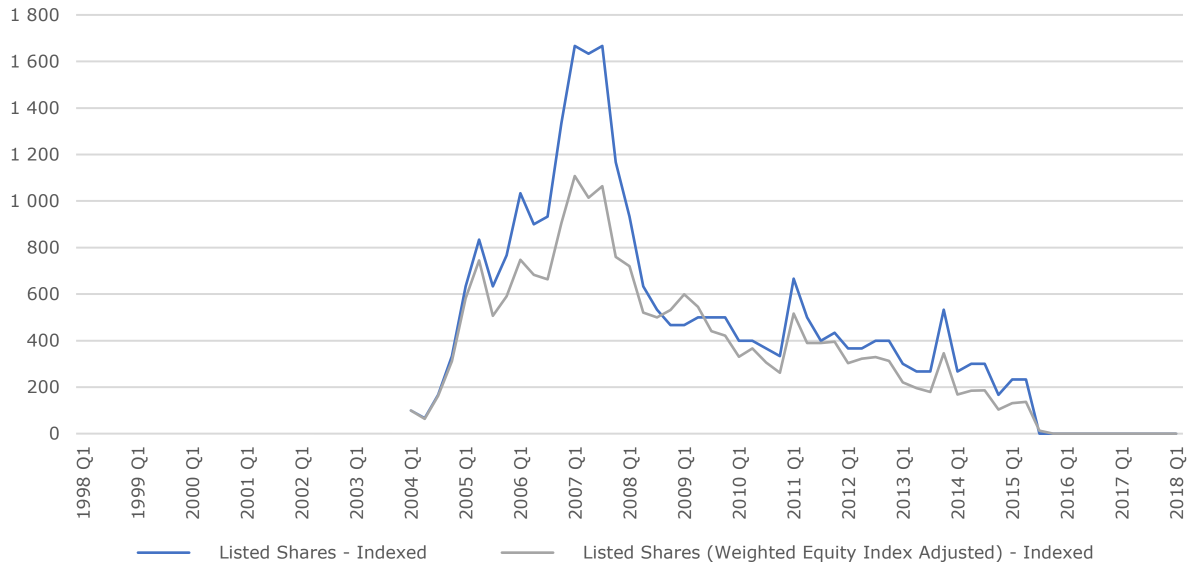
Graph 13 - Evolution of Listed Shares and Total Assets (indexed values)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 14 presents the indexed values of the amounts invested in listed shares against its Weighted Equity Index adjusted counterpart. Overall, adjusted and unadjusted listed shares follow a similar pattern meaning that the market price effect is, in general not apparent for insurers in Latvia. However, we do observe some periods of deviation, where indexed values of listed shares are larger than the adjusted values. This is the case for the period between 2005 and 2008. This points to a market price effect being present during this particular period.

Graph 14 - Evolution of Listed Shares – Indexed (Weighted Equity Index Adjusted)



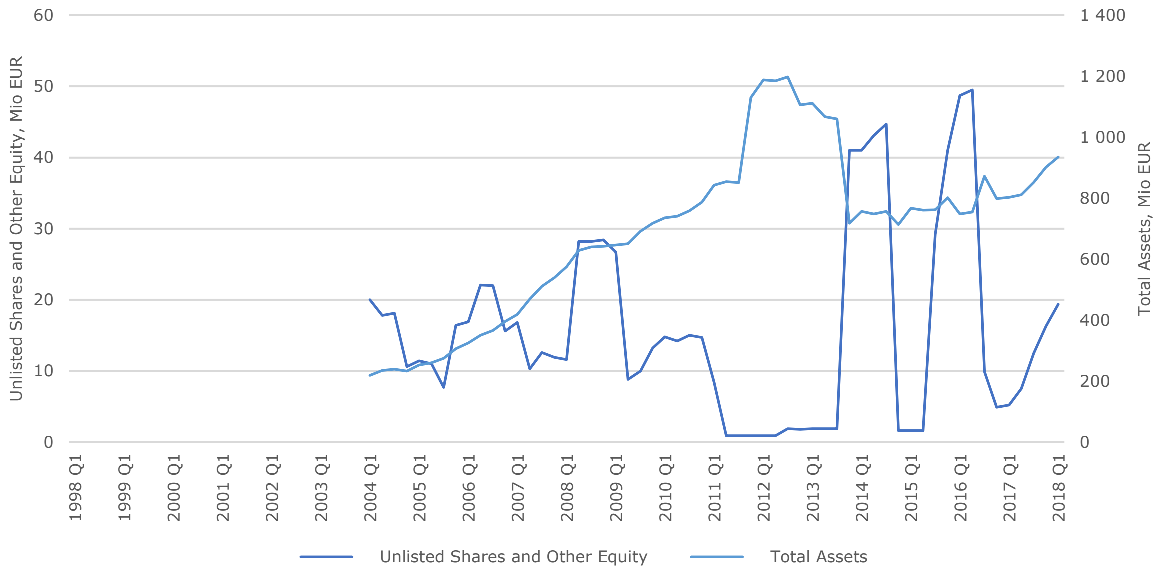
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

6.5.2 Unlisted Shares

Graph 15 depicts the amounts invested in unlisted shares and other equity plotted against the total assets in the insurance markets of while Graph 16 presents the indexed values of the series for an easier comparison of the movements in these two series. Investments in unlisted shares and other equity show a volatile behaviour with several peaks spread over different periods. The quarterly average change is 70,06% with a standard deviation of 358%.

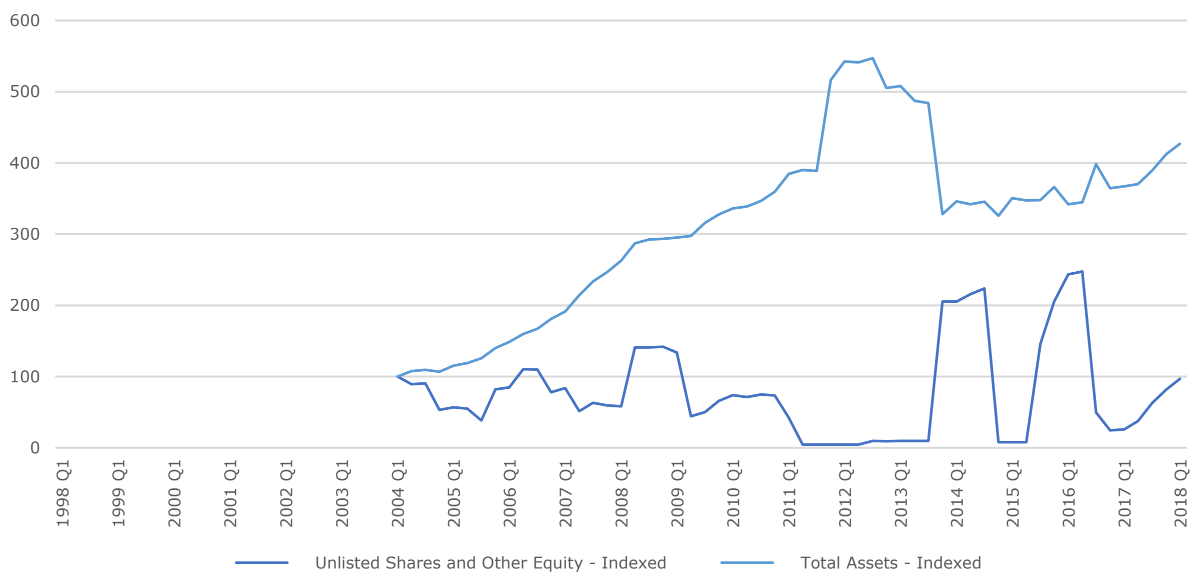
The growth patterns of total assets and unlisted shares and other equity can be compared on the indexed amounts. Over the period of 2004 – 2018, total assets increase to indexed value of 427 while unlisted shares and other equity decreases to an indexed value of 97.

Graph 15 - Evolution of Total Unlisted Shares and Other Equity and Total Assets (in Mio EUR)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 16 - Evolution of Unlisted Shares and Other Equity (indexed values)



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis